

**Economic Development Analysis
Governor's Proposed May Revise for the 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 May Revise to the proposed FY 2024-2025 budget.

The lack of accompanying data was quickly apparent when the Governor outlined his May Revise proposals on Friday, May 10. The 44-page document which became available at the end of the Governor's remarks was light on detail, with specific proposals condensed to only seven pages. This meager outlay contrasted sharply with the quantity of information shared in past years, averaging 150 pages, and caused Capitol observers to rewatch the Governor's presentation and responses to press questions to attempt to fill in the blanks.

CALED prepared to publish a summary of the May Revise proposals based on information available at the Governor's presentation when we became aware of a separate PDF document circulating from the Department of Finance (DOF) containing more detail on the Governor's proposals. CALED then delayed publication to incorporate the information in the DOF document in order to update this summary.

While tracking the details has become more confusing, the obvious cannot be hidden. The state remains mired in a severe multi-year deficit created – not by an economic recession – but by excess overspending of recent surpluses. The Governor maintains the budget problem for FY 24-25 is now \$27.6 billion, with another \$28 billion deficit to follow in FY 25-26. These estimates, however, may be questioned by the Legislative Analyst's Office, which projected higher deficits in January.

The Governor is proposing a two-year approach to budget solutions. Under his proposal, approximately half of the deficit would be addressed with cuts, with the remainder through reserves, delays, fund shifts, borrowing, and new efficiencies. Policy areas he continues to protect include education funding, most climate expenditures, and expanded health coverage.

On touchy subjects, the Governor stated that he is not interested in tax increases, and insisted that the dispute over the impact of recent wage increase for healthcare workers on the state will be resolved before the budget is signed. He stated his office was in discussions with legislative leadership over whether one or more proposed bonds (climate, school, and housing) will be put before voters, and confirmed his concern with the potential retroactive effects of the proposed Taxpayer Protection and Government Accountability Act, which is pending a ruling by the California Supreme Court on whether it constitutes a “constitutional revision” which would disqualify it from the November ballot.

Of interest to local agencies, numerous economic development programs are proposed to be trimmed, including planned cuts for broadband infrastructure, workforce training, and homeless and housing programs. One significant concern is a proposal to cut allocations to the Small Business Technical Assistance Program from \$26 to \$13 million for FY 2024-25 and FY 2025-26.

Resources:

- The Governor's May Revision of the FY 24-25 Budget proposal can be found at <https://ebudget.ca.gov/>
- The PDF from the Department of Finance (DOF PDF) contains a listing of proposed cuts, delays and fund shifts that is much more detailed than the Governor's initial document. DOF PDF can be

found at <https://dof.ca.gov/wp-content/uploads/sites/352/2024/05/2024-25-May-Revision-General-Fund-Solutions.pdf>.

- A link to the Governor's budget presentation can be found here: <https://www.youtube.com/watch?v=V1IHB4c6Bgo>
- Legislative Analyst Office commentary on the Governor's May Revise should be available here when it is published: www.lao.ca.gov

Economic Development

While major economic development programs tracked by local agencies were relatively spared from cuts in January, the May Revise now aggressively cuts funding for multiple programs:

