

Governor Issues May Revise for FY 2022-23 Budget Plan*Economic Development Highlights*

Too much money can create its own set of problems. This is especially true for California state government, with its budget surplus approaching \$100 billion that could trigger the Gann Limit, a 1979' Constitutional state spending cap which requires revenues exceeding the cap to be used to repay debts, returned to taxpayers, allocated to local governments, or invested in education or infrastructure. Thus, major components of Governor Gavin Newsom's proposed budget May Revise reflect his efforts to advance various policy priorities while avoiding triggering the Gann Limit.

Key features of the Governor's May Revise proposals include an \$18.1 billion "inflation relief package" for California residents including \$400 per vehicle grants to offset increased gas prices, free transit passes, rental and utility assistance for low income residents, \$1,500 retention stipends for health care workers, and a one-year suspension in the state's portion (approximately 4 cents) of the sales tax on diesel. Other major investments include \$5.2 billion for back up generation to improve energy reliability, \$8 billion in flexible block grants to K-12 schools, \$6.2 billion to repay state callable bonds, a total of \$3.9 billion to construct and maintain new school facilities, and a \$3.4 bill prepayment to reduce state pension liabilities.

Of interest to local economic developers, the May Revise contained numerous items including a five year extension of the Cal Competes program, the proposed consolidation of two proposed tax credit programs into a Climate Innovation Grant Program, another new proposed grant program to assist "hard hit" pandemic businesses and drought-affected agricultural businesses, several tax relief proposals, additional funds for homelessness assistance, advanced transportation, drought relief, and other items. Limited detail is available on a legislative proposal mentioned in the May Revise that would allow the Public Utilities Commission to change its process for electrical rate setting, and there were no new proposals related to the Community Economic Resilience Fund (CERF) program.

Legislative debate over the Governor's proposed expenditures is expected. The Legislative Analyst's Office (LAO), in its review of the May Revise, raises concerns over a potential recession and urges the Legislature to place more funding into state reserves. In addition, the LAO identifies technical concerns with the Governor's approach on the Gann Limit which could expose the state to future budget problems, and recommends the Legislature consider various options to address them.

CALED members are encouraged to review these proposed expenditures for opportunities to assist their efforts to improve their communities.

- The Governor's January Budget: <https://www.ebudget.ca.gov/budget/2022-23/#/BudgetSummary>
- The Governor's May Revise: <https://www.ebudget.ca.gov/budget/2022-23MR/#/BudgetSummary>
- Legislative Analyst Office (LAO) Comments: <https://lao.ca.gov/Publications/Report/4598>

Economic Development Programs

- *Cal Competes Tax Credits and Grants.* The May Revise proposes extending for five additional years the existing Cal Competes Program, administered by the Governor's Office of Business and Economic Development (GO-Biz), which offers tax credits to attract and retain high quality jobs, at \$180 million annually. An additional \$120 million one-time is proposed for Cal Competes grants, which are offered to businesses in addition to tax credits.
- *Climate Innovation Grant Program.* The May Revise combines two proposed tax credit programs from the January budget (New Innovation Headquarters Credit and Pre-Development of Green Energy Technologies Credit) into a single grant program administered by the California Energy Commission, funded at \$1.05 billion over four years. The grant program would focus on research activities into technologies that help California achieve its climate goals. Grant recipients would be required to be

headquartered in California. The grant would include a contractual obligation that would require repayment of grant amounts plus some return to the state if a recipient either has an Initial Public Offering or a change in ownership event that results in a greater than 50-percent change in the company's capitalization table. This program is also required to provide additional consideration to companies that relocate from states that have enacted anti-LGBTQ+ and reproductive rights laws.

- *Small Business Hard-Hit Industries Grant Program.* The May Revise proposes this new program to assist businesses that suffered most in the pandemic and agricultural businesses suffering from drought impacts. The program would be administered by the Office of the Small Business Advocate (CalOSBA), at Go-Biz, and offer:
 - \$500 million in grants, ranging from \$10k-\$50k, to businesses in the top-ten industries most impacted by the pandemic.
 - \$75 million in grants to small agricultural businesses, ranging between \$30k-\$50k, to provide additional relief to those small businesses most affected by severe drought.
- *Cannabis Retail Access Grants: Provides* \$20.5 million for grants to local governments to expand local retail access to cannabis. The goal of this grant program is to aid localities with the development and implementation of local retail licensing programs and to support consumers in gaining access to regulated and tested products through an expansion of California's legal marketplace.

Tax Relief

- *Lithium Extraction:* Provides a sales and use tax exclusion for lithium extraction for a three-year period, with local impacts backfilled.
- *Diesel Fuel:* Proposes a one-year suspension of the state's portion (approximately 4 cents) of sales tax on diesel fuel. Local allocations of the sales tax on diesel are not affected.
- *PPP Grants:* Clarification that recipients of federal Paycheck Protection Program (PPP) grants will not be subject to state income tax on the amounts received.
- *Main Street Hiring Credits:* Offers applicants under two recent Main Street hiring tax credit programs the ability to claim eligible credits over the next five years.
- *Cannabis Taxes:* Proposes to eliminate the cannabis cultivation tax, and shift the point of sale of the state 15% excise tax from distribution to retail. The Administration has proposed a \$150 million investment in targeted grants to backfill potential losses to existing programs that benefit from cannabis taxes.

