

EQUITABLE AND BROAD BASED RECOVERY

As it recovers from the COVID-19 Recession, California will continue to leverage what is unique to the state—a culture of innovation, a world-class educational system, a commitment to climate science, and a strong and skilled workforce.

The COVID-19 Pandemic brought a halt to more than ten years of economic growth and triggered a nationwide recession in February 2020. California's unemployment rate increased from a low of 4.3 percent in February to a record high of 16 percent in April. The pandemic also exacerbated underemployment, which averaged 17.1 percent in 2020, over twice as high as the 2019 annual average rate of 8.3 percent. While the labor force participation rate normally stays fairly constant, during this recession, the percentage of the working age population in the labor force decreased from 62.3 percent in the first quarter of 2020 to 59.8 percent in the second quarter of 2020, as parents and others dropped out of the workforce. Almost half of all jobs in leisure and hospitality, a low-wage sector, were lost; higher wage sectors such as professional and business services largely shifted to working from home. There were still 1.2 million fewer employed Californians in May 2021 than in February 2020.

Congress enacted the Coronavirus Response and Relief Supplemental Appropriations Act in late December, helping millions of Californians maintain unemployment insurance or other forms of support starting at the end of 2020. Further, on March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (ARPA) to combat the pandemic, including addressing public health and economic impacts.

Revenues are up significantly over the Governor's Budget forecast. This is a result of strong cash trends, two major federal relief bills since the beginning of the year, continued stock market appreciation, and a significantly upgraded economic forecast. The state has also received \$27 billion Coronavirus State Fiscal Recovery Funds from the ARPA. This brings the total amount of federal stimulus funds for state programs to over \$285 billion. See the Pandemic Response and Federal Assistance Chapter for additional information on federal assistance, including the allocation of Recovery Funds. Together, the surplus and federal funds will allow the state to make additional investments to support all sectors of the state, and improve the lives of all Californians.

EARLY ACTION FOR IMMEDIATE RELIEF

The Governor's Budget included several proposals for immediate action by the Legislature, and in February, a comprehensive package of budget actions was enacted to speed needed relief to individuals, families and businesses suffering the most significant economic hardships due to the pandemic. The package established the Golden State Stimulus program, which provided \$600 one-time payments to millions of low-income Californians; added \$2.075 billion (on top of a \$500 million investment) to California's Small Business COVID-19 Relief Grant Program; provided certain small businesses impacted by the pandemic license renewal fee waivers; provided additional resources for critical child care services; and provided emergency financial aid for community college students, among other investments. This critical assistance, totaling \$7.6 billion, has helped keep communities afloat as the state recovered from the pandemic.

Additionally, in April, California took early action to conform state tax law to the federal treatment of Paycheck Protection Program (PPP) forgiven loans. This conformity will allow most of the hundreds of thousands of small businesses in California that received a federal PPP loan to avoid paying tax on that income and to be able to deduct expenses related to the loan in the event the loan is forgiven by the federal government.

The Budget builds on these investments and continues the state's commitment to support individuals and businesses most heavily impacted by the pandemic.

RELIEF FOR INDIVIDUALS AND BUSINESSES

The Budget includes significant investments to provide relief to low-income families, small businesses and nonprofits that have been hardest hit by the pandemic.

GOLDEN STATE STIMULUS II

The Golden State Stimulus II (GSS II) expands the Golden State Stimulus program established through the immediate budget action. The stimulus is targeted to low- and moderate-income households; specifically, the GSS II program will provide a total of \$8.1 billion in stimulus payments to three groups:

- **Low to Middle Income**—\$600 one-time stimulus payments to all taxpayers filing a 2020 tax year return with adjusted gross income of \$75,000 or less who did not already receive a Golden State Stimulus. This component is expected to cost about \$5.6 billion and assist about 9.4 million tax filers.
- **Families**—\$500 one-time stimulus payments to all taxpayers with adjusted gross income of \$75,000 or less with a dependent on the return. This component is expected to cost \$2.2 billion and assist 4.3 million tax filers. (Some of these families will receive \$1,100 if they also qualify for the low- to middle-income stimulus above).
- **Undocumented Families**—\$500 one-time stimulus payments to all immigrant taxpayers with Individual Taxpayer Identification Numbers with adjusted gross income of \$75,000 or less and a dependent. This component is expected to cost \$260 million and assist 520,000 tax filers. (These families are eligible for both family credits so will receive \$1,000).

