Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Sydney Kamlager
Senator Jim Nielsen

Wednesday, May 19, 2021
1:00 p.m.
State Capitol - Room 4203

Consultant: Nora Brackbill, James Hacker, Yong Salas, and Joe Stephenshaw

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ITEMS FOR VOTE-ONLY

0511 Government Operations Agency (GovOps)

Issue 1: Census Funding Reappropriation

Request. GovOps Agency requests to reappropriate up to $2.2 million from the 2019 Budget Act appropriation for residual costs of Census activities.

Background. The 2019 Budget appropriated $87 million for Census activities. This request is to use the existing funding to cover long-term IT costs of maintaining the Census website and completing outstanding contract costs for Census. CDT provided estimated costs of maintaining the Census 2020 website on an annual basis which total $742,000 through 2030. In addition, Census has $1.5 million in outstanding contract costs for deliverables to be provided after June 30, 2021.

Staff Recommendation. Approve as requested.

0890 Secretary of State

Issue 2: Oral History Program and Preservica Subscription

Request. The Secretary of State requests $225,000 General Fund in 2021-22 and ongoing to reflect of funding for the State Government Oral History Program and digital preservation subscription services from the State Library to the Secretary of State. This request aligns with a corresponding reduction to the State Library's budget by an equivalent amount.

Background. The State Government Oral History program, which is administered by the California State Archives, has produced more than 200 interviews through partnerships with oral history programs at California colleges and universities, capturing the stories of California's policy makers, legislators, and other key players in state history. The selection process for previous interviews is nonpartisan, with the goal of illuminating key aspects of California government history. Going forward, the SOS is creating a more engaging and inclusive State Government Oral History Program, prioritizing a more diverse group of interviewees, not only focusing on state officials, but capturing the stories of community leaders and other influential individuals that are shaping the Golden State. The State Archives is also working to provide broader access and awareness of the program and the resources that it provides.

Since 2016, the State Archives has utilized a digital preservation subscription to digitally preserve historic electronic records. With state agencies moving toward paperless environments and teleworking during the ongoing pandemic, it is anticipated that the State Archives will receive increasing volumes of legacy electronic records that will be added to a digital preservation subscription. From 2016 to 2019, the SOS was able to fund a digital preservation subscription by deferring equipment purchases and utilizing salary savings; however, this was not a sustainable long-term solution. In 2018-19, $75,000 was allocated for the SOS' digital preservation subscription and funding routed to the State Library's budget. The SOS maintained statutory authority over the program and worked diligently with parties involved on an interagency agreement. Funding was provided to SOS via a reimbursement process, for which the SOS needed to pay for program costs from existing funds prior to reimbursement. An interagency agreement was executed in in 2019-20 and was negotiated in May for 2020-21.

Staff Recommendation. Approve as requested.

0950 State Treasurer's Office (STO)

Issue 3: Jesse Unruh Building Relocation Costs

Governor's Proposal. The May Revision proposes a one-time General Fund augmentation of $1.2 million for relocation costs necessary to facilitate the renovation of its headquarters, the Jesse Unruh building located at 915 Capitol Mall in Sacramento. The renovation is part of the State's Ten Year Sequencing Plan for the renovation or replacement of state office buildings in Sacramento.

The proposal also includes the following budget bill language that allows the Department of Finance, upon notice of the fiscal committees in each house of the Legislature and the Joint Legislative Budget Committee, to authorize expenditures in excess of the amount requested.

> *Of the amount provided in this item, $1,222,000 is provided on a one-time basis to cover the cost of relocating staff and building contents prior to the renovation of the State Treasury Building. Notwithstanding any other law, the Director of Finance may authorize expenditures in excess of the amount provided, if deemed necessary but not sooner than 30 days after notification in writing of the necessity therefor is provided to the chairpersons of the fiscal committees in each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or the chairperson's designee, may in each instance determine.*

Background. An infrastructure study ("Infrastructure Study - Jesse Unruh Office Building"), completed in 2008 and updated in 2013, identified a variety of fire and life safety, building code, hazardous materials, and other infrastructure deficiencies in the Jesse Unruh Building. A facility condition assessment completed in 2015 ranked the Jesse Unruh Building fifth in Sacramento and ninth statewide for state-owned, DGS-controlled office buildings requiring renovation or replacement.

Due to the invasive nature of the remodeling and renovation, STO staff and its operations are required to temporarily relocate to the Paul Bonderson building, located at 901 P. St, for the duration of construction. The STO is scheduled to begin moving in the spring of 2022 and the project is slated to begin in June 2022, and is estimated to take three years to complete. There is no alternative to remain in the current building location once renovations begin

The STO is responsible for all staff (approximately 475) and equipment relocation movement tasks, and for physical decommission and/or storage of defined office furniture and equipment related to the vacated Jesse Unruh building.

STO is requesting one-time funding of $1.2 million in General Fund for the purpose of securing services to perform tasks associated with completing moving activities for office furniture/equipment, information technology infrastructure, and staff members.

Some of the required activities that must be completed are: tear down and remove modular furniture cubicles; remove furniture from private offices; remove furniture from conference rooms; remove contents of vault; disconnect electrical cables; move miscellaneous equipment and cabinets; the move of 475 staff members' related office equipment, files, etc.; and relocation of information technology infrastructure to ensure continuity of operations (e.g. pulling fiber, network needs, etc.) to the Paul Bonderson building.

Recommendation: Approve as budgeted.

1701 Department of Financial Protection and Innovation

Issue 4: Adjustment to Debt Collector Licensing and Regulation (SB 908)

Governor's Proposal. The May Revision proposes a reduction of the resources included in the Governor's Budget to license, examine, and regulate debt collectors under the provisions of SB 908 (Wieckowski), Chapter 163, Statutes of 2020.

The Governor's Budget proposal requested an increase in expenditure authority of $10.7 million Financial Protection Fund and 44.0 positions in 2021-22, $10.3 million and 51.0 positions in 2022-23, and $10.9 million and 55.0 positions in 2023-24. The department requests a reduction in expenditure authority of $4.9 million and 21.0 fewer positions in 2021-22, $5.3 million and 28.0 fewer positions in 2022-23, and $6.0 million and 32.0 fewer positions in 2023-24. The total net resources needed to license, examine, and regulate debt collectors is:

- $5.8 million and 23.0 positions in 2021-22,
- $5.0 million and 23.0 positions in 2022-23, and
- $4.9 million and 23.0 positions in 2023-24.

Background. The Governor's Budget proposal was based on debt collection data provided by the Consumer Financial Protection Bureau. From this data, it was estimated that the Department would license approximately 7,000 debt collectors.

Since January 2021, the Department has received additional data from industry experts and other states. Analysis of this more recent data indicates that the debt collector population in California may be closer to 3,500 licensees. The data provided by industry included the number of debt collectors operating in states throughout the nation. When comparing this data to US Census data on state population size, there appears to be a relationship between the number of debt collectors operating in each state and that state's population. Texas reported 2,372 debt collectors and a population of 28.9 million. California, with a population of 39.5 million and more robust consumer protection laws, will likely have closer to 3,500 debt collectors.

The decrease in the expected number of licensees, from 7,000 to 3,500, will reduce the program workload and the number of staff needed to implement SB 908. This request reduces the number of staff and the expenditure authority needed to license and regulate debt collectors.

The implementation of the Debt Collector program is intertwined with the resources the Department received beginning in 2020-21 to register and oversee the new entities covered under the California Consumer Financial Protection (CCFP) program. Debt collectors are a subset of these expected new registrants and, as a result, some resources are being redirected from the CCFP program to the Debt Collector program.

The subcommittee heard the Governor's budget proposal on February 10th.

Recommendation: Approve as budgeted.

7600 Department of Tax and Fee Administration (CDTFA)

Issue 5: Used Motor Vehicle Sales Tax Gap

Governor's Proposal. The May Revision proposes $5.9 million General Fund in fiscal year 2021-22 to reimburse the Department of Motor Vehicles (DMV) for the costs associated with the passage of Chapter 8 of the Statutes of 2020 (AB 85) and Chapter 14 of the Statutes of 2020 (AB 82).

