



Economic Development Analysis Governor's Proposed 2024-2025 State Budget

The California Association for Local Economic Development (CALED) is the voice of economic development practitioners and stakeholders. With over 850 members, CALED is one of the largest economic development associations in the country. We are pleased to share this summary of economic development allocations in the Governor's proposed FY 2024-2025 budget.

"Nothing to see here; we've got this handled," is basically the message delivered by Governor Gavin Newsom when unveiling his proposed 2024-25 State Budget Plan. The first paragraph of his budget summary states: *"This balanced budget will allow California to continue to drive important public policy, protect the services Californians depend on most, and support a private sector whose innovation is unmatched anywhere in the world."*

The Governor stated that reports of a \$68 billion deficit were in error, with the real number of \$37.9 billion, and the state was simply experiencing "normalization" of state revenues following the massive surpluses in 2021 and 2022. Contributing factors to the state's budget challenges – beyond the state's overreliance on the top one percent of taxpayers to supply half of all income tax revenue – were stock market declines in 2022 and income tax collection delays in 2023. The Governor proposes to close the gap with \$18.8 billion in borrowing and state reserves, \$11.9 billion in reductions and fund shifts, and \$7.2 billion in delays and deferrals, all while "keeping promises" to important state policy priorities. Based on this proposal, preserving some economic development programs appears to remain an Administration's priority. A copy of the Governor's budget proposal can be found here:

<https://ebudget.ca.gov/budget/2024-25/#/BudgetSummary>

Economic Development: For major economic development programs tracked by local agencies, the Governor's budget proposal is a "glass half-full." Compared to cuts made in housing and other policy areas, these programs were relatively spared, and some even augmented. California Jobs First (formerly Community Economic Resilience Fund (CERF)) is funded at \$100 million annually over three years, and while \$300 million is proposed to be "delayed" for that program, that is better than having it permanently "reduced or reverted." Augmentations are proposed for both California Competes grants and the IBank's Infrastructure State Revolving Fund. In brief, the budget:

- Delays \$300 million (out of the original \$600 million appropriated) in California Jobs First while including \$100 million General Fund annually in 2024-25 through 2026-27.
- Allocates \$60 million to extend the California Competes grant program for one additional year.
- Allocates \$50 million to recapitalize the IBank's Infrastructure State Revolving Fund.
- Delays \$100 million (out of \$250 million allocated in the 2023-24 budget) for the City of Fresno's Public Infrastructure Plan. Funds are proposed to be dispersed over a three-year period.

Legislative Negotiations Ahead: The Governor's proposal is simply an opening move. Major questions remain over the actual size of the deficit, because it was the Legislative Analyst's Office that projected a \$68 billion deficit prior to the Governor sharing his proposed budget.¹ The Governor also acknowledged that the new legislative leadership, with Assembly Speaker Robert Rivas and incoming Senate President pro tempore Mike McGuire, may have other priorities and solutions and he looks forward to working with them. The Governor said he will delay formal declaration of a state fiscal emergency (a requirement to access state reserves) until later in the budget process. The improved stock market, inflation declines,

¹ LAO's Fiscal Outlook: <https://lao.ca.gov/Publications/Report/4819>

growing California economy, and expected cuts to interest rates may have positive effects on state revenues. The Legislative Analyst's Office initial commentary on the Governor's budget can be found here: <https://lao.ca.gov/Publications?productid=2>

At the press conference, several sensitive issues were probed repeatedly by the press. On the Governor's proposal to delay \$4 billion in budget impacts due to his signing of SB 525 (Durazo) in 2023, which established a \$25 minimum wage for health care workers, the Governor stated he only signed the bill based on "commitments" to address this issue. He restated his opposition when asked about a proposed wealth tax. On the topic of reparations, the Governor said he was continuing to work on the issue with the Legislature's Black Caucus. On homelessness, before advancing more funds, he wanted more accountability from local governments and to see the encampments cleaned up.

