

Don't Go Chasing Windfalls: California's 2021-2022 Budget

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Abstract

Amidst a global pandemic, a gubernatorial recall election, and a shaky economy, California had one of its best budget years in recent memory. Flush with cash, the state was able to make unprecedented investments in education, health, and social welfare programs, provide direct stimulus payments to many California residents, and still set aside money in its rainy-day fund. Governor Newsom handily defeated the recall effort, and the budget outlook for 2022 looks bright. 2021 was a tumultuous year, but California is proving that it's once again the "Golden State".

Introduction

Over the past year, California politics and the state budget have faced unprecedented challenges. A global pandemic, economic collapse, shuttered schools, plummeting state revenue followed by an unprecedented mammoth budget windfall, and finally, a gubernatorial recall election tested the state and its political class. At the end of it, California's economic future looks brighter than anyone could have expected last Spring and perhaps, brighter than any time in recent state history. State revenues are up while rising vaccination rates are giving people hope for a return to normalcy. Californians have also been the recipients of unprecedented federal and state aid. Still, with unemployment stubbornly high, skyrocketing housing costs and homelessness, and a bitter gubernatorial recall election, not all is sunny in California.

Background

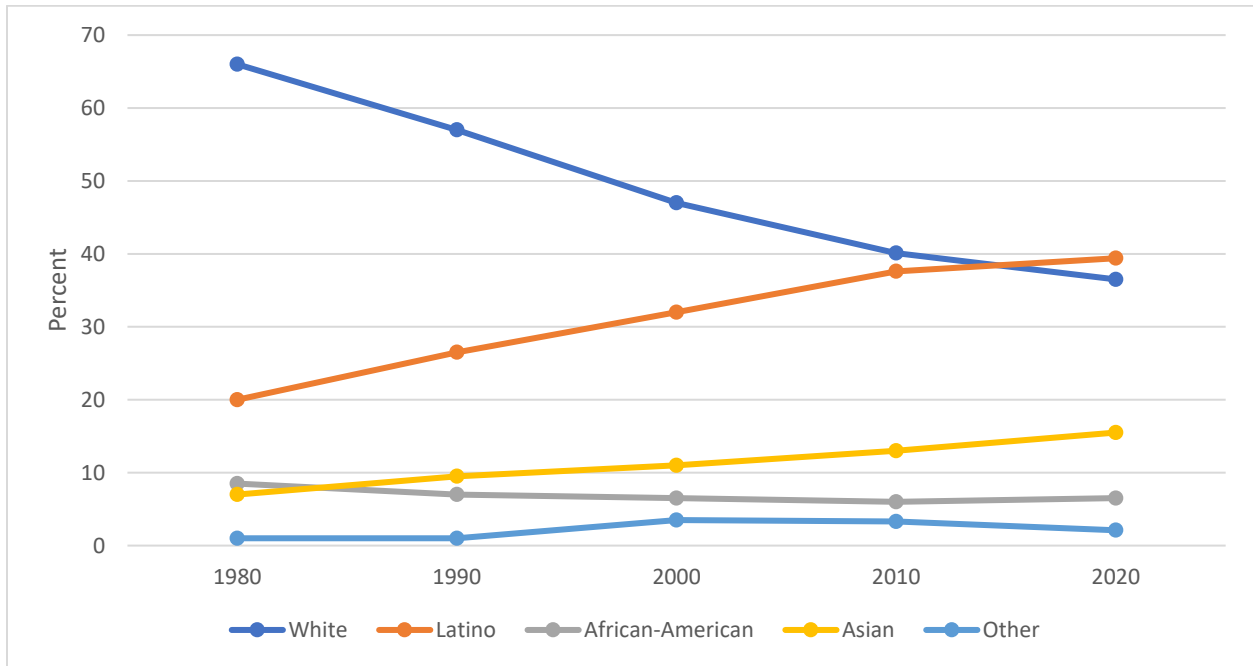
Demographics

To understand California, it is necessary 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. After the 2010 Census, 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 information from the U.S. Census Bureau, non-Hispanic Whites currently account for

¹ U.S. Census Bureau, 2021.

only 36.5%, while non-White Latinos have achieved a plurality of 39.4%.² As recently as 1980, non-Hispanic Whites accounted for two-thirds of California’s population.³ Figure 1 depicts the shifting makeup of the state from 1980 to 2020.

Figure 1. Changing Demographics in California, 1980-2020



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

In late April, California faced a population comeuppance long in the making. The U.S. Census Bureau announced the state would lose a House seat after the 2020 Apportionment, the first time in California’s 170-year history its congressional delegation would shrink. The Golden State’s 52 remaining House seats would still tower over the rest of the country--including second-place Texas with 38 -- but California’s anemic population growth signaled its waning demographic pull throughout the country. The state’s population grew only 6.1% the past decade, the smallest in state history, compared to a national increase of 7.4%.⁴

“It’s certainly a remarkable result given the broader history of the state, which has been just almost relentless population growth,” Eric McGhee, a senior fellow at the Public Policy Institute, told the *Associated Press*. “The state has just been booming almost since Day One, so to have it be slowing down this much is really historically unprecedented.”⁵

This population shock generated a good amount of state self-reflection, something its residents are already well known for. “California represented the dream of the common man and woman,”

² U.S. Census Bureau, 2021.

³ U.S. Census Bureau, 2021.

⁴ April 26, 2021. *San Francisco Chronicle*. California to lose seat in Congress for first time ever as population growth lags

⁵ April 27, 2021. *Associated Press*. California losing congressional seat for first time

Dana Gioia, the former state poet laureate, told the *Los Angeles Times*. “Now it’s changed. Now it is a place that represents the dream of the elite and the affluent, and that’s an enormous loss for the state.”

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.”⁶

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 strong in rural California, the Republican brand is sagging in urban areas, which hold most of its population. The party also struggles to attract nonwhite and younger voters, California’s two fastest-growing groups. All 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. 2021 saw a slight rebound for the party, although there are still almost twice as many Democrats in the state as Republicans.

Democrats now make up 46.5% of the state’s 22 million registered voters.⁷ In contrast, Republicans constitute just 24%, with No Party Preference a close third at 23.2%.⁸ In terms of raw numbers, this means that Democrats outnumber Republicans by nearly 5 million voters, while Republicans only have an edge over No Party Preference by around 193,000.⁹ This problem is particularly acute in Los Angeles County and the San Francisco Bay area. In L.A. County, Democrats comprise a majority of registered voters at 53.1%, while No Party Preference has 23.8% and Republicans garner only 17.1%.¹⁰ In San Francisco County, only 6.7% of registered voters are Republicans, in contrast to 62.7% Democratic and 25.9% No Party Preference.¹¹

Taking a more historical look, over the past twenty-five years, Republican registration has dropped nearly 12.5 percentage points. Democratic registration is essentially static, down less than one percentage point from 1996, while No Party Preference has more than doubled.¹² Figure 2 depicts the statewide changes in party registration from 1996 to 2021.

⁶ November 27, 2016. *Sacramento Bee*. How California became a very blue state.

⁷ August 30, 2021. *California Secretary of State*. Report of Registration.

⁸ August 30, 2021. *California Secretary of State*. Report of Registration.

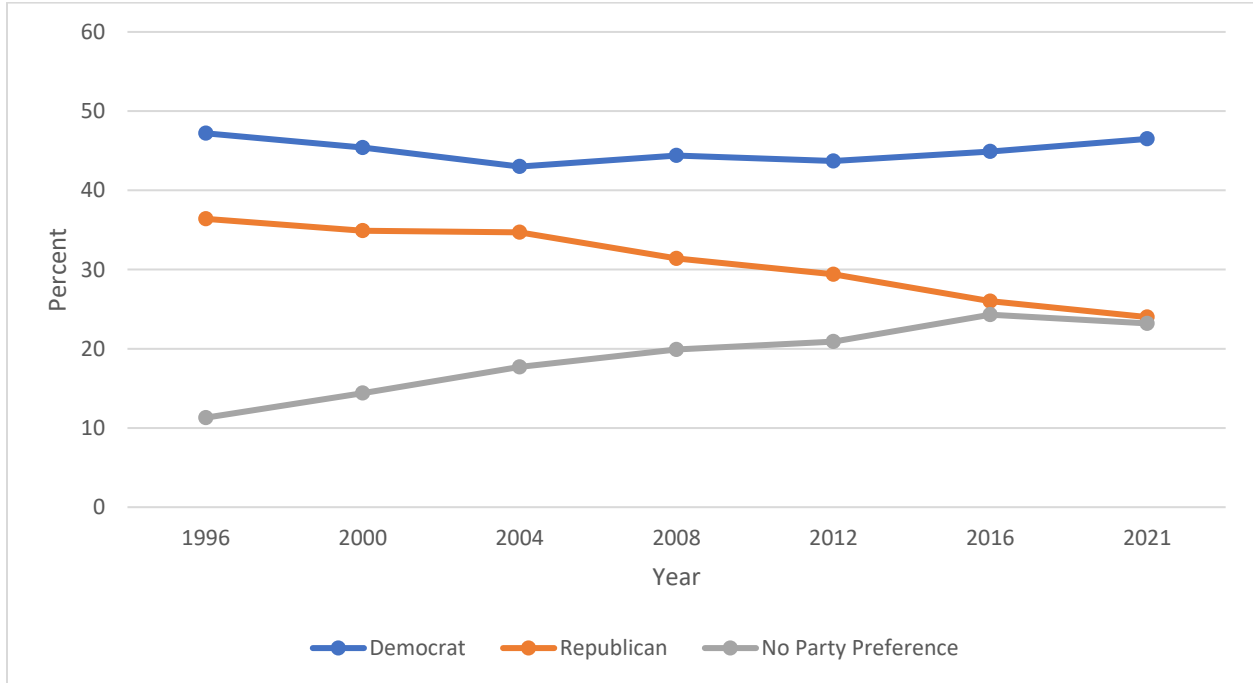
⁹ August 30, 2021. *California Secretary of State*. Report of Registration.

¹⁰ August 30, 2021. *California Secretary of State*. Report of Registration.

¹¹ August 30, 2021. *California Secretary of State*. Report of Registration.

¹² May 30, 2018. *Politico*. California Republicans Hit Rock Bottom & August 30, 2021. *California Secretary of State*. Report of Registration.

Figure 2. Party Registration in California, 1996-2021



Source: California Secretary of State. Report of Registration as of August 30, 2021.

The 2020 elections saw a continuation of Democratic dominance of the state, albeit with some notable conservative victories down-ballot. In the presidential election, Joe Biden defeated Donald Trump in a landslide, while Democrats maintained their 2/3 majorities in each House. However, several ballot propositions championed by liberals went down to defeat, and Republicans were able to re-take three U.S. House seats they lost in 2018. The state also saw its highest voter turnout since 1952, with nearly 17.8 million Californians casting ballots.¹³

The state's 70.8% voter turnout rate was aided by the decision to mail ballots to all eligible California voters. Kim Alexander, president of the California Voter Foundation, said "Automatically mailing all registered voters ballots brought a degree of uniformity to California's election that has been missing in recent years and made it easier to tell voters statewide what they should anticipate."¹⁴ Coupled with strong animus towards President Trump, Mindy Romero, president of USC's Center for Inclusive Democracy, said "This election definitely pushed everyone to a higher turnout."¹⁵ Romero also noted that efforts to make voting easier and more accessible added to the turnout numbers.¹⁶ Advocates in the state legislature wanted to continue this trend. Assemblyman Marc Berman (D-Palo Alto) sponsored a bill to

¹³ December 11, 2020. *Los Angeles Times*. More eligible Californians voted in November's election than any time since 1952.

¹⁴ December 11, 2020. *Los Angeles Times*. More eligible Californians voted in November's election than any time since 1952.

¹⁵ December 11, 2020. *Los Angeles Times*. More eligible Californians voted in November's election than any time since 1952.

¹⁶ December 11, 2020. *Los Angeles Times*. More eligible Californians voted in November's election than any time since 1952.

make universal mail balloting a permanent feature of California elections going forward.¹⁷ Newsom signed the bill (AB 37) on September 27th, saying “Last year we took unprecedented steps to ensure all voters had the opportunity to cast a ballot during the pandemic and today we are making those measures permanent after record-breaking participation in the 2020 presidential election.”¹⁸ Secretary of State Shirley Weber added, “Voters like having options for returning their ballot whether by mail, at a secure drop box, a voting center or at a traditional polling station. And the more people who participate in elections, the stronger our democracy and the more we have assurance that elections reflect the will of the people of California.”¹⁹ California is now the eighth state in the country to adopt universal mail voting.²⁰

In the presidential election, Joe Biden dominated in California even by the standards of recent Democratic nominees. Garnering 63.5% of the vote and defeating President Trump by over 5 million votes, Biden cruised to victory, winning 35 of the state’s 58 counties. Biden’s margin over Trump was nearly a million votes larger than Clinton’s comfortable win four years earlier. With the increased turnout, Biden received nearly 2.5 million more votes than Hillary Clinton in 2016. Orange County, a bastion of Reagan Republicanism that flipped in 2016, remained blue in 2020. Democrats have now won over 60% of the California vote in four straight presidential elections, and Biden’s vote share was the biggest for a Democrat in California since Franklin Roosevelt’s in 1936. Figure 3 depicts the share of the vote for Democratic presidential candidates in California from 1980 through 2020.

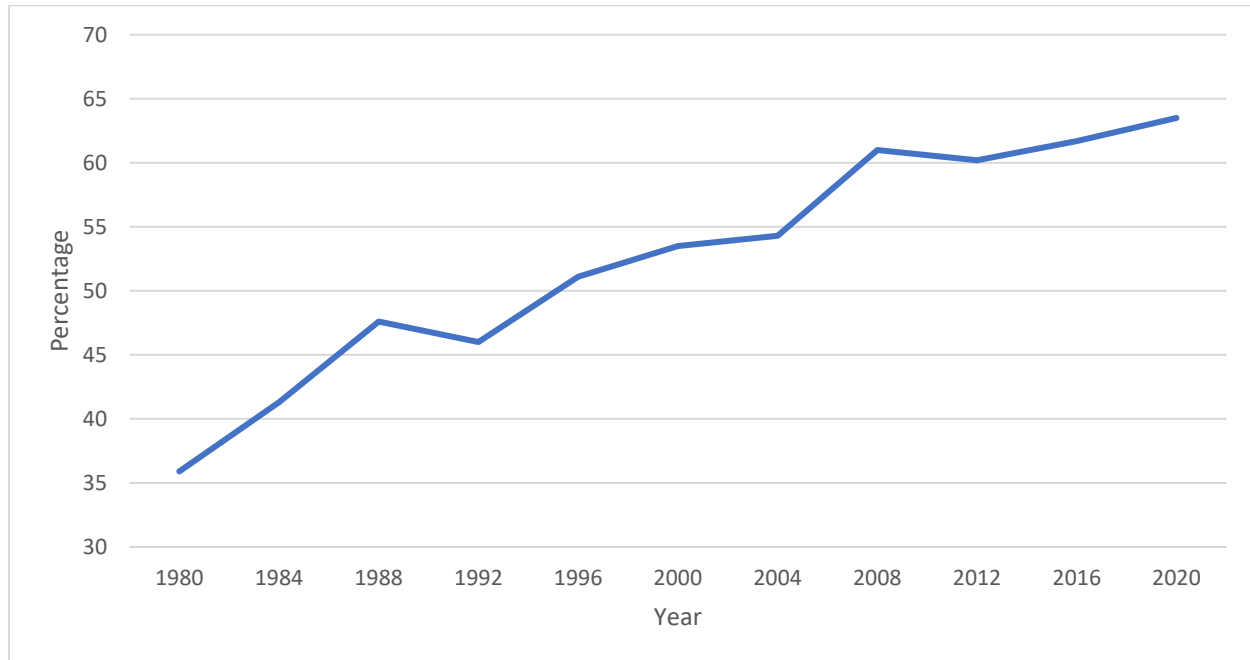
¹⁷ December 11, 2020. *Los Angeles Times*. More eligible Californians voted in November’s election than any time since 1952.

¹⁸ September 27, 2021. *Los Angeles Times*. California’s universal voting by mail becomes permanent.

¹⁹ September 27, 2021. *Los Angeles Times*. California’s universal voting by mail becomes permanent.

²⁰ September 27, 2021. *Los Angeles Times*. California’s universal voting by mail becomes permanent.

