Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Christopher Cabaldon, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Monday, May 19, 2025
9:00 a.m.
State Capitol - Room 113

Consultants: Elisa Wynne, Timothy Griffiths, Jessica Uzarski

ITEMS FOR DISCUSSION

Public Comment

Please Note: Public comment will be taken after all Issues have been heard.

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DISCUSSION ITEMS

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

Item 1: Economic Development Proposals in the May Revision

Highlighted Economic Development Proposals in the May Revision. The Governor's May Revision includes the following adjustments to the proposed budget for the Governor's Office of Business and Economic Development (GO-Biz):

- **Withdrawal of the $60 million proposed for the CalCompetes Grant program**. The CalCompetes program provides financial incentives for businesses to relocate to California, or to remain here if they might otherwise leave. Historically, CalCompetes has had two distinct programs: a tax credit program and a grant program. Under the grant-based program, CalCompetes provides direct funding to businesses in exchange for their promise to make investments and to hire in California. Businesses that receive a CalCompetes Grant still have to carry out their investment and hiring agreements, but unlike what happens under the tax credit model, businesses that receive CalCompetes grants get their CalCompetes money even if they end up owing little or nothing in state taxes. The 2021, 2022 and 2023 Budget Acts all included one-time allocations of $120 million to the CalCompetes Grant program. In light of the budget shortfall at the time, the 2024 Budget Act did not include any funding for the CalCompetes Grant Program. The Governor's January 2025 Budget proposed to reinstate the CalCompetes Grant program in fiscal year 2025-26 in the amount of $60 million. The May Revision now withdraws this proposal.

- **Reversion of $11.5 million from the Performing Art Equitable Payroll Program.** SB 1116 (Portantino, Ch. 731, Stats. 2022) established the Performing Arts Equitable Payroll Fund grant program. As its name implies, the program was designed to support the workers behind live performances by reimbursing many of their employers' payroll expenses. The 2023 Budget Act appropriated $12.5 million to the program. The program recently accepted its first round of applications, but has not yet made any awards. The May Revision now proposes to revert the unspent balance of $11.5 million from this program back to the General Fund, effectively eliminating the program.

Additional May Revision Proposals.

The May Revision also seeks:

- Expanded 2025-26 reimbursement authority in the amount of $230,000 to receive federal reimbursements for the **Outsmart Disaster Program**.

- Reappropriation of $700,000 in administrative costs associated with the **Containerized Ports Interoperability Program** through June 30, 2026, providing an additional year for these funds to be utilized.

- Reappropriation of $240,000 in administrative costs associated with operation of the **Women's Business Center Enhancement Program** in the Office of the Small Business Advocate (CalOSBA), providing an additional year for these funds to be utilized.

- Reappropriation of $2 million in funding for the **Zero Emissions Vehicle (ZEV) Program**. As originally appropriated, this funding was available for encumbrance through June 30, 2026. When the program was transferred from the Governor's Office of Land Use and Climate Innovation to GO-Biz last year, however, the encumbrance date was inadvertently moved up to June 30, 2025. This request restores the original encumbrance date for these funds.

- The adoption of provisional budget language authorizing the Department of Finance to increase the 2025-26 General Fund appropriation to GO-Biz by up to $650,000 in order to meet the federal matching requirement for **State Trade Expansion Program** awards.

Staff Recommendation: Hold Open.

0650 GOVERNOR'S OFFICE OF LAND USE AND CLIMATE INNOVATION
2240 HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT

Item 2: Housing-Related Proposals in the May Revision

Highlighted Housing-Related May Revision Proposals. The Governor's May Revision proposes the following housing-related adjustments to the 2025-26 budget:

- Adoption of budget trailer bill language that would:

    - subject the California Coastal Commission's review of housing project permit applications to the shorter California Environmental Quality Act (CEQA) timelines that apply to other lead agencies under the Permit Streamlining Act;

    - enable project developers to meet their environmental mitigation obligations under CEQA by paying into a Department of Housing and Community Development (HCD) fund to help finance housing projects that reduce Vehicle Miles Traveled (VMT);

    - allow housing developments involving more than $100 million in investment the option of utilizing the same streamlined CEQA process already open to smaller housing projects; and

    - provide housing development projects with the option of meeting the air quality requirements to qualify for CEQA streamlining by showing consistency with the California Air Resources Board's Scoping Plan instead of using a quantitative net-zero greenhouse gas emissions analysis.

  The Legislative Analyst's Office (LAO) recommends deferring consideration of this proposal to "allow the Legislature more time and capacity for sufficient consideration of the potential benefits, implications, and trade-offs […]."

- Reversion of $31.7 million in unexpended balances from affordable housing production programs back to the General Fund. Specifically, the May Revision would take back $14.5 million previously appropriated to the Infill Infrastructure Grant Catalytic Program; $10 million from the Commercial Property Pilot Program, and $7.2 million from the 2021 Infill Infrastructure Grant program. The LAO recommends approving this proposal, concluding that it "has merit given the state's budget condition and given that these funds--which were appropriated two or more years ago--have not yet been awarded."

