



Governor Newsom's 2022-23 Budget Plan

Governor's FY 2022-23 Budget Plan Includes Additional Investments in Economic Development, Job Training, and Infrastructure

The good times continue to roll for California's state budget, thanks to historic levels of federal stimulus, a robust stock market, and improving economy. On January 10, Governor Gavin Newsom released his proposed FY 2022-23 Budget projecting a \$47.5 billion¹ surplus, with a continued focus on combating climate change, expanding assistance to disadvantaged residents, and promoting economic recovery. Investments include tax relief for business, augmentations to economic development programs, tax credits focused on green technologies, and funding for workforce training, immigrant assistance, infrastructure, and affordable housing.

CAL E D members are encouraged to review these proposed expenditures for opportunities to assist their efforts to improve their communities:

- A Copy of the Governor's Budget: <https://www.ebudget.ca.gov/budget/2022-23/#/BudgetSummary>
- Legislative Analyst Office (LAO) Analysis of Proposal: <https://lao.ca.gov/Publications/Report/4492>

Business Tax, Fee, and Other Relief

- Tax Relief (Proposed to be adopted before March 15, 2022):
 - Removes the temporary cap imposed in the 2020 Budget on net operating losses and research and development credits. The removal of this cap is estimated to save businesses \$5.5 billion in 2022-23.
 - Expands the ability of business owners to deduct on their federal tax return the California taxes they pay on pass-through business income, to include businesses owned through a "disregarded entity," such as a single-member limited liability company, and allows deductions below the taxpayer's tentative minimum tax.
 - Exempts from California income tax, grant amounts received under the federal Restaurant Revitalization Fund and the Shuttered Venue Operators Grant programs.
- Suspending Gas Tax Inflation Adjustment: Proposes to suspend the automatic inflation adjustment to the gas tax, which would reduce expected state and local gas tax revenue allocations by 5.6 percent, totaling \$523 million. The Budget document says the state "will examine the potential to backfill the local share of reduced revenues on a one-time basis with State Highway Account funds." This proposal should be monitored closely as it is a concern for local agencies because it would reduce anticipated allocations of transportation funding.
- State Filing Fee Waivers: Waives state filing fees (\$100 for corporations and \$70 for a limited liability company or limited partnership) for any new business formed between July 1, 2022, and June 30, 2023.
- COVID Relief Grants: Allocates \$150 million for additional small business COVID relief grants, of which \$20 million will be reserved to assist non-profits.
- Retail Theft Relief: Allocates \$20 million to GO-Biz to assist businesses damaged by retail theft.

¹ There are differences between the Legislative Analyst and the Governor on estimates of the total amount of surplus funding. The Governor projects that after constitutionally-required allocations to schools, state reserves, and employee retirement that the total available discretionary surplus is \$20.6 billion.