Background. To increase compliance among the industry, AB 85 and AB 82 were passed to require used motor vehicle dealers to pay sales tax on their retail sales of vehicles at the same time they submit a vehicle registration application. The CDTFA and the DMV are required by law to partner to collect and administer the sales tax for used motor vehicle dealers, decreasing the sales tax gap.

The CDTFA and the DMV have partnered as prescribed by AB 85 and AB 82. Used car motor vehicle dealers affected by this new law will be required to pay the sales tax directly to the DMV upon registering a motor vehicle. This will increase the likelihood that the sales tax will be paid since used motor vehicle dealers are required to register motor vehicles associated with their in-state retail sales. The DMV will provide reports indicating which vehicles have unpaid sales tax so that the CDTFA can issue department assessed billings.

The CDTFA requests $5.9 million in 2021-22 to reimburse the DMV to develop and implement an information technology (IT) solution ($4.4 million) to collect use tax from used motor vehicle dealers and for the costs of administering this program ($1.5 million). Additionally, provisional language is being requested making $2.15 million of the $4.4 million requested for the IT solution, contingent upon submittal and approval of the appropriate Project Lifecycle documents by Finance and the Department of Technology, and after appropriate Joint Legislative Budget Committee notification. The DMV is requesting $3.75 million in reimbursement authority for the costs associated with the design of the IT solution and the administration of the program. The DMV will conduct an industry assessment of used motor vehicle dealers and other program stakeholders to develop and design the automated use tax collection process to ensure that the sales tax collection process is effective and efficient for all impacted parties. The requested resources include one-time staff and consultant costs to develop business requirements, perform project management duties, implement Report of Sale System enhancements, and other automation efforts to meet the business requirements developed by the program stakeholders. The requested resources also include administration of this program and the additional workload associated with the collection of use tax from approximately 2,500 used motor vehicle dealers that submit 497,000 transactions annually to the DMV.

Without funding to reimburse the DMV for its costs, the CDTFA will not be able to successfully implement this new law. These efforts will help address the sales tax gap known in the used motor vehicle dealer industry and will result in an increase in sales tax revenue.

Recommendation: Approve as budgeted.

7730 FRANCHISE TAX BOARD (FTB)

Issue 6: Reappropriation of Golden State Stimulus Outreach Funding

Governor's Proposal. The May Revision proposes to reappropriate $2 million or whatever greater or lesser amount of the unexpended outreach funds appropriated to the FTB by AB 81 (Ting), Chapter 5, Statutes of 2021, for the continued provision of outreach for the Golden State Stimulus.

Background. AB 81 appropriated $5 million from the General Fund to the FTB to be allocated to existing California Earned Income Tax Credit for outreach contracts to provide increased awareness of the Golden State Stimulus.

Recommendation: Approved as budgeted.

Issue 7: Earned Income Tax Credit -The American Rescue Plan Act and In-Home Supportive Services (IHSS)

Governor's Proposal. The May Revision proposes $2.8 million General Fund, one-time, and 45.0 permanent-intermittent positions in 2021-22 to allow FTB to proactively provide assistance to those taxpayers who have already filed a return and are impacted by the retroactive provision enacted in the American Rescue Plan Act (ARPA) and a recent opinion issued by the Office of Tax Appeal (OTA) related to what qualifies as earned income for the purposes of computing the California Earned Income Tax Credit (CalEITC).

Background. There were recently two changes that impacted the calculation of CalEITC, Young Child Tax Credit (YCTC), and potentially the Golden State Stimulus payments:

1. The ARPA was signed into law on March 11, 2021. One of the provisions of the ARPA was a federal income exclusion of up to $10,200 ($20,400 for Married Filing Joint) of Unemployment Insurance (UI) income received in the 2020 tax year. This would result in a lowering of the taxpayers federal Adjusted Gross Income for the year, which is the starting income for California's EITC. For federal purposes, the IRS has committed to proactively assisting taxpayers who have already filed a return to correct their federal EITC without requiring them to file an amended return. For taxpayer's who have filed a return but did not originally claim the federal EITC, taxpayers are required to file a federal amended tax return. FTB is proposing to adopt the IRS treatment. For taxpayers who have already filed a return and claimed the CalEITC, FTB will allow the proper amount of CalEITC onto these accounts without action from the taxpayer, where possible. For those that have already filed a return and are now eligible for the CalEITC for the first time, FTB will work with these taxpayers as desired to file an amended return.

   FTB has identified almost 1 million taxpayers (as of 4/14/21) who have already filed a California tax return for the 2020 tax year and the CalEITC may be misstated due to this issue. Of these taxpayers, over 600,000 have claimed the CalEITC and have UI income. Due to the newly enacted federal law provision excluding UI income, these taxpayers may now qualify for a larger CalEITC or YCTC. As possible, FTB will adjust these taxpayers' accounts and issue any additional refunds.

   For another 300,000 plus taxpayers who did not claim the CalEITC on their original return, but now might qualify for the credit, FTB will notify these taxpayers, and where appropriate, provide FTB Form 3514 (California Earned Income Tax Credit) to claim the refund.

2. In a recent OTA decision, it was held that certain IHSS payments can be included as earned income for purposes of determining the CalEITC at the taxpayer's election.

   FTB has identified about 100,000 taxpayers who have already excluded the IHSS income from the CalEITC calculations, which now can be included as earned income. This includes tax returns that have an open statute at this point in time. As possible, FTB will assist these taxpayers to correct their CalEITC computation with an amended FTB Form 3514.

   In addition, FTB has potentially identified another 100,000 taxpayers who did not claim the CalEITC on their original return, but now might qualify for the credit as a result of this decision. FTB will notify these taxpayers, and where appropriate, allow taxpayers to provide FTB Form 3514 (California Earned Income Tax Credit) to claim their refund.

The requested resources are needed in order for FTB to issue the correct refunds to the most vulnerable Californians quickly without adding financial burden and hardship to these individuals.

Recommendation: Approved as budgeted.

Issue 8: FTB Central Office Campus: Data Center Upgrades

Governor's Proposal. The May Revision $1.6 million General Fund for Preliminary Plans ($680,000) and Working Drawings ($937,000) phases in 2021-22. The project includes upgrades to the existing data center within the existing Los Angeles building and Sacramento building; HVAC systems and controls, upgrade of the entire electrical infrastructure, fire protection upgrades, telecommunication upgrades and mechanical system upgrades to achieve mandated energy efficiency requirements.

Background. The FTB Data Center is a continuous operation that houses critical IT infrastructure allowing FTB to maintain day-to-day operations and generate revenue for the State of California. FTB currently maintains a Tier III equivalent Data Center, indicated in SAM Section 4982.1, which is housed in two locations in FTB's Sacramento Central Office Campus in Sacramento. The Los Angeles Building Data Center, was commissioned in 1985 and the Sacramento Building Data Center, was commissioned in 2005. The total space of the two locations encompasses approximately 26,000 square feet.

As a Tier III equivalent Data Center, FTB requires perpetual, uninterrupted power and cooling. FTB Data Centers currently do not meet numerous required California executive orders and statewide energy efficiency mandates. Resources requested in this will allow FTB to comply with these standards.

The FTB Data Center is an interminable operation that houses critical IT infrastructure necessary for FTB to provide critical services to California taxpayers. FTB's return and payment processing systems have a goal of zero downtime because they are utilized by California taxpayers and almost 6,000 FTB staff in processing 21 million returns and 14 million payments per year and serve FTB compliance and service functions.

As technology has advanced, the data center equipment has become more efficient and requires a smaller footprint. As a result, much of the current raised floor space has become vacant creating an inefficient operating environment. These factors impede the FTB from meeting the Governor's executive order and related statewide energy saving mandates.