Figure 3.
Percentage of the Vote for Democratic Presidential Candidates in California, 1980-2020



Source: California Secretary of State

In the state legislature, Democrats maintained their 2/3 majorities, losing a seat in the Assembly while gaining two in the Senate. Democrats now hold 60 Assembly seats, with 19 Republicans and 1 Independent. In the Senate, the Democratic majority is 31-9.

However, the news was not all bad for Republicans. In three critical U.S. House races, Republicans won back the seats they lost in 2018. In the 21st District, Republican David Valadao reclaimed the seat he held from 2013 to 2019 in a rematch with Democratic Rep. TJ Cox.²¹ In the 39th District, Republican Young Kim was able to unseat Democratic incumbent Gil Cisneros. Kim had previously served a term in the state Assembly and was the first-ever Korean-American Republican woman elected to the state legislature.²² Finally, in the 48th District, Republican Michelle Steel was able to defeat Democratic Rep. Harley Rouda by nearly 8,500 votes. Steel previously served on the Orange County Board of Supervisors.²³

In terms of ballot propositions, the marquee event of 2020 was an epic battle over the pay and working conditions of app-based drivers. Proposition 22 was a measure supported by Uber, Lyft, DoorDash, and other app-based companies to roll back the expansive worker protections afforded by 2019's Assembly Bill 5 and replace them with a smaller package of benefits. AB 5 classified ride-share and other app-based workers as employees rather than independent contractors, entitling them to all the rights, protections, and benefits of employees under California labor law. In the end, the proposition handily passed with 58.3% of the vote after the

²¹ November 27, 2020. *Associated Press*. Former House Republican flips central California seat.

²² April 19, 2015. *Sacramento Bee*. Assemblywoman Young Kim recalls parents' sacrifice to move to U.S.

²³ November 5, 2014. *Orange County Register*. Two new faces join Board of Supervisors.

industry spent a record \$200 million supporting it. Although the outcome surprised many, Mark DiCamillo, a renowned pollster at UC Berkeley's Institute of Governmental Studies, argued that "yes" was the status quo vote in this instance because it would have maintained the drivers' current designation as independent contractors despite providing some additional benefits.²⁴ DiCamillo said, "Voters weren't of the mind to make big changes with app-based drivers, and the yes vote got the majority of people who were withholding judgment until the end."²⁵

Liberals also suffered a defeat in their attempt to roll-back provisions of Proposition 13 as they relate to commercial properties. Prop 15 would have allowed property taxes to rise on business properties, raising an estimated \$11.5 billion per year in new revenue for public schools and local governments.²⁶ In the end, the measure was defeated 52%-48%. While winning in Los Angeles, San Francisco, and other coastal counties, it was soundly rejected everywhere else.²⁷ Jon Coupal, president of the Howard Jarvis Taxpayers Association, said "Like it or not, Prop. 13 has almost mythical powers against those who would assail it."²⁸ Coupled with the defeat of a statewide rent control measure, these results further illustrate that California's direct democracy voting history is more complicated than it might initially appear. (Dyck et al. 2019) Tony Roshan Samara, program director of land use and housing at Urban Habitat, summed it up when he said, "People will vote Democratic but when it comes to these issues of land and property, they vote in the interest of landowners."²⁹

Unemployment, Housing, and Economics

Over the past decade, unemployment has 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. As you can see in Figure 4, California's jobless rate was 0.3%-0.9% higher than the national average between January 2016 and January 2020.³⁰ When the coronavirus pandemic and related 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%, up from just 4.2% three months earlier.³¹ Since then, while the state's jobless rate has dropped considerably to 7.3%, it is still at its highest point since September 2014, excluding the covid bump.³² Moreover, as of October 2021, California was tied with Nevada for the highest unemployment in the country, with its jobless rate remaining 2.7% higher than the nation as a whole.³³

²⁴ November 13, 2020. *Los Angeles Times*. How Uber and Lyft persuaded California to vote their way.

²⁵ November 13, 2020. *Los Angeles Times*. How Uber and Lyft persuaded California to vote their way.

²⁶ November 10, 2020. *Los Angeles Times*. California voters reject big changes to landmark property tax measure Prop 13.

²⁷ November 10, 2020. *Los Angeles Times*. California voters reject big changes to landmark property tax measure Prop 13.

²⁸ November 10, 2020. *Los Angeles Times*. California voters reject big changes to landmark property tax measure Prop 13.

²⁹ November 5, 2020. *New York Times*. A big win for Democrats in California came with a gut check for liberals.

³⁰ U.S. Bureau of Labor Statistics, 2021.

³¹ U.S. Bureau of Labor Statistics, 2021.

³² U.S. Bureau of Labor Statistics, 2021.

³³ November 19, 2021. *Newsweek*. California's Unemployment Rate Falls, but Remains Tied with Nevada as Nation's Highest.

California has the nation's highest rate of expanded poverty and the second-lowest rate of homeownership -- 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's population grew at more than three times the rate of new housing units over the past ten years. Only Utah and Hawaii have more people per housing unit. 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.³⁴

Newsom campaigned heavily on housing and housing costs while running for governor in 2018, promising California would build 3.5 million additional housing units by 2025, requiring the state to quintuple the number of units built each year. But California has not seen a significant uptick in housing construction since Newsom was elected.³⁵

Michael Bernick, former director of the Employment Development Department, said "All of the information is anecdotal, but the feedback has been consistent from employers that workers are not coming back to former jobs in restaurants, hospitality and retail, and that employers are having difficulty attracting new workers."³⁶ Others placed the blame elsewhere. Sung Won Sohn, professor of finance and economics at Loyola Marymount University, said "Inflation is the biggest risk we are facing for the nation and then for the state. Unfortunately in California, as a state, we don't really have any control over it."³⁷ Whatever the causes, high unemployment is sure to cause headaches for the state's political leaders going into 2022.

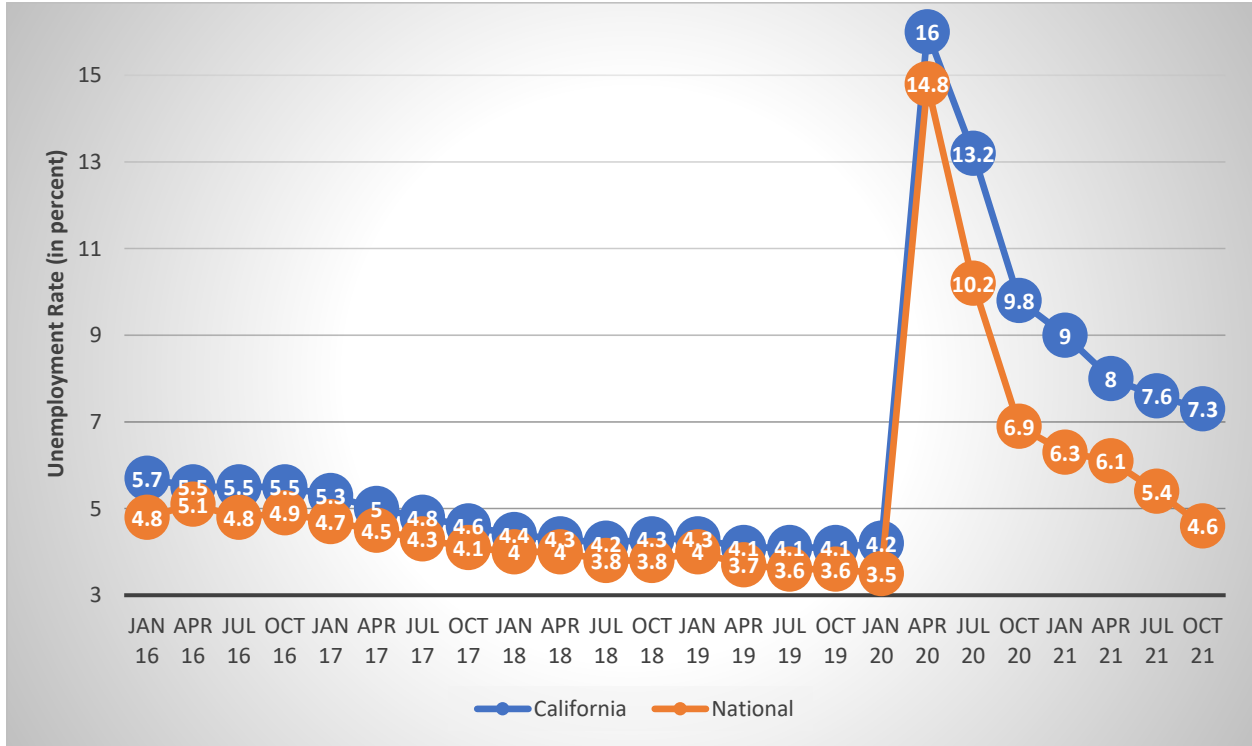
³⁴ December 7, 2021. *CalMatters*. California housing crisis both wide and deep.

³⁵ December 7, 2021. *CalMatters*. California housing crisis both wide and deep.

³⁶ December 3, 2021. *Sacramento Bee*. The economy is booming. So why is California's unemployment rate so high?

³⁷ November 19, 2021. *Newsweek*. California's Unemployment Rate Falls, but Remains Tied with Nevada as Nation's Highest.

Figure 4. California vs. National Unemployment Rates (%), January 2016 – October 2021



Source: U.S. Bureau of Labor Statistics

The California Budget Process

The kick-off to budget season is the governor’s January budget proposal, submitted to the Legislature by January 10 for the upcoming 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 analysts craft several detailed reports on the governor’s budget, highlighting areas of either inadequate or excessive state spending, while also noting 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 now only require a simple majority vote in both houses (41 in the Assembly and 21 in the Senate); previously it took a 2/3 vote to pass the annual budget. Per Proposition 13, tax increases still require a two-thirds vote in 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 budgetary 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 2003.³⁸

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 that political calculus, and legislators must now pass a budget by 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've discussed before (DiSarro and Hussey 2019), 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 other states, California is disproportionately reliant upon income tax and capital gains tax revenue to fund its operations. This addiction to taxes on the wealthy creates a boom-and-bust cycle giving the state large surpluses when economic times are good but huge deficits when they are not. (Cummins 2015) During difficult times, the state is forced to choose between tax increases opposed by Republicans and significant spending cuts opposed by Democrats. Both options are politically unpopular with the public.

Supermajority Requirements for Tax Increases. Over the past sixty 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 during that period. However, state tax increases in California require a two-thirds legislative supermajority, due to Proposition 13, which passed in 1978. 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, the Democrats have frequently won a 2/3 majority 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 utilize their initiative, referendum, and recall procedures more than citizens of any other state.³⁹ 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

³⁸ October 27, 2015. *Capital Public Radio*. Will California Lawmakers Ever Again Override a Veto?

³⁹ Initiative & Referendum Institute, 2021.

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” tends to produce structural deficits for the state, even in the best of times, as voters have historically approved new spending measures but rejected tax increases.

The Previous 2020-2021 Budget

The budget process in 2020 was unlike any other in California history. Faced with a once-in-a-century pandemic, economic collapse, and the prospect of plummeting state revenue, Governor Newsom and the Legislature planned for the worst but hoped for the best. The \$202.1 billion budget they agreed to in June 2020 (\$134 billion General Fund, \$68.1 billion special and bond funds)(DOF 2020) relied heavily on the state’s reserves, using nearly half of the state’s \$16 billion rainy day fund.⁴⁰ This decision was largely a concession to legislative Democrats who wanted to avoid massive cuts to important state services.⁴¹ In addition to utilizing reserves, the budget also contained more optimistic revenue projections, delayed payments, and specified cuts that would be restored if the federal government provided a bailout to cash-strapped states.⁴² Specifically, the budget contained \$11 billion in cuts that would be restored if California received at least \$14 billion from the federal government.⁴³ If California received less, cuts would be restored to programs on a proportional basis.⁴⁴ The cavalry never came in 2020 because President Trump and Senate Republicans derided aid to state and local governments as a “blue state bailout”.⁴⁵

Upon signing the budget, Newsom issued a press release saying, “In the face of a global pandemic that has also caused a recession across the world and here in California, our state has passed a budget that is balanced, responsible and protects public safety and health, education, and services to Californians facing the greatest hardships.”⁴⁶

When it comes to expenditures, the “Big Four” in California are K-12 Education, Health & Human Services, Higher Education, and Corrections. In the FY 2020-2021 budget, K-12 Education accounted for 35.9% of General Fund expenditures, Health & Human Services 33.5%, Higher Education 11.8%, and Corrections 10% (see Figure 5 below) (DOF 2020).

⁴⁰ June 29, 2020. *Los Angeles Times*. A glimpse of some of what’s in California’s new \$202 billion state budget.

⁴¹ June 29, 2020. *Los Angeles Times*. A glimpse of some of what’s in California’s new \$202 billion state budget.

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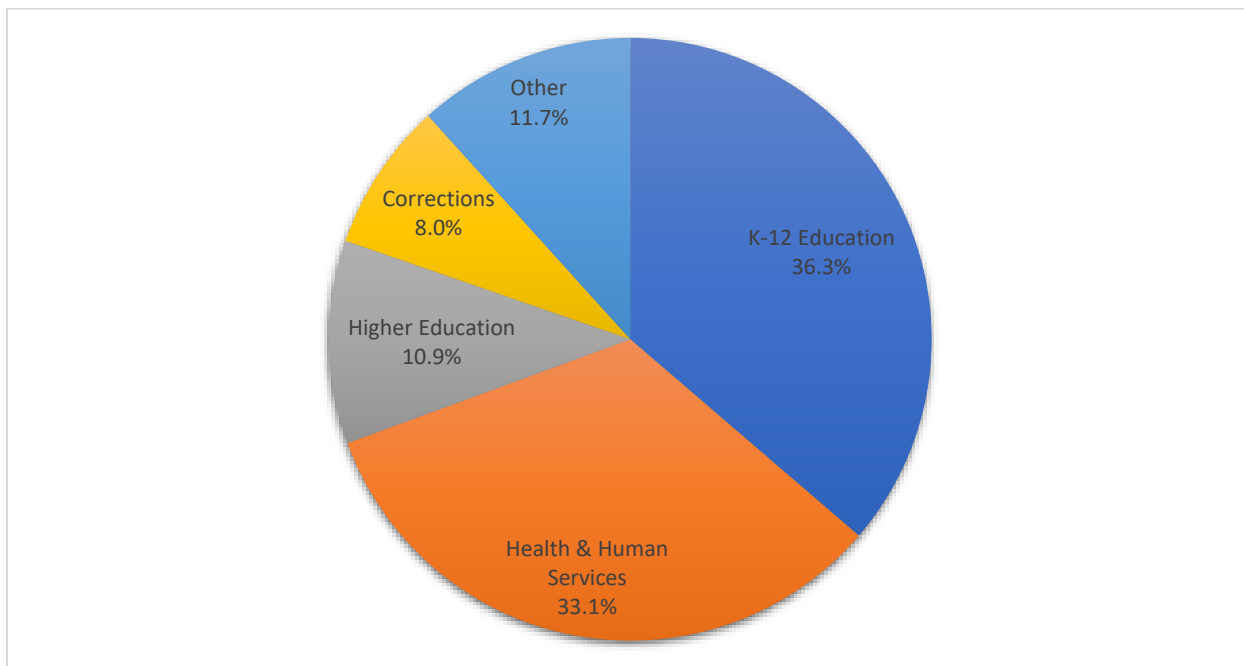
⁴³ June 29, 2020. *Los Angeles Times*. A glimpse of some of what’s in California’s new \$202 billion state budget.

⁴⁴ June 29, 2020. *Los Angeles Times*. A glimpse of some of what’s in California’s new \$202 billion state budget.

⁴⁵ May 4, 2020. *Newsweek*. Mitch McConnell wants to stop blue state bailouts, but red states need help too.

⁴⁶ June 29, 2020. *Press Release: Office of the Governor*. Governor Newsom signs 2020 Budget Act.