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Job Creation

- **Increased TAEP Funding:** Increases state funding by \$6 million for the Technical Assistance Expansion Program (TAEP) to total \$23 million annually. In 2021, this program expanded eligible providers and received an annual commitment of \$17 million over five years, with an emphasis on delivering assistance to historically underserved business groups, including women, minority, and veteran-owned businesses and businesses in low-wealth, rural, and disaster-impacted communities.
- **SSBCI Allocations:** Allocates \$1 billion from the federal State Small Business Credit Initiative (SSBCI) split evenly between the California Infrastructure and Economic Development Bank (I-Bank) and the Treasurer's Office. Detailed information on the state's expenditure plans will be available by February 11, 2022.
- **I-Bank Venture Capital:** Allocates an additional \$200 million in SSBCI funding to establish a Venture Capital program at the I-Bank focused on underrepresented venture capital managers, entrepreneurs, and business owners located in socio-economically disadvantaged areas and focused on addressing climate equity and climate justice.
- **Small Business Development Centers:** Proposes \$3 million in annual funding for Small Business Development Centers (SBDCs) beginning in FY 2023-24 for the continuation of the Capital Infusion program which assists small businesses to access capital.
- **I-Hub Relaunch and Expansion:** Allocates \$2.5 million to relaunch the California Innovation Hub program as the "Accelerate California: Inclusive Innovation Hubs program." This new program will focus on diversity, equity, and inclusion in the state's technology and science-based startup community. Allocates an additional \$20 million over four years to expand the number of iHubs from 10 to 13 in regions throughout the state and provide five \$100,000 grants per iHub to encourage new science and technology-based businesses business in traditionally underserved areas.
- **Border Region Exports and Trade:** Provides \$2 million to GO-Biz for expansion of the export training network, overseen by the International Affairs and Trade Unit within GO-Biz, which develops programs and curriculum aimed at underserved business owners, including immigrant entrepreneurs and small business operators. Funding will be targeted regionally, including in the border region. An additional \$150,000 annually is provided to implement four to five virtual or hybrid trade missions in the California-Mexico border region to advance the border region's strategic industries, enabling cross-border economic growth and development.
- **Development of Lithium Industry:** Proposes to support the development of California's lithium industry to assist with advanced battery development technology, with associated benefits of high-paying jobs and assistance for surrounding communities. The Administration is also exploring potential collaboration with the US Department of Energy Loan program to support projects and technologies that mitigate climate change in disadvantaged communities.
- **Development of Wood Products Industry:** Allocates \$44 million to expand the wood product supply chain and workforce preparedness in the wildfire resilience sector using the product of forest thinning and removing dead trees.

Business Tax Credits

- **New Innovation Headquarters Credit:** Offers \$250 million (\$750 million total) in tax credits over three years – provided in addition to the state's Research and Development Credit – for California headquartered companies investing in activities and technologies that mitigate climate change. This program will be administered by the Franchise Tax Board.



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- Pre-Development of Green Energy Technologies: Offers \$100 million (\$300 million total) over three years for pre-development costs of new technologies such as: electric vehicle manufacturing and infrastructure, geothermal, lithium extraction, battery manufacturing, long-duration storage, methane emissions, hydrogen technologies, and methods to reduce the use of natural gas. The credit will be awarded by a newly created clean energy board at the Governor's Office of Business and Economic Development (GO-Biz). This tax credit will be structured so that if the business becomes profitable, the state will benefit from a share of the profit.

Oil Industry Transition

- Well Capping: Allocates \$215 million over two years to support an oil and gas well capping initiative to improve the safety of communities while providing high-quality jobs. Of this amount, \$15 million will be used to train displaced oil and gas workers in remediating legacy oil infrastructure.
- Assisting Displaced Workers: Allocates \$50 million to establish a fund for displaced oil and gas workers as the state continues to phase-out oil production.

CERF and Local Government Assistance

- \$450 Million for Local Government "Stabilization": The Governor's budget document states that this proposal "complements" last year's \$600 million allocation to the Community Economic Resilience Fund (CERF) for regional strategies that support economic and workforce transitions caused by climate change and other factors, with a proposed \$450 million over three years starting in 2023-24 "to stabilize local governments as local economies adjust." Some confusion exists, however, on the details of this proposal. One Administration official described this program as providing financial assistance to the nine counties listed as high-poverty counties under the GO-Biz California Competes program. If so, then it is unclear what the link is to the CERF program, which has divided the state into 13 regions (not nine), and whether affected cities would also benefit. The trailer bill language is under development.
- The Budget Proposal also seems to contemplate changing CERF program funding from the Coronavirus State Fiscal Recovery Funds to be funded through "either the General Fund or other state funds."

Workforce Development

- High School, College to Career: Allocates \$1.5 billion to support the development of college and career pathways for students focused on education, health care, technology, and climate-related fields. These funds would be available over four years to support local partnerships involving schools, colleges, universities, employers, and community organizations.
- Care Economy Workforce: Allocates \$1.7 billion over three years in care economy workforce development to create more innovative and accessible opportunities to recruit, train, and hire an ethnically and culturally inclusive health and human services workforce, with improved diversity and higher wages.
- Teacher Training: Waives certain teacher examination fees and encourages the development of new teacher preparation programs to address the shortage of qualified teachers.
- Retaining Community College Students: Allocates \$150 million for outreach efforts to increase community college enrollment and retention rates, including contacting former students who withdrew during the pandemic.