- Augmentations of $902,000 in General Fund and 3 positions in 2025-26 and 2026-27, as well as $560,000 annually after that to support "various accountability activities, including codes and standards activities; litigation; Accessory Dwelling Unit compliance-monitoring workload; and public records act compliance." While noting that the caption for the Budget Change Proposal underlying this request differs somewhat from the content, the LAO ultimately recommend approval on the ground that "documentation from the administration in its proposal indicates a notable increase in recent years in Public Records Act and other department legal workload, which--given HCD's current attorney staffing level--suggests the additional positions and funding requested have merit."

Context. After incorporating the May Revision, the Governor's proposed 2025-26 state budget:

- *contains no new funding for the affordable housing finance programs* at the Housing and Community Development Department (HCD);

- *reduces existing funding for these programs* by almost $32 million by reverting unspent balances back to the General Fund;

- *offers no supplemental state Low-Income Housing Tax Credits* (LIHTC), unlike the past five budgets, which funded this key affordable housing production resource at an annual level of $500 million; and

- *potentially puts current funding levels for the Affordable Housing and Sustainable Communities (AHSC) program, a key source of ongoing affordable housing funding, at risk.* AHSC is funded by a continuous appropriation of 20 percent of the Greenhouse Gas Reduction Fund (GGRF). The May Revision proposes to shift some fire and high speed rail costs onto the GGRF without providing assurance that the existing funding levels for the remaining continuously appropriate funds would be maintained, including AHSC.

The text accompanying the May Revision does indicate that the Administration is "open to working with the Legislature on a potential statewide bond measure to fund critical investments in housing and infrastructure." Currently pending legislation by Senator Cabaldon (SB 417) and Assemblymember Wicks (AB 736) would each provide possible vehicles for such a bond measure, but neither would reach the voters before 2026, there is no guarantee of passage, and even if the bond did pass, there would be a further lag before these funds would become available for award and disbursement.

Other Housing-Related May Revision Proposals.

The Governor's May Revision also seeks:

- Increased Federal Trust Fund authority to receive $417 million in additional Community Development Block Grant – Disaster Recovery funds for long-term recovery efforts relate to 2023 and 2024 winter storms, flooding, and mudslides. The LAO recommends approving this request.

- Adoption of budget trailer bill language to exempt projects funded through Proposition 1 of 2024 from the California Constitution Article 34 requirement to subject approval of specified affordable housing development projects to a public vote. The LAO recommends approval of this request, finding that it is "consistent with other exemptions allowed by the Legislature."

- Other technical adjustments, including requests to:

    - direct $24 million in remaining Transit-Oriented Development (TOD) Proposition 1 (2017) and Proposition 1C (2006) bond funds to multifamily housing grants in 2025-26;

    - utilize $20.5 million in Infill Infrastructure Grant (IIG) Proposition 1C (2006) bond funds for tribal multifamily housing grants in 2025-26, and

- o give specified Infill Infrastructure Grant (IIG) awardees an additional three years to fully liquidate the funds they received.

The LAO recommends approving these proposed adjustments on the grounds that they would "allow the state to use remaining prior-year bond funds consistent with their original purpose (affordable housing), and give project awardees more time to spend their General Fund-supported IIG grants."

Staff Comment: In general, the Governor's January 2025 Budget Proposal and the May Revision appear to reflect an effort to find ways to support housing production and stability without directly investing General Fund for that purpose. Along these same lines, the Legislature may wish to explore the possibility of extending funding for legal services for low-income homeowners at risk of losing their homes to foreclosure. This could potentially include tapping any unused balances that may still be available from the $300 million in National Mortgage Settlement (NMS) funds previously allocated to the California Housing Finance Agency in 2020 for housing counseling, among other things. (See AB 83, Ch. 83, Stats. 2020.) Absent renewed funding, this program will expire on June 30, 2025.

Staff Recommendation: Hold Open.

2240 HOUSING AND COMMUNITY DEVELOPMENT

Item 3: Homelessness

Highlighted Proposals in the May Revision. The Governor's May Revision makes no adjustments to the previously proposed amount of state General Fund in the budget directed toward addressing homelessness in the 2025 Budget.

(The May Revision summary does note that it "reflects $200 million in Proposition 35 funds over two years for Flexible Housing Pool rental assistance and housing support to help individuals with significant behavioral health conditions who are experiencing, or at risk of, homelessness […].")

