



Economic Development Analysis Governor's Proposed 2023-2024 Budget

The California Association for Local Economic Development (CALED) is the voice of economic development practitioners and stakeholders. With over 800 members, CALED is one of the largest economic development associations in the country. We are pleased to share this economic development analysis of Governor Newsom's proposed FY 2023-2024 budget.

Some Economic Development Expenditures Trimmed; New Investments Proposed

With the economy projected to slow down and potentially even head into a recession, the party is over if you are looking for many more programs and funding. After experiencing massive surpluses, including one approaching \$100 billion in 2022, California's budgetary good times may now have come to an end. The Governor is facing a projected \$22.5 billion deficit with a mix of reductions, deferrals, and funding swaps, while avoiding – at least for now – dipping into state reserves. Conditions, however, can deteriorate further if the economy heads into recession.

This budgetary reversal results primarily from the state's progressive income tax structure, which leans heavily on revenues from the highest income earners. Contributing factors include declining stock market returns, reduced capital gains, and increases in federal interest rates.

But there is some good news. Most programs tracked by local economic developers are preserved. Reductions are minor, and some proposed cuts will be restored if state revenues rebound by January 2024. Important investments in broadband funding continue under a deferred timeline, and the Community Economic Resilience Fund (CERF) program remains untouched.

One major cut affecting the business community is the elimination of a \$500 million commitment to offset increases in unemployment insurance tax rates, connected to the insolvency of the Unemployment Insurance Trust Fund. Still, the Budget also presents new opportunities through incentives for semiconductor manufacturing, extending film tax credits, and addressing urban flooding.

Housing and Homelessness policy discussions in the Budget present some concerns for local governments. Along with several reductions in housing funds, the Budget contains multiple paragraphs of stern language critiquing local agencies and promising more efforts to limit local authority and increase enforcement and accountability.

Given that not all economic development funding and programs are within the purview of the Governor's Office of Business and Economic Development (GO-Biz), we reviewed the entire budget for investments and reductions that impact economic development in California. If an existing economic development program is not mentioned in our analysis, it was not identified for a proposed change in the budget.

Addressing climate change is a major policy focus of the Governor. Over the past two years, the state launched \$54 billion in new expenditures on climate change, energy conservation, zero emission vehicles, natural resources, coastal environments, and related programs, which the Budget proposes to collectively reduce by \$6 billion. Given that some of these programs may also be of interest to local economic developers, we encourage you to also review the Climate Change segment of the Budget. A copy of the Governors "California Blueprint" 23-24 budget proposal can be found [here](#).

Initial comments by the Office of the Legislative Analyst can be found here: [LAO The 2023-24 Budget: Overview of the Governor's Budget](#)

Economic Development

Despite the deficit, the Budget proposed several investments to expand California's economic competitiveness via a continuation of the existing tax credit for California film and television productions and several semiconductor manufacturing incentives to augment recent federal incentives. Several reductions to business assistance and workforce development programs are proposed as well and are included later in this analysis:

New Investments:

