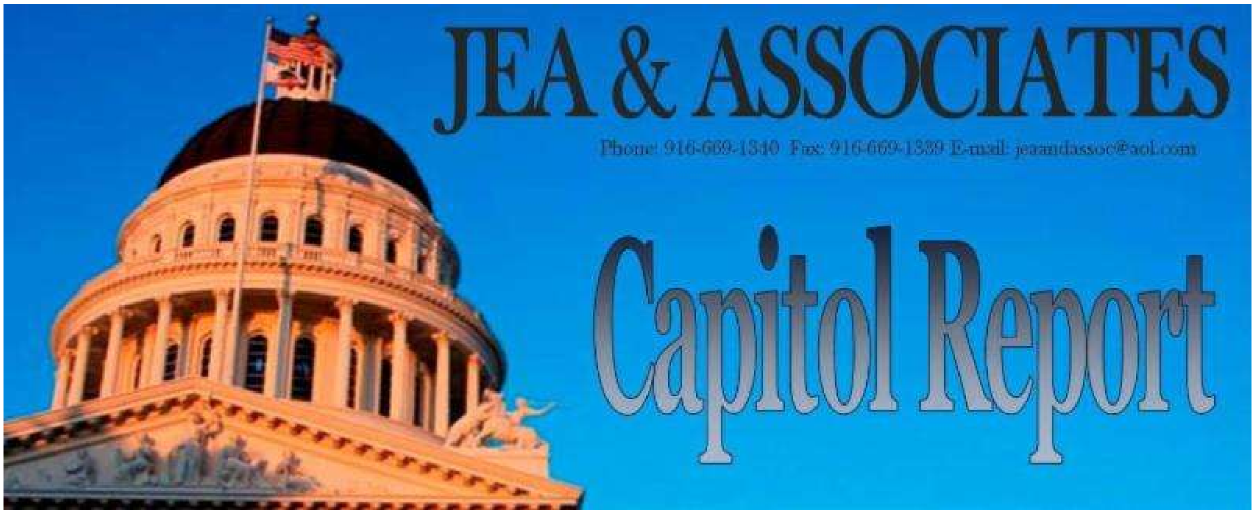

Governor's Proposed Budget – 2021-2022

The Governor presented various proposals unveiled today that cover both a revision of the existing budget the governor signed into law last summer and his $227.2-billion spending proposal for the fiscal year that begins on July 1. Lawmakers have a larger opportunity this year for a course correction at the midpoint of the current budget cycle, the result of several sectors of the California economy faring better than expected during the first nine months of the public health crisis.

When lawmakers adopted a tax revenue forecast last spring, the expectation was that an unprecedented number of Californians might lose their jobs, with many of them seeking help from the state's health and human services programs. Unemployment rose sharply through much of 2020, but millions of middle-class and high-wage workers were able to keep their jobs and work from home. Tax collections also rose after the robust stock market boosted capital gains earned by the state's wealthiest taxpayers.

Monthly tax collections through last summer and fall consistently beat expectations. In November, independent legislative analysts predicted last year's overly pessimistic budget projections could result in as much as $26 billion in unexpected cash for state programs. Newsom's budget largely agrees with the legislative forecast but assumes that some of the money will be used to fund social safety net programs and to replenish California's cash reserves.

The Broad Strokes

The State entered the Covid-19 recession on a strong fiscal foundation after years of building reserves, paying down debt, and a focus on maintaining structurally balanced budget over the long term. This enabled the state to protect programs during the recession while responding immediately to combat the pandemic.

The budget reflects $34 billion in budget resiliency, reserves and discretionary surplus that will progress for a broad-based and equitable recovery. Of that amount, the reserves include: $15.6 billion in the

Rainy Day Fund; $450 million in the Safety Net Reserves; $3 billion in the Public School System Stabilization Account; and an estimated $2.9 billion in the state's operating reserves.

Budget resiliency will be critical to protect programs in the future as expenditures are expected to grow faster than revenues with a structural deficit of $7.6 billion in 2022-23 and forecasted to grow to $11 billion in 2024-25.

Immediate Relief to Individuals and Small Businesses

In recognition of the disproportionate impact of COVID-19 on low-income individuals and small businesses, the budget proposed $3 billion of pandemic relief for immediate action in January. This package includes:

- $2.4 billion for the Golden State Stimulus – a $600 payment to low-income workers who were eligible to receive the Earned Income Tax Credit in 2019.
- An additional $575 million for grants to small businesses and small non-profit cultural institutions disproportionately impacted by the pandemic bringing total relief this year to small businesses over $1 billion.
- Immediate and targeted fee relief for impacted industries including restaurants and personal services.

Safe Reopening of Schools

The budget proposes immediate action in January to provide $2 billion for the safe reopening of schools beginning in February, for a priority in returning the youngest students and those with the greatest needs first, then returning other grade levels to in-person instruction through the Spring. These payments to school districts will be structured to extend only to those districts that are already open or make plans to return students to campus for safe in-person instruction.

Accelerating Economic Recovery and Job Creation

The budget includes the following to accelerate recovery and job creation:

- $777.5 million for a CA Job Initiative to provide incentives targets at investment and job creation;
- $353 million for workforce development;
- $1.5 billion for the infrastructure and incentive to implement the state's zero emission vehicle goals;
- $500 million for in-fill infrastructure to accelerate housing development;
- $385 million for targeted investment to build a more sustainable agricultural industry; and
- $300 million for deferred maintenance and greening of state infrastructure.