Resulting Budget Outlook for Funding to Address Homelessness. Because the May Revision does not include any new General Fund appropriations for addressing homelessness, the Governor's proposed budget in this area remains limited to the $100 million in Encampment Resolution Fund (ERF) resources carried over from the 2024 budget negotiation. In particular, this means that the Governor proposes:

- No new funding for the Homeless Housing, Assistance, and Prevention (HHAP) program. The HHAP program provides relatively flexible funding to counties, large cities, and continuums of care to support local efforts to address homelessness. Recent budgets have including $1 billion in one-time funding for HHAP each year and there is some evidence that these funds and other efforts have slowed the growth of homelessness. Last year, for example, California's Point-in-Time (PIT) homelessness counts showed an increase of just 3 percent compared with a national average increase of 18 percent. It is not clear whether this performance could be maintained long-term in the absence of continued HHAP funding.

Staff Recommendation: Hold Open.

0650 GOVERNOR'S OFFICE OF LAND USE AND CLIMATE INNOVATION

Item 4: Governor's Office of Land Use and Climate Innovation May Revision Proposals

Highlighted Proposals in the May Revision. The Governor's May Revision includes the following adjustments to the previously proposed budget for the Governor's Office of Land Use and Climate Innovate (GO-LCI):

- **Phase-out and eventual elimination of the California Education Learning Lab (CELL).** The Governor's January 2025 Budget proposed to maintain the CELL, but to transfer its operations from GO-LCI to the Government Operations Agency. The May Revision eliminates CELL over the course of two years, resulting in $5.25 million in General Fund savings in 2025-26 and $4 million in ongoing General Fund savings annually after that. The May Revision proposal retains $250,000 in General Fund for CELL during the phase-out period to pay for the Director position. The Legislative Analyst's Office (LAO) recommends eliminating even this expense.

- **Authority to Require Submission of General Plan Progress Reports in Standardized Formats.** Under California planning laws, local jurisdictions must submit Annual Progress Reports to GO-LCI with updates on the implementation of their General Plans. GO-LCI reports that, over time and between jurisdictions, the format for these reports varies, making it harder to track and compare them. To address the issue, the May Revision proposes the adoption of budget trailer bill language authorizing GO-LCI to require local governments to submit Annual Progress Reports on their General Plan implementation using standards, forms, and definitions set by GO-LCI. The LAO's review of this proposal did not raise any concerns for them.

Other Proposals Relating to GO-LCI in the May Revision:

The Governor's May Revision also seeks:

- Adoption of budget trailer bill language that would tie the definition of "vulnerable communities" for purposes of the Integrated Climate Adaptation and Resilience Program (ICARP) to the most recent program resource guide published by GO-LCI. The LAO's review of this proposal did not raise any concerns for them.

- Modifications and hiring authority related to implementation of the Safe Drinking Water, Wildfire Prevention, Drought Preparedness, and Clean Air Bond Act of 2024 (Proposition 4 or the Climate Bond). The Governor's January 2025 Budget included a proposal for implementation of the Bond. That proposal was heard in this Subcommittee on March 27, 2025 and held open. (See the corresponding agenda for details on the proposal.) The May Revision now requests hiring authority for two programs funded by the Bond: two positions for implementation of the Extreme Heat and Community Resilience Program (EHCRP) and two positions for implementation of the Community Resilience Centers Program. The May Revision also proposes to move up $500,000 in technical assistance funding for the Transformative Climate Communities Program from the 2026-27 fiscal year to 2025-26.

- Various additional technical adjustments including $3.35 million in ongoing reimbursement authority to provide administrative support to the newly established Governor's Office of Service and Community Engagement (GO Serve); $2.9 million in Federal Trust Fund authority to support federal grant work of the Military Affairs team; an encumbrance period extension for existing CEQAnet project funding through June 30, 2027; and corrections to 2024 Budget Act solutions scoring.

Staff Recommendation: Hold Open.

1700 CIVIL RIGHTS DEPARTMENT

Item 5: Civil Rights Department May Revision Proposals

Proposals in the May Revision. The Governor's May Revision requests to include the following adjustments to the Civil Rights Department (CRD) budget for 2025-26:

- **California v. Hate Contracting Exemption.** The CA vs. Hate hotline is a system that allows individuals and organizations in California to report hate crimes and incidents over the phone or online. In response to these reports, trained operators offer the person making the report follow-up options such as filing a police report, submitting a complaint to CRD, or filing a claim with the California Victims of Crime Compensation Board. The Governor's January 2025 Budget requested $2.4 million in one-time 2025-25 General Fund to extend the California v. Hate Resource Hotline for an additional year. This Subcommittee voted to approve that proposal during its May 8, 2025 hearing. The May Revision now seeks an exemption from state contracting processes to enable CRD to renew its contract with 211 LA for operation of the CA v. Hate hotline for that additional year. CRD indicates that undertaking the usual open bid process would result in a significant disruption in services. The Legislative Analyst's Office (LAO) raises some questions about this request. In particular, the LAO notes that the timing of this request leaves the Legislature in a bind (insisting on standard contracting procedures at this stage in the game would result in significant service disruption) and that the same dynamic could well play out in future years if the program is extended again.