In the FTB Data Center located on our Sacramento, CA campus, much of the equipment that supports the Data Center is out of date and at or approaching end of life (EOL). EOL equipment is no longer supported by the manufacturer and presents a risk of failure to the department. The Los Angeles infrastructure is 36 years old and the Sacramento infrastructure is 16 years old. Neither have had any significant upgrades and both need to be refreshed. In 2020 alone, FTB experienced 19 incidents due to aging equipment.

In order to ensure that stable and reliable IT services are delivered to California taxpayers, FTB requires uninterrupted Data Center operations that meet statewide energy mandates, and address current deficiencies related to aging equipment.

Recommendation: Approved as budgeted.

7760 Department of General Services

Issue 9: California Commission on Disability Access

Request. DGS requests an increase of $99,000 General Fund to allow the California Commission on Disability Access to expend its share of fee revenues collected over fiscal years 2015-16 through 2019-20.

Background. Government Code section 68085.35 was added by Chapter 755, Statutes of 2015 to require that of each $1,000 high-frequency litigant fee collected pursuant to Government Code section 70616.5, $500 shall be distributed to the General Fund for use by the Commission, upon appropriation by the Legislature, to supplement the Commission's existing program funding.

Staff Recommendation. Approve as requested.

Issue 10: Contracted Fiscal Services Workload Increase

Request. The Department of General Services (DGS), Contracted Fiscal Services requests $300,000 in ongoing authority comprised of the following funds: General Fund ($171,000) and Central Services Cost Recovery Fund ($129,000). Additionally, DGS requests two positions to provide administrative services for a new client, the Office of Energy Infrastructure Safety (OEIS).

Background. OEIS is moving from the California Public Utilities Commission to the California Natural Resources Agency. The workload associated with providing budgeting and procurement services for OEIS will be absorbed within existing resources. Considering the size of the funds, amount of transactions, and complexity of accounting, the workload associated with providing accounting services cannot be absorbed within existing staff resources.

This proposal requests two positions to assume OEIS' accounting workload. These positions will enable DGS to effectively onboard and transition the requisite functions of this new client agency and ensure that all operational and regulatory requirements are met without delay.

Staff Recommendation. Approve as requested.

8940 California Military Department

Issue 11: Santa Rosa: Sustainable Armory Renovation Program

Request. The Military Department requests to withdraw the Santa Rosa: Sustainable Armory Renovation project.

Staff Recommendation. Approve the withdrawal.

Issue 12: Los Alamitos: National Guard Readiness Center

Request. Due to multiple barriers in developing an agreement that suited both federal and state joint use needs and additional contracting issues, it is requested that the remaining funds for the acquisition and design-build phase for the California Office of Emergency Services and the California Military Department (CMD) joint Los Alamitos: Southern Region Emergency Operations Center funds be reverted, resulting in a reversion of $26,842,000 from design-build and $190,000 from acquisition. This project will be discontinued.

Background. This project was originally approved in the Budget Act of 2016 to replace the current Southern Region Emergency Operations Center, located on federally-owned real property used by the Governor's Office of Emergency Services (Cal OES) and the CMD in Los Alamitos. The intent was to build a joint use facility that would include the Southern Region Emergency Operations Center and a Los Alamitos armory for CMD.

The project has experienced delays and significant challenges related to securing appropriate real property rights, as the project site is located on a larger property, which is owned by the U.S. Department of the Army. CMD's current use of the project site is from a license which is terminable at the will of the U.S. Department of the Army, and only provides a personal property right as opposed to a real property right. Therefore, this project is being canceled, the funds are requested to be reverted and the planned joint-facility project discontinued.

Background. Approve the reversion of the funds.

8955 California Department of Veterans Affairs

Issue 13: Federal Veterans Administration Grant

Request. The California Department of Veterans Affairs (CalVet) requests a one-time augmentation of $7,725,000 Federal Trust Fund from the United States Department of Veterans Affairs (VA) through the Consolidated Appropriations Act, 2021 (Public Law 116-260) for State Veterans Homes. The funding will be used to support efforts to prevent, prepare for, and respond to COVID-19 in CalVet's eight Veterans Homes of California.

Staff Recommendation. Approve as requested.

Issue 14: Reappropriation

Request. CalVet requests to use deferred maintenance funding from the 2018 Budget Act to make Americans with Disabilities Act renovations to two restrooms at the Yountville Veterans Home. CalVet also requests to reappropriate funds to complete upgrades to a nurse call system at the Yountville Veterans Home.

Staff Recommendation. Approve as requested.

ITEMS FOR DISCUSSION

0515 Business, Consumer Services, and Housing Agency

Issue 15: Homelessness Proposals

May Revision. The May Revision includes $4.7 billion in proposals for homelessness. This is in addition to the $2.1 billion in investments proposed in the Governor's Budget, for a total 2021-22 homelessness package of $6.8 billion. This includes the following:

- Homekey Family Housing—$2.75 billion one-time funds over two years for the additional acquisition and rehabilitation of facilities through the Homekey program. Of this amount, $1 billion is targeted for families experiencing homelessness or at risk for being homeless. This increases the $750 million proposed in January, for a total of $3.5 billion over two years.

- Challenge Grants & Technical Assistance—$40 million one-time General Fund available over 5 years, for the Homeless Coordinating Financing Council to provide grants and technical assistance to local jurisdictions to develop action plans that will address family homelessness and move the state closer to attaining functional zero family homelessness.

- Department of Social Services Homelessness Supports—The May Revision includes $475 million General Fund in both 2021-22 and 2022-23 to expand the existing CalWORKs Housing Support program.

- Behavioral Health Continuum Infrastructure—The Governor's Budget proposed $750 million one-time General Fund for competitive grants to qualified entities to construct, acquire, and rehabilitate real estate assets to expand the community continuum of behavioral health treatment resources. The May Revision increases the Governor's Budget proposal by $10 million Coronavirus Fiscal Recovery Fund (CFRF) and shifts $300 million General Fund to the CFRF. In addition, the May Revision includes $1.4 billion ($1.2 billion General Fund and $220 million CFRF) for the program in 2022-23.

- The May Revision includes $150 million one-time General Fund to support the stability of the state's FEMA-funded non-congregate shelter population and transition of individuals from Project Roomkey into permanent housing following the September 2021 sunset of the federal reimbursement availability from the pandemic.

- The May Revision includes $53 million in one-time General Fund resources to coordinate encampment outreach services to connect individuals living along California's streets and freeways with critical services, supports, and housing solutions. This includes:
    - Encampment Resolution Grants—$50 million one-time General Fund for the Homeless Coordinating and Financing Council (HCFC) to partner with local

governments and assist them with resolving critical encampments and transitioning individuals into permanent housing.

- ○ Caltrans Encampment Coordinators—$2.7 million one-time General Fund for Caltrans Encampment Coordinators to mitigate safety risks at encampments on state property and to coordinate with the HCFC and local partners to connect these individuals to services and housing. These resources will also help Caltrans coordinate with the cleaning of trash and debris from encampment sites and inspection of encampment sites for potential damage to Caltrans infrastructure.

- The May Revision includes $5.6 million one-time General Fund for HCFC to conduct an assessment of local homelessness service providers and state funded homelessness programs. The assessment will provide a detailed view of the range of services and strategies that are utilized at the local level and help determine if state investments are aligned with local homelessness response systems.

- Additional Funding at the Department of Social Services and Department of Healthcare Services is covered in Subcommittee 3 on Health and Human Services.

Staff Recommendation: Hold Open.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 16: HCD Budget Summary

Proposal. The May Revision includes a number of budget proposals and the Department of Housing and Community Development. Specifically, it include:

- **Housing Law Assistance: IT Component**—The May Revision includes $360,000 General Fund in fiscal year 2021-22 and ongoing to develop and operate a case management system at the Department of Housing and Community Development (HCD) to assist local governments in complying with housing element laws. This effort would be part of HCD's new accountability unit, as proposed in the Governor's Budget.

- **One-Time Deferred Maintenance**—The May Revision includes $20 million in 2021-22 for remaining critical repairs and deferred maintenance needs at Office of Migrant Service Centers. This brings the total proposed in the 2021-22 budget to $30.1 million.

