

# ALERT

## Revenue Surge Permits Huge Hike in Budget Plan



Relying on a “once in a lifetime” surge in state revenues, Governor Gavin Newsom is proposing a revised state budget for 2021–22 roughly \$40 billion larger than what he proposed in January, and a whopping

\$65 billion, or one-third, larger than the budget adopted last summer.

The contrast between the devastation of the global pandemic, and the related social and economic dislocation in California, and the state’s unprecedented fiscal largesse is stunning.

But the conclusion is inescapable:

## Governor Proposes Additional \$1.5 Billion in Small Business Relief Grants

During remarks to the Sacramento Host Breakfast audience on May 13, Governor Gavin Newsom announced a proposal to expand California’s small business relief grants to \$4 billion, representing the largest small business grant program in the country.

The expansion is part of the Governor’s “California Comeback Plan,” a \$100 billion COVID-19 economic recovery plan that addresses some of the state’s most challenging issues, such as drought infrastructure, public education and homelessness. The plan also proposes a number of investments and strategies focused on helping businesses recover from the COVID-19 pandemic.

In response to the Governor’s

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California’s successful entrepreneurs and businesses have led the way in delivering the taxes that will provide an enhanced safety net, more spending on public schools and higher education, relief for small businesses and low-income renters, and even a cash payment to low and moderate income Californians.

CalChamber President and CEO Allan Zaremberg commented that the budget news “highlights the need to encourage policies and develop strategies that ensure businesses can continue to thrive in the state.”

### Income Redistribution

In fact, the revised budget proposal represents one of the most audacious

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## \$5.1 Billion Drought/Water Infrastructure Plan Includes Water Supply/Reliability



Governor Gavin Newsom on May 10 unveiled a \$5.1 billion plan for California’s water infrastruc-

ture, drought response and preparations for a “climate resilient system.”

In addition to the proposed \$5.1 billion funding, which will be spread out over four years, the plan includes \$1 billion to help Californians pay their overdue water bills.

### Drought Preparedness

The Governor’s plan makes investments to support safe drinking water, water supply and reliability, and flood resilience by allocating:

- \$1.3 billion for drinking water/wastewater infrastructure, especially for small and disadvantaged communities;
- \$150 million for groundwater cleanup and water recycling to improve climate resilience;
- \$300 million for Sustainable Groundwater Management Act (SGMA) implementation to improve water supply security, water quality, and water reliability;
- \$200 million for water conveyance to address subsidence and rising cost of moving water through the Friant-Kern Canal, the Delta-Mendota Canal, the

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Governor Gavin Newsom announces his proposal to expand the state’s small business relief grants during the Virtual Sacramento Host Breakfast.

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## Governor Announces \$12 Billion Plan to Combat Homelessness



At a May 11 press conference, Governor Gavin Newsom announced a \$12 billion package to address the homelessness crisis. The package is part of the Governor's \$100 billion "California Comeback Plan."

The funding to fight homelessness will include:

- \$7 billion for additional acquisitions for Homekey, the grant program set up in 2020 to enable agencies to acquire hotels, motels, apartments, and other buildings to provide homes for people experiencing or at risk of homelessness;

- \$1.75 billion to build thousands of affordable homes;
- \$447 million to address student homelessness at the University of California, California State University and California Community Colleges;
- \$150 million to stabilize and rehouse clients of Project Roomkey, the state effort launched in April 2020 to leverage Federal Emergency Management Agency (FEMA) funding to secure hotel and motel rooms for people experiencing homelessness;
- \$1.85 billion in new housing for homeless families;
- \$1.6 billion in rental support and homeless prevention for families; and

- \$40 million in grants to local governments.

In addition, the Comeback Plan includes:

- more than \$50 million to provide targeted programs and grants to local governments to help people move out of encampments and into more stable housing; and
- \$1.5 billion to transform public spaces and clean public spaces near highways. The Governor's office projects the program will create an estimated 15,000 jobs, including low-barrier jobs for people experiencing or exiting homelessness, at-risk youth, veterans and persons re-entering the workforce after being incarcerated.

## Governor's Recovery Plan Includes Stimulus Checks, Rent Relief



Governor Gavin Newsom began the week by announcing a plan to provide financial relief to millions of Californians.

The plan includes Golden State Stimulus payments to individuals — a total of nearly \$12 billion — plus rent relief, and payment of overdue utility and water bills.

The program is part of the Governor's \$100 billion "California Comeback" economic recovery plan.

The Governor says 2 of every 3 Californians will receive a direct cash payment from the state with the tripling of the Golden State Stimulus:

- \$600 directly to all taxpayers who make up to \$75,000 a year and did not receive a first payment.
- An additional \$500 in direct

payments to families with dependents, including the families of undocumented individuals.