- **Reinstatement of Previous Approved Funding and Position Authority.** The 2021 Budget Act approved an appropriation of $1.7 million in ongoing General Fund and hiring authority for eight position at the Civil Rights Department (CRD). Due to an error, however, these resources were coded as limited term and were not included in the Governor's January 2025 Budget Proposal. The May Revision requests to correct the error by reinstating these resources to CRD. The LAO recommends approving this request, which it finds "consistent with previous legislative action."

Staff Recommendation: Hold Open.

0515 Business, Consumer Services and Housing

Item 6: Resources for the Proposed Reorganization of the Business, Consumer Services, and Housing Agency

Background. The Governor's January 2025 Budget proposed to restructure the Business, Consumer Services, and Housing Agency (BCSH) by splitting it into two new agencies: the Business and Consumer Services Agency (BCSA) and the California Housing and Homelessness Agency (CHHA). The proposal also included formation of a new Housing Development and Finance Committee charged with administering affordable housing funding programs in a more streamlined manner across departments.

The Administration formally presented its Reorganization Plan for to the Little Hoover Commission on April 4, 2025 and to the Legislature on May 4, 2025. Under the governing statutory timeline, the Little Hoover Commission will provide its recommendations regarding the Plan to the Legislature in early June 2025 and the Legislature has until July 3, 2025 to reject the Plan; otherwise it will go into effect.

May Revision Proposal. The Reorganization Plan explained how the Administration proposes to restructure BCSH, but did not specify the costs involved. The May Revision now details those costs and requests the corresponding changes to the state budget.

As detailed in the Administration's table below, under the proposed request, BCSH's existing budget would be distributed between the new CHHA, the new BCSA, and the California Interagency Council on Homelessness (Cal-ICH), the last of which would become a separate budget entity within the new CHHA. Existing funding from other, non-General Fund sources such as professional licensing fee revenues, would also transfer. The transfer of these existing resources does not fully fund the two new proposed agencies, however, as it does not cover staffing for leadership of a second agency (including a Secretary and General Counsel, among other positions) nor the costs associated with the formation of the new Housing Development and Finance Committee.

	Funding						Positions			
	2025-26		2026-27		2027-28 & Ongoing		2025-26		2026-27 & Ongoing	
	Existing	New	Existing	New	Existing	New	Existing	New	Existing	New
BCSA*	$ 3,044	$ 456	$ 3,044	$ 456	$ 3,044	$ 456	15		15	
CHHA	1,692	3,727	1,692	3,963	1,692	3,813	11	1.5	11	6
Cal ICH	13,720	-	11,654	-	11,654	-	45		45	
HDFC	-	322	1,552	2,253	1,552	2,253		1	9	6
(Total New GF)		*(4,049)*		*(6,216)*		*(6,066)*				
Totals	18,456	4,505	17,942	6,672	17,942	6,522	71	2.5	80	12
Total Combined (Existing + New)		22,961		24,614		24,464				

*Special Funds and Reimbursements

Note: the totals above do not reflect an offset to DCA's budget of -$69,000, which was included in the A-pages summary totals. With that included the total costs are $4.2 million ($4.0 million General Fund) in 2025-26, $6.4 million ($6.2 million General Fund) in 2026-27, and $6.2 million ($6.1 million General Fund) in 2027-28 and ongoing.

The bottom line is that, as set forth in the May Revision, the price tag for the proposed Reorganization Plan will be just over $4 million in 2025-26 General Fund and just over $6 million annually after that.

LAO Comment: "Given (1) that the review of the plan is still in process—meaning the Legislature may change it (or reject it)—and (2) the general budget condition and cost of this spending proposal, we recommend rejecting the proposal without prejudice and deferring any reorganization-related spending decisions to next year."

Staff Comment: The LAO is correct that this request for resources to fund the Governor's Reorganization Plan is somewhat cart-before-horse: the Legislature is asked to provide money for a Plan it has not yet decided to whether to approve. If the Legislature does opt to approve the Reorganization Plan, however, it would not necessarily have to wait until next year to provide the required resources; it could potentially do so through a Budget Bill Junior in late summer 2025.

Staff Recommendation: Hold Open.

8570 California Department of Food and Agriculture

Item 7: Animal and Human Health Emergency Infrastructure

Request. The Governor's May Revision budget proposal requests, for the California Department of Food and Agriculture (CDFA), $6.085 million General Fund (GF), and $5 million Federal Trust Fund (FF) 2025-26, $5.4 million GF and $5 million FF in 2026-27, $5.4 million GF and$5 million FF in 2027-28, and $5.29 million GF, $5 million FF, and $147,000 Department of Food and Agriculture Fund (Ag Fund) in 2028-29 and ongoing and 29.0 permanent positions to effectively respond to current and continued threats to animal and human health due to outbreaks of various animal health diseases including strains of the Highly Pathogenic Avian Influenza (Bird Flu) in California.

