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January 5, 2022

Senate Pro Tem Atkins
1021 O Street, Suite 8518
Sacramento, California 95814

Assembly Speaker Rendon
1021 O Street, Room 8330
Sacramento, California 95814

Governor Gavin Newsom
1021 O Street, Suite 9000
Sacramento, California 95814

RE: State Budget

Dear Governor Newsom, Pro Tem Atkins, and Speaker Rendon:

As 2022 opens, some areas of California are doing fine while others continue to struggle against high unemployment, budget-busting inflation, and California's out-of-control housing and living expenses. In all areas of California, however, there are far too many people barely getting by. The nonpartisan Legislative Analyst's Office (LAO) estimated that California's budget will post a \$31 billion surplus for the upcoming budget year. This situation offers the chance to make wise investments that improve affordability, public safety, and opportunities for all Californians struggling to make ends meet.

The LAO also estimates that the state will need to address a combined \$26 billion in funds that exceed the voter-enacted spending limit, also known as the Gann limit. These excess funds include \$14 billion for the current and past year, as well as \$12 billion for the upcoming 2022-23 fiscal year. The voters prudently provided options for using these excess funds, which include returning the money to taxpayers, building infrastructure projects, and sending money to local governments.

Below are several priorities that should be addressed within the Gann limit rules:

Preparing for Long-Term Drought. California has been delinquent in building sufficient water storage, a fact that was clearly seen recently as agricultural water supplies dried up. The state should use surplus funds to build the Sites Reservoir and provide water conveyance in critical areas of the state. This will provide water storage for 1.5 million homes per year and promote much-needed water access for California's food producers.

Better Ways to Address Homelessness. Part of California's homelessness crisis is due to a lack of capacity to assist those without shelter. The state can use excess funds to increase shelter beds and mental health treatment beds to help address the needs of those who need temporary shelter or whose serious mental illnesses have driven them into homelessness.

Helping People through Local Government. Many services that provide public safety and address homelessness are administered by cities and counties. Unlike the state government, these local governments do not receive tax revenues from the same sources that are driving the state's surplus. Under the Gann limit rules, the state can send money to local governments as long as there are no strings attached. Cities and counties can then use these funds for their chosen priorities, which could include responding to rising crime and providing local solutions to homelessness.

Lowering the Cost of Living in California. The recent surge of inflation has made it that much harder for many residents to pay the bills in this already high-cost state. Many of California's high costs, such as housing and energy, are driven by misguided policies enacted in Sacramento. We can help lower the cost burden for struggling Californians by reducing taxes in key areas—the surplus shows the state did not need to enact recent tax increases. Specifically, options to lower costs and taxes should include:

- 1) **Renter's Tax Credit.** Expanding the renter's tax credit to help offset the damaging effects of misguided state housing policy.
- 2) **Lower Gas Prices.** Providing a holiday from the state's gas and car taxes. Lower-income workers, who typically cannot work from home and may have to commute long distances to their jobs, are hit hardest by the high gas prices that are in part created by California's high gas taxes.
- 3) **Access to Jobs.** Many businesses continue to struggle in this partial recovery. The state can reverse the unnecessary tax increases enacted in 2020 related to net operating losses and other incentives.

The LAO's forecast also indicated the state would have a relatively small surplus to use for purposes outside the Gann limit. Priorities for using these funds should include:

Better Wildfire Preparation. The state recently began to take wildfire prevention more seriously, after decades of neglect. Better wildfire policies improve residents' safety as well as air quality. Indeed, avoiding major wildfires would do more to improve greenhouse gas emissions than many of the majority party's mandates and restrictions. Fire prevention efforts can include improving vegetation management and making at-risk homes more resistant to flames.

Reducing Government-Imposed Debt for Job Creators. The state now faces a \$21 billion unemployment debt following the pandemic-related shutdowns. Job creators did not volunteer for this debt, but they will bear the costs of repaying it beginning in 2023. Those costs will make it more difficult to create new jobs for Californians facing the nation's highest unemployment rate. The state should use its surplus to pay down that debt and clear the path for better job recovery.

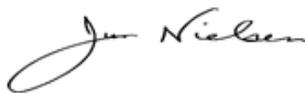
We should use the current surplus to create a better California through improved affordability and safer communities. It does not matter where you live in California; far too many hardworking, everyday Californians can barely afford to pay for rent, food, and other bills. They worry about practical needs like water and safe communities. We have a chance to change this trajectory in 2022.

We look forward to working with you in crafting a budget that will assist Californians in recovering from this historic pandemic and address our homelessness, wildfire, drought, and cost of living challenges.

Sincerely,



Scott Wilk
Senate Republican Leader
21st Senate District



Jim Nielsen
Vice Chair, Budget Committee
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