



California Association for Local Economic Development

Economic Development Analysis Governor's Proposed FY 25-26 Budget

The California Association for Local Economic Development (CALED) is the voice of economic development practitioners and stakeholders. With over 950 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 2025-2026 budget.

Some Economic Development Funding Despite Budget Challenges; Response to L.A. Firestorms and Anticipated Trump Policies Present New Wildcards

Political focus at the beginning of the state budget cycle has changed as fires raged across Los Angeles decimating more than 12,000 structures in the firestorm. Additionally, the Trump Administration's quick Executive Orders and other changes may impact Governor Newsom's January Budget proposal shared in early January. With this in mind, CALED is sharing our analysis of the budget as proposed knowing that significant changes may occur prior to the May revise.

On January 6, in a workshop at California State University (CSU), Stanislaus, the Governor gave a preview of his proposed FY 25-26 Budget, prior to heading to Kern County to deliver remarks on High Speed Rail. The full details of the Budget were presented later in the week by staff of the Department of Finance. In his remarks, the Governor touted a surge of \$16.5 billion in revenues, that would produce a budget balanced "within the margins." Much uncertainty, however, he cautioned remained over the potential actions of Congress and President Trump which could result in many changes in the May Revise. Those concerns were exemplified by the social media critiques by incoming President Trump while the fires raged.

Despite the recent revenue surge, however, the Budget continues to face major challenges. While professing the existence of a minor \$363 million "surplus," the Governor's proposal relies on a \$7.1 billion withdrawal from state reserves, with unresolved out-year deficits totaling \$15 billion annually.

However, for local economic developers, the initial news is fairly good. The Governor appears focused on economic development, including having spent part of the fall travelling to various inland counties to hold press events celebrating the completion of regional economic strategies developed under his Jobs First program. Aside from his plan to more than double the state's film tax credit, the Budget includes proposals for more California Competes grant funding and several workforce initiatives. More funding opportunities are also offered in the initial allocation of \$2.7 billion from the Climate Bond.

- A copy of the Governor's budget can be found here: <https://ebudget.ca.gov/budget/2025-26/#/BudgetSummary>
- The initial analysis by the Legislative Analyst's Office is here: <https://lao.ca.gov/reports/2025/4951/budget-overview-2025-011325.pdf>

Economic Development

Despite a tight budget, the Governor continues to prioritize new investments to bolster economic development and job creation. While delivering a carefully-crafted presentation, the Governor appeared primarily focused on responding to national critics. Firing off many examples and statistics, he declared the state was the economic "tentpole" of the nation, and also pointed to a resurgence in population

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growth, declining crime levels in Oakland and San Francisco, and a series of prior “unprecedented” investments in public safety, workforce programs, and education. Several slides also attempted to contrast President Trump’s proposed D.O.G.E. governmental efficiency proposal, with his own state efficiency efforts, including by holding local agencies accountable for progress on homelessness, housing, and behavioral health.

Proposed budget allocations related to economic development activities include:

- Film Production Tax Credit: Increase the state’s film tax credit from \$330 to \$750 million annually for the next five fiscal years.
- California Competes Grants: Allocate \$60 million to Go-Biz for California Competes Grants. These grants are used to assist companies in emerging industry sectors which cannot fully benefit from tax credits.
- National Semiconductor Technology Center: Allocate \$25 million to reimburse the construction costs of the National Semiconductor Technology Center in Sunnyvale, a research facility funded under the federal CHIPS (Creating Helpful Incentives to Produce Semiconductors) Act.
- Regional-Related Investments:
 - Allocate \$17 million (one-time) to the Regional Center for Social Enterprises Program (CaRISE), which provides financial and technical assistance to employment social enterprises to help build capacity to create and retain jobs in a community. This investment aims to connect employment social enterprises with 13 California Jobs First Regional Collaboratives, aligning their job creation and training programs with the industry sectors prioritized by each of the collaboratives.
 - Allocate \$4 million (one-time) to the Labor and Workforce Development Agency to evaluate how regional coordination models can be expanded to create sustainable forums where educators, workforce training providers, and employers can work to align programs with employer needs. Additionally, this work will be aligned with the State Economic Blueprint and 13 regional plans.
- Community Cleanup and Employment Pathways: Allocate \$25 million (one-time) to the Clean California Program, to provide matching grants to communities with a Clean California Community designation focused both on litter remediation and jobs creation.

At his press conference, the Governor addressed two other issues:

- Unemployment Insurance Debt: When reporters asked about addressing the significant deficit in the state unemployment insurance fund and the cost increases it was imposing on businesses, the Governor said he would be discussing the issue with Legislative leaders, but did not commit specifically to address it. The Budget document proposes a one-time \$634.3 million interest-only payment to the federal government.
- Workforce and Competitiveness: The Governor highlighted a number of ongoing efforts to increase workforce training funded by \$5.7 billion in prior investments, including to surpass a goal to create 500,000 new apprenticeships by 2029, and provide “Career Passports” where individuals, including former military, can receive college credit for work experience. He also mentioned several pilot projects to use artificial intelligence (AI) to improve government services, with the caveat that such projects would be done in partnership with labor.

