

## California's \$100 billion surplus: What to know about Newsom's spending plan

By Ben Christopher

"Simply without precedent."

Gov. Gavin Newsom is a man of many superlatives, but even he seemed to struggle today to adequately describe just how much extra cash the state of California will have to spend in the coming year's budget: \$97.5 billion.

Speaking for more than two hours in a press conference in Sacramento, Newsom unveiled his latest record spending proposal for the coming fiscal year. Riding a superheating economy and drawing disproportionately from the state's highest earners, the state is now projected to have a surplus bigger than California — or any state — has ever had, and significantly more than the \$76 billion that the governor predicted in January.

Roughly half of the surplus is required by law to be spent on education. That leaves "only" roughly \$49 billion in discretionary money, and the governor wants to reserve 99% of that for one-time spending: \$18.1 billion to provide financial relief for Californians buffeted by inflation, plus \$37 billion for infrastructure investments, including \$5.6 billion for education facility upgrades, and an extra \$2.3 billion for the ongoing fight against COVID-19.

A few of the other big numbers that Newsom mentioned today:

- \$128.3 billion in education spending, from transitional kindergarten through high school, a record-breaking sum that works out to \$22,850 per student.
- Another \$23 billion will be parked into the state's rainy day fund, to be drawn upon the next time the economy slows
- \$2.5 billion for housing, including \$500 million to fund the conversion of vacant malls and storefronts into homes
- An extra \$3.4 billion to pay down state employee retirement debt

The massive windfall that the state is sitting on, coupled with the state's progressive tax system is a sign of "the concentration of wealth and success in the hands of a few that are enjoying abundance in historic and unprecedented ways," Newsom said. "I am proud of California's progressive tax system...and we're the beneficiary of that."

Now the ball is in the state Legislature's court as key lawmakers in the Assembly and the state Senate decide where they agree with the governor and which priorities they want to haggle over

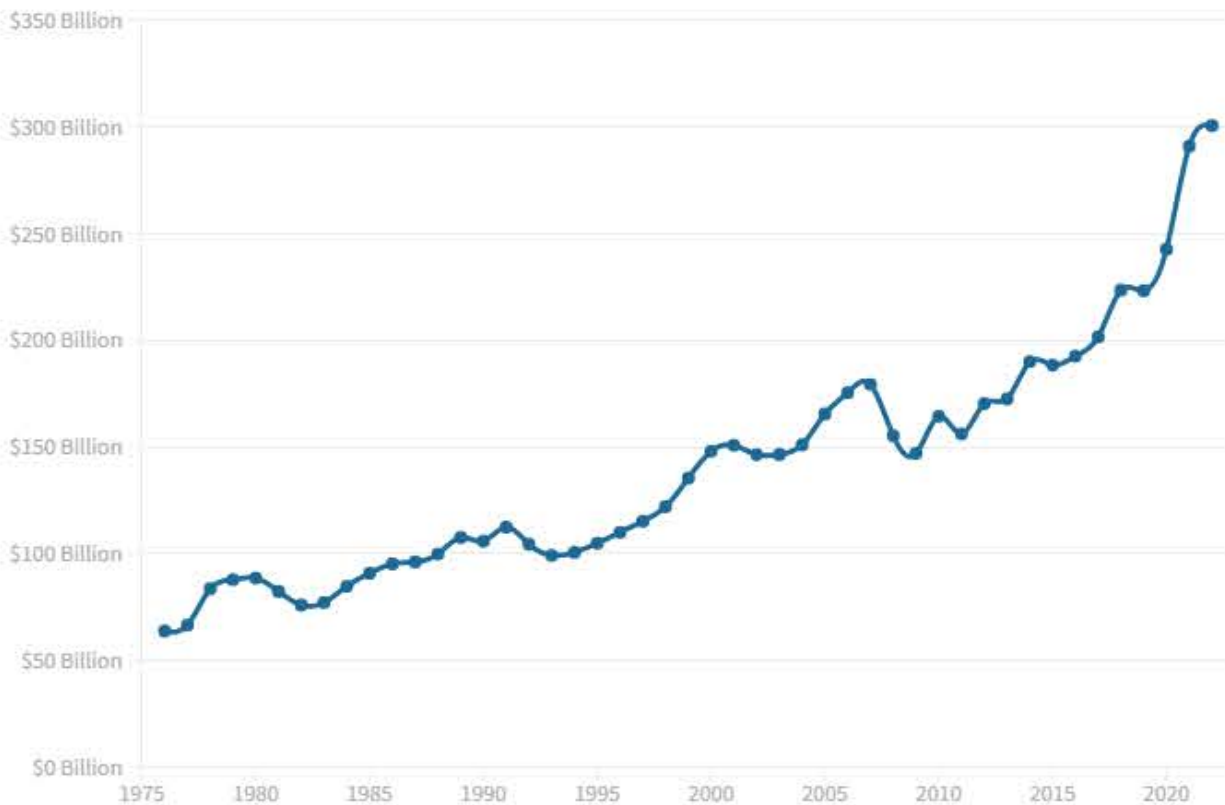
before the June 15 deadline to pass a final, balanced budget for the fiscal year that starts July 1.