Figure 5. California's General Fund Expenditures, 2020-2021



Source: California Department of Finance

K-12 education was the single-largest expense and consumed nearly 36 percent of General Fund revenues in the 2020–2021 budget (DOF 2020). Overall, the state budget provided \$98.8 billion of funding to support primary and secondary education, with \$48.1 billion coming from the General Fund and \$50.7 billion from other funds (DOF 2020). \$12.5 billion was scheduled to be paid late through a system of “deferrals.”⁴⁷ However, school districts would receive a one-time cash infusion of \$5.5 billion to cover expenses associated with the coronavirus.⁴⁸

Health, welfare, and social service programs were the second-largest item, accounting for 33.5 percent of all General Fund spending (DOF 2020). The budget provided a total of \$179.6 billion for such programs, with \$44.8 billion coming from the General Fund and \$134.8 billion from other funds (DOF 2020). The budget projected some savings from Medi-Cal and CalWORKs due to lower than expected caseloads.⁴⁹ However, CalWORKs eligibility also expanded from 48 months to 60 months. This change was lauded by advocates for the poor. Frank Mecca, executive director of the County Welfare Directors Association of California, said “The pandemic has bought into very clear relief the reality faced by lower-income people. Their lives aren’t linear.”⁵⁰ The budget also required Medi-Cal to fund treatment for undocumented seniors but deferred funding to support that until the future.⁵¹

⁴⁷ June 29, 2020. *Los Angeles Times*. A glimpse of some of what’s in California’s new \$202 billion state budget.

⁴⁸ June 29, 2020. *Los Angeles Times*. A glimpse of some of what’s in California’s new \$202 billion state budget.

⁴⁹ June 22, 2020. *Capital Public Radio*. Newsom, California lawmakers agree to budget deal that avoids cuts to health and social services.

⁵⁰ June 29, 2020. *Los Angeles Times*. A glimpse of some of what’s in California’s new \$202 billion state budget.

⁵¹ June 22, 2020. *Capital Public Radio*. Newsom, California lawmakers agree to budget deal that avoids cuts to health and social services.

Higher education was the third highest area of state spending in the 2020–2021 budget, consuming 11.8 percent of General Fund revenues (DOF 2020). Overall, the budget provided \$15.8 billion in General Fund support (DOF 2020). This reflected a net reduction of \$258.4 million for the University of California system, computed as an increase of \$213.2 million, coupled with reductions of \$471.6 million if federal money did not come through (DOF 2020). Similarly, there was also a net reduction of \$299.1 million for the California State University system (calculated as an increase of \$199 million, combined with a contingent reduction of \$498.1 million) (DOF 2020). Advocates for higher education expressed concern over the possible cuts. Dick Ackerman and Mel Levine, co-chairs of the California Coalition for Public Higher Education, wrote “Failure to get those federal funds and any further reductions in public higher education threaten to rob a vital engine of the state’s economy of the fuel it needs to help California overcome the pandemic’s economic devastation.”⁵²

Lastly, Corrections was the fourth-largest category of state expenditure in the 2020–2021 budget, accounting for nearly 10 percent of General Fund spending. Overall, the California Department of Corrections and Rehabilitation (CDCR) received a total of \$13.4 billion in funding, with \$13.1 billion coming from the General Fund and \$311 million from other funds (DOF 2020). This reflected a slight decrease in General Fund appropriations of 0.7% from 2019-2020 (DOF 2020).

LAO’s Economic Outlook

In November 2020, the LAO again predicted budget shortfalls over the next few years but, surprising everyone, also estimated the state had a \$26 billion surplus, equal to almost 20% of the general fund. “Many of us thought that the state revenues were headed for a plunge,” chief Legislative Analyst Gabriel Petek told reporters, “But as it turns out, revenues have proven to be much more resilient than that.”⁵³

California overestimated the loss of tax revenue, especially among high-income residents, who only suffered slight financial disruption during the COVID shutdown. This mistaken guesstimate was further amplified by the state’s normal overreliance on high-income residents to balance the budget. “The progressive nature of the personal income tax structure has actually worked to the state’s benefit in the current environment,” Petek said.⁵⁴ The 2020-2021 budget predicted revenues from personal income, corporation, and sales taxes would fall by 15 percent from the prior year (Petek 2020). However, between August and October 2020, they were actually 9 percent higher than the previous year (Petek 2020).

The LAO cautioned their estimate was more uncertain than normal due to the pandemic and its impact on the economy, and recommend the state use the unexpected revenue to repay the reserve fund and increase K-14 educational spending up to its mandatory minimum. The

⁵² June 13, 2020. *CalMatters*. Make-up for COVID-19 losses by investing in California higher education; state’s economic recovery depends on it.

⁵³ November 18, 2020. *Los Angeles Times*. California could see a \$26-billion windfall followed by growing deficits, analysts say.

⁵⁴ November 18, 2020. *Los Angeles Times*. California could see a \$26-billion windfall followed by growing deficits, analysts say.

FY2020-21 budget had delayed \$6.6 billion, and the LAO suggested canceling those delays rather than repaying them in leaner future budget years.

Democratic legislative leaders said that their first priority was to use the additional revenue to restore the funding delays and temporary cuts. “It should be our priority to restore funds to critical programs that were cut and prevent additional cuts,” Assembly Speaker Anthony Rendon (D-Los Angeles County) released in a statement. Despite the surplus, Senate President Pro Tempore Toni Atkins (D-San Diego) said the state still needed federal economic relief.⁵⁵

Even with the surplus, Newsom’s budget spokesman said the tax windfall didn’t change California’s risky economic condition. “The state’s 11% unemployment rate in September was still nearly three times its rate before the pandemic, and more than one in every five California workers are receiving some form of unemployment assistance,” H.D. Palmer noted.⁵⁶

A second \$900 billion Trump-stimulus came and went in December, with federal assistance to Californians but no additional state funding. Schools and universities did get \$82 billion to compensate them for additional coronavirus costs, but further state aid was blocked by Republicans who refused to “bailout” poorly run state and local governments. “A budget should be a statement of our values. Clearly, we have a different set of values,” House Speaker Nancy Pelosi (D-San Francisco) spoke at a news conference. She said Democrats would try again to secure state and local aid once President-elect Joe Biden took office.⁵⁷

Assembly Budget Chair Phil Ting (D-San Francisco) was upset that the federal government did not help. “State and local governments are the ones primarily providing services to people. During a pandemic, people are relying on their government more than ever before,” Ting told reporters. “The federal government’s responsibility is to be a social safety net during a crisis. That’s why they can borrow money.”⁵⁸ Ting added that the lack of federal money would make it more complicated to offer a California economic stimulus package, since much of the state surplus would need to backfill the budget cuts and delays the previous year. “It does force us to decide between plugging the hole from last year and making additional investments this year,” Ting noted.⁵⁹

Governor’s Proposed 2021-2022 Budget

In early January, Newsom proposed a record \$227 billion budget with a slightly more conservative \$15 billion surplus. “We are on a much better fiscal footing than anyone could have

⁵⁵ November 18, 2020. *Los Angeles Times*. California could see a \$26-billion windfall followed by growing deficits, analysts say.

⁵⁶ November 18, 2020. *Los Angeles Times*. California could see a \$26-billion windfall followed by growing deficits, analysts say.

⁵⁷ December 20, 2020. *San Francisco Chronicle*. California, hard-pressed cities lose in COVID stimulus deal as aid is left out.

⁵⁸ December 20, 2020. *San Francisco Chronicle*. California, hard-pressed cities lose in COVID stimulus deal as aid is left out.

⁵⁹ December 20, 2020. *San Francisco Chronicle*. California, hard-pressed cities lose in COVID stimulus deal as aid is left out.

imagined even a few months ago,” Newsom said during his two-hour budget presentation.⁶⁰ The budget proposal was 12% larger than adopted last summer and included a \$164.5 billion general fund.

The state set a record for capital gains: \$185 billion that resulted in \$18.5 billion in tax revenue for the state, said Keely Bosler, DOF Director. “We got it wrong [last] April about how deep the recession was going to be.”⁶¹

Despite the surplus, Newsom projected deficits would return soon. “Our forecast in terms of the future is very, very, very tenuous,” he said, “on the basis of all the macro-economic headwinds, on the basis of this recent surge of COVID-19, and the realities of uncertainty that mark this moment.”⁶²

Newsom proposed parallel budget tracks. The fast track included \$5 billion in COVID-response funding that would be adopted earlier than the traditional June budget. While governors often include “early action” items in their budget, rarely was it this large or ambitious. “In this environment, we can’t wait as we traditionally have for the fiscal year to end — to adjudicate and dialogue around the give and takes of budget. There are certain things that require urgency,” Newsom noted. The main components included \$600 stimulus checks to Californians making less than \$30,000 annually, rental assistance, school reopening funding, and small business support. Newsom said he hopes to see some of these policies introduced in the legislature “in the next few weeks.”⁶³

Democratic lawmakers largely applauded the governor’s budget proposal. “I’m excited that we aren’t facing a cuts budget,” said Senate Budget and Fiscal Review Chair Nancy Skinner (D-Berkeley).⁶⁴

Senate President Pro Tempore Toni Atkins called Newsom’s budget “a responsible proposal,” but she signaled she would look for more help for people with lower incomes. “Those of wealth are doing better than ever, but our low-income families are struggling through no fault of their own,” Atkins said.⁶⁵ “Given the influx of tax revenue coming from high-income Californians who are doing well, we have a responsibility to use our resources to help those who have been struggling. These communities have been neglected many times in the past,” echoed Assembly Speaker Rendon in a statement.⁶⁶

⁶⁰ January 9, 2021. *Sacramento Bee*. After a painful 2020, California’s next budget will have far more cash than anticipated.

⁶¹ January 9, 2021. *Sacramento Bee*. After a painful 2020, California’s next budget will have far more cash than anticipated.

⁶² January 9, 2021. *Sacramento Bee*. After a painful 2020, California’s next budget will have far more cash than anticipated.

⁶³ January 8, 2021. *CalMatters*. Better than ‘anyone could have imagined’: Inside Newsom’s optimistic, record-breaking budget proposal.

⁶⁴ January 8, 2021. *CalMatters*. Better than ‘anyone could have imagined’: Inside Newsom’s optimistic, record-breaking budget proposal.

⁶⁵ January 9, 2021. *Associated Press*. California governor’s budget booms despite pandemic problems.

⁶⁶ January 8, 2021. *CalMatters*. Better than ‘anyone could have imagined’: Inside Newsom’s optimistic, record-breaking budget proposal.

Republicans were less enthusiastic. Assemblyman Vince Fong (R-Bakersfield), the top Republican on the Assembly Budget Committee, said the state needed to focus more on fixing foundational issues including the affordability crisis, power shut offs, problems with the state's unemployment system, and small businesses. "We need to be focusing on those things in this budget," said Fong. "If we don't then California businesses and families are going to continue to leave the state and Californians will continue to suffer under Sacramento's failed leadership."⁶⁷

Some Republicans especially criticized Newsom's \$4 billion economic recovery package because it included \$1.5 billion to help people purchase electric cars and install the charging stations necessary to use them. "There are millions of people hurting right now, and they can't afford a shiny new electric car. They can barely keep the cars they've got," said Assemblyman Jim Patterson (R-Fresno).⁶⁸

Still, California's surplus was so large that it might have needed to send rebates to taxpayers for the first time since 1986, under a 1979 initiative known as the Gann limit in honor of sponsor Paul Gann. "Whenever we reach it, we shouldn't say 'oh, gosh, we're going to meet the Gann limit, we're going to do something to escape or to get around that limit,'" said Senator Jim Nielsen (R-Tehama County), the top Senate budget Republican. "No, that's important. That is restraint on state government spending."⁶⁹

Some liberal Democrats were disappointed Newsom didn't expand Medi-Cal to cover undocumented seniors. Although the governor supported the effort last year, efforts floundered due to the pandemic. Finding it missing from this year's proposed budget, reporters asked Newsom if he was still supportive. "We have to be mindful of overcommitting \$3 plus billion a year," Newsom replied, "I believe in universal coverage...Right now the resources are scarce."⁷⁰

After largely governing the state without a sitting legislature for most of 2020, Newsom realized things would be different in 2021, including his proposed budget. "The governor is having to do a balance because the Legislature has given him feedback that we want to be part of these discussions," said state Senate leader Atkins. "You've heard reactions in the past when members felt like that wasn't always the case." And with Republicans ignored and irrelevant to passing a budget, Newsom saw the risks. Influential online California newspaper *CalMatters* put it best when discussing Newsom's budget presentation: "a different kind of balancing act Newsom is working to pull off — not between left and right, but between his own power and that of the Democratic-controlled Legislature."⁷¹

This balancing act is always tricky. Several lawmakers complained later in January that they learned about Newsom relaxing COVID restrictions via social media rather than directly from the governor's office. Assemblyman Chad Mayes (Independent-San Bernardino County) said

⁶⁷ January 9, 2021. *Sacramento Bee*. After a painful 2020, California's next budget will have far more cash than anticipated.

⁶⁸ January 9, 2021. *Associated Press*. California governor's budget booms despite pandemic problems.

⁶⁹ January 9, 2021. *Sacramento Bee*. After a painful 2020, California's next budget will have far more cash than anticipated.

⁷⁰ January 8, 2021. *CalMatters*. Better than 'anyone could have imagined': Inside Newsom's optimistic, record-breaking budget proposal.

⁷¹ January 11, 2021. *CalMatters*. In pandemic-era budget, Newsom tries to nestle friends and neutralize enemies.

many of his colleagues are tired of feeling like they've been left out of the loop. "There is this very, very real frustration, not just among Republicans, but also among Democrats in the Legislature, that the administration has not done a good job of reaching out to them to be able to communicate with them on the decisions that are being made," Mayes said.⁷²

He noted lawmakers have a right to be informed and included. "The Legislature is a coequal branch of government and the new administration has really sidelined the Legislature as related to the pandemic," Mayes told public radio.⁷³

Democratic Consultant Robin Swanson admitted Newsom risked losing legislative support if he did not improve his relationship with lawmakers. But Swanson noted that Newsom recently hired a new senior aide, Jim DeBoo, who has a long history in the Legislature. "I think that the governor's going to need to rely on those relationships and really strong communication with those members to move his agenda forward," Swanson said.⁷⁴

Senator Scott Wiener (D-San Francisco) agreed. "The governor is drinking water from a fire hose and has been for a couple of years now between a once-in-a-century pandemic, an economic collapse, record-setting wildfires, a collapsing utility and PG&E and so forth," Wiener said.⁷⁵

When asked by reporters whether he left the Legislature out of the loop on his COVID decision, Newsom said sometimes he needs to act quickly. "Do we delay that for a long, protracted, comprehensive outreach or do we just move forward?"⁷⁶

Newsom's budget proposed \$372 million for COVID-response efforts. While vaccine distribution is largely handled locally, the governor said at his budget press conference that at least 1 million vaccine injections would occur by January 17. "Here's your next thing to hold me accountable to," he said of the pledge.⁷⁷ It is unclear if the state met that deadline, with the *Los Angeles Times* reporting it probably did not.⁷⁸

Newsom's proposed budget also included emergency grants to reopen schools that had paused in-person instruction in March 2020. "We are proposing to the Legislature a record investment in our public schools," said Newsom, "to deal with the disproportionate impacts of this pandemic on ... our low-income communities." Lower income students have particularly struggled with the shift to online instruction. "Distance learning has not met everybody's needs equally," Newsom said. "And that's exactly what this is intended to do."⁷⁹

⁷² January 27, 2021. *KQED*. Lawmakers Vent After Being 'Blindsided' by Newsom.

⁷³ January 27, 2021. *KQED*. Lawmakers Vent After Being 'Blindsided' by Newsom.

⁷⁴ January 27, 2021. *KQED*. Lawmakers Vent After Being 'Blindsided' by Newsom.

⁷⁵ January 27, 2021. *KQED*. Lawmakers Vent After Being 'Blindsided' by Newsom.

⁷⁶ January 27, 2021. *KQED*. Lawmakers Vent After Being 'Blindsided' by Newsom.

⁷⁷ January 8, 2021. *Los Angeles Times*. Newsom's state budget earmarks billions in COVID-19 help for workers and schools.

⁷⁸ January 21, 2021. *Los Angeles Times*. Newsom promised 1 million COVID-19 vaccinations. California can't tell if he hit his goal.

⁷⁹ January 9, 2021. *Los Angeles Times*. Newsom's budget targets reopening, reviving public schools and universities.