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- UC Regional Workforce Hubs: Allocates \$35 million to the University of California for regional workforce development and training hubs focused on climate change. Another \$50 million is designated for UC regional incubators.
- CC Forestry Training: Allocates \$30 million to community colleges to train, develop, and certify forestry professionals.
- Low Carbon: Allocates \$60 million over three years to the Workforce Development Board to support the Low Carbon Economy Workforce grant program.
- Goods Movement: Allocates \$110 million General Fund over three years for a Goods Movement Training Center in Southern California.
- Local Libraries: Allocates \$8.8 million to support two additional years of free online job training and educational upskilling programs available through local public libraries.
- Initiatives for UC/CSU/CC Systems: The Administration continues its efforts to improve coordination of its public university and community college systems and pursue aggressive initiatives associated with improving affordability, streamlining paths to degrees and certificates, and aligning coursework with critical workforce needs. An overarching goal is to have 70 percent of working-aged Californians to achieve a postsecondary degree or certificate by 2030.

Immigrant Assistance

- Immigrant Health Care Expansion: Expands Medi-Cal eligibility regardless of immigration status. Recent policy changes provide coverage to youths up to age 26, and seniors over age 50. The 2022 Budget expands this program to cover all immigrant adults (26-49) who meet Medi-Cal income thresholds, at a total projected cost of \$2.7 billion annually.
- Immigrant Integration: Provides \$11.6 million, and \$500,000 ongoing, to GO-Biz to support statewide coordination for immigrant integration and propel innovation including through enhanced services for immigrant communities at the state and local level, and support for economic development activities, including at the California-Mexico border. These proposals include competitive grants to local governments, additional resources and translations for business development, professional licenses, and online services.
- Immigrant Business Development Resources: Allocates \$600,000 in 2022-23, and \$200,000 annually thereafter, to expand the number and availability of Business Quick Start Guides, develop navigational guides regarding the professional licensing process for immigrants, and provide additional translations for these resources and online services.
- Migration Assistance: Allocates \$74 million to the California Department of Public Health to support continued COVID-19 Pandemic response and humanitarian efforts, including temporary shelter, testing, vaccines, and support services for newly arrived migrants.
- Language and Literacy: Allocates \$30 million to the Employment Development Department's Workforce Services Branch to expand the English Language Learner pilots in the Integrated Education and Training programs. Allocates \$20 million to the Employment Training Panel to expand workplace literacy training in contextualized English, digital skills, and technical skills training for incumbent workers.
- College Immigrant Youth: Allocates \$10 million to expand learn-and-earn community change career pathways for community college students, including immigrant youth.
- Trust-Building Grants for Local Government: Allocates \$8.7 million one-time for competitive grants to local governments to build trust with immigrant residents and help immigrant populations navigate state and local services. This funding would help cities and counties seed and deploy best practices in immigrant support services with state-provided technical assistance.



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New Clean Energy Package

Allocates \$2 billion over two years for a Clean Energy Investment Plan to spur innovation and deployment of clean energy technologies in the energy system. **(See graph below)**

Energy Package

(Dollars in Millions)

| Department | Program | Fiscal Year 2022-23 | Fiscal Year 2023-24 | Two-Year Total |
|----------------------------------|--|------------------------|------------------------|-------------------|
| California Energy Commission | Incentives for Long Duration Storage Projects | \$140 | \$240 | \$380 |
| | Green Hydrogen Grants for Green Electrolytic Hydrogen | \$100 | | \$100 |
| | Industrial Decarbonization | \$110 | \$100 | \$210 |
| | Food Production Investment Program | \$85 | | \$85 |
| | Equitable Building Decarbonization | \$322.6 | \$599.8 | \$922.4 |
| | Offshore Wind Infrastructure | \$45 | | \$45 |
| | Energy Modeling to Support California's Energy Transition | \$7 | | \$7 |
| Air Resources Board | Equitable Building Decarbonization - Accelerating Adoption of Ultra-Low Global Warming Potential Refrigerants | \$20 | \$20 | \$40 |
| Department of Water Resources | Oroville Pump Storage | \$100 | \$140 | \$240 |
| Various | Resources to Support Offshore Wind Generation and Energy Reliability | \$8.2 | \$1.5 | \$9.7 |
| Total | | \$937.8 | \$1,101.3 | \$2,039.1 |

Transportation

- Federal Transportation Funds:** The state projects California will receive approximately \$14 billion of from the federal Infrastructure Investment and Jobs Act (IIJA) over the next five years, with potentially billions more in additional formula funding and competitive grant opportunities.