Today's "May revise" rollout is part of the annual call-and-response between the governor's office and the Legislature over how to spend your tax dollars. Each year, the governor sets the negotiations in motion in January with a preliminary budget proposal. This year, Newsom's proffer included a record surge in K-12 education spending, along with multi-billion dollar proposals to ramp up the state's wildfire prevention projects, convert more vacant hotels into housing for the homeless and open up Medi-Cal, the state's health insurance program for the poor, to all undocumented immigrants.

What Newsom unveiled today is a retake on that earlier budget blueprint, but freshened up with new estimates of the state's fiscal future. Tack on the extra surplus money and you end up with a new record-high total: \$300.7 billion.

### Biggest California budget ever

Newsom's proposed spending plan is bigger than any prior state budget



Source: [California Department of Finance](#), [Bureau of Labor Statistics](#) • Adjusted for inflation, all values expressed in April 2022 dollars **CAL MATTERS**

When discussing money on the scale of the California state budget, it's easy to lose perspective. But to be clear, even by Golden State standards, that is an astounding amount of money.

What a difference two years makes. In May 2020, with the state still weathering the first surge of COVID-19, the governor's Department of Finance projected a \$54 billion deficit and a year of Great Depression-level unemployment rates. Neither came to pass, just the opposite: Boosted by rosy economic conditions for the state's highest earners and a massive influx of cash from the federal government, state coffers have been overflowing for the last two years.

Still, Newsom and the Legislature's budget staff add a note of caution: The war in Ukraine, rising inflation and higher interest rates are increasing uncertainty. And capital gains as a percentage of personal income is the highest since 1999, just before the dot.com bust.

For the governor and Democratic leadership in the Assembly and Senate, having to divvy up billions of new dollars during an election year is a good problem to have. But on financial aid to struggling families, the scale of the state's drought response, what to do about the sky-high price of gasoline and other pressing policy conundrums, not everyone is on the same page.

Assembly Speaker Anthony Rendon kept his cards close to his chest in a statement, simply heralding his Democratic "teammates" in the Senate. "We know how to work together to present Governor Gavin Newsom with a budget he can be proud to sign by the constitutional deadline," he said.

Senate President Pro Tem Toni Atkins took a similar tack, tweeting that while some of Newsom's proposals "are parallel to ours," "others, as happens every year, will require negotiation."

The Republican minority in the Legislature is so diminished that Democrats don't need their support to pass a budget. But that isn't stopping GOP lawmakers from weighing in, if only to provide voters with a clear contrast as Election Day approaches.

"Newsom specializes in grand announcements and flashy sounding proposals, but he rarely follows through with effective solutions that actually help California families," GOP Assembly leader James Gallagher from Chico said in a statement. "The Governor may not want to acknowledge it, but California is in crisis and his budget is unsustainable."

Here are other highlights from the governor's latest spending plan:

### **Cash for Californians**

If the average Californian hears anything about today's announcement it's probably this: The governor wants to send \$400 to most of the state's car owners.

That's been the governor's idea to help drivers bear the cost of historically elevated gas prices. In the face of pushback from environmentalists, he also wants to throw in \$750 million to entice transit

agencies to make bus and rail travel free for three months. And lest he be accused to throwing money at those who don't need it, the proposal is limited to drivers whose cars are worth under an as-yet unspecified cap.

Despite all that, there's some distance between this proposal and the Legislature's, where Democratic leaders want to send cash rebates to Californians making less than \$250,000, car owners or not. And it's even further still from the GOP plan, which is simply to suspend the state gas tax.

"I have all the confidence in the world we'll be able to square those modest differences and we'll come around to a number and a strategy that's in the best interests of Californians," Newsom said.