SMALL BUSINESS AND NONPROFIT CULTURAL INSTITUTION GRANTS

As referenced above, \$2.5 billion has already been allocated to provide immediate relief to small businesses affected by the pandemic. This funding supported six rounds of grants to small businesses, including a special round for nonprofit cultural institutions, providing support to approximately 210,000 small businesses. Eligible small businesses and nonprofit cultural institutions can receive grants ranging from \$5,000 to \$25,000, depending on their annual gross revenue.

The Budget includes \$1.5 billion federal ARPA funds in 2021-22 for three additional rounds of grants to provide relief to more small businesses. The Office of the Small

Business Advocate, within the Governor's Office of Business and Economic Development (GO-Biz), will first offer two closed rounds to target applicants who are currently waitlisted and then offer a final round that will be open to both new applicants and waitlisted applicants, to capture any entities who have not applied before or may still be on the waitlist.

Of the \$50 million allocated for nonprofit cultural institutions, \$34 million has been awarded to eligible recipients, leaving \$16 million available for this purpose. The Budget includes statutory changes to allow additional rounds of grants for eligible nonprofit cultural institutions until the full \$50 million has been awarded.

The Budget also includes \$50 million one-time General Fund in 2021-22 for GO-Biz to administer the California Microbusiness COVID-19 Relief Grant Program to assist qualified micro-businesses that have been negatively affected by the COVID-19 Pandemic. Eligible microbusiness will receive grants of \$2,500 each, which will be administered by counties or community-based organizations on behalf of counties.

FEE WAIVERS FOR COVID-19 IMPACTED BUSINESSES

The Budget includes \$118.6 million one-time General Fund in 2020-21 to provide fee waivers to individuals (including barbers, cosmetologists, and manicurists) and smaller entities (including restaurants and bars) heavily impacted by health and safety restrictions imposed in response to the COVID-19 Pandemic. Licensees of the Board of Barbering and Cosmetology will receive relief from annual license renewals over the next two-year renewal period. Restaurants, bars, and other specified licensees of the Department of Alcoholic Beverage Control are eligible for up to two fee waivers from March 2021 through February 2023. In addition, the Budget includes statutory changes requiring the Gambling Control Commission to provide relief to gaming establishments and permitted workers by waiving, and in certain cases refunding, licensing and annual fees.

CALIFORNIA JOBS INITIATIVE

The Budget includes the California Jobs Initiative to support California business owners as they reopen their doors, rehire staff, and expedite the state's economic recovery. This initiative focuses on job creation and retention, regional development, and small businesses. The Budget includes additional investments in the film industry, tourism, live event venues, and California's ports.

SMALL BUSINESSES

STATE SMALL BUSINESS CREDIT INITIATIVE

The American Rescue Plan Act of 2021 included \$10 billion for the reauthorization of the State Small Business Credit Initiative (SSBCI), which was initially created in 2010, to strengthen state programs that support financing of small businesses. In 2010, California received \$168 million from the SSBCI, and the funds were split equally between the California Infrastructure and Economic Development Bank (IBank) and the State Treasurer's Office. California operated three of the five SSBCI authorized programs: the California Capital Access Program for Small Business, California Capital Access Program Collateral Support at California Pollution Control Finance Authority, and the Small Business Loan Guarantee Program that is now administered by IBank.

In April, the U.S. Treasury Department released a state-by-state allocation of the first \$6.2 billion of the \$10 billion appropriated, and California is estimated to receive \$895 million in three installments. The U.S. Treasury is still developing guidance for programs and anticipates rolling that out over the next two to six months. All states are required to submit a program application by December 11, 2021. To prepare for this, IBank and the State Treasurer's Office have begun stakeholder engagement and established an SSBCI working group.

To supplement the SSBCI funds, the Budget includes \$20 million one-time General Fund in 2021-22 for IBank's Small Business Loan Guarantee Program to continue to provide loans as businesses recover from the economic impacts of the COVID-19 Pandemic. The Small Business Loan Guarantee Program uses state funds for guarantees that were not eligible for SSBCI.

The Budget also includes the following programs to help small businesses:

- **Main Street Small Business Tax Credit II**—This expanded tax credit builds upon the Main Street hiring credit created by Chapter 41, Statutes of 2020 (SB 1447). This program allocates \$117 million to provide assistance to small businesses that have hired and retained workers since unemployment accelerated in the second quarter of 2020.
- **Mitigating the SALT Deduction Limitation for Pass-through Entity Owners**—This provision creates an elective tax for pass-through entities to help mitigate the harmful impacts on California business owners of the limitation on state and local tax deductions by the 2017 federal Tax Cut and Jobs Act.