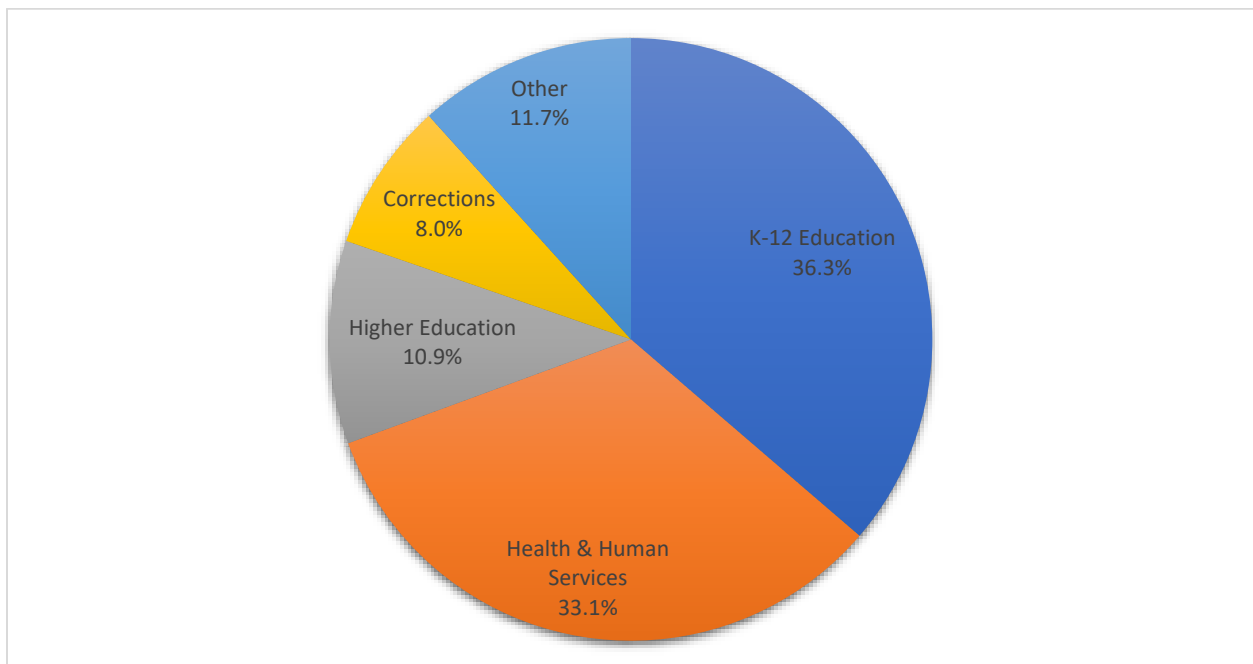
But large school districts cast doubt on Newsom’s plan, arguing that health conditions made it nearly impossible to reopen on his timeline, with teachers’ unions especially reluctant to return to the classroom. The governor reiterated that he would not force schools to resume in-person instruction. “If we’re going to successfully educate our most vulnerable kids,” he said, “we have to do it in partnership with (school districts). This notion of imposition, closed fist versus an open hand, is a distinction for me that’s important.”⁸⁰

It wasn’t clear teachers cared about the governor’s fists, hands, or even reopening schools. “We are in the middle of a devastating COVID-19 surge, and any discussion of returning to in-person instruction is premature,” said a statement from California Federation of Teachers President Jeff Freitas.⁸¹

The Big Four

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 33.1%, Higher Education at 10.9%, and Corrections at 8% (see Figure 6 below) (DOF 2021a).

Figure 6. Governor’s Proposed General Fund Expenditures, 2021-2022



Source: California Department of Finance

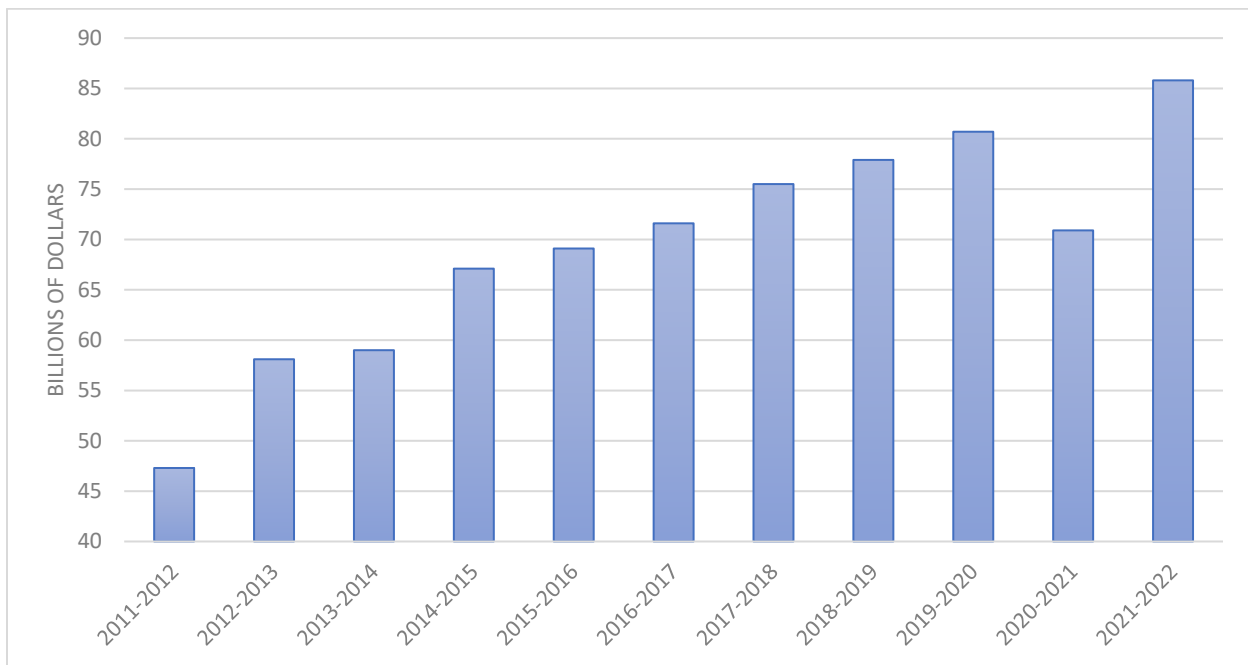
⁸⁰ January 8, 2021. *San Francisco Chronicle*. Newsom calls for using budget windfall to boost California reserves, fight pandemic-caused woes.

⁸¹ January 11, 2021. *CalMatters*. In pandemic-era budget, Newsom tries to nestle friends and neutralize enemies.

K-12 Education

Fueled by higher than expected General Fund revenues, the Proposition 98 minimum funding guarantee for K-12 Education and community colleges rose dramatically, with the January proposal estimated at \$85.8 billion (DOF 2021a). That represented a \$14.9 billion increase over the enacted 2020-2021 budget (although only a \$3 billion increase over the revised budget), an all-time high according to the Department of Finance (DOF 2021a). Figure 7 illustrates the dramatic rise in Proposition 98 funding over the past ten years.

Figure 7. Proposition 98 Funding, 2011-2012 to 2021-2022

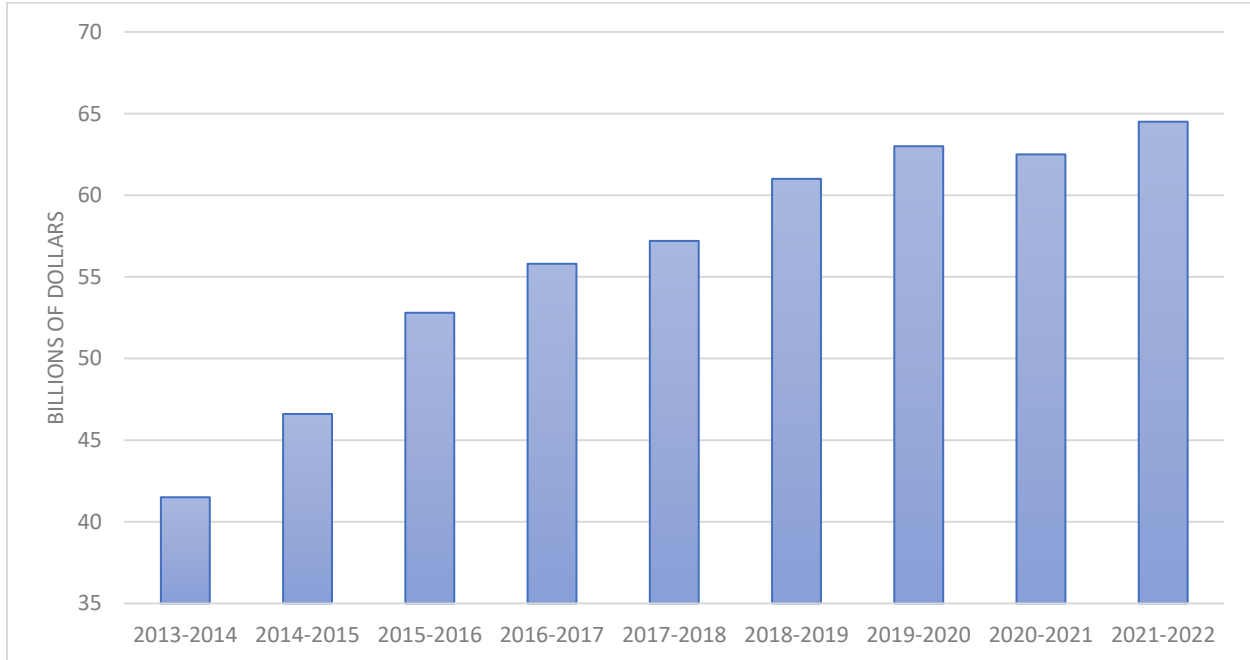


Sources: California Department of Finance & Legislative Analyst's Office

Governor Newsom proposed to use \$2 billion of the additional Proposition 98 funding to further support the Local Control Funding Formula (LCFF). LCFF was created by a 2013 law that provided local school districts with broad autonomy in determining how to spend state education funds. The law was intended to provide districts with more flexibility to meet the needs of students from more disadvantaged backgrounds, such as low-income children, foster youth, and students for whom English was not their first language.⁸² The additional money would have brought LCFF's funding to \$64.5 billion in 2021-2022, a dramatic increase from the \$41.5 billion initially allocated in 2013-2014 (see Figure 8 below) (DOF 2021a).

⁸² August 24, 2016. *The Atlantic*. Why School Funding Will Always Be Imperfect.

Figure 8. Local Control Funding Formula, 2013-2014 to 2021-2022



Source: California Department of Finance

Newsom also placed a high priority on reopening schools shuttered during the coronavirus crisis. His budget plan aimed to reward school districts with between \$450-\$800 per student if they completed plans to safely resume in-person instruction by February 1, 2021, even if local transmission rates in the area actually precluded kids from returning to school.⁸³ Districts without plans by March 1st would have received smaller grants, and all elementary school students would have the option to attend some in-person classes by mid-March.⁸⁴ “Safety is key. Just reopening a school for in-person instruction on its own is not going to address the issue of safety. Yet, in-person instruction... is our default,” Newsom said.⁸⁵ The proposal was to cost about \$2 billion.⁸⁶ In addition, the governor set aside \$4.6 billion for schools to offer Summer programs and provide other remedial measures to get students caught up after a year of Zoom learning.⁸⁷

Health & Human Services

The Governor’s proposed budget included \$195.1 billion in funding for Health & Human Services, with \$64.3 billion coming from the General Fund and \$130.8 billion from other funds (DOF 2021a).

⁸³ January 8, 2021. *Los Angeles Times*. Newsom’s state budget earmarks billions in COVID-19 help for workers and schools.

⁸⁴ January 8, 2021. *Los Angeles Times*. Newsom’s state budget earmarks billions in COVID-19 help for workers and schools.

⁸⁵ December 30, 2020. *Associated Press*. California governor offers plan, \$2 billion to reopen in-person schools.

⁸⁶ December 30, 2020. *Associated Press*. California governor offers plan, \$2 billion to reopen in-person schools.

⁸⁷ January 8, 2021. *Los Angeles Times*. Newsom’s state budget earmarks billions in COVID-19 help for workers and schools.

Medi-Cal is the largest health care program in California, providing coverage to over 13 million low-income Californians. Under the Governor’s budget proposal, General Fund spending on Medi-Cal would have risen 26 percent to \$28.4 billion, up from \$22.5 billion in 2020-2021 (Johnson et al. 2021). As the Legislative Analyst’s Office noted, “Year-over-year growth in General Fund spending in Medi-Cal of this magnitude is unprecedented.” (Johnson et al. 2021). This increase was largely driven by rising caseloads. Newsom’s budget projected a 12 percent increase in Medi-Cal caseloads in 2021-2022, accounting for \$2.6 billion of the increase in General Fund appropriations (Johnson et al. 2021). The governor also proposed about \$1.5 billion in new spending to expand behavioral health treatment in California counties and make other reforms to streamline the delivery of Medi-Cal services (Johnson et al. 2021).

Aside from Medi-Cal, the most significant state public health programs are 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.

Like Medi-Cal, the governor expected CalWORKs caseloads to increase in 2021-2022. At its peak in 2010-2011, CalWORKs’ average monthly caseload was 587,000 (DOF 2021a). While not expected to reach those levels, caseloads were expected to rise 19 percent from the previous budget year to around 482,000 (Anderson 2021). To provide additional assistance for CalWORKs recipients, Newsom proposed a 1.5 percent increase in monthly grants costing the state about \$52 million in the 2021-2022 budget year (Anderson 2021). Payments were to be based on household size and whether the recipient(s) lived in a high or low-cost county. Those in a one-person household in a low-cost county would receive \$528 per month under the governor’s proposal (Anderson 2021). Payments would rise to \$1,261 per month for those in a five-person household in a high-cost county (Anderson 2021). Also adding to costs was the extension of CalWORKs eligibility from 48 to 60 months, although that was not to take effect until May 2022. The LAO estimated this extension would cost the state \$22 million in 2021-2022 and substantially more in subsequent years (Anderson 2021).

IHSS caseloads were also expected to rise in the 2021-2022 budget year. Newsom’s administration expected a 3.9 percent increase in IHSS caseloads in 2021-2022 (LAO 2021a). Coupled with increased hourly costs and an expectation of more hours spent with recipients, the governor called for a 10 percent (\$1.5 billion) increase in the IHSS budget in the new budget year (LAO 2021a). Newsom took some heat in Fall 2020 for vetoing a bill that would have allowed IHSS caregivers to file for unemployment benefits when the loved one they were caring for passed away.⁸⁸ Kristina Bas Hamilton, legislative director of United Domestic Workers of America, said at the time, “We’re supposed to be about California for all. To exclude domestic workers and people working in homes dates back to slavery. There is no safety net.”⁸⁹

In contrast to CalWORKs and IHSS, caseloads for SSI/SSP were expected to decline by about 1.1 percent in 2021-2022 (LAO 2021b). Moreover, there was no substantial increase in caseloads

⁸⁸ October 5, 2020. *KQED*. ‘Left Behind’: Newsom vetoes unemployment benefits for family caregivers.

⁸⁹ October 5, 2020. *KQED*. ‘Left Behind’: Newsom vetoes unemployment benefits for family caregivers.

during the pandemic. Accordingly, the governor proposed \$2.69 billion in General Fund support for the program, representing a 0.6 percent decrease in funding from the revised 2020-2021 budget (DOF 2021a).

Higher Education

The Governor's proposed budget included \$36.1 billion in funding for Higher Education, with \$21.8 billion coming from the General Fund and \$14.3 billion from other funds (DOF 2021a).