Other assistance includes:

- \$5.2 billion for low-income renters to cover back rent and rent for several months to come.
- \$2 billion to help Californians pay overdue water and utility bills.
- Money for tenant legal services.

## \$5.1 Billion Drought/Water Infrastructure Plan Includes Supply

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California Aqueduct, and the San Luis Canal;

- \$220 million for Salton Sea to maximize habitat outcomes and provide immediate economic relief to the community;
- \$140 million to reduce flood risk for 1.1 million people and more than \$100 billion of assets;
- \$200 million for Oroville Pump Storage to increase clean electricity generation to improve grid reliability; and
- \$60 million for State Water Efficiency and Enhancement (SWEEP) grants to help farmers reduce irrigation water use and reduce greenhouse gas emissions from agriculture pumping.

### Drought Support

The plan includes immediate drought support by allocating:

- \$91 million for critical data collection to improve forecasting, monitoring and assessment of hydrologic conditions;
- \$27 million for emergency and permanent solutions to drinking water drought emergencies;
- \$500 million for multi-benefit land repurposing to support growers with long-term, flexible support;
- \$300 million for drought relief and urban water management grants for approximately 2,400 small community water systems that serve schools and all of California's 58 counties as they plan for drought and potential water shortages; and

- \$33 million for fisheries and wildlife to protect and conserve California's ecosystems.

### Other Allocations

The plan also allocates:

- \$266 million for water resilience projects to improve ecosystem health for native fish in the Sacramento and San Joaquin rivers and their tributaries;
- \$230 million for ecosystems to improve the ability of fish and wildlife to migrate safely; and
- \$200 million for habitat restoration and multi-benefit projects including tidal wetland, floodplain, and flood-risk reduction projects to restore fish and wildlife habitat.

# Governor’s \$20 Billion Plan Aims to Transform Public Schools into ‘Gateways of Opportunity’



Governor Gavin Newsom announced a plan on May 12 to boost spending on California public

schools by \$20 billion, including creating universal pre-kindergarten and college savings accounts for children from low-income homes.

Described by the Governor as a plan for “transforming public schools into gateways of equity and opportunity,” the expanded school funding is part of the Governor’s \$100 billion California Comeback Plan.

The added funding also brings state school funding to the highest level in state history.

A fact sheet from the Governor’s office outlines the funding allocations as follows.

## Community Schools

- \$3 billion to convert thousands of school sites into full-service community schools, with mental health, social and family services.

- \$4 billion over five years to transform the youth behavioral system (ages 0–25) to identify and treat behavioral health needs early, including trauma, depression, anxiety, psychological disorders and substance use.

- \$2.6 billion to accelerate learning through research-tested interventions, such as high-dose tutoring. This builds on \$4.6 billion made available in March.

- \$1 billion for summer school and after-school programs at all schools serving the highest concentrations of vulnerable students, growing to \$5 billion by 2025.

- \$3.3 billion to match well-prepared teachers with the most vulnerable students, including \$500 million in grants for teachers who commit to serving in high-needs schools and \$250 million to attract more teachers to high-poverty schools.

- \$1.1 billion to improve staff-to-student ratios at all schools serving the highest concentrations of vulnerable students, including up to five additional counselors, nurses, teachers or paraeducators at each school.

## Care for Children

- Universal transitional kindergarten by 2024, phasing in access for 4-year-olds; the allocation will grow to \$2.7 billion in 2024–25.

- Reducing class sizes, cutting adult-to-child ratios in half; the investment will grow to \$740 million by 2024–25.

- Expanding subsidized child care slots by 100,000 to address immediate needs.

## Savings Accounts

- \$2 billion to create savings accounts for students enrolled in K–12 public schools, including a \$500 base deposit for students from low-income families, English learners and foster youth, and a \$500 supplemental deposit for foster and homeless youth. Recipients can use the savings account later in life for higher education or to start their own business.

- \$170 million in ongoing annual funding for incoming first graders who fit the same criteria.

# Governor Proposes Additional \$1.5 Billion in Small Business Relief Grants

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announcement, CalChamber President and CEO Allan Zaremberg said:

“We applaud the Governor’s proposal to provide an additional \$1.5 billion in COVID-19 relief grants to small businesses. Legislators should adopt the Governor’s proposal and not diminish the positive impacts by enacting costly, onerous new regulations.

“Let’s not forget, it is California’s successful businesses that have provided a once-in-a-generation budget surplus that will allow the state to address some of its most pressing needs.”