Anti-poverty advocates, however, continued to criticize Newsom's plan for cash aid to drivers, arguing that relief should be targeted most to the lowest-earning Californians hardest hit by price increases.

Also missing from the governor's blueprint: An increase in the minimum payment of the state's Earned Income Tax Credit program, a tax refund for low-wage residents. That idea has the backing of Atkins.

Newsom's revised budget "fails to adequately target the state's strong revenues to provide direct, meaningful assistance to individuals and families struggling the most to pay for basic needs in our communities," said Chris Hoene, director of the California Budget and Policy Center, which advocates for low-income Californians.

For his part, Newsom pointed out his gas rebate proposal includes \$750 million to encourage free public transportation for three months. It also includes \$2.7 billion to pay rental assistance to residents who had applied before March 31 (covering claims that the original federal funding did not), and \$1.4 billion in utility assistance.

Today's announcement also answered another big question left unaddressed by the January proposal: Will an obscure amendment inserted into the California Constitution in 1979 compel the state to reroute some of the state's extra cash back to taxpayers?

The answer, at least for now, appears to be no.

The constitutional provision in question, the Gann Limit, was approved by voters during the heyday of the state's conservative "tax revolt" and capped per-person state spending to its 1978 level, after adjusting for inflation. Anything left over has to be sent back to taxpayers and school districts. With the state's coffers as full as they are, the January budget blueprint projected that the state would breach the cap.

But with more spending on exempt types of expenditure, including infrastructure, the current plan is now \$2.6 billion below that ceiling. Newsom noted that he would support a proposal to put an

amendment to voters to tweak or perhaps outright eliminate the Gann Limit, which he said is “long overdue.”

### **‘Eat your heart out, Texas’**

Budgets, as the cliché goes, are statements of values. Newsom clearly values decrying the state of Texas and its right-wing government.

Among the policies-cum-anti-Texas-digs that Newsom rolled out today were a revision of the state’s business relocation tax credit program to provide “additional consideration” for businesses relocating from states with anti-abortion and “anti-LGBTQ+” laws.

Newsom encouraged companies to come to the Golden State, where the “values that you express in your public documents are actually reflected in terms of the work we do as a state.”

The context, only barely unspoken, is that Texas has recently passed a law that effectively bans most abortions and introduced a policy that treats gender-confirming care for transgender kids as child abuse.

Newsom’s budget plan also strengthened his commitment to making California a national “sanctuary” for abortion rights, proposing an additional \$57 million to expand access to abortions and fund research into reproductive health. A majority of that funding — \$40 million — would be used over the next six years to help clinics offset the cost of uncompensated procedures for women who can’t afford it. The funds could be used to pay for abortions for women who come from out of state, but notably, the governor does not deposit money into a proposed fund that would offset travel and other expenses.

“I do want to make a deep point here: California is a pro-life state,” Newsom said, appropriating a term used by the anti-abortion movement to tout his proposed spending on expanded preschool, health insurance access and gun-violence reduction programs.

He also chided Arizona, Florida and Texas for having COVID death rates higher than California’s: “There are a lot of folks out there that are pro-conception to birth but that fall wholly short of being pro-life.”

### **Whither retail theft?**

In January, when Newsom rolled out his first budget proposal, a spate of holiday season smash-and-grab thefts were still dominating the headlines. He responded by asking the Legislature for an extra \$350 million to combat “organized retail theft” rings.

Now that voter anxiety seems to have moved on to other issues, the governor appears to have taken the advice of the Legislative Analyst’s Office, which criticized the proposal for lacking “clear and specific objectives” and focused his public safety spending elsewhere.

Instead, Newsom is prioritizing areas such as “wellness” grants for police by creating a one-time \$50 million grant for counties and cities to improve officers’ health and well-being. He’s also looking to fund mobile probation centers and to provide more resources to help California tribes find missing Indigenous people.

Following a years-long trend, the governor also hints at the possibility of shuttering more state prisons. Though the state prison population has ticked up slightly since the early days of the pandemic, it still sits at a decade-long trough and is expected to continue trending down. Today’s budget proposal notes that the state may be able to “close three additional state prisons by 2024-25.”

### **Fire, drought and cow-watching satellites**

With the state bracing for yet another season of extreme heat, wildfire and drought, Newsom’s revised budget includes an additional \$8 billion to increase the reliability of the state’s power grid and hasten the development of clean energy projects.

