



Economic Recovery Major Focus of State's \$262 Billion Budget

The California Association for Local Economic Development (CALED) is the voice of economic development practitioners and stakeholders. With over 750 members, CALED is one of the largest economic development associations in the country. We are pleased to share this economic development analysis of California's recent budget investments to further recovery and resilience.

California Budget Makes Historic Investments in Economic Development

Over the last several weeks the Legislature has been heavily engaged in budget-related activities. The Legislature passed SB 129, a revised state budget bill, and numerous accompanying trailer bills reflecting an agreement with the Governor on a record \$262 billion state budget. Boosting the state's economic recovery is a major focus of this package, with billions allocated to support individual stimulus payments, cash grants to COVID-impacted businesses, job attraction and retention, workforce development, infrastructure expansion, affordable housing, and other community priorities.

These budget allocations are a departure from typical state expenditures. Lawmakers typically focus state budget spending on "core" education, health, welfare, corrections, and other programs. Thanks to a major increase in state tax revenues and federal COVID relief, this year the challenge for most economic developers will be understanding and exploring the multitude of opportunities presented.

Many of the items funded in the budget were based upon proposals the Governor outlined in a 200-page May Revise, which included an estimated 400 new programs and over \$100 billion in spending from state and federal funds. CALED previously outlined the many proposals of interest to economic developers in this [comprehensive summary](#). The Assembly's summary of the budget agreement and various trailer bills as of July 15 can be found [here](#), and the more extensive detailed analyses of trailer bills prepared by the Senate Budget Committee are [here](#). And there is still more to come, with the details of additional trailer bills to be negotiated following the Legislature's July 16-August 16 Summer Recess through the end of the Session.

Main Budget Bills

- **AB 128 (Budget Bill)**, this comprehensive 919-page budget bill was approved on June 14 by the Legislature, before the June 15 Constitutional deadline for legislators to send the Governor a budget. This deadline is strictly adhered to because legislators would otherwise forfeit salary for each day it is late. AB 128 was essentially a placeholder, while the Legislature and Governor continued to negotiate on many items before the July 1st Constitutional deadline for the Governor to sign a budget. After the larger agreement was reached, the Governor signed the bill on June 28, in anticipation of the many amendments reflected in SB 129.
- **SB 129 (Budget Bill Jr.)** This 505-page bill was signed by the Governor on July 14 and includes major amendments to the original Budget Bill (AB 128) that reflected the Legislative agreements with the Governor. Several additional minor changes to the budget bill followed in AB 161 and AB 164 budget trailer bills.
- Allocations in AB 128, as amended by SB 129, AB 161, and AB 164 include:
 - Economic Assistance and Incentives:
 - \$290 million for GO-Biz Cal Competes Tax Credits.
 - \$120 million for a new GO-Biz Cal Competes Grant Program.
 - \$250 million for assistance to public ports.
 - \$150 million in relief grants to entertainment venues, live events businesses, and minor league sports.
 - \$100 million in cannabis grants to local agencies to assist transitioning from provisional to annual licensing. AB 141 and SB 160 are related to cannabis budget trailer bills.

- \$95 million to Visit California for tourism marketing activities.
- \$70 million extension for hiring tax credits.
- \$70 million for small business financing, of which \$50 million is allocated to assist underserved small businesses, and \$20 million to the Small Business Loan Guarantee Program.
- \$50 million for direct relief grants through the Office of the Small Business Advocate to eligible microbusinesses.
- \$50 million in grants to small nonprofit performing arts organizations.
- \$35 million to the California Dream Fund.
- \$30 million to the film industry, and \$10 million to the Film Commission. SB 144 is the related budget trailer bill.
- \$20 million for cannabis equity grants to local agencies.
- \$17 million to the Small Business Technical Assistance Expansion Program. Program changes are included in SB 151 budget trailer bill.
- \$5 million in matching grants for “brand-neutral” efforts to increase consumer awareness of zero-emission vehicle technology.
- Broadband Expansion: Major investments include: \$3.750 billion to the Department of Technology for an open-access, middle-mile network; \$2 billion for urban and rural counties last-mile projects; \$750 million financing the loan-loss fund; \$622 million in various allocations to the California Advanced Services Fund contingent upon passage of a bill in the 2021 Session detailing allocation; \$439 million in grants to libraries that are eligible to be used to upgrade broadband; and \$225k to the Gateway COG to develop a broadband master plan. AB 156, a budget trailer bill, contains additional details.
- Workforce Development: Approximately \$2 billion in related allocations include: \$500 million for students pursuing a teaching credential, \$336 million to the CA Workforce Development Board for a variety of workforce development initiatives, of which \$100 million is for expanding High Road Training Partnerships; \$150 million to expand hiring more full-time community college faculty; \$290 million for the community college’s Strong Workforce Program; \$253 million to the Department of General Services to fund regional K-16 collaboratives to create streamlined pathways from high school, through post-secondary education to the workforce; \$65 million to EDD to expand its Employment Training Panel into high demand sectors and improve coordination with community colleges; \$19 million to the Dept. of Industrial Relations to expand paramedic training and participation of women in the construction industry.
- Grants to Individuals and Small Businesses:
 - \$1.5 billion in additional COVID-relief grants through GO-Biz to small businesses.
 - \$8.1 billion in individual rebates for tax filers earning less than \$75k. See budget trailer bill, SB 139, for details.
 - \$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.
- Infrastructure and Other Investments:
 - \$7 billion in various affordable housing and homeless programs and initiatives.
 - \$1.385 billion to the State Water Resources Control Board for water, wastewater, and groundwater projects.
 - \$1.063 billion to the Air Resources Board for various emissions reduction projects, including clean vehicle incentives.
 - \$822 million over two fiscal years for a variety of brownfield remediation activities. Details are included in the budget trailer bill SB 158.
 - \$778 million to the State Energy Resources Conservation and Development Commission for various projects to support charging and hydrogen refueling infrastructure.
 - \$663 million to the Department of Water Resources for drought relief projects.

