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**MEMORANDUM**

**FROM:** Kahn, Soares & Conway, LLP

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**RE:** Governor Newsom Introduces Proposed California Budget for 2021-22

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This morning, Governor Gavin Newsom presented his proposed \$227 billion budget for the 2021-2022 fiscal year, of which \$164.5 billion is from the General Fund. The Governor's proposed budget relies heavily on one-time expenditures, avoiding long-term liabilities, since the State's out year projections predict reduced revenues. Additionally, the Governor made it clear federal COVID-19 relief assistance is expected to increase spending and that he would work with the Legislature to allocate federal funds as they become available.

The budget reflects \$34 billion in budget resiliency – budgetary reserves and discretionary surplus – including: \$15.6 billion in the Proposition 2 Budget Stabilization Account (Rainy Day Fund) for fiscal emergencies; \$3 billion in the Public School System Stabilization Account; an estimated \$2.9 billion in the state's operating reserve; and \$450 million in the Safety Net Reserve. The Administration is predicting a \$15 billion surplus.

This proposed budget prioritizes the Governor's goals of economic recovery, equity, climate resiliency and emergency response. Governor Newsom was clear that every budget allocation was made in an effort to achieve these four goals.

**I. Sustainable Agriculture**

Governor Newsom was clear in his press conference that sustainable agriculture achieves the joint goals of addressing climate change and equity in historically disadvantage communities.

The proposed budget aims to advance Climate Smart Agriculture by investing in:

- **Funding Agricultural Replacement Measures for Emission Reductions (FARMER)**—\$170 million one-time Greenhouse Gas Reduction Fund (\$90 million in 2020-21 and \$80 million in 2021-22) for the Air Resources Board to provide funding that supports the replacement of agricultural harvesting equipment, agricultural pump engines, tractors, and other equipment used in agricultural operations to reduce greenhouse gas emissions.
- **Healthy Soils Program**—\$30 million one-time Greenhouse Gas Reduction Fund (\$15 million in 2020-21 and \$15 million in 2021-22) for the Department of Food and Agriculture to provide grants for on-farm soil management practices that sequester carbon.

- **Climate Catalyst Fund**—\$50 million one-time General Fund to the California Infrastructure and Economic Development Bank (IBank) to support Climate Smart Agriculture loans to advance projects that may include but are not limited to: methane reduction; equipment replacement; water efficiency; healthy soils; circular economies; on-farm bioenergy; energy efficiency for food processing; and renewable energy systems and energy storage for agricultural operations.

The Administration is supporting local communities and the agriculture industry transition to sustainable groundwater use by aligning state investments and policies to enable implementation of the Sustainable Groundwater Management Act allocating:

- **Sustainable Groundwater Management Act Grants**—\$60 million one-time General Fund (\$30 million in 2020-21 and \$30 million in 2021-22) to the Department of Water Resources for grants to support economic mitigation planning and groundwater implementation projects across critically over-drafted basins.
- **State Water Efficiency and Enhancement Program Grants**—\$40 million one-time General Fund (\$20 million in 2020-21 and \$20 million in 2021-22) to the Department of Food and Agriculture to provide incentives that help farmers reduce irrigation water use and reduce greenhouse gas emissions from agriculture pumping.

The Administration proposed a four-year phased in mil assessment increase. The mil will be tiered based on EPA hazard designations, with the pesticides with highest toxicity being assessed the highest. At the end of the four years, those products will be paying approximately 45 mils. There will also be new money for DPR air monitoring and enforcement.

Lastly, the proposed budget includes \$6.7 million one-time General Fund (\$3.35 million in 2020-21 and \$3.35 million in 2021-22) to contract with the University of California Cooperative Extension to provide direct technical assistance and grants to technical assistance providers and small, mid-sized, and underserved farmers.

## II. Equity and Economic Recovery

The budget includes a total of \$384.6 million to support farmers with technical assistance, regulatory changes, and climate smart agriculture investments.

The budget also proposes a broad-based recovery package to support businesses, individuals and job creation both during the pandemic and as the State recovers. It totals \$14 billion, including \$3.5 billion in immediate relief for individuals and small businesses disproportionately impacted by the pandemic.

Lastly, the Golden State Stimulus is a tax refund for low-income households intended to provide cash support to families who are most likely to have suffered economically from the COVID-19 pandemic. Regardless of income, all Californians pay a variety of taxes, including on the purchase of taxable goods. Totaling \$2.4 billion, this proposal would refund \$600 of those taxes to all 2019 taxpayers who received a California Earned Income Tax Credit (Cal EITC) in 2020 as well as to 2020 taxpayers with individual tax identification numbers (ITINs) who receive a Cal EITC in 2021.

