

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 and the resulting recession brought a halt to more than ten years of economic growth and ushered in 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 16.0 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, 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 1.6 million fewer employed Californians in November than in February.

The Coronavirus Response and Relief Supplemental Appropriations Act was enacted 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 to combat the pandemic, including public health and economic impacts.

As discussed in the Introduction and Revenue Estimates chapters, 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 will also receive \$27 billion Coronavirus State Fiscal Recovery Funds from the American Rescue Plan Act of 2021 (ARPA). This brings the total amount of federal stimulus funds for state programs to over \$275 billion. See the Pandemic Response and Federal Assistance Chapter for additional information on federal assistance, including the Administration's planned 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.

IMMEDIATE ACTION

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. Specifically, the package established the Golden State Stimulus and Golden State grant 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 our communities afloat as the state begins recovery 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 May Revision builds on these investments and continues the state's commitment to support individuals and businesses most heavily impacted by the pandemic with significant investments.

RELIEF FOR INDIVIDUALS AND BUSINESSES

The May Revision proposes additional state actions to provide relief to low-income families, small businesses and nonprofits that have been hardest hit by the pandemic.

GOLDEN STATE STIMULUS II

As discussed in the Revenue Estimates Chapter, 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 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 ITIN taxpayers 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 GRANTS AND CULTURAL INSTITUTIONS

As referenced in the immediate action section, \$2.5 billion has 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. As of May 2021, approximately 198,000 small businesses either have been or will be awarded grants. Due to the high demand for the program, after the sixth round of funding, it is estimated that approximately 180,000 applications will remain unfunded.

The May Revision proposes \$1.5 billion federal ARPA funds 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 the applicants who are currently waitlisted—some of whom have been on the list since December—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, only \$34 million was awarded to eligible recipients, leaving \$16 million available for this purpose. The May Revision proposes opening additional rounds of grants for eligible nonprofit cultural institutions until the full \$50 million has been awarded.

CALIFORNIA JOBS INITIATIVE

The May Revision builds on the California Jobs Initiative proposed in the Governor's Budget 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, small businesses, and climate innovation. The May Revision includes additional investments in the film industry, tourism, 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.

On April 9, 2021, the U.S. Treasury released a by-state allocation of the first \$6.2 billion of the \$10 billion appropriated, and California is estimated to receive \$895 million in three tranches as the funds are used. The U.S. Treasury is still developing their 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. IBank and the State

Treasurer's Office have begun stakeholder engagement and established an SSBCI working group in anticipation.

IBANK SMALL BUSINESS LOAN GUARANTEE PROGRAM

The Governor's Budget included \$50 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 COVID-19. Historically, the Small Business Loan Guarantee Program used state funds to supplement the SSBCI funds and were only used for guarantees that were not eligible for SSBCI. Given that additional SSBCI funding is available, the May Revision reduces the amount available for the Small Business Loan Guarantee Program to \$20 million one-time General Fund to support guarantees that are not eligible for the SSBCI funds.

The May Revision continues the following proposals that were included in the Governor's Budget:

- **Main Street Small Business Tax Credit**—Builds upon the Main Street hiring credit created by Chapter 41, Statutes of 2020 (SB 1447) which allocated \$147 million to create a new Main Street hiring credit to provide assistance to small businesses that have hired and retained workers since the explosion of unemployment in the second quarter of 2020.
- **Mitigating the SALT Deduction Limitation for Pass-through Entity Owners**—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**—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**—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 that speak limited English. The May Revision shifts the funding proposed for these microgrants from 2020-21 to 2021-22.

JOBS AND REGIONAL DEVELOPMENT

FILM TAX CREDIT

The May Revision proposes a one-time expansion of the film credit. The 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 location for all forms of media content creation nationally and globally. The May Revision proposes a one-time expansion of the film credit by \$30 million in the 2021-22 fiscal year for productions that relocate from other jurisdictions.