- **IBank’s Small Business Finance Center and the California Rebuilding Fund**—This program provides financial assistance to small businesses through IBank’s programs including the California Rebuilding Fund, with a focus on programs that benefit underserved businesses in California.
- **The California Dream Fund**—This program supports micro-grants of up to \$10,000 to seed entrepreneurship and small business creation in underserved small business groups that are facing opportunity gaps, including immigrant Californians and Californians who speak limited English. The Budget includes \$35 million one-time General Fund for these micro-grants.

JOBS AND REGIONAL DEVELOPMENT

The Budget includes two one-time expansions of existing tax credit programs and initiates a one-time grant program. All three budget items are intended to create jobs and promote regional economic development.

- **Film Tax Credit**—The Budget provides a one-time expansion of the film credit of \$330 million. The existing Film and Television Tax Credit Program 3.0 provides tax credits for eligible films produced in California. This credit retains and grows production jobs in the economically important film industry and stimulates economic activity statewide, enhancing California’s position as the leading national and global location for all forms of media content creation. The Budget expands the film credit by \$90 million in each of 2021-22 and 2022-23; or the sum of \$75 million for recurring television series and \$15 million for television series that relocate from other jurisdictions. In addition, the Budget includes \$150 million in film credits for studios that build new sound stage infrastructure in the state. This increase in infrastructure will help California continue to maintain its position as the leader of motion picture production.
- **California Competes (CalCompetes) Tax Credit**—The Budget includes a one-time expansion of the CalCompetes Tax Credit by \$110 million to increase economic activity in California.
- **CalCompetes Grants**—The Budget includes \$120 million one-time General Fund to establish a CalCompetes grant program focused on businesses that, due to insufficient tax liability, are unable to benefit from the CalCompetes Tax Credit. In order to receive a grant, applications would have to meet at least one of the following criteria: 1) create at least 500 new full-time jobs in the state, 2) make at

least a \$10 million infrastructure investment within five years, or 3) create jobs or make investments in high-poverty or high-unemployment area.

REVITALIZING CALIFORNIA TOURISM

California's travel and hospitality industry is one of the largest economic drivers for the state. The pandemic has disproportionately affected travel and tourism more than any other industry and almost half of all leisure and hospitality workers lost their jobs. The California Office of Tourism, within GO-Biz, works in close coordination with Visit California to promote California as a premier travel destination. The Budget includes \$95 million one-time federal ARPA funds to implement strategic media campaigns that will jump start the recovery of the travel and tourism industry.

SUPPORTING LIVE EVENT VENUES

The Budget includes \$150 million one-time General Fund for the California Venues Grant Program to provide financial relief to independent venues, live events businesses, and minor league sports. Grants of up to \$250,000 will be provided to eligible businesses that have been negatively impacted by the COVID-19 Pandemic.

PROVIDING ECONOMIC SUPPORT FOR PORTS

The Budget includes \$250 million one-time federal ARPA funds for the State Lands Commission to allocate to California ports, which play an integral role in the state's economy. This funding is intended to address revenue impacts suffered by ports as a result of the pandemic, especially as a result of the loss of tourism.

WORKFORCE DEVELOPMENT

Despite marked improvements in recent months, the pandemic has negatively impacted the state's labor market—especially for certain sectors and populations. Further, the pandemic has highlighted the inequities many workers face. To address these inequities as the state economy recovers, the Budget includes investment in the state's workforce development programs and helps strengthen the link between education, training, and industry.

- **Regional Resilience**—The Budget includes \$600 million one-time federal ARPA funds to provide financial support to regional and local stakeholder collaboratives to plan and implement region- and industry-specific economic transition strategies, with a focus on supporting high road industries, quality job creation, and workforce strategies in those sectors most affected by the state's transition to carbon neutrality. Additional negotiations on this investment are deferred to later this summer and are detailed in the Labor and Workforce Development Chapter.
- **Supporting Linkages between Higher Education and Employment Opportunities**—As referenced in the Higher Education and Labor and Workforce Development Chapters, the Budget includes \$75 million one-time General Fund for a regional workforce investment package between the California Workforce Development Board and the California Community Colleges Chancellor's Office that strengthens linkages between workforce training and the CCCs, using existing regional consortia to build upon existing training programs and develop new programs.