Addressing Revenue Volatility and Appropriations Limit:

The Governor outlined a proposal he intends to work with legislators on to improve the state’s ability to address budgetary challenges from revenue volatility by allowing the state reserve to accumulate more



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revenue in surplus years. This change would require approving a Constitutional Amendment that would increase the maximum size of the state's Rainy Day Fund (Prop. 2 of 2014) from 10 to 20 percent of General Fund revenues, while ensuring that such contributions do not count as expenditures against the Gann Limit (Prop. 4 of 1979), which caps the annual growth of allowable state and local spending (adjusted for population and inflation) to FY 1978-79 levels. The Governor admitted, however, that it would be a "Herculean effort," and that "We need to create the right political conditions to advance it."

While the political challenges were left unstated, they likely referred to voter approval of a Constitutional Amendment. State expenditures have been bumping up against the Gann limit in recent years, and not counting contributions to state reserves as "an expense" would effectively increase the cap on allowable state spending for other priorities by that amount. Some local agencies have also run into challenges with the Constitution's appropriations limit as applied to growth of local revenues, but it is unclear if local impacts would also be addressed in this proposal. If approved by the Legislature, absent a special election, the proposal would not be placed before voters until November, 2026, at the end of the Governor's term.

Climate Bond:

The most significant new expenditures in the Budget are the proposed allocation of \$2.7 billion for a range of priorities and programs from Proposition 4, the \$10 billion Climate Bond approved in by voters in November. This bond contains significant priorities for disadvantaged communities. Extensive detail on proposed allocations can be found beginning on page 35 of the Governor's Budget document, and include:

- \$1.074B: Safe drinking water, drought, flood, and water resilience.
- \$325M: Wildfire and forest resilience.
- \$173M: Coastal resilience.
- \$286M: Biodiversity protection and nature-based climate solutions.
- \$275M: Clean air.
- \$286M: Park creation and outdoor access.
- \$102M: Extreme heat mitigation.
- \$134M: Climate-smart, sustainable, and resilient farms, ranches, and working lands programs.

Housing and Homeless

No new funding is proposed in the budget for either the construction of affordable housing or new rounds of homeless assistance funding. At his press conference, the Governor stated he was going to increase efforts to hold local agencies accountable for progress on homelessness, housing and behavioral health, including with the launch of new websites where specific data on city and county actions could be closely monitored and tracked. Another website (<https://build.ca.gov/>) has been established to track infrastructure investments. "The word of the year, for me," the Governor proclaimed, "is 'accountability.'"

Yet, in its "Economic Outlook" portion of the Budget document, the Administration reveals that larger economic and demographic forces – rather than local agencies – may be more responsible for trends in housing production. Despite the passage of many laws focused on local land use planning and processing, housing production has been mostly flat throughout the Governor's term, and even recently declined – due to elevated interest rates. Production now averages 102,000 units annually, and residential permitting is not projected to return to 2018 levels (125,000 per year) until 2028. Also, after many decades of growth, California's population growth is stalling due to demographic factors. With



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increasing numbers of seniors, declining birthrate and student populations, and domestic out-migration offset by some new foreign immigration, the state projects a minimal population increase of 1.6 million between 2020 and 2070.

The Budget sections on Housing and Homelessness contain numerous new accountability proposals.

Public Safety

Local economic developers are well aware of the many challenges local businesses have faced in recent years dealing with rampant theft and public lawlessness. During his Budget remarks, the Governor highlighted previous state investments in public safety, including efforts to combat organized retail theft, and a package of new laws taking effect. Later, however, when asked by a reporter about implementing the voter's will with Prop. 36, an initiative opposed by the Governor which increased penalties for various crimes which passed throughout the state with overwhelming majorities, the Governor said that the details would be in the Budget. The Budget document projects an increase of 1,606 incarcerated individuals due to Prop. 36. In response to press questions of whether the state had plans to reopen prisons, Director of Finance, Joe Stephenshaw, said that they were managing impacts *"within the current plan...but we will have to continue to monitor the exact impact, and if there are necessary adjustments needed then, of course."*

Cannabis Tax Fund

The Cannabis tax funds support public safety and address environmental and social impacts related to cannabis legalization. The total estimated allocation for FY 25-26 is \$468.2 million.

- 60% (\$281 million): Youth education, prevention, early intervention, and treatment programs to reduce substance use and improve school retention.
- 20% (\$93.6 million): Clean-up, remediation, and enforcement of environmental damage caused by illegal cannabis cultivation.
- 20% (\$93.6 million): Public safety-related activities.

Next Steps:

Responding to the devastation from the Los Angeles firestorm will have major implications of the final state Budget. The Governor has issued several executive orders, and proposed an initial allocation of \$2.5 billion in assistance in a legislative Special Session. The anticipated policies and executive orders of President Trump will, no doubt, raise other issues and questions. State revenue projections could decline if the stock market tumbles. All this points to a potentially volatile legislative session and significant changes in the May Revision. CALED will monitor activities and keep its members updated on developments.