



California Association for Local Economic Development

Economic Development Impacts within the Governor's 2020-21 May Revision Budget

Budget negotiations have intensified in the Capitol, following last week's release of Governor Gavin Newsom's May Budget Revise, in advance of the June 15th Constitutional deadline for the Legislature to adopt a budget

With state unemployment levels projected by the Governor to approach 24 percent, the COVID-19 pandemic has caused dire reductions in state revenues leading the Governor to propose sweeping cuts to state programs and education, with billions more to be triggered if additional federal assistance to states is not provided. While no major tax increases are proposed, other than a proposal to temporarily delay the recovery of net operating losses and tax credits for certain businesses to offset education cuts, that could always change as the Legislature engages.

In this challenging time, efforts to restart the economy and accelerate the state's economic recovery have never been more vital. The Governor has convened a major task force of major industry, political and organization players to advise him, and their recommendations will continue to flow in the coming weeks and months.

There are various proposals within the May Revise that local economic developers will want to track. Some of them also align with CALED's Recommendations to Accelerate California's Economic Recovery. To see the full recommendations, [click here](#).

Below are the major features included within the May Revise regarding economic recovery, jobs, small businesses, local governments, affordable housing, and related policies.

**Full text can be found in the [2020-21 Governor's May Revision Budget Proposal](#)*

Task Force on Business and Jobs

- The centerpiece of the Governor's economic recovery efforts is his recently convened Task Force on Business and Jobs Recovery—a diverse group of leaders from business, labor, and the non-profit sector. This group is tasked with developing actionable recommendations and advise the state on how economic recovery can be expedited and address the



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effects of wage disparity that are being made even worse by the COVID-19 Recession.

The May Revision states that the Administration is committed to additional actions, informed by the Legislature, the Task Force, and other stakeholders to support a safe, swift, and equitable economic recovery. It is likely that efforts to implement recommendations will continue beyond the passage of the Budget and through the Legislative Session. Priorities for their future actions are equity, shared prosperity, and long-term growth.

Resources and Policies to Support Small Businesses

The May Revision:

- Reports that only about 7.5 percent of California's 4 million small businesses (300,000) have received over \$70 billion, in a combination of grants and loans, from the federal Payroll Protection Program to address revenue losses and continue paying employees.
- Proposes to increase funding for the Small Business Guarantee Program at the California Infrastructure and Economic Development Bank (IBank) by \$50 million for a total increase of \$100 million to fill gaps in available federal assistance. This increase will be leveraged to access existing private lending capacity and philanthropy to provide necessary capital to restart California small businesses.
- Maintains the Governor's Budget proposal to fund four positions within the Governor's Office of Business and Economic Development (GO-Biz) to provide technical assistance to bring business and economic development to Inland and Northern California.
- Maintains the Governor's Budget proposal to waive the \$800 minimum franchise tax for the first year of business creation. This proposal supports new business creation and innovation by limiting an often-costly barrier to entry.
- Proposes to transform the way the state conducts business and serves Californians, by having the Office of Digital Innovation assist agencies and departments rethink how to meet the public's needs, including by delivering more government services online. The state will build on the lessons learned through establishing the [COVID19.ca.gov](https://www.covid19.ca.gov) website to build a new [CA.gov](https://www.ca.gov) website. The new site will be user-centered to allow Californians simple, easily understood transactions and to access all state information at a single portal.
- Delays the effective date of the Beverage Service Training Act, which requires all alcohol beverage servers to complete specified training, from July 1, 2021 to July 1, 2022.
- Provides \$2 million to support regional collaborative efforts in Fresno's Drive program, while eliminating additional funding proposed in the January budget to support related efforts.



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Workforce Assistance Efforts

- The Administration proposes the consolidation of the state's workforce training programs under a new Department of Better Jobs and Higher Wages within the Labor Agency, to better support data, policy, and program analysis of the state's workforce training programs. The Department would be comprised of the California Workforce Development Board, the Employment Training Panel, Workforce Services Branch, and Labor Market Information Division, which are currently in the Employment Development Department, and the Division of Apprenticeship Standards, currently in the Department of Industrial Relations.
- The Administration is also continuing support for two years of free community college, expediting the development of short-term career technical education courses and programs, and working with colleges and universities to build on their experience with distance learning and develop a statewide educational program that will allow more students to access training and education through distance learning, allowing non-traditional students who are working and parenting, the opportunity to complete coursework at their own pace and after hours.