- Reduces to \$50 million (from \$100 million proposed in January) the annual allocation in 2024-25 through 2026-27 of California Jobs First funds [previously called the Community Economic Resilience Fund (CERF)]. In addition, when reviewing the May 15, 2024 Agenda for Senate Budget Subcommittee No. 5, it states that an additional \$25 million appropriated in the 2021 Budget Act for this program reverts back to the general fund. While nothing in the Governor's May Revise or DOF PDF refers to this, it raises a question about what other proposals may affect this program and others.
- Rescinds \$60 million (-\$10 million in FY 2023-24, and -\$50 million from FY 2024-25) which was proposed in the January Budget to extend the California Competes grant program for one year.
- Reduces from \$26 to \$13 million for FY 2024-25 and FY 2025-26, the General Fund allocation to the Small Business Technical Assistance Program. This proposal unwinds a provision of the FY 2023-24 budget which augmented spending for this program from \$19 to \$26 million, and proposed to make the \$26 million annual appropriation permanent. In a related policy area, GO-Biz recently issued a press release announcing a new Technical Assistance for Capital Readiness Program, funded by a \$25.3 million allocation of federal State Small Business Credit Initiative (SSBCI). <https://calosba.ca.gov/calosba-launches-new-25-million-program-to-increase-capital-access-for-californias-underinvested-small-businesses/>
- Delays \$100 million in FY 2025-26, in addition to the \$100 million proposed to be delayed in FY 2024-25 in the January budget, (out of \$250 million allocated in the 2023-24 budget) for the City of Fresno's Public Infrastructure Plan.
- Rescinds \$50 million from FY 2023-24 which was allocated to the Local Budget Sustainability Fund – A fund to support specific, underserved rural counties. In 2023, the Governor's budget originally proposed \$300 million for this program, but then the May Revise allocated \$250 million of it to the City of Fresno. This proposal sweeps the remaining \$50 million into the General Fund, thus eliminating this program.
- Reduces by \$25 million a proposal from the January budget to allocate \$50 million to recapitalize the IBank's Infrastructure State Revolving Fund.
- Rescinds \$42.5 million in funding from FY 2023-24 for the following three programs: \$12.5 million from the Performing Arts Equitable Pay Fund, \$5 million from the Small Business Agricultural Drought Relief Grant Program, and \$25 million from the IBank Clean Energy Transmission Fund
- Revises a proposal to cap at \$5 million the net operating loss tax deductions for businesses with incomes of more than \$1 million for the 2025-2027 tax years, with a trigger to possibly restore it if sufficient revenues are available in the 2025-26 May Revision. Extends the carryover period for these tax deductions for three years. This proposal does not apply to Low Income Housing Tax Credits or Pass Through Entity Elective Tax Credits. Delaying full recapture of business tax losses is a form of borrowing that has been used by the state before during budget deficits. The benefit to the budget solution is enormous (\$900 million in 2024-25 and \$5.5 billion in FY 25-26).

Broadband: Over recent years, the state has allocated over \$6 billion to expand broadband in the state. The May Revise, however, alters several proposals from January with a total of \$2 billion in reductions and delays. At his press conference the Governor alluded to a plan “to achieve similar goals and reduced cost.” The reductions and other adjustments are as follows:

- Modify the Middle Mile Broadband Initiative (MMBI) from the January Budget to allocate \$1.5 billion to the California Department of Technology (CDT), \$250 million in 2024-25 and \$1.25 billion in 2025-26. The revised proposal instead would allow the Director of Finance to augment MMBI’s budget by up to \$1.5 billion upon notification to the Joint Legislative Budget Committee. This is in addition to the \$3.9 billion in funding already budgeted for the project.
- Delay \$200 million in Broadband Last Mile funding for last-mile infrastructure grants at the California Public Utilities Commission (CPUC) from 2025-26 to 2027-28. This delay builds upon the proposal from the Governor’s January budget to delay \$100 million General Fund from 2024-25 to 2026-27. In the January Budget, the Administration represented that a total of \$2 billion remained allocated for this program, but these delays create confusion over when funds will be available. The Administration should provide an updated allocation schedule.
- Reduce by \$500 million (\$250 million May Revise, plus \$250 million in January budget) the Broadband Loan Loss Reserve (BLLR) Fund (\$175 million in 2023-24, \$150 million in 2024-25, and \$175 million in 2025-26). It is unclear what is remaining for this program.
- Withdraw a \$5 million proposed allocation for Broadband Infrastructure Grants for K-12 schools, to provide fiber broadband connectivity to the most poorly connected school sites.

Workforce/Training/Education: After proposing over \$2 billion in new workforce investments and training programs in 2022, the January budget proposed to delay or cut nearly \$1 billion of these previous allocations. The May Revise continues to unwind these and other proposals by slashing over \$2 billion in various training and education programs, including:

- \$838.6 million over five fiscal years for various healthcare workforce initiatives including community health workers, nursing, social work, Song-Brown residencies, Health Professions Career Opportunity Program, and California Medicine Scholars Program.
- \$485 million one-time, to capture the balance of unspent one-time Learning-Aligned Employment Program resources.
- \$510 million ongoing from the Middle Class Scholarship program, leaving \$100 million ongoing support for this program.
- \$189.4 million from Mental Health Services Fund for programs proposed to be delayed to 2025-26 in the Governor’s Budget.
- \$60.2 million one-time from support for the Golden State Teacher Grant Program, leaving \$50 million for this program.
- \$20 million in 2025-26 for the Apprenticeship Innovation Fund at the Department of Industrial Relations.
- \$10 million in 2025-26 from the California Youth Apprenticeship Program at the Department of Industrial Relations.
- \$10 million by eliminating the Women in Construction Program at the Department of Industrial Relations.

