



\$100 Billion in Proposed Funding Allocations in Budget May Revise.

Governor Newsom released his 2021 May Budget Revise on Friday, May 14, proclaiming that revenues had soared, producing an opportunity for a one-time “generational budget” called the “California Comeback Plan,” allocating over \$100 billion in state surplus and federal pandemic relief funds. The May Revision builds off of the various proposals outlined previously in the Governor’s January budget, and offers new and expanded programs, assistance, and investments to stimulate the economic recovery. Compared to typical state budgets, the scope of this 200-page proposal is staggering, with over 400 new programs being proposed.

CALED reviewed this proposal and identified items of interest to local officials and others focused on local economic development and pandemic recovery. Included are billions in funding allocations to:

- Assist lower-income households and small businesses
- Invest in transportation, infrastructure and disaster response
- Advance a massive investment in broadband
- Expand workforce programs and retrain displaced workers
- Shelter the homeless and build affordable housing

Major Reversal in State Budgetary Outlook:

What a difference a year makes! Last year, in the depth of the pandemic, Governor Newsom projected a \$52 billion deficit and a 24 percent unemployment rate. This led to the adoption of an austere state 2020-21 budget, relying upon tapping state reserves, deferring payments to schools, temporarily capping tax deductions for high-wealth individuals and corporations, cutting state employee pay, and slashing state programs that could only be restored if the state received additional federal assistance.

But nothing so drastic occurred. California received over \$600 billion in federal stimulus and pandemic relief, which provided critical support to displaced workers, offset a wide range of pandemic response costs, and offered direct funding to the state and local governments. State income tax revenues also increased, as high-wage earners remained employed and worked from home, corporations contributed more due to the temporary cap on tax credits and deductions imposed in the 2020-21 budget, and capital gains from the stock market soared.

The Governor projects a \$75 billion state surplus, with \$25 billion in additional federal relief from the American Rescue Plan Act of 2021, proposed to be spent on various programs and initiatives. State revenues are projected to exceed the Constitutional Appropriations Limit (Gann Limit), thus contributing to the Governor’s proposal to propose rebates to certain taxpayers.



Debates Begin Over the Numbers:

Now, the Legislature gets to weigh in, and the debates have already begun. The Legislative Analyst's Office (LAO) is questioning the Governor's numbers, including why he is proposing to spend \$12 billion in reserves and borrowing. The LAO projects a lower state surplus of \$38 billion, and is urging Legislators to exercise fiscal discipline and caution when approving new expenditures and programs.

Resources and Policies to Support Individuals and Small Businesses

Earlier this year, the Governor and Legislature approved several emergency funding proposals to assist individuals and small businesses affected by the pandemic, including:

- Providing \$2 billion in direct economic relief via \$600 checks to individuals who did not qualify to receive federal economic stimulus checks.
- Providing \$2.5 billion in grants to small businesses through the Governor's Office of Business and Economic Development (GO-Biz). \$50 million was available to assist non-profit cultural institutions.
- Reducing state taxes on businesses by ensuring that federal pandemic assistance loans that were forgiven did not count as state taxable income.

The May Revision builds upon these proposals to assist individuals and the business community, and proposes to allocate:

- \$8.06 billion in individual rebates for tax filers earning less than \$75k:
 - o \$600 for all taxpayers, plus an additional \$500 for families with a dependent.
 - o \$1,000 for undocumented families with a dependent filing with an ITIN.
- \$1 billion for direct payments to water systems to alleviate individuals' household water debt accrued during the pandemic and aid water systems' recovery from their revenue loss, especially small systems already struggling prior to the emergency.
- \$300 million one-time federal funds to eliminate the debt owed on existing fines and fees for traffic and non-traffic infraction tickets issued between January 1, 2015 and June 30, 2021.
- \$1.5 billion for three additional rounds of small business relief grants through GO-Biz (totaling \$4 billion in 2021). Two rounds will target the applicants who are currently waitlisted, with the final round open to both new applicants and waitlisted applicants.
- \$16 million (from the initial \$50 million) is still available for nonprofit cultural institutions and will be made available in additional rounds.