- **Extension of Film and Television Tax Credit:** The Budget proposed \$330 million per year beginning in FY 25-26 to extend the existing program and make the credit refundable to benefit a wider range of productions.
- **Incentives for Semiconductor Manufacturing:** The Budget proposes several incentives to augment the recently enacted federal CHIPS (Creating Helpful Incentives to Produce Semiconductors) Act, which allocated \$54 billion in incentives for domestic manufacturing of semiconductors. California's incentives would include:
 - **Targeted California Competes Grants:** \$120 million is proposed to be allocated, with priority for semiconductor manufacturing and research and development. The cap preventing a grantee from receiving more than 30 percent of the program's total amount is removed.
 - **Removing Geographic Limitations from New Employment Credit:** The Budget proposes to eliminate (high unemployment/high poverty) geographic limitations associated with the state's Employment Tax Credit. This program was enacted in 2014 as a partial replacement for the prior Enterprise Zone Program. Its many restrictions and requirements, however, have made it largely unusable for employers. The elimination of the geographic limitation could make this program worth looking at for employers. The eligible hiring pool continues to be quite restrictive (ex-felony offenders, and recipients of county general assistance, Earned Income Tax Credit, or CalWORKS.) Information on the existing program can be found here: <https://www.ftb.ca.gov/file/business/credits/new-employment-credit/index.html#Designated-Geographical-Area>
- **Made in California Program:** The Budget proposes \$1.5 million one-time General Fund, to be spent over three years, to relaunch the Made in California Program and conduct outreach and engagement to increase participation in the program. The Made in California Program aims to support in-state manufacturing by increasing consumer awareness of in-state production.
- **Mitigating Flood Risks/Water Supply:** The Budget proposes allocating:
 - \$135.5 million over two years to local agencies working to reduce urban flood risk.
 - \$40.6 million for ongoing Delta projects that reduce risk of levee failure and flooding, provide habitat benefits, and reduce the risk of saltwater intrusion contaminating water supplies.
 - \$25 million General Fund to support projects that will reduce the risk of flooding for Central Valley communities while contributing to ecosystem restoration and agricultural sustainability.
 - \$125 million for drought contingency, \$4.7 million for planning and permitting affecting new water supplies, \$31.5 million for modernizing water rights, \$7 million for water conservation and drought planning, \$4.9 million for groundwater recharge, and \$4.9 million for reactivating stream gauges.

Proposed Deferrals and Reductions:

- **Reduction in Three Programs Assisting Small Business:** The Budget proposes the following reductions in existing programs assisting small business:
 - \$500 million through the elimination of a program funded in the 2022-23 budget proposing to offset increases in anticipated rising federal unemployment insurance tax rates increasing from \$42 to \$62 per employee resulting from the insolvency of the state's Unemployment Insurance Trust Fund, which in October 2022, owed the federal government \$18 billion in loans. The Budget also proposes to withdraw a \$750 million General Fund repayment to this federal debt approved in the 2022-23 Budget. Instead, the Budget proposes to make only the annual \$279 million payment on the loan balance.
 - \$92 million reduction to the California Small Business COVID-19 Relief Grant Program, which is the estimated amount remaining after all grants have been awarded to eligible businesses.
 - \$50 million reduction to the IBank's Small Business Finance Center and the California Rebuilding Fund, leaving \$37.5 million available for financial assistance to small businesses.

- **Reductions in Recycling/Composting Incentive Programs:** In recent years the state has funded several small programs to promote the recycling of various materials, which offer economic development opportunities in some communities. The Budget proposes to reduce some funding for these programs which would be restored subject to a 2024 budget trigger, as follows:
 - \$4.5 million reduction in FY 22-23 in the Recycling Market Development Zone Loan Program but leaving approximately \$45.5 million (91 percent) for this program.
 - \$4.8 million reduction in FY 21-22 for composting programs, leaving approximately \$7.8 million (62 percent) available.
 - \$15 million reduction in recycling feasibility grants over two fiscal years, eliminating the program.
- **Reductions in Zero Emission Vehicle Programs:** Over the prior two budgets, the state allocated a massive \$10 billion in investments across a range of programs to promote a faster transition to zero emission vehicles. The Budget includes \$2.5 billion in reductions across various ZEV programs, which the budget proposes may be offset by an approximate \$1.4 billion shift in Cap and Trade funds. Further, the Administration will pursue additional federal funding to help offset the decrease in state funds. Since some local agencies may be engaged in ZEV-related economic development projects, please review the Climate Change segment of the Budget for more details.
- **Reductions in Multiple Climate, Natural Resource, and Coastal Programs:** The Budget proposes numerous reductions to various state climate, natural resource, and coastal programs. While these programs are not typically “economic development” programs, many communities may benefit from them in other ways. Please review the Climate Change portion of the Budget for potential impacts.
- **Reductions to IBank’s Energy Transmission and Climate Catalyst Programs:** The Budget proposes a \$25 million reduction to the IBank’s Transmission Financing Program, leaving \$225 million still available. A \$41 million reduction over two budget years is proposed for the Climate Catalyst Program, leaving \$8 million.
- **Proposed Penalties on Oil Refiner Profits:** While not a budget proposal, the Governor’s budget document highlights the Administration’s intent to enact “a price gouging penalty” on excess oil refiner profits as well as transparency and oversight measures to help prevent future price gouging in California. The details of this policy proposal will be addressed by the Legislature in a Special Session and should be monitored closely for potential broader economic impacts. Overly aggressive actions by the Legislature on this policy issue could have broader impacts on California’s economy and the price and availability of fuel.