## Help for Businesses

The Comeback Plan supports businesses by:

- Providing an additional \$1.5 billion for the California Small Business COVID-19 Relief Grant Program, bringing the total investment to \$4 billion;

- Increasing the CalCompetes Tax Credit to \$360 million, and establishing a \$250 million CalCompetes grant program to incentivize businesses to relocate to California;

- \$250 million to address revenue impact on ports to drive economic

activity, goods movement, and regional employment;

- \$147 million for the Main Street Small Business Tax Credit to assist small businesses that have hired and retained workers since the second quarter of 2020; and

- \$200 million to expand sales tax exclusions through the California Alternative Energy and Advanced Transportation Financing Authority to promote, grow and incentivize green manufacturing in California.



## Californians Can Thank '70s Tax Revolt for Rebate of Budget Surplus \$s



Most Californians will enjoy a one-time tax rebate or payment, courtesy of a massive state revenue windfall and a 42-year-old remnant of the Tax Revolt of the 1970s.

As part of his \$100 billion “California Comeback Plan,” Governor Newsom announced his intent to deliver “stimulus” checks of at least \$600 to two-thirds of state residents, plus \$500 to families with kids.

The new cash infusion of \$8 billion comes on top of \$4 billion previously distributed to Californians with low and moderate incomes. The new payments will go to taxpayers who make up to \$75,000 a year and who did not receive a first payment.

It’s hard to imagine that, faced with such a large revenue windfall, any elected official wouldn’t return money to taxpayers. In this case, about one out of every six surplus dollars will wind up directly in the hands of state residents.

But there’s also little doubt that the 1979 citizens’ initiative, which requires return of surplus revenues to taxpay-

ers and to schools, played a role in the amount and timing.

Indeed, whether the Governor’s rebate scheme lives up to the spirit of the initiative may come under scrutiny. The Constitution requires half of surplus revenues to “be returned by a revision of tax rates or fee schedules,” which suggests a direct tax reduction for all taxpayers, rather than targeting grant payments to a subset of California residents.

Indeed, Californians with incomes below \$75,000 pay very little in income taxes. Whether the Legislature or individual taxpayers challenge the Governor’s proposal remains to be seen.

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income redistributions in California history.

For the 2020 and 2021 fiscal years, personal income tax receipts are forecasted to be \$38 billion higher than what was estimated in January. (Corporate income taxes added up to \$4.5 billion to the revenue windfall.)

The top 5% of earners pay two-thirds of all income taxes, and probably account for an even higher share of the surplus revenues.

Meanwhile, much of the new state spending will be directed to new support and programs for struggling families and businesses, burdened renters, homeless individuals, and low-income college students, among many others. These are traditional and proper responsibilities of state government, and this revenue/spending dynamic should answer critics for whom the only policy construct is “inequality.”

### Highlights

Other notable elements of the Governor’s budget proposal include:

- **A record \$24.4 billion in budget reserves**, recognizing both the volatility of the state’s revenue sources and the pressures new spending programs exert on budget planning.

- **About \$1 billion to partially replenish the state’s unemployment insurance (UI) trust fund**, which is projected to have a deficit of more than \$24.3 billion at the end of 2021. This is a notable first step, but the state should step up and make a more substantial contribution. Absent allocation of state funds, employers are required to replenish this fund from higher UI payroll taxes. The pandemic may have been an act of God, but the State bears some responsibility for the subsequent economic shutdown and unemployment.

- **Payments of more than \$11 billion over the next three years** to pay down the state’s long-term retirement liabilities.

- **Increased spending on public schools** in the amount of nearly \$14,000 per student. The three-year increase for schools and community colleges is \$17.7 billion — and this is before additional revenues from the surplus are added. The Governor intends that some of this new spending be used to:

- Offer year-round access to enrichment and extended-day supplemental education programs in low-income communities;
- Improve teacher preparation and training;
- Increase support staff, including counselors, social workers and nurses; and

- Increase access to school-based nutrition.

- **California’s four-year colleges and universities will receive another billion dollars** in ongoing support. In an effort to make college more affordable for the 3.8 million low-income children in public schools today, the May Revision invests \$2 billion to create a California Child Savings Accounts program.

- **An enormous portion of the windfall will be devoted to homelessness**, a problem Californians identify as second only to pandemic response as their highest priority. The Governor proposes devoting another \$11.9 billion over the next two fiscal years to combat homelessness.

- **Much of the new, one-time revenues will be devoted to nonrecurring functions** like infrastructure, including \$5.1 billion to expand and protect water supplies for drought relief; bringing total investments to \$3.2 billion for zero emission transportation infrastructure, like short-haul trucks and additional charging and fueling infrastructure to support more clean vehicles; and nearly \$10 billion for highway, bridge and rail projects.

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