Allocations to Support Additional Economic Development



In his January budget, the Governor proposed several augmentations to GO-Biz economic development programs:

- \$180 million to expand the California Competes Tax Credit (CalCompetes) program.
- \$250 million to establish a one-time \$250 million CalCompetes grant program for businesses meeting certain criteria to locate in California or to stay, grow, and create quality full-time jobs in the state.
- \$100 million is split between IBank loan & guarantee programs.
- \$35 million for small business micro-grants in underserved communities.

Several tax incentive proposals were also included in the January budget:

- \$100 million to the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) sales tax exclusion program, for a total of \$200 million for 2021-22.
- \$100 million in additional Main Street hiring tax credits.
- Tax relief for S-Corporation shareholders to offset state tax impacts of 2017 federal tax law changes.

The May Revision includes the following additional economic programs and incentives:

- \$95 million to implement strategic media recovery campaigns that will jump start the recovery of the travel and tourism industry once it is safe to travel.
- \$30 million for a one-time expansion of the film tax credit for productions that relocate from other jurisdictions.
- \$250 million for GO-Biz to allocate to California ports to address some of the revenue impacts suffered by ports as a result of the pandemic, especially resulting from loss of tourism.
- \$895 million anticipated for various (still to be identified) programs under the federal State Small Business Credit Initiative (SSBIC). The IBank and the State Treasurer's Office have begun stakeholder engagement and established an SSBCI working group in anticipation of receiving these funds.
- \$131 million allocated to the Climate Catalyst Fund, a revolving loan program for climate related projects created in 2020 at the IBank. \$50 million is for agricultural sustainability, \$31 million for forest resiliency, and \$50 million for recycling infrastructure.
- \$70 million in recycling-related grant programs, including \$5 million for edible food recovery, \$5 million for composting, \$55 million for organic waste infrastructure, and \$15 in recycling technology feasibility grants.
- \$100 million one-time General Fund to establish a local jurisdiction assistance grant program for cannabis, to assist with workloads transitioning to a regulated market, incentivize locals to modify permitting, and assessing and mitigating environmental impacts.



- \$750 million to support regional and local stakeholder collaboratives to plan and implement regional and industry-specific economic transition strategies, supporting high road industries, quality job creation, and workforce strategies in those sectors or regions, such as Kern County, most affected by the state's transition to carbon neutrality.
- \$250 million over two years for manufacturing and supply chain grants to expand California's nation leading Zero-Emission Vehicles manufacturing footprint, administered by the Clean Transportation Program. This investment may be coupled with High Road Training Partnerships to increase access to high-quality jobs for workers, and increase the level of highly-skilled employees for employers.

Massive Broadband Investment

The Governor's May Revision proposes a \$7 billion investment over three years to expand broadband infrastructure, increase affordability, and enhance access. This proposal could be a gamechanger in the effort to better connect rural areas and boost opportunities for economic growth and expansion.

The proposal relies on a combination of federal and state funds to build out a critical statewide "middle-mile" network, and incentivize providers to expand service to unserved and underserved areas by substantially reducing their upfront infrastructure costs, creating new opportunities for municipal fiber networks, and promoting affordability for consumers. \$500 million is included to assist local governments, tribes and non-profits secure private financing for new municipal fiber networks, and \$500 million for entities serving these areas to expand their services to include broadband.

Workforce and Skills Development

The May Revision proposes over \$3.3 billion in allocations to a variety of workforce training and skills development programs:

Workforce Training

- \$200 million to incentivize, support, and fund career pathways for In Home Supportive Services (IHSS) providers, allowing these workers to build on their experience to obtain a higher-level job in the home care and/or health care industry.
- \$20 million to connect job-seekers to housing apprenticeship opportunities in partnership with the University of California, California Conservation Corps, state and local workforce development boards, philanthropic organizations, and the building industry.
- \$115 million for the High Road Training Partnership.
- \$50 million for the Employment Training Panel.



- \$54.7 million for technical assistance to underserved farmers, new farmer training and manager apprenticeships, and the Fresno-Merced Future of Food Innovation Initiative.
- \$12.4 million ongoing to increase the Community Strong Workforce Program funding by 5 percent.
- \$10 million to develop work-based learning opportunities in cloud computing, zero emissions, and supply chain fields.
- \$4.7 million annually for three fiscal years for the California Climate Action Corps Program to create service opportunities to take on climate action such as urban greening, food waste recovery, and wildfire prevention.