Fee Waivers for COVID-19 Impacted Businesses

The budget includes $70.6 million one-time GF to provide fee waives to individuals (including barbers, cosmetologists and manicurists) and smaller entities (restaurants and bars) heavily impacted by health and safety restrictions imposed in response to the pandemic. Licenses of the Board of Barbering and Cosmetology will receive relief from annual license renewals over the next two-year renewal period. Restaurants and bars will also be eligible for fee waivers in 2021.

Increased Investment in CA Businesses

The budget includes $250 million one-time GF to increase business investment in CA. This is part of a package of proposals on which the Administration requests the Legislature take early action in 2021. The funding will establish a grant component of CalCompetes with a more targeted focus. To be eligible for the grant, businesses will need to meet one or more of the following criteria: 1) Establish at least 500 new jobs; 2) Make a significant infrastructure investment; 3) Commit to a high-need, high-opportunity of the state; 4) Receive a designation from the Director of Go-BIZ that the application is a strategic priority of the state. Similar to the CalCompetes tax credit program, applicants will be brought to the CalCompetes Committee for approval.

- The budget an additional $100 million for the Main Street Small Business Tax Credit
- The budget includes one-time GF of $35 million to support micro-grants up to $10,000 to seed entrepreneurships and small business creation in underserved groups that are facing opportunity gaps
- The budget $50 million one-time GF to use across IBank program with a focus on programs that benefit underserved businesses in CA

Climate Innovation

CA Alternative Energy and Advanced Transportation Financing Authority Sales Tax Exclusion – The CAEATFA offers sales and use tax exclusions to in-state manufacturers that promote alternative energy and advance transportation. To encourage economic development along with the development of green technology, the budget proposes an additional one-time investment of $100 million in 2021-22 to this program.

Pandemic Response

- The budget includes $300 million for vaccine distribution including a public awareness campaign to increase vaccine adoption
- CA Disaster Assistance Act – The budget includes $256 million one-time GF to assist local governments in serving their communities during and in the wake of emergency events.

Immigration Services

The budget continues to include $75 million GF for ongoing immigration services.

- Rapid Response Program – The budget includes $5million for one-time GF for the Rapid Response Program to support entities that provide critical assistance/services to immigrants during emergent situations when federal funding is not available.

Housing and Homelessness

- The Administration is seeking an immediate extension of AB 3088 (Chiu – Eviction Moratorium till Jan. 31, 2021). This will allow the state to implement new federal resources to be allocated in an effective and equitable manner while allowing individuals and families to remain housed.
- In-Fill Infrastructure Grant Program – The budget includes $500 million GF for this program to accelerate economic recovery through the creation of jobs and long-term housing developments.

- Low-Income Housing Tax Credits – The budget proposes a third round of $500 million in low-income housing tax credits.
- Project Homekey – The budget includes $750 million one-time GF for HCD for local governments to purchase and rehabilitate housing including hotels, motels, vacant apartment buildings, etc.
- Behavioral Health Continuum Infrastructure – The budget includes $750 million one-time GF available over three years, for the Dept. of Health Care Services to provide competitive grants to counties for the acquisition and rehabilitation of real estate assets to expand the community continuum of behavioral health resources.

Natural Resources/Climate Change

- Restoration of Natural Areas and Ecosystems - $248.6 million
    - $125 million one-time GF of Prop. 68 for the Natural Resources Agency to support multi-benefit water quality, water supply, watershed protections and restoration projects.
    - $79.9 million one-time from various bond funds for the Wildlife Conservation Board to support mulit-benefit ecosystems and watershed protection and restoration projects.
- Flood Management - $183 million
    - $81 million in 2021-22 and a total a $102 million over 3 years from various bond funds for the DWR Delta Levee System Integrity Program
    - $28.5 million one-time Prop 68 funds for the DWR to support collaborative flood risk management
    - $6.5 million in 2021-22 and a total of $9.5 million over 3 years Prop 1 funds for the DWR to support emergency flood response in the Delta
- Coastal Protection - $6.5 million
    - $6.5 million in 2021-22 and a total of $17.4 million over 2 years Prop 68 for Natural Resources Agency/Ocean Protection Council to support projects that improve biodiversity and climate resilience by increasing coastal and marine ecosystem help

Cap-and Trade

The budget proposes $1.37 billion Cap-and-Trade expenditure plan for existing programs, including several early actions for 2020-21. The proposed expenditure plan advances the state’s priorities on environmental justice and protect public health by delivering clean air, and safe and affordable drinking water. The expenditure plan also promotes the implementation of the Governor’s recent executive orders.

Small and Mid-Size Farm Support

The budget includes $6.7 million one-time GF to contract with the UC Cooperative Extension to provide direct technical assistance and grants to technical assistance providers and small, mid-size and underserved farmers.

Climate-Smart Agriculture

- Funding Agricultural Replacement Measures for Emission Reduction - $170 million one-time Greenhouse Gas Reduction Fund for the Air Resources Board to provide funding that supports the replacement of agricultural harvesting equipment, agricultural pump engines, tractors and other equipment.

- Healthy Soils Program - $30 million one-time GGR fund for the Dept of Food & Ag to provide grants for on-farm soil management practices

Water Efficiency

- Sustainable Groundwater Management Act Grants - $60 million one-time GF for grants to support economic mitigation planning and groundwater implementation projects across critically over drafted basins.
- State Water Efficiency and Enhancement Program Grants - $40 million for the Dept of Food & Ag to provide incentives that help farmers reduce irrigation water use and reduce greenhouse gas emissions from agricultural pumping