Background. New viruses that impact people, livestock, and poultry are occurring at an increasing rate, which create statewide concern due to the lack of general immunity, the viruses' ability to spread between populations, and the need for rapid response from trained experts. CDFA's Animal Health and Food Safety Services (AHFSS) Division is responsible for assuring the safety, availability, and affordability of animal agricultural products by protecting public and animal health. The Governor's budget states, however, that AHFSS' current infrastructure related to animal health emergencies is inadequate. California continues to face numerous introductions of high impact livestock and poultry diseases, requiring constant emergency activation of limited staff. CDFA proposes a plan to enhance detection, manage the increased workload, and invest in equipment.

To support emergencies such as the current Bird Flu outbreak, CDFA has a limited number of response specialists placed strategically around the state. These positions work closely with animal owners, private veterinarians, and the California Animal Health and Food Safety Laboratory System to detect disease introductions. The need for immediate detection is particularly true for viruses that are carried in large animal populations or animals in close contact with humans because of rapid replication, the higher risk of mutation, and the viruses' ability to cause public health threats. The Governor's proposal contains resources for these positions and services.

Staff Recommendation: Hold Open.

1115 DEPARTMENT OF CANNABIS CONTROL

Item 8: May Revision Proposals

Request. The Governor's May Revision budget proposal requests, for the California Department of Cannabis Control (DCC), an increase in expenditure authority of $2.29 million from the Cannabis Control Fund and 3.5 positions in 2025-26: $2.92 million and 13.0 positions in 2026-27, $4.04 million and 20.0 positions in 2027-28, and $3.98 million in 2028-29 and ongoing. The Department is also requesting statutory changes to transfer existing expenditure authority associated with its illicit enforcement activities of $56.62 million and 171.0 positions in 2025-26 and $70.95 million in 2026-27 and ongoing from the Cannabis Control Fund to the Cannabis Tax Fund. In addition, the Department is requesting an increase in expenditure authority of $4.83 million Cannabis Tax Fund and 5.5 positions in 2025-26, $2.07 million and 7.0 positions in 2026-27, and $2.06 million and 7.0 positions in 2027-28 and ongoing for increased enforcement support. In addition, the Governor's May Revision also includes trailer bill language related to expanded enforcement authority and Proposition 64 Amendments primarily related to enforcement.

Background. The Department of Cannabis Control (Department), established in July 2021 through the enactment of Chapter 70, Statutes of 2021 (AB 141), unified the regulatory frameworks of three distinct cannabis programs, which includes the Bureau of Cannabis Control from the Department of Consumer Affairs, the CalCannabis Cultivation Licensing Division from the California Department of Food and Agriculture, and the Manufactured Cannabis Safety Branch from the California Department of Public Health. The proposal states that this consolidation aimed to centralize oversight, streamline licensing, and bolster program expertise to regulate California's commercial cannabis industry more effectively.

Governor's May Revision includes a proposal to

- Shift $57 million in existing Cannabis Control Fund (CCF) enforcement expenditures to the Cannabis Tax Fund in 2025-26 (increasing to $71 million in 2026-27 and ongoing) in order to address a deficit in the Cannabis Control Fund.

- Increase enforcement expenditures from the Cannabis Tax Fund by $4.8 million in 2025-26 (declining to $2.2 million in 2026-27 and ongoing) to support the legal market by reducing illegal cannabis activity.

- Increase compliance expenditures from the Cannabis Control Fund by $2.3 million in 2025-25 (generally increasing to $4 million annually in 2028-29 and ongoing) to support the legal market by reducing illegal cannabis activity by licensees

The Governor's May Revision also include trailer bill language related to enforcement and illicit growth, and BSCC grants. The "Expand Department of Cannabis Control Enforcement Authority" trailer bill language relates to "sealing" premises, and the delegation of enforcement authority to local entities, and includes emergency rulemaking authority. The "Proposition 64 Amendments to Improve Enforcement Efforts" trailer bill language includes changes to how the Board of State and Community Corrections determines grant eligibility, and prioritization of such grants.

The May Revision estimates $454.3 million will be available for Allocation 3 programs in 2025-2026, reduced from the January estimate of $468.2 million.

The proposed allocation is as follows: as follows:

- Education, prevention, and treatment of youth substance use disorders and school retention – 60 percent ($281 million)
- Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation – 20 percent ($93.6 million)
- Public safety-related activities – 20 percent ($93.6 million)

LAO Comments on Budget Change Proposals and Fund Shifts: The LAO provided the following information in regards to the Governor's May Revise cannabis budget change proposals and related fund shifts, provided in a report to Budget Committee staff on May 17, 2025.

Three Ways to Address Deficit in Control Fund. Expenditures from the Cannabis Control Fund exceed fee revenues. Under current law, the administration projects that the fund's balance will drop below zero in 2026-27. The Legislature can respond in three ways:

(1) Raising licensing fees.

(2) Reducing spending on DCC's regulatory and enforcement activities.

