

CALED State Budget Update

CALED recently identified numerous economic development related items in the [Governor's May Budget Revise](#), of interest to communities struggling to rebuild their local economies from COVID-19 impacts. Since then, the Legislature developed alternatives on how to handle the Governor's proposed budget cuts. However, as constitutional deadlines approached, final agreement with the Governor on major issues remains pending. Still, other items appear closer to being settled. Below is an update on the status of state budget deliberations and the major economic development-related items CALED identified in the May Revise.

Final Agreement Pending

On Monday, June 15th, despite not yet reaching agreement with Governor Gavin Newsom on a budget, legislators passed several budget bills, primarily motivated by constitutional deadlines that would otherwise impose a salary forfeiture penalty on legislators. More action can be expected in the coming weeks. The [Assembly's Floor Report](#) to the main budget bill, SB 74, acknowledged this stating: "Budget bills considered on June 15 will be amended subsequently via additional budget bills and bills related to the budget." The next relevant constitutional deadline is July 1, for the Governor to sign a budget. Several budget "trailer" bills were also passed with the main budget bill.

Major items remain unresolved including the timing and degree of cuts to public education and state programs in anticipation of potential federal funding relief, and the Legislature's rejection of various proposed cuts and proposed spending augmentations. Presumably, the legislative leadership and the Governor will reach agreement on these items, and the Governor also has the ability to reduce spending via "blue pencil" vetoes.

The following budget and trailer bills were passed by the Legislature on June 15:

- SB 74 - Main 2020-21 budget bill
- AB 85 – Revenue augmentations to support budget
- AB 76 – Education Funding Deferrals

The Legislature, however, did not take up AB 75, a budget vehicle to provide supplemental appropriations for deficiencies in 2019-20 budget. [Here](#) is a link to the Assembly analysis of the trailer bills.

Status of CALED's Major Identified Items (Negotiations ongoing)

- Governor's Proposed Revenue Increases: The Legislature is in general agreement with the Governor's proposals to raise revenue by temporarily suspending the ability of corporations and individuals with more than \$1 million annual income from using net operating losses and tax credits of more than \$5 million annually. The Legislature however, excluded affordable housing tax credits from this proposal. Affected corporations and individuals can still capture these tax savings in the future. These provisions are contained in AB 85, which was passed on June 15th.
- Affordable Housing Funding: In the May Revise, the Governor proposed to roll back approximately \$500 million in affordable housing and infill infrastructure funding from previously approved budgets. While the Legislature approved the Governor's other housing funding proposals, it rejected proposed cuts. This will likely be subject to additional negotiation.

- Local Government and Homeless Funding:
 - Purchase of Hotels/Motels: The Governor proposed allocating \$750 million in CARES Act funding to purchase hotels/motels to expand available housing for homeless individuals. The Legislature was in general agreement with the Governor, but at a reduced \$550 million level.
 - Assistance to Counties and Cities: The Governor proposed allocating additional CARES Act funding to counties and cities totaling, \$1.3 billion for counties and \$450 million to cities. The Legislature proposed several modifications to this proposal including increasing the amount for cities to \$500 million and allowing all cities to receive a direct allocation of funds, with a minimum of \$50,000.
 - Additional Proposed Homeless Funding: The Governor did not propose any General Fund allocations to local governments for homeless assistance. The Legislature proposed \$350 million.
- Small Business Guarantee Program: The Legislature approved the Governor's proposed \$100 million augmentation to the IBank's program.
- Waiving Existing \$800 Tax on New Businesses: The Legislature agreed with the Governor's proposal to waive this tax for new California businesses for three years: 2021-2023. These provisions are in AB 85 which was passed on June 15th.
- State Support for Fairs: The Legislature agreed with the Governor's proposal to assist financially struggling fairs. \$40.3 million is contained in AB 75, but the measure was not taken up on June 15th.
- Broadband: The Legislature approved in modified form the Governor's proposal for an additional \$2.8 million to the Public Utilities Commission for broadband expansion efforts.

Next Steps: CALED will continue to monitor the development of the state budget as negotiations over details continue, and update members when a final budget is adopted.