State Reserves Also Benefit Local Governments: When reviewing this proposed budget, some historical perspective is warranted for local governments. While delays, deferrals or cuts to state programs are never pleasant, the presence of \$38 billion in reserves and other cash available for internal state borrowing benefits local governments. Not long ago, state budget deficits meant dangerous times for locals. Prior to the constitutional establishment of a required state reserve fund – based on efforts by former governors Arnold Schwarzenegger² and Jerry Brown³ – the state typically faced deficits with no reserves. Reluctant to cut programs or raise revenue, legislators often turned to local government to try to balance their budgets. The state archives are littered with past actions harmful to locals and their budgets: shifting and borrowing local property taxes, eliminating vehicle license fees, attempting to take local sales taxes and transportation revenues, cost shifts under various realignment schemes, enacting unpaid mandates, and eliminating redevelopment and enterprise zones. Now, local governments at least are in a better position, with constitutional protection for their revenues, thanks to voter approval of Prop. 1A of 2004, Prop. 22 of 2010, and the state's required reserve fund to help balance budget deficits.⁴

General Obligation Bonds: During his budget presentation, the Governor alluded to his support for Proposition 1 on the March ballot, the Behavioral Health Infrastructure Act of 2024. This measure proposes \$6.38 billion in bond funding to develop new treatment beds for those suffering from homelessness, mental health and substance use issues, and also includes reforms to the Mental Health Services Act. Securing of this measure will be the Governor's top priority this Spring. The Legislative Analyst's Analysis of Prop 1 is available here: <https://lao.ca.gov/BallotAnalysis/Proposition?number=1&year=2024>

There are several other possible bond proposals being considered in the Legislature for the November ballot, some mentioned by the Governor, and others not:

- **School Bond:** The Governor stated his support for a school bond for the November ballot, with the details and size of the bond still being discussed with the legislators and stakeholders. In a related move, the Governor's budget document proposed a half-billion proposed cut in General Fund dollars previously allocated for school construction, reducing the budget allocation for FY 2024-25 from \$875 to \$375 million.
- **Climate Bond:** During his presentation, the Governor made no mention of a climate bond, nor did his budget document. This stood in contrast, however, with his 2023 budget presentation where he expressed his support for a climate bond, one which would include several allocations to offset several budgetary reductions to climate programs. Administration officials, however, later clarified

² Prop. 58 of 2004.

³ Prop. 2 of 2014.

⁴ At his press conference and in his budget document the Governor Newsom also expressed his support for changes to Prop. 2, that would increase the existing 10 percent cap and allow the state to put even more funds into reserve during better budget times.

that they were tracking several legislative climate bond proposals and remain “open” to discussion with the Legislature.

- **Housing Bond:** Despite the budget cutting or deferring over \$1.2 billion in housing funding and housing and homelessness being priorities, the Governor did not mention housing bond proposals.

Broadband: Over recent years, the state has allocated over \$6 billion to expand broadband in the state. Reflecting that, despite the deficit, this continues to be a major policy priority area for the Administration. The budget proposes an additional \$1.5 billion to complete middle-mile projects, while delaying \$100 million in infrastructure grants and reverting \$250 million previously allocated to broadband loan loss reserves. In brief, the budget:

- Allocates an additional \$1.5 billion General Fund over two years (\$250 million in 2024-25 and \$1.25 billion in 2025-26) for the California Department of Technology (CDT) to complete the development of the statewide middle-mile network. These additional funds are deemed necessary due to inflation and changes in scope to complete the project to serve unconnected and under-connected communities by December 31, 2026.
- Delays \$100 million General Fund from 2024-25 to 2026-27 for last-mile infrastructure grants at the California Public Utilities Commission (CPUC). This maintains the previously appropriated \$1.45 billion and reflects future investments of \$550 million General Fund over three years (\$100 million in 2024-25, \$200 million in 2025-26, and \$250 million in 2026-27), for a program total of \$2 billion.
- Reduces by \$250 million to the Broadband Loan Loss Reserve (BLLR) Fund (\$150 million in 2024-25 and \$100 million in 2025-26). The Budget maintains \$500 million for the program, with \$175 million General Fund in 2023-24, \$150 million in 2024-25, and \$175 million in 2025-26.
- Allocates \$5 million for Broadband Infrastructure Grants to extend the program through 2029. The initial funding for this program was one-time through June 30, 2024. In addition to providing fiber broadband connectivity to the most poorly connected school sites, this funding is available for joint projects connecting schools, local libraries, and telehealth providers.
- Reverts \$34 million of the \$35 million provided to the California State Library to expand broadband access to isolated and under-served communities through a collaborative partnership of local education agencies, and regional libraries due to low participation in the program.