- **Foster Care Transitional Housing Extension**—The May Revision includes $4 million in 2022-23 and $8 million General Fund ongoing to provide funding to support county transitional housing services for young adults, with a priority on serving former foster youth between the ages of 18 to 25.

Staff Recommendation: Hold Open.

Issue 17: Major Housing Proposals

Proposal. The May Revision includes $2.6 billion in one-time resources for a variety of major housing proposals. These include:

- **Affordable Housing Backlog -** $1.75 billion one-time federal ARPA funds to help support HCD affordable housing projects that qualified for, but did not receive, low income housing tax credits and tax-exempt private activity bonds. This funding would serve as a replacement for the financing provided by said tax credits and bonds. This could help roughly several thousand units of shovel-ready affordable housing move forward quickly rather than waiting for a potential future tax credit.

- **Scaling Excess Sites Development–Housing Infrastructure**—The May Revision includes $45 million Coronavirus Fiscal Recovery Fund of 2021 in 2021-22 to expand the state excess sites program to incentivize further affordable housing development on state excess lands.

- **Planning and Implementation Grants -** $500 million one-time federal ARPA funds for HCD to provide additional planning and implementation grants to regional entities for infill developments, targeted towards the state's climate goals and reducing vehicle miles traveled.

- **Affordable Housing Preservation -** $300 million one-time federal ARPA funds to sustain and preserve HCD legacy projects affordability requirements by funding affordability requirements and other preservation or rehabilitation activities.

Staff Recommendation: Hold Open.

Issue 18: CalHFA Proposals

Proposal. The May Revision includes roughly $200 million in resources for several housing programs at the California Housing Finance Authority (CalHFA). These include:

- An additional $81 million one-time federal ARPA funds to expand CalHFA's ADU program to inject a total of $100 million in available financing for ADUs. Accessory Dwelling Units (ADUs) have become an increasingly popular and cost-efficient tool to create needed housing. AB 101 (Committee on Budget), Chapter 159, Statutes of 2019 provided $19 million General Fund for CalHFA to finance ADUs for low- and moderate-income households, which is anticipated to begin in July 2021. The additional $81 million one-time federal ARPA funds requested here would expand CalHFA's ADU program to inject a total of $100 million in available financing for ADUs. Because ADUs have quicker local approvals, this proposal could further expedite low-cost production and more quickly increase the housing units statewide.

- $100 million one-time federal ARPA funds to CalHFA to expand its First Time Homebuyer Assistance Program, which helps first-time homebuyers with making a down payment, securing a loan, and paying closing costs on a home. The May Revision proposes to expand the program to lower-income households and expand CalHFA's lender network to help address the wealth gap, particularly in disadvantaged areas throughout the state.

Staff Recommendation: Hold Open.

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 19: OPR Budget Summary

Proposal. The May Revision includes several proposals at the Office of Planning and Research. These include:

- **Climate Resiliency Package** - The Administration's Climate Resiliency Package includes several proposals at OPR. The total amount of these proposals is $481 million over three years. These proposals were also heard in Budget Subcommittee 2 on Resources, Environmental Protection and Energy on May 18th.

    - *Transformative Climate Communities.* $140 million per year for three years ($420 million General Fund) for the existing Transformative Climate Communities program. The program is administered by the Strategic Growth Council (SGC) funds the development and implementation of neighborhood–level community plans that include multiple projects to reduce greenhouse gas emissions. This program has previously funded grants to eight communities. The Governor's proposal would allow the program to fund grants to additional communities, but SGC has not specified a number of new grants. This spending is considered to be local assistance capital outlay and is excluded from the state appropriations limit (SAL).

    - *Regional Climate Collaboratives.* $10 million General Fund per year for two years to this existing program that provides technical assistance and start-up grants to community groups to build the expertise, partnerships, and local capacity necessary to develop successful applications for state funding programs.

  - *Adaptation and Planning Grants.* $25 million General Fund over two years for the Integrated Climate Adaptation and Resiliency Program (ICARP). These funds would support local and regional planning needs.

  - *Vulnerable Communities Platform & CalAdapt Mapping.* $5 million for ICARP to fund the development of new data visualization tools.

  - *Fifth Climate Assessment.* $11 million to fund OPR's workload in preparing the Fifth Climate Assessment.

- **Student Success Coach Grant Program**—The May Revision includes $15 million one-time to create a grant program that will establish student success coaches in communities to nurture relationships with K-12 students and collaborate with teachers to help prepare students with skills to achieve their goals.

- **Precision Medicine: Adverse Childhood Experiences (ACEs)**—The May Revision includes $12,415,000 one-time to expand ACEs research which assists in detecting toxic stress to prevent long-term health impacts of youth homelessness. It is also requested that provisional language be added to specify that the resources provided are available for encumbrance or expenditure until June 30, 2026 .

- **California Climate Action Corps State Service Program**—The May Revision includes $4,683,000 and 5 positions in 2021-22, decreasing to $823,000 ongoing, to create service opportunities to take on climate action such as urban greening, food waste recovery, and wildfire prevention.

- **California Volunteer's Statewide Emergency Response Framework**—The May Revision includes $1,324,000 and 7 positions ongoing to maintain an emergency response framework to prepare and train for future disaster response.

- **Californians For All College Service Program**—The May Revision includes $285.2 million one-time to create the Californians For All College Service Program in partnership with the University of California, California State University system, and California Community Colleges. This program will provide 12,500 part-time service opportunities to college students in critical issue areas such as climate action, education and youth development, specifically tutoring and mentoring, health, and disaster response. This includes provisional language to specify that the resources provided are available for encumbrance or expenditure until June 30, 2024. This proposal was also heard in Budget Subcommittee 1 on Education on May 18th.

- **Regional K-16 Education Collaboratives**—The May Revision includes $250 million one-time to provide support for a regional K-16 education collaborative grant program to promote educational alignment across institutions and workforce and economic development in specific regions. This request also includes provisional language to specify the qualifications of the grant program. This proposal was also heard in Subcommittee 1 on Education on May 18th.

- **Science, Technology, Engineering, and Mathematics (STEM) Teacher Recruitment Grants**—IThe May Revision includes $3 million one-time to provide grants to help recruit STEM professionals into the teaching profession by connecting them with teaching, tutoring, and speaking opportunities in K-12 schools. These grants are intended to address the shortage of STEM teachers in California by providing learning and training opportunities for potential future teachers, especially in under-resourced communities. This request includes provisional language to specify the use of funds for these grants.

- **Youth Workforce Development Program**—The May Revision includes $200 million one-time for grants to cities or counties to create or expand youth volunteer and job opportunities. The funding, which will be administered by California Volunteers, will be provided both directly to large cities on a per capita basis and to other cities and counties through a competitive grant process. The goal of this funding is to increase employment opportunities, such as part-time work or summer jobs, for youth to provide them an opportunity to gain valuable work experience.

LAO Comments.

Climate Resilience

- ***Previous LAO Comments on Climate Resilience Proposal.*** We reiterate our previous comments on the Governor's climate resiliency package. To ensure the ultimate package the Legislature adopts is coordinated, strategic, and comprehensive, we recommend considering this package in tandem with other proposed packages—such as those related to water, cap-and-trade, wildfire, and disaster preparedness—so that, in combination, all of the Legislature's climate-related priorities are reflected at its desired levels. Given the magnitude of the spending and number of activities being proposed, the Legislature may want to defer decisions on this package until later in the summer. This would allow to the Legislature time to (1) learn more about the Governor's proposals—especially for programs and initiatives that are being proposed for the first time; (2) craft implementing statutory language to ensure sufficient oversight and accountability (such as program eligibility and prioritization criteria and data to be collected); and (3) incorporate key legislative priorities, such as components of climate bond proposals that the Legislature has been considering. Some key factors to consider:

- Are there certain activities or areas of focus that are high priorities for the Legislature that are not included or sufficiently emphasized in the Governor's package? For example, the two legislative bond proposals include significantly more funding for activities to respond to the threat of sea-level rise compared to the Governor's package.