Federal CARES Act Unemployment Assistance

Federal stimulus and unemployment assistance are vital to millions of residents struggling with job losses. While recognizing that the \$600 weekly federal temporary emergency benefits are scheduled to expire on July 31, 2020, the May Revise highlighted two lesser-known aspects of the CARES Act that can be used to respond to unemployment, including:

- The Pandemic Unemployment Assistance (PUA) program provides up to 39 weeks of unemployment insurance benefits to individuals who do not qualify for traditional unemployment compensation, including business owners, the self-employed, independent contractors, individuals with limited work history, and other individuals not usually eligible for regular state unemployment insurance benefits who are unemployed as a direct result of the COVID-19 Recession.
- The Short-Term Compensation program designed to help employers retain workers at reduced time and wages—ready to restart operations once stay-at-home orders are eased. Unlike regular unemployment insurance, these benefits are 100-per cent federally funded for up to 26 weeks through the end of 2020. The Administration is working to address the cumbersome process that has delayed enrollment to increase the number of businesses participating in this program.

Other Employment-Related Actions:



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In the May Revision, the Governor demonstrated his continued support for two state employment-related policies that have been heavily debated in recent years: the scheduled increase to the state's minimum wage and efforts to address the expansion of the use of independent contractors.

- The Governor proposes to maintain scheduled increases in the minimum wage, which on January 1, 2020, increased to \$12 per hour for businesses with 25 or fewer employees, and \$13 per hour for businesses with 26 or more employees. Annual increases of \$1 per hour are scheduled to continue until the statewide minimum wage reaches \$15 per hour for everyone, with indexing for inflation after that.
- The May Revision provides additional funding to enforce last year's AB 5 (Gonzalez) to respond to concerns over the misclassification of employees.

Economic Support for Impacted Residents

During the unveiling of his May Revision to the press, the Governor stressed that one of his priorities when proposing cuts was to avoid negatively impacting the state's poorer residents, students and the disabled. In related actions, the May Revision:

- Continues funding of the Earned Income Tax Credit (EITC) at \$1 billion. In 2019, the EITC was expanded from \$400 million to \$1 billion, assisting three million households. The expanded credit includes a \$1,000 credit for every family that otherwise qualifies for the credit and has at least one child under the age of 6.
- Avoids cuts to CalWORKs (financial assistance to poor households) and Cal Grants (financial assistance to students), and the developmentally disabled.

Assistance for Local Governments

- The May Revision allocates a portion of the state's CARES Act funding to local governments—\$450 million to cities and \$1.3 billion to counties—to be used toward homelessness, public health, public safety, and other services to combat the COVID-19 pandemic. Funding is contingent on adherence to federal guidance and the state's stay-at-home orders and will be released upon jurisdictions' certification of both. Related allocation details include:
 - *Cities* - Six California cities (over 500,000 population) have already received direct CARES Act allocations as a result of their size. The May Revision provides \$450 million to all other cities that did not receive a direct allocation. Cities with populations above 300,000



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will receive a direct state allocation, while all other cities will be provided funding through their counties. Recipient jurisdictions must spend these funds consistent with federal law and are advised to prioritize these dollars to supplement existing efforts by counties and Continuums of Care to address the impacts of COVID-19 on people experiencing homelessness, including but not limited to outreach and hygiene efforts, shelter and housing supports, public safety, and rental subsidies.

- Counties - \$1.3 billion of its CARES Act funding is allocated directly to counties based on population size to address the public health, behavioral health, and other health and human services needs that have arisen as a result of the COVID-19 pandemic.
- Proposes \$40.3 million General Fund in 2019-20 to support state-affiliated fairs that are projected to have insufficient reserves to pay legally mandated costs that may be incurred during the state civil service layoff process, including staff salary, payout of leave balances, and unemployment insurance. The Administration also commits to work with fairs, local governments, and partners toward alternative options due to the lack of General Fund subsidies available. The Administration plans to engage the Legislature and stakeholders over the course of the next year to develop a thoughtful approach to transition the state's relationship with fairs, while acknowledging the need to continue supporting property that may be necessary for emergency operations.