Workforce: After proposing over \$2 billion in various workforce investment and training programs in 2022, nearly \$1 billion of these previous allocations are being proposed to be either delayed or reduced. Still, some expenses must be paid, including servicing the state’s outstanding loan balance for unemployment insurance and continuing reform efforts at the Employment Development Department.

Aside from the proposed delays and cuts, the Administration highlighted its work launched by the Governor’s Executive order N-11-23 to engage in a comprehensive planning and stakeholder process to better coordinate and align state educational and workforce training efforts to create a master plan for career education by winter 2024. <https://www.gov.ca.gov/wp-content/uploads/2023/08/8.31.23-Career-Education-Executive-Order.pdf>

The budget proposes the following delays and reductions to workforce programs:

- Delaying \$140.1 million General Fund for the Nursing and Social Work Initiatives to 2025-26. Additionally, given lower-than-anticipated Mental Health Services Act revenue, the Budget also delays \$189.4 million Mental Health Services Fund to 2025-26 for various Department of Health Care Access and Information workforce investments. The Budget maintains \$974.4 million (General Fund and Mental Health Services Fund) through 2025-26 for various workforce investments in the Department of Health Care Access and Information.

- Reducing \$45 million in 2023-24 for the High Road Training Partnerships program at the California Workforce Development Board, while maintaining \$90 million over two years for this program.
- Delaying \$40 million to 2025-26 and 2026-27 (\$20 million each year) for the Apprenticeship Innovation Fund at the Department of Industrial Relations.
- Delaying \$25 million to 2025-26 for the California Youth Apprenticeship Program at the Department of Industrial Relations.
- Reducing \$15 million for the Low Carbon Economy Grant Program over two years.
- Delaying \$40 million for a Goods Movement Workforce Training Facility in Southern California. The Budget includes \$20 million General Fund for this purpose in both 2025-26 and 2026-27.
- Reducing \$10 million for the Displaced Oil and Gas Worker Pilot Fund at EDD. The Budget maintains \$30 million for this program.
- Reducing \$10 million for the Emergency Medical Technician training program at EDD. The Budget maintains \$30 million for this program over two years.
- Reducing \$5 million ongoing for the Women in Construction Unit at the Department of Industrial Relations. The Budget maintains \$10 million ongoing for this program.
- Borrowing \$125 million from the Labor and Workforce Development Fund from resources not currently projected to be used for operational or programmatic purposes.

Proposed expenditures include:

- Allocating \$331 million one-time funding (\$231 million General Fund) to pay the annual interest payment on the state's Unemployment Insurance loan balance. Of this amount, \$100 million will be funded by the Employment Training Fund, consistent with existing statutory authority that allows the use of these funds for this purpose.
- Allocating \$326.8 million one-time in 2024-25 (\$163.4 million General Fund) to continue the planning and development of the third year of a five-year plan to modernize the Employment Development Department (EDD). The effort includes enhancements to EDD's benefits system—improving call centers, simplifying forms and notices, including user testing and engagement, developing data analysis tools to continue curbing fraudulent benefit claims, and training.
- Allocating approximately \$8.3 million Labor and Workforce Development Fund annually for three years for the Department of Industrial Relations and the Agricultural Labor Relations Board to educate rural workers on workplace rights under the direction of, and in coordination with, the Labor and Workforce Development Agency.
- Allocating \$60 million to community colleges to expand nursing programs and Bachelor of Science in Nursing partnerships to develop, educate, and maintain the next generation of registered nurses through the community college system.