In addition, the May Revision continues the following proposals included in the Governor's Budget:

- Expansion of the California Competes Tax Credit (CalCompetes) by \$180 million. This proposal has been modified by moving the \$90 million that had been planned as an early budget action for 2020-21 into 2021-22.
- Establish a one-time \$250 million CalCompetes grant program for businesses meeting certain criteria to locate in California or to stay, grow, and create quality full-time jobs in the state. The May Revision shifts support of the grant program from the General Fund to the federal ARPA funds.

REVITALIZE CALIFORNIA TOURISM

California's travel and hospitality industry is one of the largest economic drivers for the state. The pandemic has impacted 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 May Revision includes \$95 million one-time federal ARPA funds in 2021-22 to implement strategic media recovery campaigns that will jump start the recovery of the travel and tourism industry once it is safe to travel.

ECONOMIC SUPPORT FOR PORTS

The May Revision includes \$250 million one-time federal ARPA funds in 2021-22 for GO-Biz to allocate to California ports which provide a vital role in the state's economy. This funding is intended to address some of the revenue impacts suffered by ports as a

result of the pandemic, especially as a result of the loss of tourism. These ports drive economic activity, regional employment, and recovery for local jurisdictions and the state.

CLIMATE INNOVATION

CLIMATE CATALYST FUND

The 2020 Budget Act included statutory changes to establish the Climate Catalyst Fund, a financing tool to provide revolving loans for climate-related projects. The May Revision includes the following proposals for resources that will be deposited into the Climate Catalyst Fund. For additional information, see the Climate Change, Environmental Protection, and Sustainable Agriculture Chapters.

- **Climate Smart Agriculture for Sustainability and Resiliency**—The May Revision maintains the \$50 million one-time General Fund for agriculture-specific activities (i.e., methane reduction projects; equipment replacement; water efficiency; healthy soils; and energy efficiency for food processing).
- **Wildfire and Forest Resilience**—The Governor's Budget included \$47 million General Fund in 2020-21 in the wildfire and forest resilience package. The early action package ultimately included \$16 million one-time General Fund in 2020-21 for the Climate Catalyst Fund. The May Revision shifts the remaining \$31 million one-time General Fund from 2020-21 to 2021-22.
- **Recycling Infrastructure**—The May Revision includes \$50 million one-time General Fund to provide low-interest loans to attract recycling and reuse businesses to California.

The May Revision continues with the following proposal that was included in the Governor's Budget:

- **California Alternative Energy and Advanced Transportation Financing Authority**—Provide an additional one-time investment of \$100 million in 2021-22 to the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) sales tax exclusion program. This would bring the total allocation for 2021-22 to \$200 million.

WORKFORCE DEVELOPMENT

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

REGIONAL RESILIENCE

The May Revision includes \$750 million 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 or regions, such as Kern County, most affected by the state's transition to carbon neutrality. Strategies will be tied to the Budget's direct infrastructure investments across multiple categories—housing, transportation, advanced energy, broadband, and natural resources—all of which will prioritize the creation of high quality jobs for regions across the state.

Additional details on this investment 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 May Revision includes \$157 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 (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 May Revision includes \$1 billion one-time General Fund, split evenly 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. This program would be established as an endowment to sustain ongoing support.
- **Education and Training Support Grants for Displaced Workers**—The May Revision includes \$1 billion in one-time federal ARPA funds for the Student Aid Commission to establish a one-time grant program to support displaced workers in seeking reskilling and up-skilling opportunities, educational opportunities, or to support some of the costs to start a business.
- **Regional K-16 Education Collaboratives**—The May Revision allocates the \$250 million one-time General Fund set-aside from the Governor's Budget for grants to establish several 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 Roads Training Programs and regional partnerships developed by the California Workforce Development Board.
- **Community College Strong Workforce Program**—An increase of approximately \$12.4 million ongoing Proposition 98 General Fund to increase Program funding by 5 percent.
- **Work-Based Learning**—An increase of \$10 million one-time Proposition 98 General Fund to develop work-based learning opportunities in (1) cloud computing, and (2) 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 ongoing Proposition 98 General Fund to support the modernization of the California Community College Registry, which is an online database of job opportunities for the California Community Colleges.