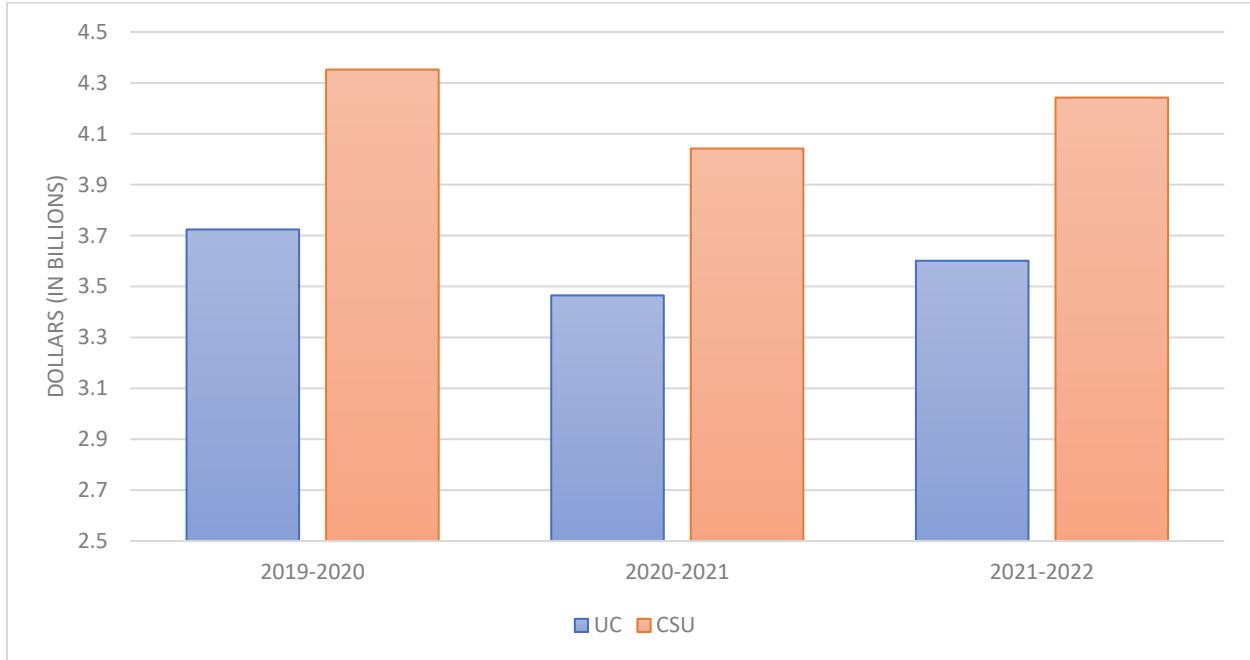
The University of California system would receive slightly over \$3.6 billion in ongoing General Fund appropriations (DOF 2021a). This amount would represent an increase of \$136 million in ongoing funding compared to 2020-2021, although it was still \$123 million less than the UC received in 2019-2020 (DOF 2021a). Under the Governor's budget, the California State University system would receive slightly over \$4.2 billion in ongoing support from the General Fund (DOF 2021a). Similar to the UC, this would represent an increase of \$200 million in ongoing funding compared to 2020-2021, although still \$111 million less than the CSU received in 2019-2020 (DOF 2021a).

Hans Johnson, a higher education expert at the Public Policy Institute of California, said "Given that revenues have come in substantially higher than had been originally forecast, it has allowed the state to provide more investments in UC, CSU and the community colleges than many of us had feared would have been the case. And while the total allocations in terms of increases for UC and CSU in particular are not as high as they might have had in their budget requests, they're pretty substantial still."⁹⁰

Figure 9 illustrates the ongoing General Fund budget for the UC and CSU systems over the past three years.

⁹⁰ January 8, 2021. *Los Angeles Times*. Newsom rejects tuition increases for UC and Cal State but proposes more funding than expected.

Figure 9. Ongoing General Fund Support, UC & CSU Systems, 2019-2020 to 2021-2022



Source: California Department of Finance

The increases were greeted as welcome news by higher education leaders. Cal State Chancellor Joseph Castro said, “The state’s investment in the CSU has led to greater access and record-levels of achievement for students under Graduation Initiative 2025, which in turn produces career-ready graduates in a timely manner.”⁹¹ In a joint statement, UC Board of Regents Chair John Perez and UC President Michael Drake said, “We thank Gov. Newsom for these critical investments in UC students and California’s future, especially given the fiscal uncertainty during COVID-19.”⁹²

Despite this, key leaders in the UC system continued to express frustration at the dual trends of declining per pupil support and limitations on their ability to raise tuition. Both Newsom and former Gov. Jerry Brown tied state funding to the maintenance of existing tuition rates. George Blumenthal, a former UC Santa Cruz chancellor who now heads the UC Berkeley Center for Studies in Higher Education, said “This is not a tragic or horrible budget, but to the extent that it continues a long-term trend...and especially as the governor is saying, no tuition increases going forward, then I think it’s somewhat alarming in terms of the future efficacy of the educational experience. How can that have any effect other than to decrease the quality of the university?”⁹³ But, Newsom was adamant. “We do not believe it’s time for tuition increases and fee increases,”

⁹¹ January 8, 2021. *Los Angeles Times*. Newsom rejects tuition increases for UC and Cal State but proposes more funding than expected.

⁹² January 8, 2021. *Press Release: University of California*. UC statement on Gov. Newsom’s 2021-2022 budget plan.

⁹³ January 8, 2021. *Los Angeles Times*. Newsom rejects tuition increases for UC and Cal State but proposes more funding than expected.

he said.⁹⁴ While tuition has remained flat over the past ten years, the LAO estimated that the UC lost \$38 million and the CSU \$24 million in the previous year due to declining student enrollment during the pandemic (Constantouros & Qing 2021).

Corrections

The Governor's proposed budget included \$13.1 billion in funding for the California Department of Corrections and Rehabilitation (CDCR), with \$12.7 billion coming from the General Fund and \$345 million from other funds (DOF 2021a). This amount represented a 6.1% increase in General Fund support for Corrections over the 2020-2021 budget (DOF 2021a). In addition, the budget also included \$546.9 million from the General Fund to support rehabilitative programs (DOF 2021a). This built on Newsom's support for criminal justice reform announced the previous year, when his 2020-2021 Corrections budget prioritized "shifting juvenile justice to focus on rehabilitation and reentry, investing in restorative justice, community-based violence prevention, substance-use disorder treatment, prison literacy and pretrial diversion."⁹⁵

Golden State Stimulus

A unique feature of the Governor's budget was his proposed "Golden State Stimulus". Intended to mirror the direct cash assistance provided by the federal government during the coronavirus pandemic, Newsom proposed \$600 payments to all Californians with annual incomes below \$30,000 (about 4 million people), a proposal which would have cost \$2.4 billion.⁹⁶

Assemblymember Eloise Gómez Reyes (D-Inland Empire) applauded Newsom's proposal, saying, "It's a core policy effort to help address the inequities in our state that have been so exasperated by COVID. This tool will provide needed aid to those who need it the most to pay back rent and meet the necessary household expenses now that so many have lost their jobs or had their hours reduced or interrupted."⁹⁷ That sentiment was echoed by Assemblymember Joaquin Arambula (D-Fresno). "This pandemic has not hit us all equally. There are those who have done quite well because of capital gains. It's the reason we have this windfall. But there are communities like mine who are struggling. This Golden State Stimulus will help to rise up our working poor. This stimulus will allow us to address equity directly," he said.⁹⁸

After the proposal was unveiled, there was a strong push to expand it to aid California's sizable undocumented population, which has been excluded from all federal stimulus payments so far. Seventeen Assembly Democrats signed a letter saying, "We must continue to work together to address the void created by years of inaction by the federal government that has left our undocumented worker population in the cold, without any viable economic support to survive this pandemic."⁹⁹

⁹⁴ January 8, 2021. *Los Angeles Times*. Newsom rejects tuition increases for UC and Cal State but proposes more funding than expected.

⁹⁵ January 10, 2020. *Press Release: Office of the Governor*. Governor Newsom proposes 2020-21 state budget.

⁹⁶ February 17, 2021. *CalMatters*. Lawmakers pass \$600 stimulus checks plus boost for undocumented workers.

⁹⁷ January 6, 2021. *CalMatters*. Newsom wants extra \$600 stimulus for low-wage Californians.

⁹⁸ February 17, 2021. *CalMatters*. Lawmakers pass \$600 stimulus checks plus boost for undocumented workers.

⁹⁹ February 17, 2021. *CalMatters*. Lawmakers pass \$600 stimulus checks plus boost for undocumented workers.

After some back-and-forth over the details, in late February the Legislature ultimately passed the “Golden State Stimulus” as part of a larger \$9.6 billion COVID-relief package that included \$2.1 billion in assistance for small businesses. The final stimulus compromise provided \$600 payments to all Californians making less than \$30,000 per year, plus an additional \$600 for undocumented taxpayers making less than \$75,000 per year.¹⁰⁰ Despite the double payment, advocates for the undocumented were not satisfied. Sasha Feldstein, economic justice policy manager at the California Immigrant Policy Center, said “With a multi-billion dollar surplus we should be creating a real California for All. And that means filling in all of the gaps left by exclusionary federal relief efforts, not just pieces.”¹⁰¹ Republicans were also unhappy, but for the opposite reason. “This budget is going to be creating long-term obligations to the undocumented,” groused Senator Jim Nielsen (R-Tehama County), the top Senate budget Republican.¹⁰²

EDD Scandal

California also experienced substantial fraud in unemployment benefit filings from its beleaguered Employment Development Department. In early January 2021, EDD officials confirmed cases of fraud in more than 10% of all unemployment benefits paid since March 2020, with fraud already clocked at \$11 billion, and expected to grow. “There is no sugarcoating the reality,” Labor Secretary Julie Su said during the press conference. “California has not had sufficient security measures in place to prevent this level of fraud, and criminals took advantage of the situation.” California has stopped paying tens of billions of benefits on bogus or questionable claims.¹⁰³

In addition, Su told reporters the EDD was struggling with at one point more than a million backlogged claims. Su blamed the Trump administration for failing to help the state counter fraudulent claims, mainly filed through the temporary federal program providing unemployment benefits to independent contractors and self-employed workers. President Biden nominated Su to become Deputy Secretary of the U.S. Department of Labor, and Senate Republicans were happy to highlight this massive scandal.¹⁰⁴ Su was confirmed by the U.S. Senate in June 2021 on a party-line vote. Meanwhile, California’s unemployment fraud numbered at least \$20 billion by October 2021.¹⁰⁵

School Reopening Stalls, Then Restarts

By the end of January, Newsom’s \$2 billion school reopening program had stalled in the legislature, not making the governor’s initial February deadline. Lawmakers criticized the program, with some legislators wanting to wait until teachers and staff were fully vaccinated. “I

¹⁰⁰ February 17, 2021. *CalMatters*. Lawmakers pass \$600 stimulus checks plus boost for undocumented workers.

¹⁰¹ February 17, 2021. *CalMatters*. Lawmakers pass \$600 stimulus checks plus boost for undocumented workers.

¹⁰² February 22, 2021. *Los Angeles Times*. California legislators approve \$9.6 billion COVID-19 package, including \$600 stimulus checks.

¹⁰³ January 25, 2021. *Los Angeles Times*. California officials say unemployment fraud now totals more than \$11 billion.

¹⁰⁴ January 25, 2021. *Los Angeles Times*. California officials say unemployment fraud now totals more than \$11 billion.

¹⁰⁵ October 25, 2021. *Los Angeles Times*. California’s unemployment fraud reaches at least \$20 billion

did not see anything in the governor's proposal on how we would get teachers and staff vaccinated for in-person learning. How is that going to work?" asked Senate Education Chair Senator Connie Leyva (D-San Bernardino County) during a recent hearing. But other lawmakers still were trying to find a compromise, including Assembly Budget Chair Ting. He had proposed legislation in early December to require schools to reopen if county case counts declined to certain levels, but set the bill aside to negotiate with the governor. "We all share a common sense of urgency in reopening schools when it's safe to do so," Ting said in a statement. "Negotiations between the Legislature and the administration continue toward that goal."¹⁰⁶

But the delay was frustrating the governor, who lashed out at an event with the Association of California School Administrators. "If we wait for the perfect, we might as well just pack it up and just be honest with folks that we're not going to open for in-person instruction this school year," Newsom said in a recording first posted to YouTube than later made inaccessible.¹⁰⁷

"You find whatever you look for. If we want to find reasons not to open, we'll find plenty of reasons," Newsom added. "If we want to start building on ways to strategize to find ways to getting where we all want to go, we'll figure that out as well."¹⁰⁸

When asked by Association of California School Administrators Executive Director Wesley Smith about school union demands for vaccines before returning to the classroom, Newsom pointed to research released by the CDC that shows schools using masks and social distancing protocols have had little virus transmission and outbreaks. "If everybody has to be vaccinated, we might as well just tell people the truth: there will be no in-person instruction in the state of California. Just tell them the truth. Don't mislead people," Newsom said. "If vaccinations [are] the absolute, then maybe we should be having a different conversation with the people of the state of California and parents."¹⁰⁹

The governor applauded teachers for their work during COVID but also noted that distance learning was difficult for students, discussing his own childhood struggle with dyslexia and current distance learning challenges among his four children. His 4-year-old son is "not learning" online, he said. "He talks about Zoom school, it's not working for him. It's not working for his parents," Newsom said. "He's just not paying attention."¹¹⁰ Newsom's office later confirmed his four children returned to in-person instruction in Fall 2020 at their private school in suburban Sacramento.¹¹¹

Newsom had better news to report in mid-February when he announced a breakthrough with the legislature over his early action budget proposals. The \$9.6 billion plan included the additional \$600 per-person economic recovery checks to low-income Californians, dubbed the "Golden State Stimulus", and also included federal money for additional subsidized child care, along with the restoration of higher education funding delayed in last summer's budget. "As we continue to

¹⁰⁶ January 28, 2021. *San Francisco Chronicle*. Newsom's \$2 billion plan to reopen California schools fizzles.

¹⁰⁷ January 28, 2021. *Politico*. Newsom: California schools won't reopen 'if we wait for the perfect'.

¹⁰⁸ January 28, 2021. *Politico*. Newsom: California schools won't reopen 'if we wait for the perfect'.

¹⁰⁹ January 28, 2021. *Politico*. Newsom: California schools won't reopen 'if we wait for the perfect'.

¹¹⁰ January 28, 2021. *Politico*. Newsom: California schools won't reopen 'if we wait for the perfect'.

¹¹¹ March 19, 2021. *Politico*. Newsom's 'Zoom school' experience was in the past, office confirms.

fight the pandemic and recover, I'm grateful for the Legislature's partnership to provide urgent relief and support for California families and small businesses where it's needed most," Newsom said in a statement with legislative leaders Atkins and Rendon.¹¹² The legislature passed the plan a few days later.

In contrast to the federal stimulus checks, California's plan included unauthorized immigrants. "I think about my community and the 2 million people across the state who have been left out of any type of assistance," said Assemblymember Wendy Carrillo (D-Los Angeles) in an earlier legislative hearing.¹¹³ Carrillo came to America from El Salvador with her family as a child without authorization.

But conflict returned between the governor and legislature again over the issue of reopening schools. Newsom was particularly angry over the legislative version of his reopening plan that set a very high bar for restarting in-person instruction. "I made it crystal clear," Newsom told reporters, "I can't support something that's going to delay the safe reopening of schools for our youngest kids." The governor wanted students in second grade or lower back in school as soon as possible, but the bill proposed by Budget Chair Ting sets an April 15 date. "My fear about what was put out yesterday is it's actually going to slow down our ability to reopen schools safely," Newsom said about the legislation.¹¹⁴

Legislative Democrats continued to back the bill, with Assembly Speaker Rendon declaring the Assembly would not reschedule a final legislative vote, although the chamber later did. Ting wrote on Twitter, "School reopening only works if teachers, administrators and staff feel safe." He added, "Our plan opens up schools in the fastest and safest time frame."¹¹⁵

And at his Assembly Budget Committee hearing, Ting rebuked school districts, superintendents, and other officials that agreed with Newsom. He called their open letter in opposition to his bill "tone deaf" and accused school districts of wanting the reopening incentive money without any accountability. "I am normally a huge proponent of local control. This year, local control has been a complete failure," Ting said at the online legislative hearing. "We have seen the whole 'trust us' model of the districts fail."¹¹⁶

At the hearing, Assemblymember Patrick O'Donnell (D-Long Beach) seemed to take a swipe at the governor for holding several news conferences that day, including one in the lawmaker's home city of Long Beach. "I hope we can sit down and figure this out. That's why I'm here today. I'm not down in Long Beach today," O'Donnell said at the Capitol. "There's a press conference down there. I'm not there. I'm here. I'm ready to cut a deal and get kids back into the classroom because that's my priority."¹¹⁷

¹¹² February 17, 2021. *Los Angeles Times*. Californians with low incomes to receive \$600 checks under \$9.6 billion COVID-19 economic package.

¹¹³ January 11, 2021. *CalMatters*. In pandemic-era budget, Newsom tries to nestle friends and neutralize enemies.

¹¹⁴ February 19, 2021. *San Francisco Chronicle*. Newsom hints at veto of California Democrats' school reopening plan - it's too slow, he says.