Cannabis: The budget estimates a Cannabis Tax Fund allocation of \$568.9 million in 2024-25, while also proposing a \$100 million loan to the General Fund from the Cannabis Tax Fund subaccount from currently unobligated resources. The \$568.6 million is proposed to be allocated as follows:

- \$341.3 million for education, prevention, and treatment of youth substance use disorders and school retention.
- \$113.8 million for clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation.
- \$113.8 million for public safety-related activities.

It is unclear how this proposal comports with a \$670 million baseline in funding required by AB 195 (Budget) of 2022. AB 195 eliminated the cultivation tax, but then required the lost funding to be offset by the General Fund through FY 2024-25. This issue was mentioned in the Governor's FY 2023-24 proposed budget, but not in this year's proposal. Details of the proposed budgetary loan are also missing, including whether it may impair existing programs and when it will be repaid.

Transportation: While the budget seeks to retain the majority of \$13.8 billion in previously allocated transportation funds, it includes \$200 million in reductions, \$791 million in shifts, and \$3.1 billion in delays across various programs. Adjustments include:

- Reducing \$200 million to the Active Transportation Program (ATP). This will leave the Active Transportation Program with \$850 million in one-time funding. To ensure no impact to previously-awarded projects, the \$200 million reduction will be backfilled from ATP funding that was anticipated to be available for allocation in future cycles.
- Shifting \$529.7 million of General Fund expenditures for statewide, regional, and local transit and rail projects competitive grants to the Greenhouse Gas Reduction Fund (GGRF).
- Delaying \$1 billion of formula Transit and Intercity Rail Capital Program funds from 2024-25 to 2025-26, leaving \$1 billion for this program in 2024-25. Additionally, the Budget proposes to shift \$261.4 million of the remaining \$1 billion in 2024-25 from General Fund to the GGRF.
- Aligning funding from several programs across multiple years to reflect expenditure schedules.

Housing: For local agencies looking for affordable housing resources, this budget is a major disappointment. Unlike other areas of the budget where funding is proposed to be delayed or deferred, the budget proposes \$1.2 billion in cuts to popular housing development and planning programs:

- \$200 million from the Infill Infrastructure Grant Program, leaving \$25 million.
- \$250 million from the Multifamily Housing Program, leaving \$75 million.
- \$152.5 million from the CalHome Program. *This reduction builds upon a prior \$50 million reduction approved as part of the 2023-24 budget, meaning a total of \$202.5 million will be removed from this program from the original \$350 million.*
- \$300 million from the Regional Early Action Planning Grants 2.0 (REAP 2.0).
- \$247.5 million from the Foreclosure Intervention Housing Preservation Program over the next three years (\$85 million in 2024-25, \$100 million in 2025-26 and \$62.5 million in 2026-27). *These same amounts were included as “deferrals” in the final FY 2023-24 Budget.*
- \$300 million from the California Student Housing Revolving Loan Fund Program previously intended to be appropriated for the program for each year and \$194 million that was appropriated in 2023–24.
- \$50 million, out of \$125 million allocated, from the Veteran Housing and Homelessness Prevention Program.
- \$15 million from the Seismic Retrofitting Program for Soft Story Multifamily Housing authorized in Chapter 48, Statutes of 2022 (SB 189).
- \$13.7 million ongoing from foster youth housing navigators, thus eliminating all funding.

Not much can be discerned in the language accompanying these cuts. There is no reference to a potential housing bond, and it just briefly mentions several items the Administration may be working on:

- identifying opportunities to pursue additional federal funding that supports housing development.
- identifying opportunities to streamline and rationalize the process by which the state and local governments plan for housing.
- advancing and developing strategies to facilitate housing construction and adaptive reuse in infill areas, as well as strategies to reduce the cost of housing construction overall.
- continuing to engage with tribal partners and the Legislature to help address tribal housing needs.

Homeless: Despite several proposed delays and shifts, the Governor’s budget at least maintains previous allocations for Homeless Housing, Assistance and Prevention Program (HHAP) and other important homeless assistance programs. All discussions of potential additional discretionary spending in the FY

2024-25 budget have been deferred to discussions with the Legislature and the May Revise, based on actual revenues.