Universities and Community Colleges

- \$285.2 million to create the Californians for All College Service Program in partnership with the University of California, California State University, California Community Colleges, and private California university systems. This program provides 12,500 part-time service opportunities to college students in critical issue areas such as climate action, education and youth development, specifically tutoring and mentoring, health, and disaster response.
- \$157 million for a regional workforce investment package between the California Workforce Development Board and the California Community Colleges Chancellor's Office that strengthens linkages between workforce training and the CCCs, using existing regional consortia to build upon existing training programs and develop new programs.
- \$1 billion over two years to establish the Learning-Aligned Employment program, which would promote learning-aligned, long-term career development for the University of California, California State University, and CCC students. This program would be established as an endowment to sustain ongoing support.
- \$1 billion for the Student Aid Commission to establish a one-time grant program to support displaced workers in seeking reskilling and up-skilling opportunities, educational opportunities, or to support some of the costs to start a business.
- \$20 million to support California Community College participation in High Roads Training Programs and regional partnerships developed by the California Workforce Development Board.
- \$10 million to pilot competency-based education at select community colleges.
- \$1 million ongoing to support the modernization of the California Community College Registry, an online database of job opportunities for the California Community Colleges.

Youth

- \$200 million for grants to cities and counties to create or expand youth employment opportunities. The funding, which will be administered by California Volunteers, will be provided directly to large cities on a per capita basis, and to other cities and counties through



a competitive grant process. This funding will help youth gain work experience by increasing employment opportunities, through part-time work or summer jobs.

- \$250 million set-aside from the Governor's Budget for grants to establish several regional K-16 collaboratives focused on streamlining educational pathways leading to in-demand jobs.
- \$40 million over three years to support the Arts Council's existing Creative Youth Development programs, for partnerships between community-based organizations, educators, and local artists to expand participation in these programs.

Other

- \$276.3 million to enable the Employment Development Department to address deferred workloads and the ongoing work associated with claim volume and benefit renewals, extensions, and recertifications.

Transportation, Infrastructure, and Disaster Response

Transportation

- \$1 billion for transit and rail projects statewide that improve connectivity between state and regional/local services.
- \$500 million to advance projects that increase the proportion of trips accomplished by walking and biking, increase the safety and mobility of non-motorized users, advance efforts of regional agencies to achieve greenhouse gas reduction goals, enhance public health, and benefit many types of users, especially in disadvantaged communities.
- \$500 million for high-priority grade separations and crossings to support critical safety improvements throughout the state.
- \$4.2 billion Proposition 1A to complete high-speed rail construction in the Central Valley, advance work to launch service between Merced and Bakersfield as well as planning and project design for the entire project, and leverage potential federal funds.
- \$2 billion (\$1.1 billion special funds through 2028, and \$968 million federal funds) to support the advancement of priority State Highway Operation and Protection Program (SHOPP) projects, Interregional Transportation Improvement Program (ITIP) projects, and local road and bridge investments.
- \$407 million to demonstrate and purchase or lease state-of-the-art, clean bus and rail equipment, and infrastructure that eliminate fossil fuel emissions and increase intercity rail and intercity bus frequencies.
- \$1.4 billion to demonstrate and purchase or lease green buses and trucks.

Infrastructure

- \$1 billion to deliver critical projects in time for the 2028 Olympic Games.



- \$2.6 billion over multiple years to address drinking water, water supply reliability, flood, and other issues.
- \$1.5 billion General Fund for a three-year effort to clean up garbage statewide, beautify the state's transportation network, educate the public about the harms of litter, and create long-lasting litter deterrents. Integral to this effort are close partnerships with local entities and a focus on increasing resources dedicated to eliminating trash and implementing measures to reduce future litter. This will create a cleaner and healthier California.
- \$1.3 billion General Fund over multiple years in projects and programs to support communities that are facing the impacts of climate change today and advancing efforts to conserve 30 percent of our lands and coastal waters by 2030.
- \$2.3 billion to address deferred maintenance needs and accelerate projects for numerous state agencies.
- \$912 million through a variety of investments focused on advancing clean technologies to accelerate California's progress on meeting its clean energy goals.
- \$30 million one-time for various capital projects at the Sacramento Railyards.