- \$500 million for wildfire prevention and forest resilience.
- Budget Set-Asides: The budget sets aside funding for various priorities to be specified in future trailer bill legislation to follow:
 - \$730.7 million for a water and drought resilience package.
 - \$500 million for student housing.
 - \$440 million for a climate resilience package.
 - \$800 million in various transportation funds.
 - \$200 million for local parks.
 - \$65 million for a “circular economy” package, meaning eliminating waste and improving the reuse of existing products.
- Individual Agency/Organization Allocations: Over 275 individual local agencies and non-profits received direct allocations for specific projects and activities from the state budget that reflect “legislative priorities.” CALED members should review these local allocations for potential benefits to local projects and initiatives (See Sections 273 and 274 of SB 129.)

Key Budget Trailer Bills of Interest to CALED Members

- **SB 151: Economic Development**
 - 1) Specifies the details of the GO-Biz Cal Competes Grant Program, for which \$120 million was approved in SB 129. While these grants can target major players (creating over 500 jobs or investing over \$10 million) there is also an opportunity for grants to be awarded to smaller employers who create jobs in “high poverty and high unemployment,” which are defined in existing regulation as exceeding state benchmarks by 150 percent. This bill describes the process for recapturing grants.
 - 2) Repurposes and narrows the existing GO-Biz Innovation Hub (IHub) program, as the new Inclusive Innovation Hub (IHub2) Program. The IHub2 Program is focused more specifically on economic development and job creation for underserved geographic areas, industry sectors, and business owners. Any existing IHub must meet this new designation.
 - 3) Makes several changes to the Small Business Technical Assistance Expansion Program (TAEP), which is allocated \$17 million in budget bill AB 128. In brief, these changes:
 - a. Delink references to federal funding from the state’s definition of eligible applicants under TAEP, and allow non-profits receiving private funding that assists small businesses to also apply. The key concern for the state is that the federally-funded small business assistance programs may not allow assistance to undocumented individuals.
 - b. Allow TAEP applicants to apply for authority to allocate microgrants up to \$10k to underserved businesses through the \$35 million allocated to the California Dream Fund.
 - 4) Clarify that the \$50 million that was allocated in small business COVID relief grants for eligible cultural institutions, may be allocated in one or more rounds. (Addresses the concern that an insufficient number of applicants applied in the first round.)
 - 5) Specifies the application criteria for access to \$150 million in Venue Assistance Grants, for COVID-impacted independent live events and promoters with or without facilities. Venues include sports teams and clubs, performing arts, alcohol drinking places, and full-service restaurants. Grants begin at \$250,000 and are not to exceed 20 percent of an applicant’s gross earned revenue in the 2019 taxable year.
 - 6) Specifies the criteria for applying for \$50 million for Non-Profit Performing Arts Grants, for theaters, dance companies, singing groups and artists, and other COVID-impacted performing arts venues. Grants range from \$25k to \$75k depending on gross revenue in the 2019 taxable year.
 - 7) Specifies the process for allocating \$50 million for direct relief grants through the Office of the Small Business Advocate to eligible microbusinesses. Initial applicants to allocate these funds are limited to California’s 58 counties. Should all counties not apply, non-profit entities could also apply in the second round. Grants of \$2,500 would be awarded to microbusinesses formed prior to December 2019, with less than five employees and \$50k in revenue in the 2019 taxable year. Counties can use up to 20 percent of the award for administrative expenses, marketing, fiscal agent

fees, and other expenses. Grant awards shall not be considered income for California income tax purposes.