Language in the budget document states that “addressing the homelessness crisis remains a top priority of the Administration,” and that it “will commit to working closely with the Legislature on additional funding to support local governments’ response to the homeless crisis—assuming local governments deliver on the performance commitments made under HHAP 3 and HHAP 4, and on the regional planning and coordination requirements of HHAP 5.”

When questioned by the press, the Governor maintained that he continued to want to see more “accountability, focus, and a collaborative spirit” from local agencies. “It’s still the same issues,” he said. “I want to see these encampments cleaned up.” While reluctant to offer additional detail, he mentioned desiring to see “one simple plan” like those required in Proposition 1 the Behavioral Health Infrastructure Act of 2024, on the March ballot. He also touted the enforcement successes of the “Housing Accountability Unit.” From this discussion, should Prop. 1 be approved by voters in March, it will obviously influence discussions of homeless funding in May.

For homeless programs, the budget:

- Maintains \$1.1 billion in Homeless Housing, Assistance and Prevention Program (HHAP) 5 across 2023-24 and 2024-25, however, \$260 million will be delayed until 2025-26 to align with when those funds will be available to eligible applicants. An additional \$100.6 million in HHAP administrative set asides will be reverted as General Fund savings, leaving \$51.1 million for program administration. The Administration’s final FY-2023-24 budget document states that the first half of these funds will be released in mid-2024, after regional plans have been submitted and approved, and second half released in early 2026, after the regions report on their progress in carrying out the respective actions outlined in their regional plans.
- Shifts \$265 million from the Mental Health Services Fund to the General Fund for Behavioral Health Bridge Housing and delays \$235 million General Fund originally planned for 2024-25 to 2025-26.
- Delays \$140.4 million for the Behavioral Health Continuum Infrastructure Program from 2024-25 to 2025-26, for a total of \$380.7 million for the final round of grants in 2025-26.
- Delays \$80 million for the Bringing Families Home Program to 2025-26.
- Delays \$65 million for the Home Safe Program to 2025-26.
- Delays \$50 million for the Housing and Disability Advocacy Program to 2025-26.
- Increases by \$1.5 million support for Homeless Education Technical Assistance Centers established through the American Rescue Plan Act’s, Homeless Children and Youth Program.
- Continues the transition of specified homelessness grant programs from the California Interagency Council on Homelessness to the Department of Housing and Community Development (AB 129 of 2023).

Office of Planning and Research: The Governor proposes a reorganization of OPR, which expanded its scope of operations over the last eight years. OPR’s budget has increased by twenty-fold, from \$54 million in 2016-17 to \$1.1 billion in 2024-25. The reorganization will include establishing California Volunteers as a separate entity, and evaluating whether some programs and initiatives should be administered in other departments. Specific budget adjustments:

- Revert \$13 million over three fiscal years from the Office of Community Partnerships and Strategic Communications.
- Revert \$8.8 million from the California Experience Corps program.
- Reduce \$75 million for the Regional Climate Resilience Program, while maintaining \$25 million previously allocated to this program.

- Revert \$9.8 million for Regional Climate Collaboratives Program at the Strategic Growth Council, while retaining \$10 million previously allocated to this program.
- Reverts \$5 million for the Climate Adaptation and Resilience Planning Grants, while maintaining \$20 million previously allocated to this program.

Climate Investments: The proposed budget will have major impacts on the state’s climate programs, with \$6.7 billion in solutions, including \$2.9 billion in reductions; \$1.9 billion in delays, and \$1.8 billion in shifts to other funds, primarily the Greenhouse Gas Reduction Fund (GGRF). Investments in Zero Emission Vehicles will be maintained at \$10 billion, but extended over seven years. For additional information, see the Climate Section of the Governor’s budget for additional details:

<https://ebudget.ca.gov/2024-25/pdf/BudgetSummary/ClimateChange.pdf>

Water Infrastructure: The Budget maintains \$7.3 billion water-related investments over multiple years in programs and projects to bolster the capacity of communities and ecosystems to endure droughts and floods, but includes \$796.8 million in reductions and \$100 million in delays across various programs. The Budget also includes \$159.1 million in new investments to support flood protection, levee repair, and restoration of the Salton Sea. In brief, the Budget:

- Reduces \$350 million for various watershed climate resilience programs within the Department of Water Resources and the Wildlife Conservation Board, but maintains \$56 million previously allocated to these programs.
- Reverts \$174.4 million, and delays \$100 million, until 2025-26 for water recycling and groundwater cleanup, while retaining \$348 million previously allocated to this program.
- Reverts \$71.6 million in FY 2023-24, and reduces \$30 million in 2024-25, for Per-and Polyfluoroalkyl support, while retaining \$53 million previously allocated to this program.
- Reverts \$50 million for dam safety investments, while maintaining \$50 million previously allocated to this program.
- Shifts \$20.6 million General Fund to the Greenhouse Gas Reduction Fund for the State Water Efficiency and Enhancement Program in 2024-25.
- Reverts \$12.9 million California Emergency Relief Fund for drought relief to small farms, while maintaining \$17 million previously allocated to this program.
- Reduces \$6.75 million for Forecast Informed Reservoir Operations for runoff forecasting, while maintaining \$10 million ongoing in baseline support for the program.
- Reverts \$6 million California Emergency Relief for on-farm water use and agriculture technical assistance, while maintaining \$9 million previously allocated to this program.

Community Resilience Programs: Over recent years the state has approved programs to address extreme heat, urban greening, protection of vulnerable populations, and library infrastructure. All of these programs face proposed budget adjustments, including:

- Reducing \$40.1 million for the Extreme Heat and Community Resilience Program, and shifting \$70 million to the Greenhouse Gas Reduction Fund, while maintaining \$95 million previously allocated to this program.
- Delaying \$175 million for the Department of Toxic Substances Control’s Cleanup in Vulnerable Communities Initiative Program. The Budget includes \$85 million for the program in 2025-26 and \$90 million in 2026-27.
- Shifting \$23.8 million General Fund to the Greenhouse Gas Reduction Fund for 2024-25, while maintaining \$75 million over four years for the Urban Greening Program.
- Shifting \$15.6 million General Fund for Enhanced Protections for Vulnerable Populations to the Labor and Workforce Development Fund, while maintaining \$16 million over three years for this program.

- Withdrawing \$131.3 million one-time General Fund California State Library of the \$439 million in one-time General Fund support provided for the Local Library Infrastructure Grant Program in the 2021 Budget Act, and proposes to forgo planned one-time General Fund investments of \$33 million in 2024-25, \$33 million in 2025-26, and \$34 million in 2026-27.
- Reverting \$12.3 million for various projects in urban areas adjacent to rivers and waterways throughout the state, while maintaining \$142 million General Fund previously allocated for this program.

Coastal Programs: To address the projected budget shortfall, the Budget proposes various adjustments to coastal programs, including:

- Reverting \$220.9 million for Sea Level Rise activities, while maintaining \$333.6 million previously allocated for this program.
- Reverting \$171.1 million for Coastal Protection and Adaptation activities, while maintaining \$154.9 million previously allocated for this program.
- Reverting \$25 million, and shifting \$36.8 million to the Greenhouse Gas Reduction Fund in 2024-25, to implement coastal zone seal level rise activities associated with SB 1 (Atkins), while maintaining \$77 million previously allocated for this program.
- Reverting \$35 million for Ocean Protection at the Ocean Protection Council, while maintaining \$65 million previously allocated for this program.

Next Steps: Now that the Governor has unveiled his budget, legislative budget subcommittees will begin to review his proposals and engage. Debates are expected over the size of the deficit and new or altered solutions will likely emerge in the May Revise. The legislature will also be evaluating nine “early action” budget items proposed by the Governor, including the proposed state exemption from effects of the \$25 minimum wage for health care workers. The Constitution requires the Legislature to send the Governor a final budget by June 15, which he must sign by July 1. It has also become commonplace for the Legislature to continue to pass budget trailer bills until the end of Session. CALED will continue to monitor the budget and keep its members updated on developments.

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