State Transportation Programs: Over the next five years, the state projects over \$20 billion worth of planned state highway repair and rehabilitation projects in the State Highway Operations and Protection Program (SHOPP), and \$3 billion in State Transportation and Improvement Program (STIP).

State Budget Transportation Allocations:
 - \$4.2 billion, in addition to amounts allocated under Cap and Trade, for High-Speed Rail.
 - \$2 billion for statewide transit and rail projects.
 - \$1.25 billion for Southern California local and regional projects focusing on mobility and greenhouse gas reduction.



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- \$500 million for Active Transportation program projects, which encourage increased use of active modes of transportation such as walking and biking.
- \$500 million to support critical grade separation improvements throughout the state.
- \$400 million for state and local climate adaptation projects that support climate resiliency and reduce risks from climate impacts.
- \$150 million to establish the Reconnecting Communities: Highways to Boulevards Pilot program, which will improve equity and remove transportation barriers by investing in the conversion of key underused highways into multi-modal corridors that serve existing residents by developing affordable housing and complete streets features in disadvantaged communities.
- \$100 million for bicycle and pedestrian safety projects, allocated through the Highway Safety Improvement program, to reduce severe injuries and fatalities of vulnerable road users.

New ZEV Investments of \$6 Billion

- The budget proposes a \$6 billion expansion in zero emission vehicles (ZEV) investments.

Zero-Emission Vehicle Investments

(Dollars in Millions)

| Investment Category | Program | 2021 ZEV Package Multi-Year Investment | 2022 ZEV Package Multi-Year Investment | ZEV Package Totals |
|---------------------|--|--|--|--------------------|
| Passenger Vehicles | Clean Vehicle Rebate Project | \$525 | \$0 | \$525 |
| | Clean Cars 4 All & Other Equity Projects | \$400 | \$256 | \$656 |
| | ZEV Fueling Infrastructure Grants | \$300 | \$600 | \$900 |
| | Equitable At-home Charging | \$0 | \$300 | \$300 |
| Big ZEVs | Drayage Trucks & Infrastructure | \$470 | \$475 | \$945 |
| | Drayage Trucks & Infrastructure Pilot Project | \$65 | \$0 | \$65 |
| | Transit Buses & Infrastructure | \$290 | \$460 | \$750 |
| | School Buses & Infrastructure | \$450 | \$1,500 | \$1,950 |
| | Clean Trucks, Buses and Off-Road Equipment | \$700 | \$1,100 | \$1,800 |
| | Ports | \$0 | \$400 | \$400 |
| | Near-Zero Heavy Duty Trucks | \$45 | \$0 | \$45 |
| Other | ZEV Consumer Awareness | \$5 | \$0 | \$5 |
| | ZEV Manufacturing Grants | \$250 | \$0 | \$250 |
| | Community-Based Plans, Projects and Support / Sustainable Community Strategies | \$0 | \$419 | \$419 |
| | Emerging Opportunities | \$0 | \$200 | \$200 |
| | Transportation Package ZEV | \$407 | \$383 | \$790 |
| Totals | | \$3,907 | \$6,093 | \$10,000 |



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General Infrastructure

- **Broadband:** Continues the roll-out of the \$6 billion broadband infrastructure plan approved in the 2021-22 budget. The California Public Utilities Commission anticipates making last-mile project grants available in 2022.
- **Forest Health/Fire Safety:** Allocates \$1.2 billion over two years for forest health and fire prevention efforts.
- **Drought:** Provides \$750 million to support drought resilience and response, including water conservation, groundwater recharge, and assistance for small farmers.
- **Ports/Goods Movement:** \$2 billion is allocated for various port and goods movement investments, including: \$1.2 billion allocated for port-related high-priority projects that increase goods movement capacity on rail and roadways; \$875 million for zero-emission equipment; \$40 million to expedite issuance of commercial driver's licenses, and \$30 million to GO-Biz to fund operational improvements to ports.