Transportation, Infrastructure & Community Programs: The May Revise makes various cuts to programs of community interest:

- Reduces \$300 million in 2025-26 and \$99 million in 2026-27 for active transportation grants. *It is unclear how this proposal meshes with a proposal in the January budget to reduce funding for this program by \$200 million, then backfill it with other funds.*
- Reduces \$500 million one-time in 2025-26 to support water storage facilities. Proposition 1 of 2014 dedicated \$2.7 billion for investments in water storage projects, and significant funding is

still available for this purpose. *It is unclear which projects would be affected by this reduction, but the Governor said it would not be the Delta Conveyance project.*

- Reduces \$350 million in safety grade separations in FY 2025-26 at Dept. of Transportation.
- Borrows \$300 million from the State Air Resources Board's Air Pollution Control Fund.
- Reduces \$100 million over two years in Dept. of Transportation's Highways to Boulevards Program.
- Reduces \$50 million one-time in 2023-24 for outdoor environmental education and access programs administered through the Outdoor Equity Grants Program under Chapter 675, Statutes of 2019 (AB 209). Approximately \$40 million has already been committed for this purpose.
- Reduces \$136 million in 2023-24 (\$268.5 million over four years) for the Department of Toxic Substances Control's Cleanup in Vulnerable Communities Initiative Program. The May Revision maintains \$65 million (\$107.5 million over three years) for this program through a fund shift to the Greenhouse Gas Reduction Fund.
- Eliminates \$300 million in state and local public health funding as noted in the DOF PDF.

Cannabis: While the initial May Revise document contains no mention of the Cannabis Fund, the Governor mentioned at his press conference that some of the existing costs of childcare would be shifted to the Cannabis Fund and federal funds. The DOF PDF, however, contains the following detail:

- Loaning an additional \$75 million to the General Fund from the Cannabis Tax Fund. This appears to be in addition to the \$100 million loan proposed in the January budget.
- Shifting \$341.3 million in cannabis tax proceeds in FY 24-25 (and potentially additional amounts more from FY 2023-24) designated for education, prevention, and treatment of youth substance use disorders and school retention, to offset state General Fund childcare costs. The DOF PDF cites a total of \$972 million over two fiscal years of Cannabis Fund and federal funds, but does not indicate the amount of federal funds.

Borrowing and sweeping funds generated by cannabis taxes to offset General Fund expenses in other areas will invite policy debates over whether such actions conflict with Proposition 64 of 2016.

Housing and Homeless:

- **Housing:** Unlike other areas of the budget where funding is proposed to be delayed or deferred, the May Revise builds upon January's \$1.2 billion in cuts to popular housing development and planning programs, with an additional \$439 million in cuts. At his press conference, the Governor mentioned that his January budget included \$500 million for affordable housing tax credits, and that the state "means business" about the housing element with local agencies meeting their state mandated goals. Such massive cuts to state housing programs will likely increase legislative pressure to approve a bond proposal.
- **Homeless:** The May Revise proposes over \$1.3 billion in cuts to various homeless related programs. When questioned by the press on these cuts and other issues relating to addressing homeless, the Governor stated that the Administration planned a major roll out on Tuesday, May 14, of its proposals to implement Proposition 1, recently approved on the March ballot. He said they would announce in detail what they will be "daring" to do "very differently" related to mental health and homelessness, and that many of the cuts can be offset by Proposition 1 funds. A link to information on that announcement is here: <https://www.gov.ca.gov/2024/05/14/california-moves-faster-to-transform-mental-health-system-for-all-with-urgent-focus-on-most-seriously-ill-homeless/>

OPR Programs: The May Revise cuts funding to numerous programs at the Governor's Office of Planning and Research (OPR). The reductions include:

- \$11 million reduction over two years for the California Education Learning Lab.
- \$9.9 million reduction in FY 2024-25 in Golden State Award funds.
- \$20 million reduction over two fiscal years for the College Corps Program.

- \$20 million reduction over two fiscal years for the Youth Corps Program.
- \$15 million reduction over two fiscal years for the Neighbor to Neighbor Program.
- \$84 million over two fiscal years from the Office of Community Partnerships and Strategic Communications.
- \$18.8 million fund swap from General Fund to the Greenhouse Gas Reduction Fund for the Climate Action Corps.

Next Steps: With the release of the May Revise, the Legislature will have about one month to develop a budget to send the Governor by the constitutional deadline of June 15. The Governor is required to sign a budget by July 1. In recent years, the Legislature and Governor typically agree to a budget framework by those dates, and then continue to refine details in a series of budget trailer bills that pass throughout the summer. CALED will continue to monitor budget activity and update its members, as developments occur.