LABOR AND WORKFORCE DEVELOPMENT PROGRAMS

The Governor's Budget proposed \$25 million one-time General Fund as part of an early action package to expand the High Road Training Partnership (H RTP) model in several specified industry sectors. As referenced in the Labor and Workforce Development Chapter, the May Revision builds upon this investment and includes \$160 million to expand existing workforce programs. These proposals include:

- High Road Training Partnership Expansion—\$90 million one-time General Fund
- Employment Training Panel Expansion—\$50 million one-time General Fund
- Housing Apprenticeships—\$20 million one-time General

These expanded workforce efforts, in addition to those included with the California Workforce Development Board and the California Community Colleges Chancellor's Office package mentioned above, will provide over 50,000 new training and earn and learn opportunities to support the state's economic recovery. More information on the California Workforce Development Board's investments can be found in the Labor and Workforce Development Chapter.

INFRASTRUCTURE INVESTMENTS

As referenced in the General Government and Statewide Issues Chapter, infrastructure investments play an important role in promoting economic recovery, including creating thousands of jobs statewide. While many capital projects were paused in 2020 as a result of fiscal uncertainties related to the pandemic, the May Revision demonstrates renewed commitment to these investments as a key driver in California's economic recovery.

The May Revision proposes significant investments in both new infrastructure and maintenance of existing infrastructure, including transportation infrastructure. Building upon the investments proposed in the Governor's Budget, the May Revision proposes over \$9.7 billion of state investment in our transportation system to lead 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. And billions more have been proposed for key budget packages around broadband, drought, climate, toxic cleanup, wildfire, sustainable agriculture, and zero-emission vehicles that 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 recovery. The pandemic has underscored the importance of making broadband accessible and affordable for educational, employment, and health purposes. The May Revision reflects the commitment stated in the Governor's Budget to develop equitable statewide access to high-speed broadband internet service, and proposes a \$7 billion investment over three years as part of a plan to: expand broadband infrastructure, increase affordability, and enhance access to broadband for all Californians.

Both access to infrastructure and affordability of broadband service are significant barriers to closing the digital divide and present a significant challenge. Today, approximately 83.4 percent of Californians are using broadband at any speed, but only 52.4 percent of Californians are using broadband at the modern benchmark speed of 100 Mbps. Service at speeds below 100 Mbps is not enough for households who are juggling the demands of distance learning, telework, and accessing health care on-line. These numbers are an indication of lack of access, lack of quality infrastructure, and lack of affordability. Rural communities are hit the hardest with 51.3 percent of rural households without any broadband networks offering service at 100 Mbps. Tribal lands are also disproportionately impacted with 28.4 percent of homes lacking this essential broadband infrastructure. Urban communities are also impacted. Almost half of households without access to service at 100 Mbps are located in urban areas.

The May Revision proposes to expand broadband infrastructure by utilizing a combination of federal ARPA funds and state funds to build out a critical statewide "middle-mile" network. The statewide network will incentivize providers to expand service to unserved and underserved areas by substantially reducing their upfront infrastructure costs, creating new opportunities for municipal fiber networks, and promoting affordability for consumers. This essential backbone infrastructure is a foundational step towards the entire state having access to broadband. Moreover, the

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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 May Revision proposes to create a new \$500 million Loan Loss Reserve Account to assist local governments, tribes and non-profits to secure private financing for new municipal fiber networks. These last-mile networks require large upfront investments but the return to customers, communities, and California is significant.

The state already has programs to promote access to affordable telephone services in rural areas that are costlier to serve. The May Revision also proposes to provide \$500 million of one-time federal ARPA funds to entities serving these areas to expand their services to include broadband.

Lastly, the May Revision proposes to utilize one-time federal ARPA funds within the California Advanced Services Fund to incentivize existing and new providers to fund infrastructure for "last mile" service to the state's remaining unserved households.