



## Summer 2024 Budget, Bonds, & Ballot Update

The California Association for Local Economic Development (CALED) is the voice of economic development practitioners and stakeholders. With more than 900 members, CALED is one of the largest economic development associations in the country. We are taking advantage of the Legislature's summer break to give our members a brief update on the budget, two proposed bonds, and the full list of items on the November ballot.

The Legislature left town on July 3, after passing a state budget, approving both climate and school bonds, and negotiating agreements resulting in the removal of several initiatives from the November ballot. On August 4, they return to take action on more than 1,000 bills before an August 31 adjournment date. Below is a summary of where things stand:

### Budget

Just two years after touting a state cash surplus of nearly \$100 billion, the Governor and legislators faced a staggering reversal with a budget deficit estimated by the Legislative Analyst's Office (LAO) of over \$55 billion. After adopting an initial \$17 billion worth of budgetary solutions in April, the Legislature and Governor approved a final budget agreement in late June. In these actions, permanent cuts were avoided wherever possible.

Solutions included: reverting funding from previously budgeted items, deferring expenditures to future years, dipping into state budgetary reserves, borrowing from internal accounts, shifting expenses to special funds, allocating ongoing expenditures to bond debt, delaying wage increases for health care workers, cutting new workforce investments proposed in 2022, deferring business tax deductions above \$5 million to future years, scoring savings for vacant staff positions, moving the June payroll date into the next fiscal year, and projecting \$2.17 billion in efficiency savings across state departments without cutting staff. While this budget may have checked a box, many actions are relying on the uncertain hope that state revenues will rebound. And with the LAO also predicting additional structural deficits over the next three fiscal years, excesses in state spending over revenues will likely need to be revisited.

Some funding was preserved for programs of interest to local economic and community developers, including the following:

- The Small Business Technical Assistance Program (TAP). Preserves \$26 million in annual funding. A proposal to slash funding in half was rejected by the Legislature following a robust lobbying effort by the program's supporters, including CALED.
- Jobs First (formerly CERF) Program: Preserves \$150 million General Fund support for the program over the 2024-25, 2025-26, and 2026-27 fiscal years. Grant recipients must develop a plan to spend/obligate all implementation funds by June 30, 2028, to be paid by June 30, 2030. Also, oversight of this program shifts from Governor's Office of Planning and Research (OPR) to the Governor's Office of Business and Economic Development (GO-Biz).
- Broadband: Preserves \$2 billion last mile, \$250 million middle-mile, and \$50 million loan loss reserves, from major cuts proposed by the Governor. Requires the Department of Technology's Office of Broadband and Digital Literacy to prioritize last-mile connections to unserved and underserved areas and locations for the construction of the statewide open-access middle-mile broadband network.
- Infrastructure: Allocates \$25 million to recapitalize the California Infrastructure Bank's (IBank's) Infrastructure State Revolving Fund.
- California Competes: Preserves \$180 million per year in California Competes Tax Credits through FY 2027/28, but a proposal to extend the companion grant program for an additional year was withdrawn by the Governor in the May Revise.
- Homeless funding: Preserves \$1 billion for Homeless Housing Assistance and Prevention (HHAP) program and \$150 million for encampment resolutions. Proposed cuts to other affordable housing programs were reduced from original proposals, including maintaining \$315 million for the Multifamily Housing Program.

Other budgetary actions of interest include:

- Reorganizing OPR's Responsibilities. Under this shift:
  - OPR will be recast as the Governor's Office of Land Use and Climate Innovation
  - Responsibility for Jobs First is transferred to Go Biz, along with research responsibilities related to zero-emission vehicles.
  - Creates a new Governor's Office of Service and Community Engagement, to house OPR's former responsibilities for the Office of Community Partnerships and Strategic Communication, Cal Volunteers, and the Youth Empowerment Commission. Appropriates an additional \$300,000 to this office for a contract with a Bay Area non-profit, Self-Help for the Elderly.
  - Moves the California Initiative to Advance Precision Medicine to the Health and Human Services Agency.
  - Extends the deadline for OPR's Racial Equity Commission to develop a Racial Equity Framework from April 1, 2025 to December 1, 2025. It is unclear where responsibility for this commission will be housed in this reorganization.
- Reverting \$50 million to the General Fund from an appropriation made in the 2023 budget to the City of Fresno for a downtown revitalization project.
- Allocating \$10 million to Imperial County for support of implementation of the Lithium Valley Specific Plan.
- Making several adjustments to workforce expenditures (in addition to major cuts from proposed 2022 funding<sup>1</sup>) as follows:
  - Reducing from \$45 million to \$30 million the appropriation for the High Road Training Partnerships in Health and Human Services.
  - Increasing from \$8.3 to \$15 million the appropriation for High Road Training Partnerships at the California Workforce Development Board,
  - Allocating \$3 million for an advanced industry workforce development tool that will fund partnerships between the Labor and Workforce Development Agency and higher education institutions to develop artificial intelligence certificate programs in support of worker training.
  - Allocating \$60 million for the Rebuilding Nursing Infrastructure Grant Program to expand nursing programs and partnerships and address nursing shortages through the community college system.
- Community Cleanup: Appropriates \$553.9 million from various sources for the Department of Toxic Substances Control's program aimed at cleaning up contaminated properties.

## Bonds

In addition to adopting a budget, the Legislature and Governor agreed to place two general obligation bond proposals on the November ballot:

- **Proposition 2:** Proposes a \$10 billion school facilities bond, assisting both K-12 schools and community colleges, enacted by AB 247 (Muratsuchi), Ch. 81, of 2024. Of this amount, a total of \$8.5 billion will be allocated to K-12 schools (including \$3.3 billion for new construction and \$4 billion for modernization or replacement of existing facilities). The remaining \$1.5 billion is allocated for community colleges.