**Equitable and Broad-Based Recovery Package**

[Dollars in Thousands]

<b>Immediate Relief</b>	<b>2020-21</b>	<b>2021-22</b>	<b>Total</b>	<b>Timing</b>
Golden State Stimulus	\$ 2,400,000	\$ -	\$ 2,400,000	Early Action
1st Round of Small Business Grants	\$ 500,000	\$ -	\$ 500,000	DREOA
2nd Round of Small Business Grants	\$ 550,000	\$ -	\$ 550,000	Early Action
Fee Waivers	\$ 70,600	\$ -	\$ 70,600	Early Action
Cultural Institutions Grants	\$ 25,000	\$ -	\$ 25,000	Early Action
<b>Immediate Relief Total</b>	<b>\$ 3,545,600</b>	<b>\$ -</b>	<b>\$ 3,545,600</b>	
<b>California Jobs Initiative</b>				
<u>Jobs and Regional Development</u>				
Increase CalCompetes Tax Credits*	\$ 90,000	\$ 90,000	\$ 180,000	Early Action
CalCompetes Grant Program	\$ 250,000	\$ -	\$ 250,000	Early Action
<u>Small Businesses</u>				
Main Street Small Business Tax Credit*	\$ -	\$ 100,000	\$ 100,000	2021 Budget
California Dream Fund	\$ 35,000	\$ -	\$ 35,000	Early Action
California Rebuilding Fund	\$ 12,500	\$ -	\$ 12,500	DREOA
iBank's Small Business Finance Center	\$ -	\$ 50,000	\$ 50,000	2021 Budget
Small Business Loan Guarantees	\$ -	\$ 50,000	\$ 50,000	2021 Budget
<u>Climate Innovation</u>				
California Alternative Energy and Advanced Transportation Financing Authority Sales Tax Exclusion*	\$ -	\$ 100,000	\$ 100,000	2021 Budget
<b>California Jobs Initiative Total</b>	<b>\$ 387,500</b>	<b>\$ 390,000</b>	<b>\$ 777,500</b>	
<b>Workforce Development</b>				
<u>Higher Education</u>				
California Institutes for Science and Innovation	\$ -	\$ 20,000	\$ 20,000	2021 Budget
UC Programs in Medical Education (PRIME)	\$ -	\$ 12,900	\$ 12,900	2021 Budget
Computing Talent Initiative	\$ -	\$ 10,000	\$ 10,000	2021 Budget
Work-Based Learning (Prop 98)	\$ -	\$ 20,000	\$ 20,000	2021 Budget
California Apprenticeship Initiative (Prop 98)	\$ -	\$ 15,000	\$ 15,000	2021 Budget
Workforce Development and Higher Education	\$ -	\$ 250,000	\$ 250,000	2021 Budget
<u>Labor</u>				
Apprenticeship Programs	\$ 25,000	\$ -	\$ 25,000	Early Action
<b>Workforce Development Total</b>	<b>\$ 25,000</b>	<b>\$ 327,900</b>	<b>\$ 352,900</b>	
<b>Other</b>				
Schools Reopening	\$ 2,000,000	\$ -	\$ 2,000,000	Early Action
Schools Extended Learning Time	\$ 4,557,000	\$ -	\$ 4,557,000	Early Action
Housing	\$ 250,000	\$ 250,000	\$ 500,000	Early Action/2021 Budget
Deferred Maintenance	\$ -	\$ 300,000	\$ 300,000	2021 Budget
Agriculture Package	\$ 162,400	\$ 222,200	\$ 384,600	Early Action/2021 Budget
Climate Catalyst Fund: Forest Resilience	\$ 47,000	\$ -	\$ 47,000	Early Action
Zero-Emission Vehicle Package	\$ 239,000	\$ 226,000	\$ 465,000	Early Action/2021 Budget
Zero-Emission Vehicle Securitization	\$ -	\$ 1,000,000	\$ 1,000,000	2021 Budget
<b>Other Total</b>	<b>\$ 7,255,400</b>	<b>\$ 1,998,200</b>	<b>\$ 9,253,600</b>	
<b>Equitable and Broad-Based Recovery Total</b>	<b>\$ 11,213,500</b>	<b>\$ 2,716,100</b>	<b>\$ 13,929,600</b>	

\*The actual General Fund impact will be spread over multiple fiscal years.