(3) Funding some of DCC's activities from another source, such as the Cannabis Tax Fund.

This Choice Involves Trade-Offs. Either of the first two options would hinder the state's efforts to develop the licensed cannabis market, as both would make it more difficult for licensed businesses to compete with the illicit market. The third option would reduce funding for various program areas supported by the Cannabis Tax Fund, such as child care and environmental protection (these are sometimes referred to as "Allocation 3 programs" because they receive the third allocation of Cannabis Tax Fund monies under current law).

Administration's Proposal Prioritizes Licensed Cannabis Market. The administration proposes shifting $71 million of ongoing illicit market enforcement costs from the Cannabis Control Fund to the Cannabis Tax Fund. On one hand, this would avoid fee increases (which hinder the legal cannabis market by increasing costs for licensees) and maintain funding for DCC's compliance and enforcement activities (which supports the legal market by reducing competing illegal activity). On the other hand, it would reduce funding for Allocation 3 programs supported by the Cannabis Tax Fund.

Key Interactions With Cannabis Excise Tax Rate and AB 564. Chapter 56 of 2021 (AB 195, Committee on Budget) eliminated the cannabis cultivation tax while keeping the cannabis excise tax rate at 15 percent. Under this law, the excise tax rate will increase from 15 percent to 19 percent on July 1, 2025. A bill currently under consideration in the legislature, AB 564 (Haney), would delay this tax increase for five more years. Like the administration's proposal, this bill would improve the licensed cannabis market's position relative to the illicit market by preventing a cannabis excise tax increase while also reducing funding for Allocation 3 programs supported by the Cannabis Tax Fund.

Recommend Legislature Consider Interactions Between May Proposal and Tax Rate. While the decision before the Legislature now is whether to adopt, modify, or reject the Governor's May Revision proposal, the potential changes to the cannabis tax rate (and therefore revenue) could have add-on effects to this choice. Accordingly, the Legislature will want to consider how these policy choices interact as it deliberates on the May Revision proposals. Our view of the interactions between, and the practical effects of, these decisions is as follows.

If the Legislature Adopts the Governor's May Revision Proposal for the Cannabis Tax Fund Shift*….* Costs for enforcement and certain other related activities would shift from the Cannabis Control Fund, which faces insolvency, to the Cannabis Tax Fund, which does not. This would provide a sounder financial footing for the Cannabis Control Fund activities that support the legal cannabis market, but would reduce funding available for Allocation 3 programs. If the cannabis excise tax rate is then also maintained at 15 percent, overall revenues to the Cannabis Tax Fund would be constrained, which would further exacerbate the effect on Allocation 3 programs. If the cannabis excise tax rate increases to 19 percent, that would more than offset the financial impact of the fund shift on Allocation 3 programs. However, the increased tax rate would likely harm the legal cannabis market and work against the central goal of the proposed fund shift.

If the Legislature Modifies the May Revision for the Cannabis Tax Fund Shift… Instead of shifting enforcement costs to the Cannabis Tax Fund, the Legislature could strengthen the fiscal position of the Cannabis Control Fund (which currently pays these costs) by raising fees. This would protect the Allocation 3 programs at the expense of the legal cannabis market, which has struggled to afford existing fees. If the excise tax rate stays at 15 percent, then funding for Allocation 3 programs would not change (except due to fluctuations in the underlying tax base). If the tax rate increases to 19 percent, funding for these programs would grow substantially in 2026-27.

If the Legislature Rejects the Governor's May Revision Proposal for the Cannabis Tax Fund Shift… Costs for enforcement and certain other related activities would not shift from the Cannabis Control Fund to the Cannabis Tax Fund. This would reduce the amount of enforcement and compliance the department could afford to pay for, which could harm the legal cannabis market. This would have the same effect on Allocation 3 programs as the modification option described above.

Other Options Include Shifting Certain Allocation 3 Program Costs to Other Areas of the Budget. If the Legislature adopts the Governor's proposal to shift enforcement costs to the Cannabis Tax Fund, but also wishes to maintain current funding levels to some Allocation 3 programs, it could provide funds from the General Fund. However, given the state's budget condition, this would come at the cost of other programs supported by the General Fund.

Alternatively: Defer Without Prejudice, And Reassess Following the Decision on the Tax Rate. Although the Cannabis Control Fund is ultimately facing insolvency, it is not currently insolvent. The Legislature could wait to decide the question of how to pay for enforcement until the policy debate about tax rates is resolved. Once the Legislature has a clearer picture of the revenue available to the Cannabis Tax Fund, it could consider the mix of activities and programs that fund should support.