Broadband

- *Middle-Mile Augmentation.* The May Revise proposes to augment prior budget allocations for development of middle-mile broadband by \$1.1 billion over two fiscal years to address increased cost of labor and supplies.

Homelessness and Housing

- *Project Homekey.* Proposes \$150 million in additional funding for this program that purchases and operates former hotels to provide housing for the homeless.
- *New Homeless Interim Housing Program.* Proposes \$500 million to be allocated for grants to local governments to construct interim homeless housing on state lands.
- *Homeless Housing Assistance and Prevention Program (HHAP).* The May Revise states that the Administration is committed to extending this program at its current \$1 billion annual funding level, pending further discussion with the Legislature to meaningfully increase outcomes and accountability on local HHAP spending to focus on highest priority needs, such as encampment resolution, Homekey operating sustainability, and CARE Court housing supports. However, funding will not be released until local accountability plans for homelessness have been received by the state to be figured into awarded funding. These are due by June from cities and counties, who must put together a plan showing how they will use the dollars to meet specified metrics and is accompanied by a spending augmentation of 18% for those found to be in compliance.

- *Adaptive Reuse.* Increases to a total of \$600 million (\$500 million in the May Revise plus \$100 million proposed in the January budget) for adaptive reuse projects that convert underutilized retail and office properties to housing. It also includes proposed streamlined approvals process to enhance the speed of delivery.

Transportation

- *Active Transportation.* \$500 million is allocated for active transportation projects.
- *Federal Infrastructure Funding.* The May Revise projects that California will receive \$38 billion in funding under the federal Infrastructure Investment and Jobs Act over the next five years, and thus provides a combined \$194 million to address increased Caltrans' staffing needs.

Drought Relief

As part of an overall \$7.2 billion to tackle drought between FY 2021-22 and January FY 22-23 Proposal, the May Revise includes \$1.3 billion in additional drought-related proposals. Proposed spending includes:

- \$530 million to support water recycling and groundwater cleanup; advance drinking water and clean water projects that leverage significant federal infrastructure funds; and continue aqueduct solar pilots.
- \$553 million to provide grants to urban water districts and smaller community water suppliers for drought-relief and related projects.
- \$280 million to address fish and wildlife impacts associated with drought and climate change.
- \$187 million to support agricultural water conservation practices.

Energy

The May Revise proposes several major energy investments, including:

- \$5.2 billion in investments to establish a reserve electrical power generation capacity of 5,000 megawatts to help the state avoid future blackouts.
- \$225 million for new electricity transmission, including from energy generated in from the Salton Sea region.

Public Utilities Commission

- *Revising Electrical Rate Setting.* The May Revise indicates that the Administration will be pursuing legislation to allow the Public Utilities Commission (PUC) to adjust electricity rates to predetermined fixed charges with considerations of low-income customers. The May Revise states that this rate reform effort will reduce charges attached to volumes of electricity consumed, help control rate volatility, and enable creation of better price signals that will enhance widespread electrification efforts. Local agencies and businesses should track this issue closely due to potential energy cost increases from cost shifts.
- *Residential Solar Incentives.* \$970 million to the PUC for incentives residential solar and storage systems, of which \$670 million is to be directed to low-income households.

Fire, Emergency Services, Public Safety

- *Cal Fire.* \$150 million to Cal Fire for enhanced operational support, staffing, and equipment.
- *CalOES.* \$183 million to the Office of Emergency Services for various improvements to strengthen California's emergency response readiness.
- *Mutual Aid.* \$25 million to improve local law enforcement mutual aid deployment resources.
- *Non-Profit Security.* \$50 million for security assistance to non-profit organizations at risk of hate-motivated violence and threats.

Miscellaneous

- *Peace Officer Wellness.* \$50 million in grants to local government supporting peace officer wellness, mental and emotional health, and improve community trust and relations.

- *Access to State Parks*. Proposals include \$13.5 million to purchase additional state park passes that can be checked out from local libraries.
- *Strategic Water Storage*. \$500 million is provided in FY 25-26 for strategic water storage, including in aquifers and off-stream reservoirs.
- *Coastal*. \$50 million is provided to the Coastal Conservancy to purchase critical shoreline properties to preserve natural resources and advance climate resilience.
- *Methane Satellites*. \$100 million in Greenhouse Gas Reduction funds is allocated to expand the number of satellites launched for methane observations and allow California to identify the source of these emissions and work with programs to hold emitters accountable for violations.

Next Steps:

The release of the May Revise marks the beginning of serious negotiations over the next month between the Legislature and the Governor over the final contents of the Budget. The Legislature is Constitutionally required to send the Governor a budget by June 15, or lose salary for every day it is late. While the Governor must sign the budget by July 1, it has become standard practice for additional details related to the budget to be adopted through batches of budget “trailer bills” before and after the Legislative summer recess (July 1-August 1) until the end of the 2022 Session on August 31. CALED will continue to track the state budget, and keep its members updated on major developments.

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CONTACT:

The California Association for Local Economic Development (CALED) is the voice of economic development practitioners and stakeholders. With more than 800 members, CALED is one of the largest economic development organizations in the country. We believe that through partnership and collaboration with local economic developers, the state of California can leverage the energy of California’s economic development network to create positive impacts that benefit our businesses and residents.

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