One notable new investment: \$100 million towards carbon removal technologies — trapping carbon dioxide emitted by smokestacks and injecting it into the ground for long-term storage.

Newsom also acknowledged the stress that the state’s never-ending wildfire season takes on fire crews by asking for \$233 million to bolster Cal Fire. The proposed budget adds an additional \$104 million to add 270 positions over four years, something the agency has been seeking for some time.

As drought deepens and spring brings increased water use in cities and towns, Newsom is asking for additional \$1.3 billion in drought and water resilience spending, up from \$750 million in his January plan. The total would add to last year’s water and drought budget of \$5.2 billion over three years.

Newsom also proposed spending \$44 million to modernize California’s byzantine water rights system and bolster enforcement. Funding for water resiliency and drought relief for urban and small water systems more than doubled in the latest budget proposal, a sign of the dry, difficult conditions the administration anticipates in the summer ahead.

And following through on a vow by his predecessor for California to “launch its own damn satellite,” the governor is proposing to spend another \$100 million to send up methane-monitoring satellites to monitor climate-warming emissions from livestock.

In total, the governor is proposing to spend an additional \$9.5 billion in climate investments over his January blueprint, bringing the total to \$32 billion. But for some advocates, that still isn’t enough.

“It’s disappointing to see the May Revision isn’t putting much more of our budget surplus to work at the scale required to stop climate change from destroying the California we love,” EnviroVoters head Mary Creasman said in a statement. The organization wants the state to invest an additional

\$75 billion to fight climate change over the next five years.

### **On K-12 education: 'That's a number you've never seen'**

Districts have weathered two COVID-19 surges this school year, one fueled by the delta variant in the summer and another by omicron in the winter. That's left many districts hurtling towards a "fiscal cliff" while students and teachers across the state scramble to catch up.

Today's budget proposal would assuage some of the fiscal concerns from education officials by tweaking the way that school districts get state funding. Under the governor's plan, districts will have the option of being funded based on a combination of current enrollment and pre-pandemic attendance rates. That's a change in policy from Newsom's January budget, which proposed allowing districts to use a three-year daily attendance average. District officials statewide feared that the high number of absences this year would have skewed that average and resulted in less funding.

More good news for public school administrators: This plan also boosts education funding across the board. Overall funding went from \$119 billion in January to \$128.3 billion, with a \$2.1 billion boost specifically for schools and districts with more low-income students, English learners and foster children.

In total, districts will receive \$22,850 per student, a historic high. About \$16,991 of that per-pupil funding will come from Proposition 98, a state constitutional amendment that requires the state to set a certain amount of its discretionary funding aside for education.

"That's a number you've never seen in California," Newsom crowed, before going on to offer another dig at red states — notably Florida. "I see some of these governors out there, their big idea of education reform is what you can't say in a classroom."

Assemblymember Patrick O'Donnell, a Long Beach Democrat who leads the education committee, said given the state's record surplus, the governor's budget should be allocating even more to public education.

He called Newsom's plan "a good starting point," but said "it still falls short of reflecting the realities our schools are facing."

Specifically, O'Donnell said that overall funding awarded directly to school districts should be hiked by 15% and money for school facilities should be more than doubled to \$10 billion.

Last year's budget and January's proposed budget included a total of \$4.4 billion for after- and before-school programs as well as summer school. But school districts have struggled to staff those programs as they reckon with a statewide teacher shortage. Responding to that, the May budget adds more than \$800 million for teacher training and recruitment efforts to the \$54.4 million

proposed in January.

### **Higher funding for higher ed, but many still disappointed**

Overall, Newsom is proposing spending \$1.6 billion more on higher education than he did in January. Almost all of that — \$1.5 billion — is flowing to community colleges to help them reach new “roadmap” goals.

That left the community college system relatively happy.

The California State University leadership was less impressed. Jolene Koester, Cal State’s interim chancellor called the plan “disheartening.”

By stressing that almost all of the state’s surplus is going into one-time projects rather than ongoing programs, Newsom may simply be tempering expectations for more spending, said Jessie Ryan, executive vice president for the Campaign for College Opportunity, a nonprofit advocacy group. “There is a lot of negotiation that’s going to happen between now and the June 15 budget agreement deadlines,” she said.