Decision on Proposed Increase in Compliance and Enforcement Spending Should Be Informed by Decision on Cannabis Tax Fund Shift. If the Legislature chooses to approve the shift, both funds would have the resources necessary to support the increased expenditures which could support the legal market by reducing competing illegal activity. While the increased spending from the Cannabis Tax Fund would reduce resources for the Allocation 3 Programs, the size of the increase ($4.8 million in 2025-26 declining to $2.2 million in 2026-27 and ongoing) would mean this effect is modest. However, if the Legislature chooses not to approve the Cannabis Tax Fund shift, we recommend it only approve increased expenditures from the Cannabis Control Fund if it is willing to correspondingly increase fees or reduce other activities supported by the fund given Cannabis Control Fund's condition.

LAO Comments on Trailer Bill Language: The LAO provided the following information in regards to the Governor's May Revise cannabis trailer bill language, provided in a report to Budget Committee staff on May 17, 2025.

- The "Expand Department of Cannabis Control Enforcement Authority" trailer bill language provides the Department of Cannabis Control with authority to seal a building or premises if compliance and enforcement staff discover illegal activity on premises.
    - ***Recommendation: Reject Without Prejudice***. This proposal raises policy and legal questions that should be considered through the policy bill process. For example, it is unclear whether sufficient due process is provided to those whose premises are sealed.
- The "Board of State and Community Corrections (BSCC) Proposition 64 Public Health and Safety Grant Program Trailer Bill Language" would increase the number of local governments that are eligible for the Board of State and Community Corrections (BSCC) Proposition 64 Public Health and Safety Grant program. Specifically, would allow jurisdictions that ban cannabis cultivation to be eligible for grants if they allow cannabis storefronts or—in cases where their population is under 3,500--cannabis delivery.
    - ***Recommendation: Modify*****.** As currently authorized, this grant program is undersubscribed. The department asserts that the low take-up rate is due to the eligibility criteria, which currently prohibit local governments that ban cultivation from receiving funds. The May Revise proposal is designed to improve take-up rates by expanding eligibility for grants. We anticipate that the impact of these eligibility changes on the underlying fund are absorbable and do not fundamentally alter the existing program or policy. We recommend setting the small jurisdiction threshold at 10,000 residents, as the proposed 3,500 threshold is too low to expand eligibility meaningfully.

Staff Recommendation: Hold Open.

0840 STATE CONTROLLER'S OFFICE

Item 9: California State Payroll System (CSPS) Project

Request. The Governor's May Revision proposals, for the State Controller's Office (SCO) requests the following resources to support CSPS as it begins design, development, configuration, and implementation of the new personnel, payroll and travel expense management system for the state civil services and exempt employees, state court, and California State University employees.

- **2025-26:** 20.0 permanent positions and $117,016,000 ($71,381,000 General Fund (GF) and $45,635,000 Central Service Cost Recovery Fund (CSCRF))

- **2026-27 and ongoing:** $3,803,000 ($2,321,000 GF and $1,482,000 CSCRF)

Background. Beginning in 2016, SCO began to assess current IT and the latest industry standards and initiated the re-engineering of a new human resource (HR) management and payroll system. This initiative was named the California State Payroll System (CSPS) Project. The project product scope includes functionality for Core HR (Position Control, Benefits Administration, Personnel Administration, Time Management), Payroll, along with Travel and Expense Management functionality. In late 2020, the project Executive Steering Committee (ESC) agreed that the Department of Human Resources (CalHR) became a full partner on the project.

The project received California Department of Technology (CDT) approval on Project Approval Lifecycle (PAL) Stage 1 Business Analysis (S1BA) in October 2017, PAL Stage 2 Alternative Analysis (S2AA) in April 2021, PAL Stage 3 Solution Development (S3SD) in March 2022, and PAL Stage 4 Project Readiness Approval (S4PRA) in January 2025 and updated in May 2025. With all PAL stages complete, CSPS is ready to begin the design, development, testing and implementation of the new personnel, payroll and travel expense management system.

CSPS awarded a Solution Integrator (SI) contract and began onboarding those resources in April 2025. To support the state and the SI, contracts for Functional Implementation Services (FIS) and Information Technology Services (ITS) have also been awarded, and resources onboarded during January and February 2025. As CSPS begins the execution phase, the May Revision Proposal suggests that workload will significantly increase. The proposal states that CSPS has a business need for new permanent state resources and funding to support the statewide Human Resource departments with readiness activities. The proposal states that the CSPS project has a business need for additional permanent state resources and funding for existing contracts to ensure delivery of a successful outcome for the State of California government employees.

Staff Recommendation: Hold Open.

0950 State Treasurer

Item 10: California Hope, Opportunity, Perseverance and Empowerment (HOPE) for Children Trust Account Program Board

Request. The Governor's May Revision proposals includes a request to transfer $50 million from the California Hope, Opportunity, Perseverance, and Empowerment (HOPE) for Children Trust Account Fund to the General Fund.

Background. The HOPE Account Program was established through the Assembly Bill 156 (Chapter 569, Statutes of 2022). The program aims to close the racial wealth gap and address intergenerational poverty. It creates a new financial investment program specifically catered to vulnerable children throughout the state. The Governor's May Revision proposal would significantly reduce the amount of available account funds for eligible youth.