Broadband, Transportation and Parks

- **Broadband Expenditure Timing Deferrals:** The Budget maintains previous levels of funding allocated to expanding broadband middle-mile, last-mile, and loan loss reserve activities, but proposes to defer:
 - \$550 million previously allocated in FY 23-24 to the California Public Utilities Commission (CPUC) for last-mile infrastructure grants to be allocated over the next three budget years: \$200 million in FY 24-25, \$200 million in FY 25-26, and \$150 million in FY 26-27.
 - \$200 million from FY 22-23, and \$400 million from FY 23-24 for the Loan Loss Reserve Fund, to instead be allocated as follows: \$300 million in FY 24-25 and \$275 million in FY 25-26.
- **Reduction to State Transportation Funding:**
 - \$2 billion reduction over three years in state transit infrastructure funding, while continuing \$5.7 billion in state funding allocated in previous budgets for transit and rail infrastructure funding. The Budget anticipates that some of these decreases will be offset by the projected influx of \$2.2 billion annually in federal road and transit formula funding under the federal Infrastructure Investment and Jobs Act.
 - \$200 million net reduction in the Active Transportation Program, which will maintain approximately \$850 million (81 percent) of the original \$1.05 billion for projects that increase trips accomplished by walking or biking and safety and mobility of non-motorized users.
 - \$350 million delayed allocation of grade separation funding originally planned to be available in FY 23-24, which will instead be made available in FY 25-26.

- **Reduction in Some State Parks Funding and Creating a New State Park:** The Budget proposes to reduce allocations to two state parks programs, while funding the creation of a new state park:
 - \$110 million reduction from the Natural Resources and Parks Perseveration Fund to the General Fund, which includes \$95 million for future phases of the California Indian Heritage Center project, and \$15 million for unspecified future capital outlay projects.
 - \$150 million reduction from the Statewide Parks Program across three budget years. \$230 million allocated to this program in previous budget acts will remain. This proposed cut will be restored based upon a 2024 budgetary trigger.
 - \$5.8 million new one-time allocation, and \$3.3 million ongoing, to establish and open Dos Rios Ranch as a new state park, near Modesto, and create recreation opportunities to historically underserved communities.

Workforce Development

Last Year’s FY 2022-23 Budget created and expanded many workforce development programs. With the state facing a deficit, some amounts are now proposed to be scaled back. Should state revenues improve by January 2024, some funding levels would be restored based upon a budgetary trigger.

- **Reduces Allocation to Public Health Workforce Development Programs:** The Budget proposes to allocate \$15.8 in FY 2023-24, instead of a previous four-year commitment totaling \$65.6 million.
- **Reduces Allocation to DIR Apprenticeship Innovation Fund:** The Budget proposes to reduce by \$40 million the previous funding commitment made in the 2022 Budget Act of committed \$175 million three years to the Department of Industrial Relations (DIR) to invest in and expand non-traditional apprenticeships. Funding could be restored in 2024 based upon budgetary trigger.
- **Pauses Allocation to DIR Women in Construction Unit:** The Budget proposes to “pause” for two fiscal years \$15 million in annual funding for this DIR program to promote and support women and non-binary individuals in skilled trade careers. Funding would resume for this program in FY 2025-26 or be restored in 2024 based upon budgetary trigger.
- **Reduces Funding for Emergency Medical Technician Training:** The Budget proposes to reduce from \$60 to \$40 million the three-year commitment to the Employment Development Department to provide targeted emergency medical technician training. Funding could be restored in 2024 based upon budgetary trigger.
- **Reduces Funding for California Youth Leadership Program:** The Budget proposes to reduce from \$60 to \$40 million the three-year commitment to the California Workforce Development Board to invest in career pathway programs at community colleges. Funding could be restored in 2024 based upon budgetary trigger.
- **Defers Allocation for Health Care Access and Information Workforce:** The Budget proposes to defer \$68 million in FY 2022-23 and \$329.4 million in FY 2023-24 out of a total of \$1.5 billion committed in the 2022-23 Budget for healthcare and workforce development initiatives over multiple years. These programs remain fully funded, but these funds will be appropriated later than initially anticipated—\$198.7 million in both 2024-25 and 2025-26.
- **Eliminates Allocation for COVID Workplace Outreach:** The Budget proposes to eliminate \$25 million committed to DIR in FY 2023-24 to partner with organizations to perform COVID outreach and education to workers and employers in high-risk industries.