¹¹⁵ February 19, 2021. *San Francisco Chronicle*. Newsom hints at veto of California Democrats' school reopening plan - it's too slow, he says.

¹¹⁶ February 22, 2021. *Politico*. Newsom feuds with fellow California Democrats over schools.

¹¹⁷ February 22, 2021. *Politico*. Newsom feuds with fellow California Democrats over schools.

The Legislature’s proposal satisfied most teacher union demands concerning reopening, aligning legislative Democrats closer to the unions than the governor. “I want to be your partner. I want the administration to pay attention to my community, not just telling us: here’s what we’re going to give you,” Assemblymember Cristina Garcia (D-Los Angeles County), told state officials at the hearing.¹¹⁸

But often in both superhero movies and budget negotiations, the night is darkest just before dawn, and a few days later, Newsom and legislative leaders announced a compromise. They set April 1 as the new date for schools to restart instruction but stopped short of mandating that schools reopen fully in-person, leaving the final details up to local school districts and school employees. Schools that waited would increasingly lose out on the extra educational funding proposed by the governor, and in exchange, Newsom largely agreed to let districts wait to reopen in-person after teachers and staff were vaccinated. The governor had already ordered the state to set aside 10% of the state’s weekly vaccine doses for school employees.

At the press conference announcing the compromise, Newsom said that negotiations were done “in the spirit of collaboration” and included a “bottom-up, not top-down” approach. “I’m sure you’ll find some people that will have strong opinions, but the bottom line is we created a framework that we believe is a consensus,” the governor said. “That consensus doesn’t mean everybody is happy. It’s part of the negotiations, it’s part of the process.”¹¹⁹

But in a sign that Newsom largely won, the largest local teachers’ union in Los Angeles came out strongly against the compromise, calling it “a recipe for propagating structural racism” just hours after the governor’s press conference. “If this was a rich person’s disease, we would’ve seen a very different response. We would not have the high rates of infections and deaths,” United Teachers of Los Angeles President Cecily Myart-Cruz said at a news conference Monday. “Now educators are asked instead to sacrifice ourselves, the safety of our students and the safety of our schools.” Myart-Cruz accused white, wealthy parents of increasing that political pressure and “driving the push behind a rushed return.”¹²⁰

The legislature nonetheless overwhelming passed the \$6.6 billion bill by a few days later. “Like everybody said, this bill may not be what’s best for you, your family or your district, but I believe this bill is the best for our state,” acknowledged Assemblyman Ting during legislative debate.¹²¹

But as a possible recall of Newsom intensified, several Republican lawmakers were happy to blame the governor. “California gets an ‘F’ in how it dealt with education, period,” said Assemblyman James Gallagher (R-Butte County), who voted no and disused the impact of social isolation on his daughter as she entered high school via online classes. “I think the lion’s share of the blame lies with this governor.”¹²²

¹¹⁸ February 22, 2021. *Politico*. Newsom feuds with fellow California Democrats over schools.

¹¹⁹ March 2, 2021. *Politico*. LA teachers union slams California schools plan as 'propagating structural racism'.

¹²⁰ March 2, 2021. *Politico*. LA teachers union slams California schools plan as 'propagating structural racism'.

¹²¹ March 4, 2021. *Mercury News*. COVID: California lawmakers pass school reopening bill.

¹²² March 4, 2021. *Mercury News*. COVID: California lawmakers pass school reopening bill.

Meanwhile, At Dinner

California is one of 19 states to allow citizens to recall their public officials, and every governor since Pat Brown has seen a recall attempt initiated. But prior to Newsom, only one had gathered the substantial number of signatures to make it onto the ballot, when Governor Gray Davis was recalled in 2003 and replaced with Arnold Schwarzenegger. Newsom had already seen four failed recalls filed against him in less than his first two years in office.¹²³ Accordingly, not many were particularly interested when retired Yolo County sheriff's deputy Orrin Heatlie filed recall paperwork against Newsom in February 2020. Without funding or broader support, few believed the recall supporters would be able to gather the approximately 1.5 million valid signatures to qualify.¹²⁴

Moreover, when COVID hit and shut down the state, it became even more difficult to gather signatures, so Heatlie went to court in October 2020 and asked to extend the standard 160-day signature window. A Sacramento Superior Court judge agreed, granting recall supporters 120 additional days to gather signatures, up to mid-March 2021. "This thing would never qualify if they had been forced to adhere to the 160-day timelines for getting signatures," said Garry South, a Democratic political consultant who previously worked for Davis. "Without the 120 day (extension), they wouldn't have ever made it" South told the *Sacramento Bee*.¹²⁵

It's unclear why the Secretary of State's office never appealed the decision. "I just think it got lost in the shuffle," South said. "And it sets a horrible, horrible precedent, particularly on the recall front."¹²⁶ Perhaps the office's boss was busy. Secretary of State Alex Padilla was appointed by Newsom to Kamala Harris' U.S. Senate seat in December once Harris became Vice President.

With the extension granted by the court, the Newsom recall was given a total of 280 days to gather signatures. Even with that unprecedented extra time, however, it was still unlikely the recall would qualify. But then Newsom gave his opponents an elaborate, multi-course, succulent gift.

Newsom and his wife Jennifer Siebel Newsom attended an elite November 6 birthday dinner at one of the most exclusive and expensive restaurants in the world, the French Laundry in Napa Valley. This dinner occurred during an increase in COVID activity in Fall 2020, where indoor dining throughout the state was severely limited. The birthday dinner was for the governor's close friend, powerful Sacramento lobbyist Jason Kenny.

¹²³ California Secretary of State. Complete List of Recall Attempts. Last viewed: December 30, 2021. <https://www.sos.ca.gov/elections/recalls/recall-history-california-1913-present>

¹²⁴ California Secretary of State. Complete List of Recall Attempts. Last viewed: December 30, 2021. <https://www.sos.ca.gov/elections/recalls/recall-history-california-1913-present>

¹²⁵ March 15, 2021. *Sacramento Bee*. 'Lost in the shuffle.' Did Democrats miss a chance to block a Newsom recall election?

¹²⁶ March 15, 2021. *Sacramento Bee*. 'Lost in the shuffle.' Did Democrats miss a chance to block a Newsom recall election?

This appearance of hypocrisy and insincerity fueled the recall like nothing else. As David Siders in *Politico* later summarized, “The incident was damaging to Newsom not only because of the rank hypocrisy of dining out in a group while telling Californians to stay isolated in their homes, but because it confirmed for Newsom’s critics the elitist label they have always tried to pin on him. And it served as a reminder of his management of a pandemic that, at the time, was burning almost uncontrollably throughout the state.”¹²⁷

Newsom’s mistake galvanized recall supporters, who turned in more than 2 million signatures for verification a few days before their mid-March deadline. And Newsom finally publicly acknowledged the recall, and its threat, by going on the attack. “If you look at the list of grievances from the proponents of this campaign, it goes to our values. It’s less about me, it’s more about California and our values — Democratic Party values,” the governor argued on ABC’s *The View*. “Am I worried about it? Of course I’m worried about it,” Newsom acknowledged. “The nature of these things, the up-or-down question, the zero-sum nature of the question, is challenging. It’s vexing. And so we’re taking it seriously.”¹²⁸

A week earlier, Newsom held his State of the State Address. Usually held in late January in the State Capitol, Newsom decided to give his speech two months later and hundreds of miles from Sacramento in an empty Dodger Stadium. The governor made no major policy announcements, instead focusing on the pandemic and his response to it. The *Los Angeles Times* reported the sharp contrast to normal state addresses as Newsom entered the “wind-whipped” stadium “to the sound of about half a dozen people clapping.”¹²⁹

¹²⁷ March 19, 2021. *Politico*. The Three Men Who Could Take Down Gavin Newsom.

¹²⁸ March 16, 2021. *Los Angeles Times*. Newsom acknowledges recall is likely to qualify for the ballot as final signatures are turned in.

¹²⁹ March 9, 2021. *Los Angeles Times*. Facing recall, Newsom discusses ‘unthinkable’ pandemic challenges and offers hope for future.



Photo Credit: Los Angeles Daily News

“COVID was no one’s fault—but it quickly became everyone’s burden,” Newsom told the state. The governor conceded that the state’s pandemic response had not always been smooth. “I know our progress hasn’t always felt fast enough,” he said. “And look, we’ve made mistakes. I’ve made mistakes. But we own them, learn from them, and never stop trying.”¹³⁰

Biden’s Budget Bonanza Breezes...In

California received positive budget news from Washington a few days after the State of the State when President Biden signed his COVID relief bill, distributing to the state and its local governments an extra \$42 billion, with \$26 billion reserved just for state government. The DOF estimated almost \$152 billion would be available to help California residents in total, including stimulus checks, extended unemployment benefits, and additional federal assistance to schools and universities.¹³¹

Although federal rules prohibited states from using the new federal funds to pay for tax cuts, California had vast discretion over this one-time revenue, equal to more than 10% of Newsom’s proposed state budget. “With this infusion of federal stimulus, California can make faster progress on responding to COVID, supporting small businesses, putting money in people’s

¹³⁰ March 9, 2021. *CalMatters*. Newsom blasts ‘naysayers and dooms-dayers’ as he touts pandemic progress.

¹³¹ March 11, 2021. *Los Angeles Times*. California’s robust budget will get another \$26 billion from new COVID-19 stimulus.

pockets, and bolstering K-12 and higher education,” Newsom said in a written statement. “All of these pandemic responses add up to a brighter future for California.”¹³²

Newsom promised to account for the federal revenue in his May budget revision, but the Legislature was already giddy about the extra funding. “It gives us a lot of options,” said Assembly Budget Chair Ting. “And we know that there are lean years that are coming.”¹³³ Pro Tem Atkins called the additional revenue the state’s “fair share,” telling reporters, “California has been a ‘donor state’ for decades, paying more to the federal government than we receive in federal services and investments.”¹³⁴

Even legislative Republicans were overwhelmed. “This has not been like any other budget season that we’ve had,” said Vince Fong, the lead Assembly Republican on the Budget Committee. “In addition to [the earlier emergency spending bill], you have the state windfall and then you have the federal resources coming as well,” said Fong. “We’ve got so many moving parts. I don’t know if there’s a playbook for that.”¹³⁵ Requests from activists and lobbyists poured into the state Capitol; local governments, for example, asked for \$8 billion to support broadband internet.

Chris Hoene, executive director of the liberal California Budget & Policy Center, said he welcomed the political debate. “There’ll be political contention about what should be prioritized and what should receive more funding,” he told CalMatters. “But that’s certainly a better situation to be in than having to have political fights over who gets cut and who doesn’t get cut, which is what we experienced last time around.”¹³⁶

Newsom reiterated his support for schools to reopen full-time in mid-April. “We must prepare now for full in-person instruction come this next school year. That’s foundational, and that’s principal,” Newsom said at a press event. The Governor told reporters he was working with the legislature to formalize the process in the May Revision. “I don’t have a closed fist on this. I have an open hand, Newsom said, “because the consequences of delay are profound, particularly for our diverse communities.”¹³⁷

April Showers Bring Recall Flowers

Newsom faced a much different late April shock: a statewide recall vote would occur. The Secretary of State reported that organizers had submitted more valid signatures than needed to qualify the recall. “Game on,” said Anne Dunsmore, campaign manager for Rescue California, the main group behind the recall drive. “They said it couldn’t be done, now they’re saying he

¹³² March 11, 2021. *Los Angeles Times*. California’s robust budget will get another \$26 billion from new COVID-19 stimulus.

¹³³ March 11, 2021. *Los Angeles Times*. California’s robust budget will get another \$26 billion from new COVID-19 stimulus.

¹³⁴ March 11, 2021. *Associated Press*. California could get \$150B from federal virus relief bill

¹³⁵ March 24, 2021. *CalMatters*. Gov. Newsom and legislators have lots of money to spend, few strings attached

¹³⁶ March 24, 2021. *CalMatters*. Gov. Newsom and legislators have lots of money to spend, few strings attached

¹³⁷ April 14, 2021. *EdSource*. California governor doubles down on call to reopen schools in the fall

can't be recalled. I say we proved him wrong once, now we're going to prove him wrong twice."¹³⁸

"This election will be about two different visions for California," said Juan Rodriguez, Newsom's campaign manager for in a statement. "The Republican recall — backed by partisan, pro-Trump and far-right forces — threatens our values as Californians and seeks to undo the important progress we've made under Gov. Newsom."¹³⁹ "I am not going to take this fight lying down," Newsom said in a fundraising appeal shortly after the Secretary of State's announcement. "There is too much at stake, and I intend to win."¹⁴⁰

While it had become clear California voters would have an opportunity to recall their governor, it was much less clear when that opportunity would occur. Legislative Democrats had lengthened and complicated the recall process a few years earlier. The byzantine process would allow citizens 30 business days to rescind their signature, then give the state an additional 30 business days to estimate the cost of a recall election, and finally grant the legislature another 30 calendar days to review those costs. Only then could Lieutenant Governor Eleni Kounalakis set an election date 60 to 80 days later. Many experts felt the extended timeline could push the recall vote to November.¹⁴¹

UC San Diego political scientist Thad Kousser told the *Los Angeles Times* the situation looked bleak for the Governor when California was overwhelmed by the coronavirus and Newsom broke protocol and went to dinner at the French Laundry. But with a lowered infection rate and a large budget windfall, the tide may have shifted. "Its fate today looks much less possible than it did when this recall drive began in earnest," Kousser said. "But if there's anything we've learned last year it is that things could change dramatically in another four months."¹⁴²

While a significant vocal minority wanted the recall, it was unclear how much broader support they had. In a Public Policy Institute of California poll released in March, 56% of voters said they opposed the recall, and 40% supported it.¹⁴³ A *Los Angeles Times* analysis of the more than 1.6 million valid signatures showed the strongest support for the recall in the most Republican areas in the state: the conservative inland counties north of Sacramento. "These areas are home to 5% of the state's population but more than 10% of the total signatures gathered." In contrast, Los Angeles County, home to a quarter of the state's population, only provided 16% of the total number of signatures.¹⁴⁴

¹³⁸ April 26, 2021. *San Francisco Chronicle*. Newsom recall has enough signatures to make ballot, California says

¹³⁹ April 26, 2021. *San Francisco Chronicle*. Newsom recall has enough signatures to make ballot, California says

¹⁴⁰ April 27, 2021. *Associated Press*. California recall has enough signatures to make ballot

¹⁴¹ April 26, 2021. *San Francisco Chronicle*. Newsom recall has enough signatures to make ballot, California says

¹⁴² April 26, 2021. *Los Angeles Times*. Gov. Gavin Newsom to face recall election as Republican-led effort hits signature goal

¹⁴³ April 26, 2021. *Los Angeles Times*. Gov. Gavin Newsom to face recall election as Republican-led effort hits signature goal

¹⁴⁴ April 29, 2021. *Los Angeles Times*. Who wants to recall Gov. Newsom? Signatures point to Trump's California

May Revision: Even More Money

Newsom had good fiscal news to report in early May when he announced the state would have a massive \$75.7 billion surplus for the current fiscal year and next. Mindful of the surplus and the future recall, the Governor proposed extending the earlier \$600 per person Golden State stimulus to now cover middle-income Californians. “We believe people are better suited than we are to make determinations for themselves on how best to use these dollars,” Newsom told reporters.¹⁴⁵ The Governor was quick to point out the state was not using any federal aid for the tax rebates and had already received clearance from the Biden Administration. Newsom called it the largest state tax rebate in American history.¹⁴⁶

The massive state money pile shocked a wary Sacramento accustomed to shortfalls and budget tricks to balance the budget. “People were talking last year about a \$54 billion shortfall; to then go to a \$75 billion surplus is surreal,” said Anthony Wright, executive director for Health Access California, “It’s even more surreal for those of us who have been around for a couple of decades and have experienced a lot more lows than highs with regard to the budget cycles.”¹⁴⁷

“California is not just back — California is roaring back,” Newsom said at a news conference in Oakland with legislative Democrats. His rebate would impact about 11 million Californians with incomes less than \$75,000, with an additional \$500 to those with children. “That budget surplus is going back to the most vulnerable Californians, the ones who need help the most,” said Assembly Budget Chair Phil Ting (D-San Francisco).¹⁴⁸ The rebate would total nearly \$11 billion and help the state satisfy the aforementioned Gann spending limit.¹⁴⁹