Staff Recommendation: Hold Open.

8860 DEPARTMENT OF FINANCE

Item 11: One-Time Funding to Contract for State Government Processes Review and Improvement.

Request: The May Revision includes $20 million in one-time General Fund for the Department of Finance to contract with consultants to assist and advise the director and Department of Finance on analyzing and creating process improvements within state government.

Staff Recommendation: Hold Open.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION

Item 12: Sales and Use Tax Remittances by Used Car Dealers.

Request: The May Revision includes trailer bill language that allows CDTFA and DMV to jointly agree to exempt large used car dealers from the AB 85 Program which requires reporting of sales information. The trailer bill also addresses duplicative reporting requirements for dealers that unnecessarily increase workload at CDTFA.

Background: Pursuant to AB 85 (Chapter 89, Statutes of 2020), used car retailers (dealers) must remit sales and use taxes (SUT) on car sales to the Department of Motor Vehicles (DMV) within 30 days of each sale. The AB 85 Program also requires dealers to report sales information to both DMV and CDTFA. The purposes of the reporting is to ensure that dealers are not underreporting SUT on their car sales. While the program has enrolled small dealer, large dealers (sell over 1,000 cars per year) are set to be enrolled January 1, 2026.

The trailer bill would allow CDTFA and DMV to jointly agree to exempt these large dealers from the AB 85 Program, given that the risk of under-reporting SUT by these dealers is extremely low and the annual cost of their enrollment would $1.8 million.

Staff Recommendation: Hold Open.

0954 Scholarshare Investment Board

Item 13: CalKIDS Program Administration and Implementation Funding Workload Adjustment and Tax Preparation Service Notification Trailer Bill Language

Request: The Governor's budget proposes $566,000 ongoing General Fund for three new full-time positions at Scholarshare Investment Board to help administer the CalKIDS program.

Background: The Scholarshare Investment Board (SIB) administers the CalKIDS program, which provides college savings accounts for children. Under the program, SIB opens college savings accounts and makes deposits for eligible children, which are then invested to grow. Funds in their CalKIDS account can be spent on qualified higher education expenses. The state currently provides $185 million General Fund annually for the CalKIDS program.

Workload Adjustment

The current Governor's proposal would provide SIB with three new CalKIDS positions, with two of those positions focused on marketing and outreach.

The positions requested include:

- **Staff Services Manager I (SSMI)** - Responsible for developing and executing marketing strategies, building a strategic outreach plan, overseeing marketing contracts, and analyzing engagement trends.

- **Outreach AGPA** - Responsible for assisting with various marketing and outreach efforts, such as conducting educational workshops, developing requests for proposals, and monitoring engagement trends.

- **Data/Customer Support AGPA -** Responsible for data analysis and customer support, including tasks such as responding to program inquiries, troubleshooting user-experience issues, and analyzing participation and account data.

LAO Comments: From the LAO Analysis posted to their website on titled "Scholarshare Investment Board":

- Recommend Approving Two AGPA Positions. For the CalKIDS program to expand college access, families need to know about the funds deposited into their child's account and how funds can be used. Thus, marketing and outreach activities are central to the success of the program. Given current staff cannot perform all necessary responsibilities, including areas such as marketing and outreach, as well as data management and customer service, we recommend the Legislature approve both AGPA positions. The two new AGPA positions will cost $384,000 ongoing General Fund. (This is 32 percent less than the proposed request of $566,000.)

- Recommend Revisiting Request for SSMI Position in the Future. SIB has already spent or is in the process of spending state funding dedicated to marketing activities. Additionally, SIB has already onboarded the external marketing firm that will complete CalKIDS marketing activities using the remaining one-time state funds. Thus, the new SSMI will not need to conduct work related to onboarding new marketing firms at this time. SIB is also still in the exploratory phase of understanding which marketing and outreach efforts yield the highest results. Given this exploratory phase is still underway, it is difficult to know what marketing and outreach strategies a new SSMI should focus on. We recommend the Legislature reevaluate the request for a marketing and outreach SSMI once SIB has completed the marketing activities currently in progress, analyzed their impacts, and provided data on best practices. This new information will help inform the Legislature about what workload gaps related to marketing exist and if an additional manager or lower-level staff position is warranted. The job classification of any additional positions will be important to consider given the CalKIDS ratio of management to staff positions is currently above the state average.

Trailer Bill Language

Trailer bill language requiring tax preparation software providers to notify taxpayers about CalKIDS has been proposed. The proposal states that that all tax preparation software providers that submit California state returns to the Franchise Tax Board would need to include this notification.

LAO Comments: The LAO submitted its analysis and recommendations related to this trailer bill language to budget staff on May 6, 2025. The LAO recommends rejecting the proposal for several enumerated reasons including limited notification scope, duplicative notification, potential confusion, and potential risks related to increasing time to file.

Staff Recommendation: Hold Open.