**III. COVID-19 Response**

The COVID-19 response includes the following core response efforts that have been critical to mitigating the spread, preparing and expanding the health care system for a surge of cases, and providing for the necessary supports to reopen schools:

- PPE and other procurements
- Laboratory testing
- Contact tracing
- Health corps
- Hospital surge preparation
- Hotels for health care workers
- Community engagement

The Administration’s budget has proposed \$4.4 billion related to COVID-19 relief, of which the breakdown is as follows:

- \$2 billion: Testing
- \$473 million: Contact tracing
- \$372 million: Vaccines roll-out
- Additional funding for state response

#### IV. Climate Resiliency

The budget proposes a \$1.5 billion comprehensive strategy to achieve the state’s zero-emission vehicle goals by 2035 and 2045, including securitizing up to \$1 billion to accelerate the pace and scale of the infrastructure needed to support zero-emission vehicles.

**Cap and Trade Expenditure Plan**  
(Dollars in Millions)

Investment Category	Department	Program	Early Action 2020-21	Budget Year 2021-22	Total
Equity Programs	Air Resources Board	AB 617 - Community Air Protection	\$125	\$140	\$265
		AB 617 - Local Air District Implementation	\$0	\$50	\$50
		AB 617 - Technical Assistance to Community Groups	\$0	\$10	\$10
	Water Board	Safe and Affordable Drinking Water (\$130 million total)	\$30	\$24	\$54
Low Carbon Transportation & ZEV Strategy	Air Resources Board	Clean Trucks, Buses, & Off-Road Freight Equipment	\$165	\$150	\$315
		Agricultural Diesel Engine Replacement & Upgrades	\$90	\$80	\$170
		Clean Cars 4 All & Transportation Equity Projects	\$74	\$76	\$150
Natural & Working Lands	CAL FIRE	Healthy & Resilient Forests (SB 901) (\$75 million included in 2020 Budget)	\$125	\$200	\$325
	Department of Food & Agriculture	Healthy Soils	\$15	\$15	\$30
<b>Total</b>			<b>\$624</b>	<b>\$745</b>	<b>\$1,369</b>

#### V. Emergency Response and Preparedness

After an unprecedented wildfire season in 2020, this budget prioritizes increasing CAL FIRE’s staffing and response capabilities. Under the California Emergency Services Act, the California Governor’s Office of Emergency Services (Cal OES) serves as the state’s leadership hub during all major emergencies and disasters. This includes responding, directing, and coordinating state and federal resources and mutual aid assets across all regions to support the diverse communities across the state.

The budget includes \$282 million General Fund for Cal OES for the following targeted investments:

- California Disaster Assistance Act (CDAA)—\$256.1 million one-time General Fund to assist local governments in serving their communities during and in the wake of emergency events. This funding will be used to repair, restore, or replace public real property damaged or destroyed during disaster events

or reimburse local governments for eligible costs associated with emergency activities undertaken in response to a state of emergency proclamation by the Governor.

- California Earthquake Early Warning System—\$17.3 million one-time General Fund to support the California Earthquake Early Warning System.
- Regional Hazardous Materials Response—\$3.6 million ongoing General Fund to build the state’s ability to respond to regional emergencies involving hazardous materials. California has 12 Regional Hazardous Material Response teams positioned throughout the state to respond to hazardous material incidents.
- Deferred Maintenance—\$5 million one-time General Fund to address identified deferred maintenance needs, as described in the Five-Year Infrastructure Plan.

The Department of Forestry and Fire Protection (CAL FIRE) provides resource management and wildland fire protection services covering over 31 million acres. It operates 234 fire stations and also staffs local fire departments when funded by local governments. CAL FIRE contracts with county agencies in six counties to provide wildland fire protection services. The budget includes \$2.9 billion (\$2 billion General Fund) and 8,735 positions for CAL FIRE.

The budget proposes \$124.5 million in ongoing General Fund, and \$24.2 million in one-time General Fund in out-years for related capital outlay costs for CAL FIRE and the California Conservation Corps (CCC) to support 30 additional fire crews, including 16 seasonal firefighter crews and 14 CCC crews. Additionally, \$1 billion has been allocated to implement the Wildfire and Forest Resiliency Strategy, which will streamline forest management and ensure that CAL FIRE is prepared to respond to wildfires.

## **VI. Conclusion**

The Governor closed his presentation ensuring Californians that “we are in a better fiscal footing than we could have imagined months ago.” Now that the budget has been introduced, the Legislature will begin holding committee hearings on the items proposed in anticipation of the May budget revision. The Legislature will then have until June 15 to finalize the budget and send it to the Governor for his signature.