Raphael Sonenshein, the executive director of the Pat Brown Institute for Public Affairs at California State University, Los Angeles, told the *New York Times* it was unlikely that an extra \$600 would woo Republican voters. “I think it’s awfully hard to convince people of anything these days,” said Sonenshein. “The real audience is more likely to be Democrats and independents who now have a stronger reason to stay with the governor and the governor’s party.” And almost on cue after Newsom’s announcement, Republican recall opponent Kevin Faulconer tweeted, “Californians need permanent, real tax relief, not just one-time stimulus checks.”¹⁵⁰

The incredible growing surplus, more than twice what the state estimated in January, would include \$38 billion of discretionary funding even after accounting for mandatory increases on K-14 education and California’s emergency budget fund. The Governor believed the legislature would support his increased spending priorities on rent relief and other emergency assistance to Californians struggling during the pandemic. “I’m mindful that our values are aligned, and that’s

¹⁴⁵ May 10, 2021. *Politico*. California has a staggering \$75.7B budget surplus

¹⁴⁶ May 10, 2021. *Los Angeles Times*. Newsom promises additional \$600 stimulus checks and \$5 billion toward rental assistance

¹⁴⁷ May 10, 2021. *Politico*. California has a staggering \$75.7B budget surplus

¹⁴⁸ May 10, 2021. *Los Angeles Times*. Newsom promises additional \$600 stimulus checks and \$5 billion toward rental assistance

¹⁴⁹ May 10, 2021. *New York Times*. California’s Middle-Class Taxpayers Could Get a Rebate Under Newsom Plan

¹⁵⁰ May 10, 2021. *New York Times*. California’s Middle-Class Taxpayers Could Get a Rebate Under Newsom Plan

been demonstrable over the course of the last number of months,” Newsom told reporters.¹⁵¹ “Direct aid to people is what is going to get our economy roaring back,” Oakland Mayor Libby Schaaf told reporters at the Newsom press event, showering praise on “one of the greatest California budgets we have ever seen.”¹⁵²

While Newsom sidestepped a question from reporters about how the stimulus would impact the recall election, recall supporters were happy to answer for him, dubbing it the “Recall Refund.” They released a statement alleging voters were getting additional tax relief because of the upcoming campaign. “Chalk another one up for the pressure of the recall on Gavin Newsom’s policies,” it read.¹⁵³

“It’s very significant, and it dovetails into the general perception that we are coming out of the pandemic, the worst is behind us, the future looks brighter as evidenced by the checks the public will soon receive,” former Governor Gray Davis said in an interview. Davis, himself recalled by voters in 2003 added, “It all flows into the same narrative that the problems are mostly behind us today and will be substantially behind us come this fall.”¹⁵⁴

Perennial *Los Angeles Times* columnist George Skelton took umbrage at Newsom’s proposed stimulus a few days later, declaring “It’s Christmas in May and Gov. Gavin Newsom is playing Santa Claus.” Skelton noted the upcoming recall election and Newsom’s favorable financial situation, compared to a bleak budget deficit that Davis oversaw in 2003. “It’s easier being Santa Claus than the Grim Reaper,” Davis’ communications director Steve Maviglio told the columnist. “We were cutting human services and education programs right and left,” Maviglio remarked. “Newsom’s situation is just the opposite. He can dole out money beyond anyone’s expectations.”¹⁵⁵

Newsom’s “California Comeback Plan” also had national Republicans reeling at the Golden State subsidy. Senate Republican Leader Mitch McConnell had already attacked the federal stimulus in December 2020 as supplying “the Governor of California with a special slush fund.” And after Newsom’s Oakland news conference Senator Mitt Romney (R-UT) tweeted, “This is one more reason why borrowing and sending tens of billions to California was a crying shame — and why every Republican in Congress opposed it.”¹⁵⁶

The next day in San Diego, Newsom announced a \$12 billion plan to tackle homelessness, which he said was the largest in U.S history. “What we’re announcing here today is truly historic,” Newsom told reporters. “It’s unprecedented, not just in California history. What we’re announcing here today is simply unprecedented in American history.”¹⁵⁷ The Governor’s plan would provide housing for 65,000 people and financially assist another 300,000 facing other

¹⁵¹ May 10, 2021. *San Francisco Chronicle*. Newsom, with huge \$38 billion budget surplus, proposes new stimulus checks, more rent relief for Californians

¹⁵² May 10, 2021. *Politico*. Newsom wants to hand out cash before California recall election

¹⁵³ May 10, 2021. *Politico*. Newsom wants to hand out cash before California recall election

¹⁵⁴ May 10, 2021. *Politico*. Newsom wants to hand out cash before California recall election

¹⁵⁵ May 13, 2021. *Los Angeles Times*. Newsom gets to play Santa Claus to California voters while Gray Davis was the grinch

¹⁵⁶ May 10, 2021. *Politico*. Newsom wants to hand out cash before California recall election

¹⁵⁷ May 11, 2021. *Los Angeles Times*. Gov. Newsom proposes \$12 billion to house California’s homeless

housing costs. It would include \$7 billion for California's Project Homekey program, which purchases motels and other buildings to permanently house the homeless. Newsom also announced \$1.5 billion for cleaning up highways and other public spaces, which have taken a toll from the increase of homeless camps throughout the state.

Some legislative Democrats were supportive but wanted even more funding. Assemblyman Miguel Santiago (D-Los Angeles) said in a statement that the \$12-billion proposal was "a big step in the right direction," but he would continue to push for a \$20-billion five-year "Budget of Opportunity" proposed by Assembly Democrats.¹⁵⁸

Recall candidate and former Republican San Diego Mayor Faulconer issued a statement critical of the governor. "Homelessness has skyrocketed by 10,000 people since Gavin Newsom took office," said Faulconer. "No amount of money will solve this crisis without a leader who has the political will to buck the status quo and take bold actions to get people off the streets and indoors to receive the help they need."¹⁵⁹

The rest of Newsom's revised budget stormed in over the next few days, and by the end of the week the Governor had collectively announced the largest, most expansive budget in state history. Newsom's revised budget topped out at \$267.8 billion, a whopping \$40 billion more than his January estimate. The main general fund budget increased to \$196.8 billion, up \$32.3 billion since January.¹⁶⁰ "This is a generational budget," Newsom said at a Sacramento press event. "This is a historic, transformational budget. This is not a budget to play small ball."¹⁶¹

The Governor promised \$11 billion in new transportation funding and \$7 billion to expand broadband access. Schools would receive significant additional revenue due to constitutional budget rules, and Newsom had earlier in the week announced universal prekindergarten for all 4-year-olds, along with additional after-school and summer school programs. In exchange, schools would need to return to full-time instruction to access state funding.¹⁶² California's budget would also offer \$300 million in additional funding for both the UC and CSU systems. The state would commit \$2 billion for wildlife preparedness, and the Governor even proposed a nearly \$25 billion boost to the state's budget reserves.¹⁶³

Despite or maybe because of the largess, Republicans pushed back. Top Republican Budget Assemblyman Fong said the \$75 billion surplus "is the clearest indication that Californians are over-taxed and the tax burden." "We do not have a revenue problem in our state," Fong said in a statement. "We have an incompetent government that cannot fix the basics in our state. We need a new direction that actually achieves real results for all Californians."¹⁶⁴ "Gavin Newsom's job-

¹⁵⁸ May 11, 2021. *Los Angeles Times*. Gov. Newsom proposes \$12 billion to house California's homeless

¹⁵⁹ May 11, 2021. *Los Angeles Times*. Gov. Newsom proposes \$12 billion to house California's homeless

¹⁶⁰ May 14, 2021. *San Jose Mercury News*. Gov. Newsom proposes massive spending as state coffers overflow

¹⁶¹ May 14, 2021. *Los Angeles Times*. Newsom promises sweeping change in California's \$267-billion budget

¹⁶² May 14, 2021. *San Francisco Chronicle*. Gavin Newsom's \$267.8 billion California budget proposal includes health care for undocumented seniors

¹⁶³ May 14, 2021. *Sacramento Bee*. Gavin Newsom unveils \$268 billion California budget fueled by surplus, stimulus

¹⁶⁴ May 14, 2021. *Sacramento Bee*. Gavin Newsom unveils \$268 billion California budget fueled by surplus, stimulus

killing policies devastated small businesses during this pandemic,” California Republican Party Chairwoman Jessica Millan Patterson echoed in a statement. “Newsom and the Democrats are responsible for California’s astronomical unemployment rate, one of the highest in the nation.”¹⁶⁵

After Newsom’s budget presentation, Assembly Speaker Rendon said lawmakers still wanted additional state resources for child care and tackling college accessibility and cost. And while the Governor agreed to give state Medicaid to older unauthorized immigrants, Assemblymember and doctor Joaquin Arambula (D-Fresno) said he was “deeply disappointed” Newsom did not do the same for low-income farm workers and other younger immigrants who “have kept our families fed and cared for during this horrible pandemic.”¹⁶⁶

California’s Legislative Analyst Office disputed the size of the budget surplus, noting that half of the \$76 billion was legally restricted to schools, reserve funds, or debt repayment. It also observed that Newsom was still relying on \$12 billion in budget gimmicks usually reserved for leaner fiscal times. “Shortsighted and inadvisable,” the office called it in a report. The LAO recommended delaying a portion of the excess spending. “Delaying some spending decisions would give the Legislature more time to determine which solutions would be most effective and develop a detailed plan.”¹⁶⁷

LA Times’ Skelton suggested Newsom’s budget presentations were again influenced by the upcoming recall. “Newsom is delivering money to your pocket,” an internet advertisement from his campaign boasted, and he “is just getting started.” Skelton noted these ads came out soon after the Governor’s budget presentations, stating “that should dispel any naive notion that politics isn’t a major consideration in the governor’s budget crafting.”¹⁶⁸ The columnist observed that California’s governor “thrives on hyperbole and is obsessed...with being first and best. He’s a braggart — even more so than most politicians.” Of course, the combination of a record unexpected surplus and an upcoming nasty partisan recall would lure any governor into campaign mode.

June’s Normal Budget Dance, In Very Abnormal Times (and not all in June!)

Legislative Democrats laid out their budget priorities in early June, wanting greater funding for public health and education than Newsom’s May proposal. They relied on higher tax projections than the Governor to pay for the \$1 billion extra in state-funded child care, and \$400 million for public health requests from local governments. Another major policy difference was health care for unauthorized immigrants: Newsom proposed expanding Medi-Cal eligibility for anyone over age 60; lawmakers would drop the threshold to 50.

The Legislature also proposed \$180 million over three years to the University of California to shift enrollment from out-of-state students to California residents, with the ultimate goal of

¹⁶⁵ May 14, 2021. *San Jose Mercury News*. Gov. Newsom proposes massive spending as state coffers overflow

¹⁶⁶ May 15, 2021. *Associated Press*. California governor builds big budget plan on one-time cash

¹⁶⁷ May 20, 2021. *Los Angeles Times*. Newsom is admonished for his big-spending budget by Sacramento’s legislative analyst

¹⁶⁸ May 20, 2021. *Los Angeles Times*. Newsom is admonished for his big-spending budget by Sacramento’s legislative analyst

capping out-of-state undergraduate enrollment to 18%. Lawmakers signaled support for an increase in enrollment at both the UC and California State University campuses, adding more than 15,000 students, projected to cost \$150 million more per year. California would also increase financial aid for students. “It’s a huge, huge proposal for higher-ed, and it also ensures that not only do you get more access to UC and CSU, but that you’re going to graduate without any debt,” Assembly Budget Chair Phil Ting told reporters.¹⁶⁹

But legislators acknowledged their plan largely mirrored the Governor’s plan. “The budgets really reflect pretty much the same priorities and values,” Senate budget chair Nancy Skinner (D-Berkeley) said.¹⁷⁰

Department of Finance spokesman H.D. Palmer told reporters the Newsom administration had “great concern” about the Legislature’s optimistic estimates. He pointed to the early 2000s, when the state had a bunch of new money to spend and used a lot of it for ongoing programs. “When the dot com boom went bust a year later, (the spending) couldn’t be sustained and led to the creation of those multiyear deficits that took multiple years and multiple administrations to finally close,” Palmer said.¹⁷¹ Nonetheless, the Governor was “optimistic that we will reach an agreement in the coming weeks to ensure that California comes roaring back from the pandemic while maintaining a strong fiscal foundation that does not overcommit the state to long-term spending it cannot afford,” said the Governor’s spokeswoman Erin Mellon.¹⁷²

The Governor broached the subject a week later, “It’s a question of where we land,” the governor told reporters. “Because the concern is only — and it’s a respectful concern — where are things in the out years? And while we’re enjoying a record surplus, unprecedented in American history ... we’re mindful in two or three years it could be in a totally different place.”¹⁷³

This relatively small impasse in a land of plenty dragged out only a few days. The Legislature is required to pass a budget bill by June 15 to avoid losing their pay, but that bill doesn’t have to become the final budget. Clarifying language could pass weeks or even months later. Most insiders predicted a placeholder budget while negotiations continued. Lawmakers signaled part of the holdup came from just processing the unheard-of surplus. “It’s been overwhelming to try to keep track of the amount of money that is being allocated and spent,” Senator Brian Dahle (R-Upstate California) said at a budget subcommittee hearing back in May. “If I’m having difficulty tracking it — somebody that’s in the know or somewhat in the know — I can’t imagine what it’s like for the general public.”¹⁷⁴

As usual, much of the negotiations stayed out of the public spotlight, with the Legislature also holding fewer budget committee hearings than previous years, even forfeiting the traditional

¹⁶⁹ June 2, 2021. *CalMatters*. Four things to know about the California budget deal

¹⁷⁰ June 2, 2021. *Sacramento Bee*. Top California Democrats push Newsom to spend more on health, citing rosy tax projections

¹⁷¹ June 2, 2021. *Associated Press*. California governor, lawmakers disagree on revenue estimates

¹⁷² June 2, 2021. *Sacramento Bee*. Top California Democrats push Newsom to spend more on health, citing rosy tax projections

¹⁷³ June 25, 2021. *Los Angeles Times*. Newsom, lawmakers reach agreement on spending tax windfall in \$262.6-billion state budget

¹⁷⁴ June 11, 2021. *Politico*. California approaches budget deadline with a bill — but no deal

conference committee due to the coronavirus. “I don't want to say it's a charade, because that's super-cynical, but it's a weird, weird process without much form,” one lobbyist anonymously told *Politico*.¹⁷⁵

A day before the June 15 deadline, the Legislature passed a \$260+ billion placeholder budget by partisan vote. “I don't think there's any philosophical differences, but there's a lot of specific details that need to be worked out,” Speaker Rendon said. A deal would be worked out soon, because “we're on the same page on the broader thematic issues.”¹⁷⁶ Republicans criticized the move as an empty gesture solely so legislators could get paid. “This is a fake budget,” Sen. Jim Nielsen (R-Upstate California) said during a committee hearing. “It's a feel-good budget, a ‘let us get paid’ budget. But what we're voting on is not going to be the budget.”¹⁷⁷

A few weeks later, right before the start of the new July 1 fiscal year, the Legislature and Newsom reached a \$262.6 billion budget deal, while still leaving a few issues to resolve later. Assembly Speaker Rendon said child care was the last major compromise worked out between the Legislature and the governor. The deal adds 200,000 child care slots across the state over the next four years, part of an additional \$1 billion in early childhood services. “For me, this is hugely important,” Rendon said. “It's the No. 1 priority for the Senate, the No. 1 priority for us, and it has been for some time.” The Legislature also won the MediCal fight with the Governor, lowering the eligibility age for noncitizens down to 50 rather than 60.¹⁷⁸

The Legislature also agreed to Newsom's new \$8 billion round of “Golden State” stimulus checks but opted to count the money as a simple tax cut, and not specifically a Gann limit tax cut, thereby avoiding an \$8 billion payment to K-14 schools.¹⁷⁹ This controversial decision could lead to future political and legal complications.