Cannabis

The Legislature enacted many recent changes to cannabis laws, including consolidating state regulatory functions and reducing tax burdens to addresses challenges faced by legal businesses attempting to survive in an unstable environment dominated by illegal activity. The Budget proposes the following adjustments related to Cannabis funding and policy:

- **Allocates Full Funding for Education, Clean-up, and Public Safety Activities:** The Budget allocates \$95.4 million to backfill education, environmental clean-up, and public safety cannabis programs, which would otherwise experience a revenue shortfall due to the elimination of the cultivation tax in 2022, by the AB 195 Budget Trailer Bill.

- ***Increases Allocation to Support Enforcement and Environmental Clean-Up:*** The Budget allocates additional amounts to support increasing enforcement against illegal operators and environmental clean-up:
 - \$83.9 million to the Board of State and Community Corrections to award grants to local governments to assist with law enforcement, fire protection, or other local programs.
 - \$12.1 million to continue the State Water Resources Control Board's efforts to address water quality and instream flow-related impacts from cannabis cultivation.
 - \$8 million to continue the Department of Fish and Wildlife's Cannabis Regulatory and Enforcement Program.
 - \$1.9 million to establish a permanent Department of Cannabis Control Enforcement District Office in Fresno.
 - \$10 million to the California Department of Tax and Fee Administration to support its cannabis tax enforcement program.

Housing and Homelessness Sections Contain Stern Warnings for Local Agencies: The Budget segments addressing both housing and homelessness contains aggressive narrative directed at local governments over a perceived lack of sufficient progress in these challenging policy areas.

- ***Housing:*** The Budget calculates the state has invested \$21.5 billion in housing over the past two years, along with deploying a comprehensive set of strategies including improving financing programs, targeting investments, providing technical assistance, and leveraging land use tools. Still — as with other policy areas in this year's Budget — various reductions are proposed totaling \$600 million. These reductions are subject to potential restoration based upon a 2024 budgetary trigger as follows:
 - \$200 million (out of a total of \$500 million) approved for the Dream for All homeownership assistance program for FY 23-24 at the California Housing Finance Agency.
 - \$100 million (out of a total of \$350 million) allocated in the FY 2022-23 Budget to the CalHome program, which provides local agencies and nonprofits grants to assist low- and very-low-income first-time homebuyers with housing assistance, counseling, and technical assistance.
 - \$50 million allocated to the California Housing Finance Agency for an Accessory Dwelling Unit program.
 - \$250 million to seismically retrofit “soft story” multifamily housing, where the first floor of the structure, due to garages and other features, is vulnerable to collapse.

Aggressive Narrative: The housing segment in the Budget contains aggressive tones and statements that suggest local agencies should be prepared for additional state actions directed at local authority and enforcement, and include:

- *“These efforts will only be effective when there are corresponding actions at the local level that facilitate housing production that meets the urgency of the need and is reinforced using the state’s housing accountability authority. The Administration remains committed to working with the Legislature to develop policies that strengthen state housing law and strategically leverage existing resources and lower per-unit costs.”*
- ***Homelessness:*** The Budget includes \$3.4 billion in FY 2023-24 as committed to in prior budgets. This includes \$400 million for a third round of encampment resolution grants and \$1 billion for a fifth round of Homeless Housing, Assistance and Prevention (HHAP) grants. Funding is also included to allow up to six months of rent or temporary housing to eligible individuals experiencing homelessness or at risk of homelessness and maintains funding for the Behavioral Health Bridge Housing Program. Related criteria include:
 - Conditioning funding on proposed statutory changes requiring greater accountability in the planning and expenditure of these critical homelessness resources.
 - The Administration intends to focus HHAP on highest priority needs, especially reducing unsheltered homelessness, and pursue statutory changes to prioritize spending on activities such as encampment resolution, Homekey operating sustainability, and Community Assistance,

Recovery and Empowerment (CARE) Act housing supports. This focus may also be accompanied by expanded housing streamlining provisions.