- What type and amount of support should the state provide for local governments as compared to focusing on state-level activities and assets?

- What are the overall outcomes the state is seeking, and how will it know whether those objectives are achieved? Should there be any additional focus on identifying and measuring outcomes?

Higher Education California Volunteers Proposals

- ***California Volunteers: College Service Program.*** Provides $285 million ($239 million American Rescue Plan and $46 million General Fund) one-time to support service opportunities for documented and undocumented students at CCC, CSU, and UC.

- ***Key Information Lacking.*** The administration has not clarified many fundamental aspects of this proposal, such as the problem the initiative is trying to address and how the initiative would be evaluated. Moreover, it is unclear how this new program would interact with the state's numerous financial aid programs. One existing program—the Dreamer Service Incentive Grant program in CSAC—supports similar activities for financially-needy undocumented students.

- ***Regional K-16 Education Collaboratives.*** Provides $250 million General Fund to establish between five and eight regional collaboratives comprised of K-12 schools, community colleges, and universities. The collaboratives would focus on developing streamlined academic pathways that align with regional workforce needs.

- ***Reject.*** The state already provides education agencies billions of dollars annually to educate students, coordinate their academic programs, and produce workforce-aligned degrees and credentials. The administration has not justified the need for further funding to accomplish these objectives.

Youth Workforce Development

- ***$200 Million Federal Funds For Local Assistance Grants.*** The May revision includes $200 million in federal fiscal relief funds to make grants to local governments to develop part-time summer employment service opportunities for youth. $150 million would be allocated among the state's 13 largest cities according to a population-based formula. Counties and smaller cities would competitively apply for the remaining $50 million. Grants would require a 1:1 match.

- ***Many Cities Have Successful Existing Programs With Similar Objectives.*** Providing employment and service opportunities for youth has a variety of positive benefits ranging from workforce development, to increasing civic engagement, to reducing youth homelessness. Many California cities have successful programs that are administered by public agencies or nonprofit organizations to increase employment and service opportunities for the youth in their communities.

- ***Allocate All Grants Competitively.*** The Governor proposes to allocate most of the funds based on a formula that would benefit cities that already have successful youth workforce development programs. We think that it is important to consider how this new program should relate to these existing programs. While additional funds would likely allow those cities to improve or expand their existing programs, it is not clear that this would be the best use of the funding. Perhaps these funds might be better used to incentivize other cites to create or significantly improve such programs. Awarding all of the funds on a competitive basis would allow for the best proposals to receive funding.

- ***No Direct AmeriCorp Nexus.*** California Volunteers has not clearly articulated a strong justification for its role in administering these grants. While California Volunteers has some administrative capacity for grant making, it's expertise is in administering the federal AmeriCorps program.

- ***Consider Providing Technical Assistance to Smaller Cities.*** Cities with successful existing programs likely will be well-positioned to apply for and receive additional grant funding. However, under-resourced cities might have a great need for these grants.

- ***Reconsider Proposal Timing.*** California Volunteers indicated a desire to get funds distributed quickly and to perhaps provide grants for cities to use for the summer of 2021. However, that time frame is unrealistic for two reasons. First, our understanding that many local governments already have finalized their summer programing. Second, many local governments would not have time to prepare their grant application between the time the Budget Act is signed and the end of summer. Approving funds now to be allocated for programs in summer 2022 would allow time for the grant program to be more fully developed and marketed. It also would allow more time for local governments to prepare their applications and get approval from their elected leadership.

Other California Volunteers Proposals

- ***No Concerns with Student Success Coaching Proposal.*** The Student Success Coach Grant program would be established with $15 million one-time General Fund to create a new focused AmeriCorps program targeting service at K-12 schools.

- ***No Concerns with California Climate Action Corps State Service Program.*** $4.7 million General Fund for three years and then $823,000 ongoing to create service opportunities for activities related to climate change mitigation. This proposal would expand the California Climate Action Corps pilot program and establish it as an ongoing program.

- ***Reject STEM Teacher Recruitment.*** The STEM Teacher Recruitment Grant program would be established with $3 million one-time General Fund to connect STEM professionals with teaching, tutoring, and speaking opportunities in K-12 schools. We recommend rejecting this proposal because it is disconnected from the state's broader teacher recruitment activities. The Commission on Teacher credentialing has historically received a significant amount of funding for teacher recruitment, especially for the science, technology and math fields.

- ***No Concerns with Statewide Emergency Response Framework.*** $1.3 million 7 positions General Fund ongoing to maintain an emergency response framework to prepare and train for future disaster response.

Precision Medicine

- ***No Concerns with Restoring Funding for Adverse Childhood Experiences (ACEs).*** Previously budgeted funding for competitive grants for ACEs research was reallocated last year from the California Initiative to Advance Precision Medicine (CIAPM) to address the anticipated state budget problem. This proposal would restore $12.4 million to support CIAPM.

Staff Recommendation: Hold Open.

1115 DEPARTMENT OF CANNABIS CONTROL

Issue 20: May Revise Proposals

Request. The May Revision proposal for cannabis includes the following:

- **Cannabis Equity and Inclusion Deputy Director Position.** Creates a Deputy Director of Equity and Inclusion to further the Department's mission to implement progressive cannabis policies and license and regulate commercial cannabis activity in a way that best protects public health, safety, the environment, and local communities throughout the state.

- **Cannabis Local Jurisdiction Assistance Grant Program.** Includes $100 million one-time General Fund for a grant program to assist local jurisdictions that have high numbers of provisional licenses obtain California Environmental Quality Act compliance required for annual licensure.

- **Provisional license program, among other statutory changes.** Proposing additions to the statutory changes put forward earlier this year. Chief among these is language to extend the Department's ability to issue new provisional cannabis licenses by six months, to July 1, 2022, make explicit environmental compliance requirements before annual licensure, and require the Department to promulgate regulations identifying steps that must be taken for provisional licensees to show progress toward achieving annual licensure. As of early April 2021, approximately 82 percent of the state's cannabis licensees held provisional licenses. Absent this extension, it is possible that a significant number of these licensees could fall out of the legal cannabis system, significantly curtailing the state's efforts to facilitate the transition to a legal and well-regulated market.

- **Sustainable California Grown Cannabis pilot program.** Includes $9 million one-time General Fund to collect data to establish best practices in: (1) reducing the environmental impact of cannabis water and energy use; (2) pest management and fertilizer practices; and (3) enhancing soil health.

- **Provisional language for transition period until new department is established.** Allows the Business, Consumer Services, and Housing Agency to act on behalf of the new Department until the appropriate staff are hired, and also provides language that helps transition positions from the three legacy departments to the new Department of Cannabis Control.

Staff Comment. At its February 24 hearing, this Subcommittee discussed the Administration's proposal to consolidate the three cannabis licensing entities into one standalone department.

Provisional Licenses. The May Revise proposal folds in language similar to provisions in SB 59 (Caballero) regarding provisional licenses into the Administration's proposal by extending the sunset of the provisional licensing program to June 30, 2022 and removing the sunset of provisional licenses issued prior to 2022. Additionally, the new proposed language exempts the Attorney General's office from representing the department during certain proceedings, and also exempts certain statutes from the Administrative Procedures Act.

Cannabis Local Jurisdiction Assistance Grants. The Cannabis Local Jurisdiction Assistance Grant program directs resources to the eight jurisdictions with the most provisional cultivation, manufacturing, distribution, testing, microbusiness, and/or retail licenses issued, and provides additional support to these identified jurisdictions who also have local equity programs. These jurisdictions can use the funds for the following:

- Review, technical support, and certification for application requirements.
- Local government or other professional preparation of environmental documents in compliance with the California Environmental Quality Act for permits, licenses, or other authorizations to engage in commercial cannabis activity.
- Mitigation measures related to environmental compliance, particularly those that promote efficient water use and water conservation measures.
- Other uses that further the intent of the program as determined by the Department of Cannabis Control.