- **AB 150: Hiring Tax and Other Related Changes**

- 1) Authorizes \$70 million in hiring tax credits to employers of less than 500 employees as of December 31, 2000, which have incurred a 20 percent reduction of revenue between the 2019 and 2020 taxable years. Eligible employers may be awarded a \$1,000 per employee hiring credit (not to exceed \$150k) for any increase in full-time equivalent employees between April 1 and June 30, 2021, and the average employees between July 1, 2020 and June 30, 2021. Applicants must be submitted for a reservation of either income tax or sales tax credits on a first-come basis between Nov. 1 and Nov. 30, 2021.
- 2) Authorizes \$30 million in tax credits for hiring formerly homeless individuals. Individuals must be paid at least 120 percent of minimum wage. Credits begin at \$2,500 for individuals who work at least 500 hours, \$5,000 for 1,000 hours, \$7,500 for 1,500 hours, and \$10,000 for over 2,000 hours.
- 3) Authorizes certain qualified pass-through business entities (S-Corporations, LLCs, and LLPs) to pay an elective 9.3 percent state tax on behalf of their owners, and for their owners to receive equal credit for consenting to the entity making a payment on their behalf. This provision intends to mitigate impacts on business owners stemming from the cap on state and local tax deductions in the 2017 federal Tax Cut and Jobs Act.
- 4) Extends the expiration of the Historic Tax Credit by one year to January 1, 2027.
- 5) Permanently eliminates the sales tax on diapers and menstrual products.
- 6) Extends a 15 percent tax credit for donations of fruit and vegetables by five years.

- **AB 156: Broadband**

Outlines the implementation details of the state's three-year, \$6 billion broadband package, which includes: \$3.25 billion for the establishment of a state-owned, open-access middle-mile network, \$2 billion divided equally between urban and rural counties for last-mile projects, and \$750 million for a loan-loss fund to assist local governments and non-profits finance broadband service projects.

- **AB 149: Transportation**

- 1) Creates the Clean California Program which will allocate local and state grants for beautification projects for streets and roads, highways, parks, pathways, transit centers, and other public spaces. Up to \$1.5 billion was proposed for this program, potentially. The following initial allocations were approved in the AB 129 budget bill: \$111.7 million for state litter abatement, \$143.3 million for state beautification, and \$148 million for local beautification.
- 2) Provides that local agencies are not required to comply with annual minimum expenditure requirements for the 2019-20 fiscal year in order to receive allocations of Local Street and Road funds under SB 1 formulas. Authorizes the Controller to adjust minimum expenditure requirements in the 2020-21 and 2021-22 fiscal years for any decrease in taxable sales or transient occupancy taxes.
- 3) Authorizes the California Department of Transportation to pay a \$250 stipend to individuals, organizations, and others that complete scheduled litter abatement under the Adopt-a-Highway program.
- 4) Continues statutory relief for transit agencies enacted in the 2020-21 state budget under various state programs, formulas, and requirements.
- 5) Continues the authority of the Secretary of Transportation to assume the responsibilities under the National Environmental Protection Act for an additional three years.
- 6) Authorizes the Department of Motor Vehicles to establish a pilot program to evaluate digital or mobile options to drivers licenses and identification cards.

- **AB 140: Housing**

- 1) Provides additional authority to the Dept. of General Services (DGS) to approve leases of state excess lands (without the approval of the local agency) for affordable housing and park and recreation uses, commercial uses are also allowed if deemed beneficial to the residents of affordable housing. Authorizes DGS to approve phased development or sell the property under various conditions.

- 2) Allocates \$1 billion to local agencies to address homeless issues in both the FY 2021-22 and 2022-23 fiscal years. The funds will be allocated as follows: \$336 million among the 13 cities with more than 300k population, \$240 million through local continuums of care, \$224 million among the state's 58 counties, \$180 million reserved for bonus allocations, and sets aside \$20 million for tribal applicants. Establishes additional grant programs focused on removing encampments and assisting homeless families.
- 3) Establishes the Regional Early Action Grants Program where \$500 million will be available to cities and counties through regional councils of government for planning, infrastructure, and other activities to facilitate infill and transit-oriented housing development.
- 4) Allocates \$250 million for projects under the Infill Infrastructure Grant Program.
- 5) Establishes a \$500 million foreclosure assistance program, and makes numerous other changes to state housing programs.

Next Steps

While the initial state budget deadlines have passed, additional budget trailer bills can be expected after the Legislature returns from its July 16-August 16 Summer Recess, until adjournment of the Session on September 10, 2021. Economic developers certainly have much to consider in the state's 2021-22 Budget. CALED will continue to monitor state budget activity and make its members aware of emerging issues and opportunities.

CONTACT:

California Association for Local Economic Development

www.caled.org

916-448-8252