While this measure is patterned after prior state school bonds, it directs more resources than prior bonds towards existing K-12 schools with:

- Reduced local matching requirements for districts with limited bonding capacity and/or with higher percentages of students in poverty, foster youth, or English learners.
- Increased flexibility to address challenges faced by schools with outdated facilities, including those that lack sufficient recreational, library and kitchen facilities.
- Special assistance for small school districts with fewer than 2,501 students.
- Flexibility to include transitional kindergarten classrooms, preschool facilities administered on-site, or facilities to support school nurses and counselors.

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<sup>1</sup> See CALED's analysis of the Governor's May Revise for more detail on workforce program reductions. Nearly \$2 billion was appropriated in 2022 to a variety of new workforce initiatives, but now that the state is in a major deficit these funds are being clawed back.

- Funding for outdoor shade structures to protect students from extreme heat and improve energy efficiency.
  - Remediation of lead contamination in water supplies and seismic vulnerabilities.
- Up to \$600 million is also allocated to renovate or construct K-12 facilities for career technical education (new construction or modernization) for middle school and high school students.<sup>2</sup>

- **Proposition 4:** Proposes a \$10 billion “Climate Bond” with funding directed to safe drinking water, wildfire prevention, drought preparedness and clean air, enacted by SB 867 (Allen), Ch. 83, of 2024. Significant priorities are included in this bond for projects that benefit and provide workforce development for disadvantaged communities, severely disadvantaged communities and vulnerable populations, as those terms are defined. Allocations are provided to programs as follows:
  - \$3.8 billion for safe drinking water, drought, flood, and water resilience.
  - \$1.5 billion for wildfire and forest resilience.
  - \$1.2 billion for coastal resilience.
  - \$1.2 billion for biodiversity protection and nature-based climate solutions.
  - \$850 million for clean air.
  - \$700 million for park creation and outdoor access.
  - \$450 million for extreme heat mitigation.
  - \$300 million for climate-smart, sustainable, and resilient farms, ranches, and working lands programs.<sup>3</sup>

### Items on the November Ballot

After months of legislative negotiations, court decisions, and efforts by interest groups to qualify initiatives, the list of items for the November ballot is finally clear.

But there were many uncertainties along the way. The California Supreme Court agreed with a petition by the Governor and Democrat legislative leaders that the Taxpayer Protection and Government Accountability Act, an initiative proposed by taxpayer and business groups imposing restrictions on state and local taxes and fees, was a constitutional revision and ineligible for the ballot. The Governor and legislative leaders also failed in their efforts to negotiate a package of bills on retail theft in exchange for the removal of an initiative drafted by district attorneys proposing to stiffen penalties for various crimes by reforming Proposition 47 of 2014. Voters will now decide the issue with Proposition 36.

Local agencies will also be closely tracking Proposition 5<sup>4</sup>, which proposes to reduce voter thresholds from two-thirds to fifty-five percent for local infrastructure and affordable housing bonds.

Below are the 10 measures identified by the Secretary of State<sup>5</sup> that will be decided by voters on the November ballot:

- Prop. 2. \$10 billion school facilities bond.
- Prop. 3. Establishes a fundamental right to marry and repeals prior provision that only marriage between a man and a woman is valid and recognized.
- Prop. 4. \$10 billion climate bond.
- Prop. 5. Reduces vote threshold from two-thirds to fifty-five percent for local infrastructure and affordable housing bonds.

<sup>2</sup> Quality school facilities are a cornerstone to local community quality of life, the local economy and increased property values. While local economic and community developers may not be familiar with school funding, it is worth becoming familiar with this bond, especially with an eye towards how it may potentially benefit existing schools with outdated facilities and also to explore opportunities to partner with schools to expand career technical education to meet the needs of local employers.

<sup>3</sup> Local economic and workforce developers should carefully review the details of this climate bond to identify potential opportunities to advance community objectives.

<sup>4</sup> Prop. 5 was originally placed on the ballot by the Legislature via ACA 1 (Aguiar Curry) in 2023 and recently revised that measure via the passage of ACA 10 (Aguiar Curry) in 2024.

<sup>5</sup> <https://www.sos.ca.gov/elections/ballot-measures/qualified-ballot-measures>

- Prop. 6. Prohibits the Department of Corrections from disciplining an inmate for refusing to work.
- Prop. 32. Increases state minimum wage to \$18 per hour, with future increase indexed to inflation.
- Prop. 33. Repeals state law which prohibits local agencies from enacting residential rent control.
- Prop. 34. Requires certain health care providers to spend 98 percent of revenues from federal discount prescription drug program on direct patient care.
- Prop. 35. Makes permanent the existing tax on managed health care insurance plans, which the state uses to pay for health care services for low-income families and other groups covered by the Medi-Cal program.
- Prop. 36. Revises Proposition 47 of 2014 to increase criminal penalties for various theft and drug crimes.

### **Next Steps**

After August 4, the Legislature will conclude its activity for the 2024 Session with a flurry of legislative activity subject to the following deadlines:

- August 16: Deadline for Appropriations Committees to pass bills.
- August 31: Adjournment of the 2024 Legislative Session.
- September 30: Last day for the Governor to sign or veto bills.

CALED will keep its members updated on legislation of interest to local economic developers.

### **CONTACT:**

California Association for Local Economic Development

[www.caled.org](http://www.caled.org)

916-448-8252