This grant program is intended to maintain stability across the supply chain and distributes these one-time resources to a significant number of jurisdictions implementing local equity programs, transitioning larger populations of legacy operators to the regulated market, and/or that are located in areas rich in natural resources and require additional capital to meet environmental compliance standards.

Other proposals. The May Revision also includes resources for the Sustainable California Grown Cannabis Pilot Program, and a deputy director for cannabis equity and inclusion.

Legislative Analyst's Office. **"**This proposal raises a number of issues for the Legislature to consider, including:

- Whether it is appropriate to use the General Fund to offset local costs that are normally covered with local fees and/or licensees' private funds.
- Whether it is appropriate to subsidize the costs of annual licensure for only a portion of licensees.
- Whether structuring the program as a loan rather than a grant would be more appropriate.
- How DCC would ensure funding is prioritized for licensees who would not otherwise be able to transition into an annual license.
- How DCC would ensure that funding is allocated to licensees who are likely to be able to operate successfully for the long-term.
- How DCC will ensure jurisdictions that receive funds will fully pursue other avenues of expediting the transition to annual licenses rather than relying solely on state grant funds.
- What activities DCC would authorize funds be used for beyond those explicitly identified in the proposal."

Staff Recommendation. Hold open.

7502 DEPARTMENT OF TECHNOLOGY (CDT)

Issue 21: Technology Modernization Funding

Request. CDT requests a one-time $50 million General Fund, available over three years, to provide funding for an estimated 10 to 25 system stabilization improvements and solutions.

Background. According to the department, "during the COVID-19 pandemic, the state proved it can deliver and stabilize critical state services in days and weeks, rather than the months and years it normally takes to deliver IT projects. The availability of COVID-19 funding outside of the standard budget process was a major factor contributing to these successes.

"Existing IT funding requests are subject to state budget and legislative processes. The budget process is based on a standardized timeline that is not conducive to providing funding for IT solutions in a timely manner. If approved, this proposal would provide a resource enabling the timely funding of smaller and iterative modernization efforts without losing necessary oversight. One example of the problem posed by the current IT funding timeline surfaces when departments, in response to security audit and assessment findings or urgent threats, must wait to implement security solutions as requests for funding move through the budget process. Another example is when departments complete the market research and alternative analysis portions of the Project Approval Lifecycle (PAL), but due to timing, may miss the window to submit a funding request for the budget year."

Proposed provisional language will also require CDT to report to the Legislature biannually on: the use of funds, the progress of funded projects, the status and results of system assessments, as well as the contents of the prioritized list. The department stated that projects less than $10 million would be eligible and would be determined after its Stage 1 business analysis document is submitted to the Department of Technology.

Staff Comment. The Administration's request proposes to remove standard legislative oversight from IT projects that would normally go through the budget process. This year, the Senate has adopted modernization projects with budget bill language that releases funds upon approval of project documents to better align the PAL process with the budget process and help alleviate some of the timing issues raised in this proposal.

Additionally, the 2019 Budget established the Office of Digital Innovation (ODI), and along with it, $20 million for a continuously appropriated revolving fund called the Digital Innovation Services Revolving Fund. The mission of ODI is to "deliver better government services to the people of California through technology and design," and is authorized to deliver services including IT products. The revolving fund may be used to cover costs associated with approved IT projects. If an IT project is submitted to the Administration with such urgency that it necessitates bypassing legislative oversight, the Administration has alternative options it can exercise to fund such endeavors.

Staff Recommendation. Hold open.

8940 California Military Department

Issue 22: Headquarters Complex – Supplemental Appropriation

Request. The California Military Department (CMD) requests a supplemental appropriation of $25,855,000 one-time General Fund for the design-build phase of the Sacramento: Consolidated Headquarters Complex project. The additional funds are necessary to secure project management, construction supervision, engineering support and inspection services through the duration of the project, and to address numerous required change orders and contractor re-mobilization activities and related costs. The additional funds will allow the project to be completed in 2021-22.

Background. At its May 12 hearing, this subcommittee discussed CMD's Headquarters Complex project, and the stop-work order issued by the State Fire Marshal in late March.

This request covers the following estimated costs:

Supplemental Appropriation Estimate				
PCO's		$	12,000,000	Includes costs primarily related to utilities and technology connections, permits, and other State Fire Marshall compliance changes
De-mob-Re-mob & Overhead (6 mos)		$	6,000,000	For 6 months of delays
Criteria Architect/Engineer Contract Extention Jul 21 -Jun 22 (Burns & MacDonald)		$	2,300,000	Provides Specialty Inspections & Engineering Support validation of contract requirements, and provides historical engineering data as well as continuity of Civil Engineered design.
DGS Fees & Services		$	2,300,000	Includes all Soft Costs for Inspection, fully burdened costs for Project Director III ($360K) for 18 months, and 2.5 Construction Supervisor II's ($774K) for 18 months.
3rd Party Construction Management Firm		$	1,700,000	Includes a 3rd Party Construction Management Firm ($1.7M).Military is currently in the process of procuring these services.
Remaining Cap Out Funds for 1 year Warranty Monitoring Contract		$	1,230,000	CMD to let Contract to Burns & MacDonald upon completion and occupancy. A portion of that Appropriation is good until June 22'.
Connection Fees		$	325,000	Water Connection fee: $198K, SMUD Fee: $125K
TOTAL SUPPLEMENTAL COST		**$**	**25,855,000**	

Total project costs are estimated at $197,242,000 including acquisition ($8,831,000), performance criteria ($6,889,000), and design-build (181,522,000).

Staff Recommendation. Hold open.

0509 Governor's Office of Business and Development

Issue 23: Additional Small Business Grants

Proposal. The May Revision includes $1.5 billion one-time federal American Rescue Plan Act (ARPA) funds for the California Small Business COVID-19 Relief Grant Program, which is administered by the California Office of the Small Business Advocate (CalOSBA) within the Governor's Office of Business and Economic Development (GO-Biz). This would bring the total investment in this program to $4.075 billion, including the $500 million initial investment in November 2020 and the additional $2.075 billion expansion approved by the Legislature in February 2021.

Background. Small businesses have been disproportionately affected by over a year of pandemic-related closures and restrictions, with hundreds of thousands of businesses permanently shuttered and many more on unstable financial footing[1]. Despite improving economic conditions, small business revenue is still down 28 percent and 35.7 percent fewer businesses are open compared to pre-pandemic[2]. Roughly a quarter of small businesses reported in April that they would require financial assistance or additional capital to survive the next few months[3].

There have been targeted small business relief grant programs at the federal and state levels, which are described in detail below. However, these programs typically only covered a few months of expenses, were oversubscribed, and are now largely out of funds. There are currently no open programs at the federal or state level for general small business relief.

Federal aid. There are a number of related federal programs administered by the Small Business Administration (SBA):

- The Paycheck Protection Program (PPP) provides forgivable, low-interest loans to businesses with fewer than 500 employees. However, it recently ran out of funding and has stopped accepting most new applications[4]. As of May 2021, at least 600,000 California businesses have received a total of roughly $100 billion in PPP loans[5]. The program tied loan forgiveness to maintaining payroll and specified that businesses must use the majority of funds on payroll expenses within a period of a few months.

- The Economic Injury Disaster Loans (EIDL) Advance program provided grants of up to $10,000 but ran out of funding in July 2020[6]. However, a total of $25 billion is now being used for Targeted and Supplemental Targeted Advances. These have been offered to previous EIDL applicants or recipients who are located in low-income communities and meet certain criteria related to business size and declines in gross receipts.

- $16 billion has been designated for the Shuttered Venue Operators Grants to live venues, independent movie theaters, and other cultural institutions with fixed-seating theaters. In the first week, SBA reported receiving just over 10,000 applications for this program[7].

- $28.6 billion has been allocated for the Restaurant Relief Fund, which opened on May 3. As of May 12, this program had received more than 266,000 applications representing over $65 billion in requested funds, and $2.7 billion has been distributed to 21,000 restaurants[8].