Housing and Homelessness Funding

In the May Revision the Governor maintained significant funding for various affordable housing programs, albeit with some reductions. On homelessness, the Governor proposed eliminating direct general fund assistance to cities and counties, and instead targeting allocations of \$750 million in federal CARES Act funds to supporting the purchase of hotels and motels for homeless housing under the Governor's Project RoomKey. Specific details include:

Housing Funding:

- Continues \$500 million in annual housing tax credits.
- Continues access to \$277 million in real estate transfer fees, that are allocated to local governments for housing and planning.
- Allocates \$452 million in anticipated Cap and Trade auction revenues for infill housing development.
- Proposes to expedite allocation of Proposition 1 (housing bond funding).
- Highlights \$1.1 billion of California Department of Housing and Community Development (HCD): Community Development Block Grant funding (from 2017 and 2018) that can be used for infrastructure and disaster relief.



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- Allocates \$300 million to California Housing Finance Agency (CHFA) for housing counseling and mortgage assistance to homeowners affected by COVID, and \$31 million to the Judicial Council for legal aid assistance.

While the above allocations are helpful, the May Revision also proposes to claw back over \$500 million in previously approved housing funding for state budgetary purposes:

- \$250 million in mixed income housing
- \$200 million in infill infrastructure grants
- \$115 million in other housing funds

The May Revision also mentions several additional housing related proposals including: coordinating applications for housing tax credits and CDLAC; expedite HCD's funding awards schedule; and working with stakeholders and local governments on revamp of housing planning process.

Homelessness Funding:

The May Revision makes major changes to proposed homeless assistance to local governments, by withdrawing proposals from the Governor's 2020-21 January Budget proposal for a \$750 million Access to Housing Fund and \$695 million in related proposed revisions to Medical. Instead, the May Revision proposes:

- Allocating \$750 million of federal CARES Act funds to purchase hotels and motels under the Governor's Project Room Key, a program to secure 15,000 hotel rooms to house homeless individuals which the Governor launched during the COVID-19 crisis.
- Allocating CARES Act funding —\$1.3 billion to counties and \$450 million to cities—to be used for homelessness, public health, public safety and other services to combat COVID-19.

Broadband Expansion

Broadband expansion can provide multiple benefits that assist businesses, students, rural areas and emergency response. The California Public Utilities Commission (Commission) recently made \$25 million available from the California Teleconnect Fund for hotspots and Internet service for student households, prioritizing rural, small, and medium-sized school districts. An additional \$5 million from the California Advanced Services Fund Adoption Account was allocated to help cover the cost of computing and hotspot devices. The May Revision builds off these efforts by:

- Proposing \$2.8 million and 3 positions in additional resources from the Public Utilities Commission Utilities Reimbursement Account for the Commission to enhance its broadband mapping activities. This additional



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- information will better inform the state's broadband infrastructure grant program, improve safety by providing broadband speed data at emergency response locations such as fairgrounds, and enhance the state's ability to compete for federal broadband funding.
- Proposing additional statute intended to increase the ability of the state to compete for federal funding to improve access to broadband Internet in California.

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The California Association for Local Economic Development (CALED) provided this document to help California economic developers. CALED is a private, not-for-profit organization with over 700 members comprised of economic development stakeholders and practitioners. CALED has led the way in teaching economic developers, local elected officials, and state representatives the value of economic development and how it is used to grow businesses, generate revenue to support community development programs, and retain and create quality jobs. Permission to reprint is granted provided credit is given to CALED.

For more information about the 2020-21 May Revision Budget, visit:

<http://www.ebudget.ca.gov/budget/2020-21MR/#/Home>

The Legislative Analyst's Office has produced various analysis of the Governor's May Revise proposals at www.lao.ca.gov