Housing, Infill, & Brownfields

- \$750 million for student housing.
- \$500 million over two years for the Infill Infrastructure Grant program, which prioritizes prime infill parcels in downtown-oriented areas and brownfields.
- \$500 million in affordable housing tax credits.
- \$464 million in 2022-23, and \$225 million in 2023-24, for the Affordable Housing and Sustainable Communities program to support land-use, housing, transportation, and land preservation projects for infill and compact development that reduce greenhouse gas emissions.
- \$200 million over two years for mixed income housing up to 120 percent of median income via the California Housing Finance Agency.
- \$200 million over two years for preserving existing affordable housing units in downtown areas.
- \$100 million over two years to expand affordable housing development and "adaptive reuse" (*conversion of commercial buildings to housing*) opportunities on state excess land sites.
- \$100 million over two years for adaptive reuse incentive grants, with a priority on projects located in downtown-oriented areas.

Homeless Assistance:

- \$1.5 billion General Fund over two years in dedicated resources to address immediate housing and treatment needs. Funding can be used to purchase and install tiny homes and to provide time-limited operational supports in these homes or in other bridge housing settings including existing assisted-living settings.
- \$500 million to deploy a substantially expanded program for jurisdictions to invest in rehousing strategies for people experiencing homelessness in encampments.
- \$10.6 million annually for three years to continue the Returning Home Well program, which provides transitional housing services to formerly incarcerated individuals who would otherwise be at risk of being unhoused upon release.

Community Grants

- \$30 million over three years, to support arts projects. Funding will also expand the cultural districts program to support traditionally underserved communities that reflect the geographic and racial diversity of the state.



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- \$50 million to the California Department of Parks and Recreation to create new California Cultural and Art Installations in the Parks program for state and local parks. Art installations will reflect local cultural heritages, connect the public to natural resources of state and local parks, and provide contemporary experiences to visitors.
- \$100 million in grants to local agencies to the Clean California program to remove trash and debris.
- \$100 million for various urban greening initiatives.
- \$85 million in competitive grants to local agencies to combat organized retail thefts.

Cannabis

- \$5.5 million to create a process for a single licensing system for all license types within the Department of Cannabis Control, which was recently formed from the consolidation of three separate cannabis state programs, and to begin the process of transitioning existing licensing into a unified system.
- \$2 million to develop a data warehouse to store data for the Department's website.
- \$6.1 million to launch a multi-year consumer education and awareness campaign, focused on safety issues and how to identify licensed, legal operators and products.
- \$594.9 million is available for distribution per formulas in existing law which provide 60 percent to education, 20 percent for clean-up and remediation, and 20 percent to public safety.
- The budget contemplates further developments on a local grant program to facilitate retail access to customers and modifications to cannabis tax policy intended to help stabilize the market.

Next Steps

The legislative budget committees will begin to review the Governor's proposals, including considering comments on the proposed expenditures by the Legislative Analyst's Office. Some activity could occur soon on several tax-relief items proposed to take affect prior to March 15. The Governor will update his budget in a "May Revise," that will reflect updated revenues and changes to his policy proposals. The deadline for the Legislature to adopt the state budget is June 15, which the Governor must sign by July 1. CALED will track the budget process and keep our members updated on major developments.

CONTACT:

The California Association for Local Economic Development (CALED) is the voice of economic development practitioners and stakeholders. With over 800 members, CALED is one of the largest economic development organizations in the country. We believe that through partnership and collaboration with local economic developers, the state of California can leverage the energy of California's economic development network to create positive impacts that benefit our businesses and residents while growing the economy.

<http://caled.org> or (916) 448-8252