California Small Business COVID-19 Relief Grant Program.
At the state level, the California Small Business COVID-19 Relief Grant Program, administered by CalOSBA, has awarded $2.575 billion in grants to impacted small businesses. The program was initially authorized by Executive Order No. E 20/21-182 in November 2020, and received an $500 million allocation from the Disaster Response-Emergency Operations Account. An

[1] https://www.brookings.edu/wp-content/uploads/2020/09/PP_Hamilton_Final.pdf
[2] https://tracktherecovery.org/
[3] https://portal.census.gov/pulse/data/#data, https://smallbusinessmajority.org/sites/default/files/research-reports/April-COVID-19-small-business-survey.pdf
[4] https://www.nytimes.com/live/2021/05/04/business/stock-market-today#paycheck-protection-program-closes
[5] https://home.treasury.gov/system/files/136/SBA-Paycheck-Protection-Program-Loan-Report-Round2.pdf, https://www.sba.gov/sites/default/files/2021-05/PPP_Report_Public_210509-508.pdf
[6] https://www.sba.gov/article/2020/jul/11/sba-provided-20-billion-small-businesses-non-profits-through-economic-injury-disaster-loan-advance
[7] https://www.billboard.com/articles/news/9567342/shuttered-venue-operator-grants-first-week-application-statistics/
[8] https://www.sba.gov/article/2021/may/12/recovery-smallest-restaurants-bars-administrator-guzman-announces-latest-application-data-results

additional $2.075 billion was appropriated in February 2021 as part of SB 87 (Caballero), Chapter 7, Statutes of 2021, which also formally established the program in statute. CalOSBA used between four and five percent of this funding to contract with Lendistry, a California-based Community Development Financial Institution, to administer the program.

The program was open to businesses and nonprofits with up to $2.5 million annual gross revenue. Priority was given to impacted industries, underserved business groups such as businesses owned by women, minorities or veterans or businesses located in rural and low-wealth communities, and disadvantaged communities as indicated by socioeconomic factors such as unemployment rates. Grant funds could be used for costs resulting from the COVID-19 pandemic, such as employee expenses, working capital and overhead including rent, and costs associated with health and safety restrictions such as purchasing PPE. Funds could not be used to cover costs already covered by other relief or grant programs. The grants were excluded from gross income for state taxes.

The funding was awarded over six rounds: two open rounds for the initial $500 million, a closed third round for previous applicants, a fourth round for nonprofit cultural institutions (with no limitation on annual gross revenue), and finally two open rounds. The last round closed on May 4, 2021. Approximately 198,000 small businesses either have been or will be awarded grants, with the majority going to the priority areas described above[9]. However, GO-Biz has reported that there are over 180,000 remaining applicants, representing roughly $2.5 billion in requests, who did not receive funding.

Proposed Expansion. The May Revision includes an additional $1.5 billion in federal ARPA funding to provide three additional rounds of grants through this program. CalOSBA would first administer two closed rounds to applicants who are currently waitlisted. Then, a final round would be opened for new applicants, as well as waitlisted applicants, to capture any entities who have not applied before or may still be on the waitlist.

Staff Comment.

Businesses excluded from previous relief efforts. Despite efforts to make these programs equitable and accessible, stakeholders have reported that certain businesses have been consistently left out of relief. All of these programs had applications that were only in English and only available online, and some businesses were not able to get the technical assistance necessary to apply. In other cases, businesses may not have had the required documentation, including tax returns and personal identification documents. They may have encountered issues due to their immigration status, especially if they are undocumented and did not already have a federal Individual Taxpayer Identification Number. The Legislature could consider ways to increase accessibility for the final rounds of the California Small Business COVID-19 Relief Grant Program, such as: requiring a Spanish language application, increasing funding for outreach and technical assistance, and extending the open application period to allow partner organizations to reach more businesses.

Open versus closed rounds. The proposal includes two closed rounds, where grants would only be distributed to businesses who have already applied, and only one open round for new applicants.

[9] https://static.business.ca.gov/wp-content/uploads/2021/05/SBCRG-Final-Awards-Data-as-of-5132021.pdf, https://business.ca.gov/coronavirus-2019/

It is not clear how competitive the remaining applicant pool is, or if it contains many businesses who were not heavily impacted or not from priority areas. The Legislature could consider switching the structure and/or order of these rounds to allow more new businesses access to relief.

Staff Recommendation: Hold Open

Issue 24: Film and Television Tax Credit Expansion

Proposal. The May Revision includes $30 million for a one-time expansion of the Film and Television Tax Credit in 2021-22. The expansion would be used to target relocating television series.

Background. Film and television production was halted by the pandemic-related public health restrictions for several months in 2020. Unemployment in this industry was relatively high. While employment in film and television production has not yet fully recovered, the situation has significantly improved in recent months.

More than thirty states, including California, use tax breaks to attract film and television productions. California allocates $330 million annually in credits, typically for 20 percent of qualified expenses. The program is oversubscribed, with only 22 out of 61 applicants awarded credits in the most recent round[10]. Georgia, which has an uncapped 30 percent tax credit and doled out $870 million in credits in 2019, briefly overtook California as the top movie-production state in 2016, although California has since reclaimed that title and dominates in television production[11].

Film and Television Tax Credit. The California Film Commission (CFC), housed within GO-Biz, administers the Film and Television Tax Credit Program, which provides tax credits based on qualified expenditures for eligible productions that are produced in California. The program was established in 2009 with $100 million in credits awarded annually by lottery (“Film and TV Tax Credit 1.0”), and was restructured and expanded to $330 million for 2015-16 to 2019-20 (“Film and TV Tax Credit 2.0”). In 2018, the Legislature enacted the Film and TV Credit 3.0, which made minor changes, including a diversity reporting requirement, and extended the credit until 2024-25. The three iterations of the credit are summarized in the table from the LAO below.

[10] https://news.bloombergtax.com/daily-tax-report/hollywood-seeks-to-be-film-king-again-with-expanded-tax-breaks
[11] https://www.indiewire.com/2021/04/georgia-boycott-film-tax-credits-1234629128/, https://www.hollywoodreporter.com/news/general-news/feature-film-production-georgia-outpaced-california-last-year-study-says-1006912/, https://www.hollywoodreporter.com/news/general-news/california-ranks-as-top-filming-location-narrative-feature-films-1282548/, https://www.filmla.com/wp-content/uploads/2021/01/2020_TV_Report_WEB_v1.pdf

Comparison of California Film Tax Credit Programs

Program	First Film Tax Credit	"Program 2.0"	2018 Extension
Years in Effect	2009-2017	2015-2020	2020-2025
Amount per Year	$100 million	$330 million[a]	$330 million
Credit Allocation	Lottery	Jobs ratio score	Modified jobs ratio score
Allocation Categories	10 percent of total credits reserved for independent films	Credits allocated as follows: • 40% for TV projects • 35% for feature films • 20% for relocating TV series • 5% for independent films	Credits allocated as follows: • 40% for TV projects • 35% for feature films • 17% for relocating TV series • 8% for independent films
Credit Percentage	Base: 20% of qualifed spending • Independent films: 25% • Relocating TV series: 25%	Base: 20% of qualifed spending, plus additional: • 5% of spending outside LA • 5% of visual effects • 5% of music scoring Independent films and relocating television: 25%	Base: 20% of qualifed spending, plus additional: • 5% to 10% of spending outside LA (up to 30% total) • 5% of visual effects Independent films and relocating television: 25%
Other Requirements		Complete "career readiness" requirement. Provide a statement that credit was a significant factor in choice of location.	In addition to the added requirements of Program 2.0, production companies must have a written policy against sexual harassment and provide a summary of programs to increase workplace diversity.

[a] Only $230 million was available in the first year of Program 2.0 because it was concurrent with the first credit.