OTHER HIGHER EDUCATION INVESTMENTS SUPPORTING WORKFORCE DEVELOPMENT

As referenced in the Higher Education Chapter, the Budget reflects the following higher education workforce development related proposals:

- **Learning-Aligned Employment**—The Budget includes \$500 million one-time General Fund, between fiscal years 2021-22 and 2022-23, to establish the Learning-Aligned Employment program, which would promote learning-aligned, long-term career development for the University of California, California State University, and CCC students.
- **Education and Training Support Grants for Displaced Workers**—The Budget includes \$500 million one-time (\$472.5 million federal ARPA funds and \$27.5 million General Fund) for the Student Aid Commission to establish a one-time grant program to support displaced workers in seeking reskilling and up-skilling opportunities, and educational opportunities.
- **Regional K-16 Education Collaboratives**—The Budget includes \$250 million one-time General Fund for grants to support regional K-16 collaboratives focused on streamlining educational pathways leading to in-demand jobs.
- **High Road Training Partnerships and Regional Partnerships**—An increase of \$20 million one-time Proposition 98 General Fund to support California Community

College participation in High Road Training Programs and regional partnerships developed by the California Workforce Development Board.

- **Community College Strong Workforce Program**—An increase of approximately \$42.2 million ongoing Proposition 98 General Fund, up to 10 percent of which can be used to expand work-based learning opportunities in 2021-22, including opportunities in cloud computing and zero-emissions and supply chain fields.
- **Competency-Based Education Pilot**—An increase of \$10 million one-time Proposition 98 General Fund to pilot implementation of competency-based education at select community colleges.
- **California Community College Registry Modernization**—An increase of \$1 million one-time Proposition 98 General Fund to support the modernization of the California Community College Registry, which is an online database of job opportunities at the California Community Colleges.

LABOR AND WORKFORCE DEVELOPMENT PROGRAMS

The Budget includes \$245 million one-time General Fund to expand workforce efforts, in addition to those included with the California Workforce Development Board and the California Community Colleges Chancellor's Office package mentioned above, to provide over 50,000 new training and earn-and-learn opportunities to support the state's economic recovery. These proposals include:

- **High Road Training Partnership Expansion**—\$100 million one-time General Fund
- **Employment Training Panel Expansion**—\$50 million one-time General Fund
- **Breaking Barriers to Employment**—\$30 million one-time General Fund
- **Prison to Employment**—\$20 million one-time General Fund
- **Social Entrepreneurs for Economic Development**—\$20 million one-time General Fund
- **Workforce Development Administration**—\$15 million one-time General Fund
- **Housing Apprenticeships**—\$10 million one-time General Fund

More information on the California Workforce Development Board's investments can be found in the Labor and Workforce Development Chapter.

INFRASTRUCTURE INVESTMENTS

Infrastructure investments play an important role in promoting economic recovery, including creating thousands of jobs statewide. The Budget includes significant investments in both new infrastructure and maintenance of existing infrastructure, including new state investments in the state's transportation system. The Governor will continue to work with the Legislature this summer to enact a comprehensive transportation package that will contribute to an equitable recovery and competitively position the state to pursue significant federal investment that aligns with the American Jobs Plan and other federal budget priorities. Additionally, billions more in infrastructure investments have been included for key budget packages on broadband, drought, climate, toxic cleanup, wildfire, sustainable agriculture, zero-emission vehicles, and library and school facilities. These investments will add even more jobs and enhance California's economic recovery.

BROADBAND

As the Governor's Budget emphasized, universal access to high-speed Internet is critical to the state's economy, education, and basic health and well-being, and will be a key component of the state's long-term equitable recovery, vitality, and resilience. The pandemic has underscored the importance of making broadband accessible and affordable for educational, employment, and health purposes. The Budget invests \$6 billion over three years as part of a statewide plan to expand broadband infrastructure, increase affordability, and enhance access to broadband for all Californians.

The Budget will expand broadband infrastructure by appropriating \$3.25 billion of one-time federal ARPA funds to the California Department of Technology to build out a critical "middle-mile" network. This statewide network will encourage providers to expand service to unserved and underserved areas by substantially reducing their upfront infrastructure costs, creating new opportunities for public fiber networks, and promoting affordability and increased options for consumers. This essential backbone infrastructure is a foundational step towards the entire state having access to high-speed broadband. Moreover, the generational investment will create tens of thousands of quality jobs to help the state's economy recover from the pandemic.

Existing providers find it too costly to serve many areas of the state, particularly in rural areas. The Budget creates a new \$750 million Loan Loss Reserve Fund to assist local

governments, tribes and non-profits to secure enhanced private financing to construct and operate new public fiber networks.

Lastly, the Budget allocates \$2 billion over three years from a combination of one-time federal ARPA Funds and General Fund within the California Advanced Services Fund to encourage existing and new providers to fund infrastructure for last-mile service to the state's remaining unserved households.