Disaster Response and Preparation

- \$250 million to develop and implement "Prepare California". This is modeled after a successful FEMA program, designed to build disaster-resistant communities through the state, local, federal, and private sectors and nongovernmental organization partnerships.
- \$150 million for the Department of Food and Agriculture to support the development and enhancement of community resilience centers. Funding would be available to improve both local fairground and other community facilities to enhance the state's emergency preparedness capabilities, particularly in response to climate change.
- \$100 million in one-time General Fund to increase the amount of funding available through the California Disaster Assistance Act, used to repair, restore, or replace public real property damaged or destroyed by a disaster or to reimburse local governments for eligible costs associated with emergency activities.
- \$100 million one-time General Fund across three fiscal years for the Board of State and Community Corrections to expand the California Violence Intervention and Prevention (CalVIP) Grant Program, which provides competitive grants to cities and community-based organizations to support services such as community education, diversion programs, outreach to at-risk transitional age youth, and violence reduction models.
- \$50 million one-time General Fund for the California State Nonprofit Security Grant Program, to assist nonprofit organizations that have historically been targets of hate-motivated violence.

Homeless and Housing Investments

While homeless and housing programs are not typically considered traditional "economic development," local officials and economic developers understand how neglecting these issues



can undermine a community's efforts to attract and grow jobs. The pandemic exacerbated these problems when nearly half of all employees in the restaurant, hotel, and other hospitality sectors lost their jobs.

Earlier this year, the Legislature enacted the California COVID-19 Rent Relief Program. This program provides up to \$2.6 billion in federal rental assistance to those facing financial hardships as a result of the pandemic and extends the eviction protections through June 30, 2021. The American Rescue Plan Act of 2021 (ARPA) provided an additional \$2.6 billion to California for both state and local entitlement jurisdictions for a total of \$5.2 billion in federal rental relief aid.

The May Revision responds to the homeless and housing issues with an array of programs attempting to get more people into shelter, preserve existing affordable units, and accelerate the development of affordable housing, as follows:

Housing the Homeless:

- \$475 million to expand the existing CalWORKs Housing Support program.
- \$280 million to expand the existing Bringing Families Home program, which provides housing-related supports to eligible families experiencing homelessness in the child welfare system.
- \$150 million to support transitioning participants temporarily sheltered in hotels and motels under Project Roomkey into permanent housing.
- \$175 million to assist disabled individuals who are experiencing homelessness.
- \$500 million for the construction, acquisition and/or rehabilitation of buildings for adults and seniors in care facilities who are homeless or at risk of becoming homeless.
- \$25 million for the California Department of Veterans Affairs to for grants to support aging veterans and veterans with disabilities who have experienced chronic homelessness.
- \$20 million federal funds for three years to provide legal aid services for renters and homeowners to avoid eviction and foreclosure.

Addressing Mental Illness:

- \$750 million one-time General Fund for competitive grants to qualified entities to construct, acquire, and rehabilitate real estate assets to expand the community continuum of behavioral health treatment resources.
- \$250 million to expand and modify community mental health facilities to house justice-involved individuals with serious mental health issues.

Affordable Housing Development:



- \$1.75 billion one-time federal funds to the Department of Housing and Community Development (HCD) to help more than 6,300 units of shovel-ready affordable housing moving forward.
- \$100 million to California Housing Finance Agency to expand its First Time Homebuyer Assistance Program, which helps first-time homebuyers make down payments, secure loans, and pay closing costs.
- \$500 million one-time federal funds for HCD to provide additional planning and implementation grants to regional entities for infill developments, targeted towards the state's climate goals and reducing vehicle miles traveled.
- \$300 million one-time federal funds to preserve and sustain existing affordable units with affordability covenants that are due to expire.
- \$45 million in one-time federal funds to assist with the development of infrastructure on state surplus property parcels identified for housing development.

Next Steps/Upcoming Deadlines

The Legislature has barely four weeks to review these proposals and send the Governor a budget by the June 15 constitutional deadline. What often occurs, is that the Governor and Legislators will agree upon a budget framework that is adopted to meet the Constitutional requirement, with the details enacted later in a series of budget trailer bills over the summer and prior to the session adjournment in September.

For more information about the 2021-22 May Revision Budget, visit:
<http://www.ebudget.ca.gov/budget/2021-22MR/#/BudgetSummary>

The Legislative Analyst's Office has produced various amounts of analyses on the Governor's May Revise proposal at www.lao.ca.gov