Still, Newsom’s proposal signals an uncommon stability of funding for the University of California and Cal State systems. Sticking with the plan he first proposed in January, today’s blueprint offers five years of 5% ongoing growth in state funding — a departure from past year-by-year allocations. In exchange, the governor is demanding a range of commitments from the two systems, such as expanded enrollment of Californians, closing graduation rate gaps among racial and social groups and an “aspirational goal of offering every UC undergraduate a pathway for debt-free education by 2029-30.”

That compact got panned by the Legislative Analyst’s Office in the winter, saying it “has the fundamental problem of sidestepping the legislative branch of government.”

That isn’t the only area of possible disagreement with the Legislature. Though Newsom agreed last year to a three-year, \$2 billion grant to build student housing, legislators want more. One Assembly bill seeks \$5 billion in zero-interest loans for public campuses to build more student and faculty housing. Another proposal from the Senate wants an added \$1.5 billion for the housing grant.

The Senate also sought \$400 million more in ongoing support for the Cal State system and \$200 million more for the UC — which is not reflected in Newsom’s May proposal. Nor did he put aside the extra hundreds of millions of dollars needed to further the Cal Grant to 150,000 students, which leading lawmakers seek. Newsom vetoed a similar proposal last year. Still in place is support for a down payment on a debt-free grant, but not at the level the Senate wants.

### **Funding injection for health insurance**

If Congress doesn’t act, the COVID-era federal premium subsidies for Covered California, the state’s Obamacare health insurance exchange, will expire at the end of this year.



Newsom's update proposes \$304 million to offset those cost increases for middle-income families. That total falls short of what Senate leaders proposed by \$238 million. Without any action, approximately 220,000 residents would lose health insurance under the state's individual marketplace, according to the Berkeley Labor Center.

The governor also did not budge on his timeline for expanding Medi-Cal for undocumented adults ages 26 to 49, despite calls to enact the changes sooner. His original expansion sets the start date at the beginning of 2024 and calls for \$819 million next year and \$2.7 billion annually to support the expansion. The Senate budget plan proposed an additional \$1 billion next year to move the timeline up six months. The Medi-Cal expansion is a pivot from Newsom's earlier support of a contentious state-run, single-payer health system, which died without a vote earlier this year.

"The steps we have taken are more progressive than any state in the United States of America," Newsom said when asked why this budget did not include a single-payer proposal. He noted that his administration is working to overcome the substantial fiscal and legal obstacles that stand in the way of directly providing insurance to all Californians.

Newsom also proposed a whopping \$2 billion to fund the state's COVID-19 strategy known as the SMARTER plan. That includes \$530 million for testing and laboratory costs, \$158 million to implement the federal program for COVID-19 drugs, and \$468 million to support services for migrants at the Mexico border.

Health care workers also received a sought-after reward: \$933 million for one-time retention bonuses. The state would dole out \$1,000 checks to 600,000 hospital and nursing facility workers, with an additional \$500 matched by employers. Previous attempts to allocate money for health care worker hazard pay stalled in the Legislature even as hospitals warned they were relying on COVID-positive workers to meet surge demands.

"We want folks to stay in their current line of work and we want them to continue to thrive there," said Department of Finance Director Keely Bolser.

### **A little more on housing**

To address California's homelessness crisis, Newsom added \$700 million atop his originally proposed \$2 billion in January — and the whopping \$12 billion announced last year — to fund mainly interim solutions, such as tiny homes and encampment cleanups. Absent, however, was a long-term extension of the flexible grants included in last year's budget that local governments have been seeking.

One person's "flexible" is another's "unaccountable," Newsom said: "Understandably they want more funding, they want more predictability. But understandably as well, you, as taxpayers, are waiting for their plans."

In response, a coalition of mayors across California's 13 largest cities led by Oakland Mayor Libby

Schaaf tweeted that flexible homeless funding “remains our highest priority.”

Newsom also proposed \$65 million to administer CARE Court, his proposal to compel people with serious disabilities into treatment, which is now winding its way through the Legislature.

On the housing front, Senate leader Atkins’ ambitious \$10 billion, 10-year proposal to spur homeownership got no love in Newsom’s revised proposal. Instead, he added \$500 million on top of the previously proposed \$2 billion housing budget to mainly fund the conversion of vacant malls and storefronts into homes.

Echoing his Republican challengers in the unsuccessful effort last year to remove him from office, Newsom cast some blame for the housing crisis on the state’s premier environmental law — but proposed little in the way of change. Instead, he said he signed 17 CEQA reform bills and looks forward to working with legislators on more proposals that provide more certainty and more predictability to address housing affordability issues.