- The Administration will seek to condition eligibility for any future homeless-related grants and competitive programs through the Business, Consumer Services and Housing Agency and the Health and Human Services Agency, on compliance with state housing law. Jurisdictions that are not compliant with their legal responsibilities will be disqualified from receiving specified homelessness funding, and instead, other overlapping jurisdictions, such as cities, counties, or administrative entities, such as Continuums of Care, will be eligible to receive those funds and provide those services in the respective community.

Aggressive Narrative: Narrative in the Budget document portends increased state confrontation and more aggressive policies toward local agencies on homelessness:

- *“...more ambition is required—and more direction from the state is necessary. Accordingly, the Administration plans to work with the Legislature this year to advance homeless accountability legislation.”*
- *“If local jurisdictions fail to adhere to state housing law, it calls into question whether they have the intention or capacity to address homelessness in a comprehensive and efficient manner.”*

Governor’s Office of Planning and Research (OPR): This office has taken on an increasingly expanded role under Governor Newsom, with a range of programs and activities funded in recent budgets.

<https://opr.ca.gov/#what-we-do>. The Budget proposes to augment and make permanent several programs, with one proposed reduction.

- **Updating General Plan Guidelines:** The Housing section of the Budget, states that resources (unknown amount) will be provided to OPR to update local government’s General Plan guidelines, to assist with meeting shared housing, transportation, infrastructure, and climate goals. While these guidelines have been historically considered “advisory,” this process bears watching, since recent guidelines related to using vehicle miles traveled instead of a level of service analysis for transportation impacts of proposed development projects has become mandatory.
- **Funding Two New Commissions:** \$3.8 million is allocated in FY 2023-24 and \$3.1 million ongoing through FY 2028-29, to support the:
 - **Racial Equity Commission,** an 11-member body appointed by the Governor and Legislature tasked with delivering a detailed Racial Equity Framework to the Legislature no later than April 1, 2025. This Commission was established pursuant to item #8 in Governor’s Executive Order N-16-22, issued on September 13, 2022. The Budget states that related statutory changes will also be proposed. Please see attached link to the Executive Order. <https://www.gov.ca.gov/wp-content/uploads/2022/09/9.13.22-EO-N-16-22-Equity.pdf?emrc=c11513>
 - **Youth Empowerment Commission,** a 13-member advisory body appointed by the Governor and Legislature, established by AB 46 (L.Rivas), Ch 660 of 2021, to provide meaningful opportunities for civic engagement to improve the quality of life for California’s disconnected and disadvantaged youth.
- **Increased Funding for California Climate Action Corps:** Proposes \$4.7 million in 2023-24 through 2025-26, and \$9.4 million ongoing to make the California Climate Action Corps permanent and double the number of members from 115 to 230. This program focuses on empowering Californians to take meaningful actions to protect their communities against the impacts of climate change.
- **Increased Funding for Youth Jobs Corps Program:** Proposes \$78.1 million ongoing to make the Youth Jobs Corps program permanent while providing pathways for undocumented Californians with work authorization. As part of this proposal, \$25 million that was appropriated in FY 2022-23 for the Summer Youth Jobs Corps Program would be eliminated.
- **Reduced COVID-19 Outreach Funding:** Reduces \$80 million, out of a total of \$230 million approved in the 2022-23 Budget, for the Office of Community Partnerships and Strategic Communication to conduct a COVID-19 Outreach Campaign.

Next Steps

The Legislature will begin to review the Governor's proposals in budget subcommittees, which will include input from the Office of Legislative Analyst. In early May, the Administration will produce a revised budget proposal with updated revenue projection and proposed changes. The Legislature is required to send the Governor an adopted budget by the Constitutional deadline of June 15, to be signed by the Governor by July 1. The passage of various budget trailer bills can occur both in conjunction with the adoption of the budget, and before and after the Legislature's summer recess. CALED will continue to track the development of the budget and update its members as necessary.

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