The Governor and Legislature also agreed to extend tenant protections against evictions until September 30 while covering 100% of the back rent owed by many low-income residents, costing \$5.2 billion. A lead negotiator was Senate Pro Tem Atkins, who said in a statement, “Our housing situation in California was a crisis before COVID, and the pandemic has only made it worse — this extension is key to making sure that more people don't lose the safety net helping them keep their home.”¹⁸⁰

The Legislature largely got its way in higher education too, with the state reimbursing the UC in exchange for reducing 4,500 higher-tuition nonresidential students over five years. Assembly Budget Chair Ting said that “limited resources” led legislators to shelve their more expansive plan to reduce UC nonresidents throughout the UC, and instead just focus on the three most selective campuses (Berkeley, Los Angeles, San Diego), adding that further action was possible

¹⁷⁵ June 11, 2021. *Politico*. California approaches budget deadline with a bill — but no deal

¹⁷⁶ June 14, 2021. *San Francisco Chronicle*. Lawmakers approve a budget, but there's no deal yet with Newsom

¹⁷⁷ June 15, 2021. *Los Angeles Times*. California's budget deadline doesn't work like voters might think

¹⁷⁸ June 25, 2021. *Los Angeles Times*. Newsom, lawmakers reach agreement on spending tax windfall in \$262.6-billion state budget

¹⁷⁹ June 25, 2021. *Los Angeles Times*. Newsom, lawmakers reach agreement on spending tax windfall in \$262.6-billion state budget

¹⁸⁰ June 25, 2021. *Los Angeles Times*. California set to extend eviction protections, pay 100% of back rent

later.¹⁸¹ The state would expand admissions and financial aid in both the UC and CSU systems as well.

California's leaders also agreed to cover the \$250 million state and local government cost to oversee the gubernatorial recall election. A provision was written into the budget language to speed up the election date by skipping a 30-day legislative review period.¹⁸²

Complicating the budget wrap-up was the unusual legislative process in 2021. The first round of state stimulus checks had passed months ago, along with spending tied to the pandemic. Newsom had already signed the placeholder budget bill, but it didn't contain any of the last-minute negotiated language. Those compromises were packaged in a junior "budget bill", with the eviction moratorium placed in an even separate bill. And even days after the junior bill was in print, lawmakers were still not calling it an official deal, labeling it "a general understanding" or "spending framework."¹⁸³

And then Newsom didn't even sign the junior budget into law until mid-July, with additional trailer bills stretching even further into the new fiscal year. Senate Pro Tem Atkins told *CalMatters* the combination of the pandemic and unparalleled budget surplus created an "unprecedented" process this year. "I am thrilled that we've been able to have the resources...I get that it is kind of hard to track and follow," she told reporter Laurel Rosenhall.¹⁸⁴

Fong, the top Republican on the Assembly Budget Committee, told the *Sacramento Bee* in mid-July this year's budget process was more chaotic than any he's seen in his five years in the Legislature. He blamed legislative Democrats and Newsom for not bargaining sooner. "What is frustrating is that they didn't have these conversations earlier," Fong said. "What is troubling is the fact that they do have all the control, and so why did they not come up with some type of agreement in the first place?"¹⁸⁵

And the budget insanity might not be over. In late October, Newsom told NBC's Chuck Todd that California will have another "historic budget surplus" in the 2022-23 fiscal year, with the state running more than \$14 billion above expected tax collections.¹⁸⁶ Apparently, it's true California can't do anything in moderation. Either the Golden State is broke or swimming in excess.

Final 2021-2022 Budget

The final 2021-2022 budget was \$262.6 billion, with \$196.4 billion coming from the General Fund and \$66.2 billion from other funds (DOF 2021b). K-12 Education accounted for 33.4

¹⁸¹ June 26, 2021. *Los Angeles Times*. Top UC campuses would reduce out-of-state student admissions, add Californians under proposal

¹⁸² June 28, 2021. *CalMatters*. Five things to know about Newsom's budget deal with Legislature

¹⁸³ June 29, 2021. *CalMatters*. California lawmakers approve budget — again — as Newsom talks continue

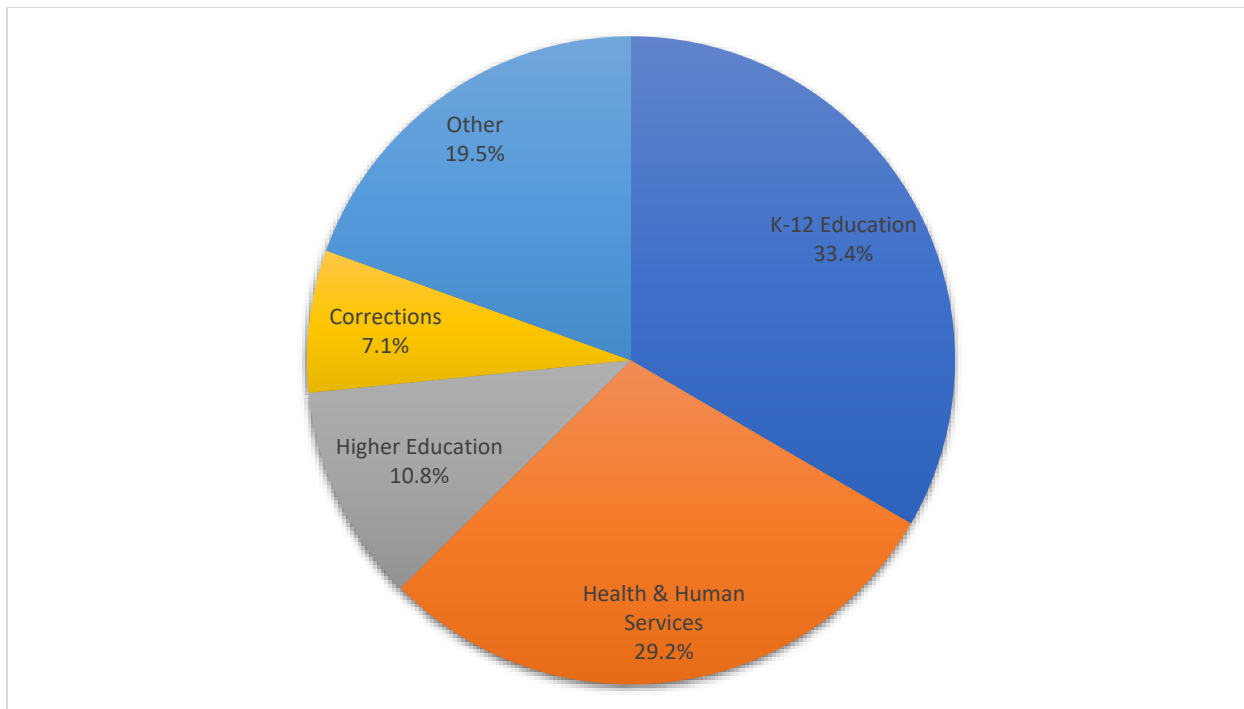
¹⁸⁴ July 16, 2021. *CalMatters*. Legislature goes out with a budget bang

¹⁸⁵ July 11, 2021. *Sacramento Bee*. Democrats are in control at California's Capitol. Why is the state budget still not done?

¹⁸⁶ October 20, 2021. *Sacramento Bee*. California will have another 'historic budget surplus' next year, Gov. Gavin Newsom says

percent of General Fund expenditures, Health and Human Services for 29.2 percent, Higher Education for 10.8 percent, and Corrections for 7.1 percent (see Figure 10 below) (DOF 2021b).

Figure 10: California's General Fund Expenditures, 2021-2022



Source: California Department of Finance

K-12 Education

K-12 education is the single largest expense facing the state of California, consuming over over a third of General Fund revenues in 2021–2022 (DOF 2021b). Overall, the state provided \$123.9 billion of funding to support primary and secondary education, with \$65.5 billion coming from the General Fund and \$58.4 billion from other funds (DOF 2021b). Given the state’s windfall, per pupil spending reached its highest level ever, totaling \$13,976 per pupil from the Proposition 98 General Fund, and a staggering \$21,555 per pupil when all funding sources are taken into account (DOF 2021b).

In addition to the large overall boost in spending, perhaps the most transformational aspect of the 2021-2022 California education budget is a commitment to fund universal Transitional Kindergarten (TK). Under the plan, all four-year-olds would be eligible for TK by the 2025-2026 school year (Hollingshead 2021). The cost of this proposal, estimated to be \$2.7 billion when fully implemented, is paid for by adjusting Proposition 98 formulas to increase the amount of General Fund revenue going to schools (Hollingshead 2021). Assemblyman Kevin McCarty (D-Sacramento) said, “It took 20 plus years and countless others pushing hard, and I’m beyond thrilled that California will now offer universal pre-K for all 4-year-olds via our transitional kindergarten program... This action will change the trajectories for our youth for generations to

come.”¹⁸⁷ Scott Moore, head of Kidango, a nonprofit organization that runs many Bay Area child care centers, went further by saying, “Simply put, California will become the best state in the nation to raise a child. Every child will get one year of pre-K, most low-income children will get at least two years of pre, plus a historic increase in infant-toddler childcare.”¹⁸⁸

Health & Human Services

Health, welfare, and social service programs were the second largest General Fund expense in the 2021–2022 budget, accounting for 29.2 percent of all state spending (DOF 2021b). The budget provided a total of \$209.9 billion for such programs, with \$57.3 billion coming from the General Fund and \$152.6 billion from other funds (DOF 2021b). This appropriation represented a \$13 billion increase in General Fund support for HHS programs from 2020-2021 (DOF 2021b).

This increase funded investment in several areas. Notably, as has been mentioned earlier, comprehensive MediCal coverage was extended to undocumented immigrants age 50 and older.¹⁸⁹ In addition, MediCal’s asset limit was raised, and MediCal’s coverage for pregnancy and postpartum was increased from 2 months to 12 months post-childbirth (Hollingshead 2021). These adjustments cost roughly \$94 million from the General Fund in 2021-2022 (\$158 million total), with the LAO estimating the annual cost will reach \$1.9 billion General Fund (\$2.7 billion total) by 2024-2025 (Hollingshead 2021). Changes were also made to the CalWORKS program to increase eligibility and participation, costing \$100 million in 2021-2022 and \$500 million ongoing (Hollingshead 2021).

The 2021-2022 budget also invested heavily in behavioral health programs, with \$1 billion in General Fund spending to fund the Children and Youth Behavioral Health Initiative and \$447.5 million for the Behavioral Health Continuum Infrastructure Program (Hollingshead 2021). These initiatives aim to connect children to appropriate behavioral health resources through a variety of means, and to improve the state’s overall infrastructure for delivering behavioral health services.

At the Legislature’s insistence, several hundred million dollars also went into rebuilding California’s overall public health infrastructure after the coronavirus pandemic. Michelle Gibbons, executive director of the County Health Executives Association of California, said, “California legislators have taken the lessons of COVID-19 to heart and put forward a plan...so California is never again underprepared and under resourced when the next public health crisis hits.”¹⁹⁰ Moreover, \$100 million was specifically set aside for community health organizations focused on racial justice. Sen. Nancy Skinner (D-Berkeley) said this was important because “When we look at who died of COVID, you’re far more likely in California to die of COVID — and across the country — if you’re Black or brown...The funding that we have created in that regard is going to go very much to community-based entities who have the direct relationships with those people in our communities that are experiencing this disparity”.¹⁹¹

¹⁸⁷ July 12, 2021. *EdSource*. How California’s new universal transitional kindergarten program will be rolled out.

¹⁸⁸ July 12, 2021. *EdSource*. How California’s new universal transitional kindergarten program will be rolled out.

¹⁸⁹ June 25, 2021. *Los Angeles Times*. Newsom, lawmakers reach agreement on spending tax windfall in \$262.6-billion state budget

¹⁹⁰ June 2, 2021. *CalMatters*. Four things to know about the California budget deal.

¹⁹¹ June 2, 2021. *CalMatters*. Four things to know about the California budget deal.

Finally, the state also made a major investment in child care. The 2021-2022 budget includes \$735 million in General Fund spending (\$1.6 billion ongoing) to provide additional child care slots (Hollingshead 2021). The Legislature and Governor further agreed to add 80,000 child care slots through 2025-2026, which the LAO estimates will cost an additional \$1 billion (Hollingshead 2021).

Higher Education

Higher education was the third-largest area of state spending in 2021–2022, consuming 10.8 percent of General Fund revenues (DOF 2021b). Overall, the state provided \$47.1 billion in funding, with \$21.2 billion coming from the General Fund, \$4.5 billion from local property tax, and \$21.4 billion from other funds (DOF 2021b). Compared to the previous year, the 2021–2022 General Fund budget increased spending on higher education by over \$3.3 billion (DOF 2021b). The Department of Finance referred to this as an “unprecedented level of investment in higher education.” (DOF 2021b).

Not only were all the cuts from the previous year restored, but the UC and CSU were each awarded new higher levels of ongoing spending. These adjustments brought UC and CSU budgets back to pre-pandemic levels, plus five percent (Hollingshead 2021). There was also \$2.6 billion in targeted spending initiatives for universities (Hollingshead 2021). These included \$650 million for deferred maintenance and energy efficiency projects, \$500 million for student housing, and \$458 million to transition CSU Humboldt into a polytechnic institution (Hollingshead 2021).

While higher education leaders were thrilled with the windfall, there was some tension between UC Chancellors and the Legislature over the requirement to reduce the percentage of out-of-state students at Berkeley, Los Angeles, and San Diego to 18%, to make room for more California students. UC San Diego Chancellor Pradeep Khosla said, “Nonresident students are enrolled only in addition to, and never in place of, qualified California students... As state funding declined, the enrollment of nonresident students helped offset tuition costs for California students and provided revenue that enabled us to improve educational programs for all students.”¹⁹² UC Berkeley Chancellor Carol Christ added, “Out-of-state and international students contribute significantly to the diversity of the student experience, and the majority of these students remain in California after they graduate.”¹⁹³ The *Los Angeles Times* pointed out, however, that the state provides \$10,886 per student to UC Berkeley, but that is still \$6,000 short of the actual cost of educating each student there.¹⁹⁴ With fewer high-tuition-paying out-of-state and international students, this could cause fiscal problems in the years to come. Nonetheless, the

¹⁹² June 26, 2021. *Los Angeles Times*. Top UC campuses would reduce out-of-state student admissions, add Californians under proposal.

¹⁹³ June 26, 2021. *Los Angeles Times*. Top UC campuses would reduce out-of-state student admissions, add Californians under proposal.

¹⁹⁴ June 26, 2021. *Los Angeles Times*. Top UC campuses would reduce out-of-state student admissions, add Californians under proposal.

UC leaders dodged a bullet—many legislative Democrats wanted to cap the number of out-of-state students at 10% and apply it to all UC campuses.¹⁹⁵

Corrections

Corrections is the last of the “big four” spending categories, with funding for the California Department of Corrections and Rehabilitation (CDCR) accounting for 7.1 percent of the 2021-2022 General Fund budget (DOF 2021b). Overall, CDCR received a total of \$13.6 billion in funding, with \$13.3 billion coming from the General Fund and \$347 million from other funds (DOF 2021b). This is an increase of \$500 million over the governor’s January budget proposal, with nearly all of the additional appropriations coming from the General Fund (DOF 2021a).

Epilogue: Recalling the Newsom Recall

California’s recall campaign against Gavin Newsom fit a very predictable state political pattern: the Democratic candidate was favored to win early, the Republicans had a possible chance to make it interesting, but then backed the most conservative neophyte candidate they could find, leading to a crushing defeat.

Rather than back moderate former San Diego Mayor Kevin Faulconer as their replacement candidate, Republican voters ignored Faulconer’s campaign and instead rallied behind radio talk-show host Larry Elder, a black conservative with no previous political experience. With a rocky personal history, and right-wing politics similar to Donald Trump, Elder made it much easier for Newsom to shape the campaign and prod reluctant Democrats into voting against the recall. Although public opinion polls were sporadic, they never showed Newsom trailing. The recall lost 38-62%, mirroring Newsom’s 62-38% win in 2018 and Biden’s 63-34% California vote margin over Trump in 2020.

Newsom is now in an ideal position to run for reelection in 2022. He survived the recall, winning quite handily, and California is experiencing a huge budget surplus that is tying its elected officials into knots on how to spend it all. The state didn’t just weather the pandemic, it fiscally thrived. But that was largely due to California’s progressive income tax system, which targets the wealthy, who have weathered COVID quite well. Its poorer residents have struggled, however, with soaring housing costs, rising unemployment, and now spiking inflation. And the last time California had a large surplus and growing popular resentment was the late 1970s, when its citizens passed Proposition 13, completely restructuring the state’s budget, government, and politics for decades to come. In California, the sun is always shining, until it suddenly stops.

¹⁹⁵ June 26, 2021. *Los Angeles Times*. Top UC campuses would reduce out-of-state student admissions, add Californians under proposal.

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