Source: LAO[12]

The current program allows a credit in an amount equal to 20 percent (for feature films or new or recurring television series) or 25 percent (for independent films or relocating television series) of qualified expenditures for the production of a qualified motion picture in California. The project is defined as being in California if 75 percent of the shooting days take place or 75 percent of the budget is spent within the state. Smaller budget projects, commercials, music videos, reality shows, and documentaries are not eligible. Qualified expenditures do not include the amounts paid to actors or directors, among other exclusions. Extra credits are available for programs that film outside of Los Angeles or that include original music or visual effect expenditures. The credits are nonrefundable and nontransferable, and apply to income tax liability. However, independent film projects can sell the credits once, and all projects can choose to apply the credits to sales and use tax liability or to income tax liability in previous or upcoming years.

The credit allocation is competitive and is based on the projected economic impact of the project, measured by the number of associated jobs, the amount of money spent, and the facilities utilized within the state. The applicant must provide documentation to CFC after the project is complete, and the tax credit may be adjusted if the final information is different than the application. For the Film and TV Tax Credit 1.0, roughly $183 million out of $800 million credits went unused because the projects were not completed or ended up not meeting the eligibility requirements of the program[13].

[12] https://lao.ca.gov/LAOEconTax/Article/Detail/388
[13] https://lao.ca.gov/LAOEconTax/Article/Detail/388

Related proposed legislation. A number of bills have been proposed this year which would alter this credit. SB 485 (Portantino) would allow additional credits to be allocated for studio construction projects. This would be an uncapped and sellable credit. SB 611 (Allen) would provide additional credits to projects that hire individuals from the Career Pathways Assistant Director Program or an equivalent program. These credits would come out of the $330 million allocation. AB 986 (Gipson) would make an additional $200 million credit allocation available exclusively to independent films produced and staffed by minorities, at a rate of 40 percent of qualified costs.

Proposed expansion. The May Revision includes a one-time expansion of $30 million specifically for relocating television series, which are shows that move to California after having filmed their most recent season outside of the state.

LAO Comment: *No Concerns.* While we have raised concerns with the effectiveness of this program in the past, this proposal would have no fiscal effect in the budget year and only a very modest impact on the state's long-term budget condition. Moreover, decisions for relocating television productions to film in California are somewhat more likely to be influenced by this credit than are similar decisions for most other types of film and television productions.

Staff Recommendation: Hold Open

7730 FRANCHISE TAX BOARD

Issue 25: Golden State Stimulus 2.0

Governor's Proposal. The May Revision proposes $8.1 billion for an additional Golden State Stimulus (GSS 2.0) payment, including:

- $600 payments for income tax filers earning up to $75,000 who did not already receive a GSS payment (approximately 9.4 million filers).

- An additional $500 to income tax filers with a dependent making up to $75,000 (approximately 4.3 million filers).

- An additional $500 to Individual Taxpayer Identification Number (ITIN) income tax filers that earn up to $75,000 and have a dependent (approximately 520,000 filers).

In addition, $3.4 million and 46.6 positions are proposed for the FTB to administer the GSS 2.0.

Background. SB 88 (Committee on Budget and Fiscal Review), Chapter 8, Statutes of 2021, created the Golden State Stimulus and Golden State Grant programs, which provided $600 in direct relief to millions of low-income Californians who qualify for the California Earned Income Tax Credit (CalEITC) or are recipients of other specific benefit programs. Specifically, SB 88:

1) Directed the Controller to make a one-time Golden State Stimulus tax refund payment in the applicable amount to each qualified recipient, as follows:

   a) $600 for a qualified recipient who is an eligible individual for the CalEITC who filed a California individual income tax return for the taxable year beginning on or after January 1, 2020, and before January 1, 2021, who has been allowed a CalEITC for that taxable year by November 15, 2021, and is a California resident on the date the Controller issues the payment.
   b) $600 for a qualified recipient who 1) filed a California individual income tax return on or before October 15, 2021, for the taxable year beginning on or after January 1 2020, and before January 1, 2021, 2) include on their return either their ITIN, or, if married, the ITIN number of their spouse 3) reported California adjusted gross income of $75,000 or less, and 4) is a California resident on the date the Controller issues the payment.
   c) $1,200 for a qualified recipient who satisfies the requirements of both a and b.

2) Directed the State Department of Social Services to make a one-time grant payment in the amount of $600 to each person who is one of the following:

   a) An assistance unit as defined in Section 11450.16 of the Welfare and Institutions Code under the California Work Opportunity and Responsibility to Kids Act.
   b) A recipient of benefits provided under the Cash Assistance Program for Aged, Blind, and Disabled Legal Immigrants.
   c) A recipient of benefits under the Supplemental Security Income/State Supplemental Program.

The recession caused by the COVID-19 pandemic disproportionately impacted low-income jobs and exacerbated existing economic inequality in California[14]. As of October 2020, employment rates for high-wage workers ($60,000) had returned to pre-pandemic levels, while employment rates for low-wage workers (<$27,000) were down almost 30 percent[15]. Many Californians have reported food and housing insecurities and difficulty in paying for usual household expenses[16].

Three direct stimulus payments have been provided by the federal government since the beginning of the COVID-19 pandemic. The March 2020 CARES Act package included $1,200 per adult and $500 per child under 17 for individuals whose income was less than $75,000, and a reduced benefit up to incomes of $99,000. The December 2020 aid package included an additional $600 per adult and up to $600 for each qualifying child. The initial payment kept an estimated eight million Americans out of poverty[17,18]. The third round of economic impact payments was authorized by the American Rescue Plan Act of 2021 and provides $1,400 for an eligible individual with a valid Social Security number ($2,800 for married couples filing a joint return) and $1,400 for each

[14] https://www.ppic.org/wp-content/uploads/incoming-inequality-and-economic-opportunity-in-california-december-2020.pdf
[15] https://www.tracktherecovery.org/
[16] https://www.census.gov/data-tools/demo/hhp/#/?measures=EXR&mapAreaSelector=st&barChartAreaSelector=st
[17] https://www.urban.org/research/publication/using-cash-payments-reduce-poverty
[18] https://www.nber.org/papers/w27729

qualifying dependent. The third payment began to be reduced for individuals with adjusted gross income of more than $75,000 (or $150,000 if married filing jointly).

ITIN-filers are typically excluded from federal aid, even though many are essential workers or work in industries hit hard by COVID-19[19]. The March 2020 CARES Act excluded families if any member filed using an ITIN, which also prevented millions of spouses and children who are U.S. citizens or permanent resident immigrants from receiving the initial stimulus payment. Some of those families became eligible in the December federal aid package and could receive the initial payment retroactively. However, families where both parents use ITINs are still ineligible, which has also prevented stimulus support from reaching more than two million U.S. citizen and legal-immigrant children nationwide[20].

The GSS 2 proposal would bring the total investment in the GSS to $11.9 billion. The following chart from the California Budget and Policy Center displays total GSS payments for tax filers under both the first GSS and the proposed GSS 2.0.

Total Golden State Stimulus Payments
Under Governor Newsom's Revised Budget Proposal

	Californians Who File with SSNs			Californians Who File with ITINs		
	First GSS	Proposed Second GSS	Total	First GSS	Proposed Second GSS	Total
	Income of $30,000 or Less			Income of $30,000 or Less		
With Dependents	$600	$500	$1,100	$1,200	$1,000	$2,200
Without Dependents	$600	$0	$600	$1,200	$0	$1,200
	Income Between $30,000 and $75,000			Income Between $30,000 and $75,000		
With Dependents	$0	$1,100	$1,100	$600	$1,000	$1,600
Without Dependents	$0	$600	$600	$600	$0	$600

Note: SSNs = Social Security numbers. ITINs = federally issued Individual Taxpayer Identification Numbers.
Source: California Budget & Policy Center analysis of Governor's Golden State Stimulus proposal

LAO Comments. In the LAO's review of this proposal, they suggest that the state should consider focusing on filling gaps in the federal relief that has been provided to date. Federal relief efforts during the pandemic have been unprecedented in scale. The state's capacity to provide relief is much more limited. The state, therefore, should ensure that its pandemic relief 1) targets those most in need and 2) focuses primarily on those not served by federal programs.

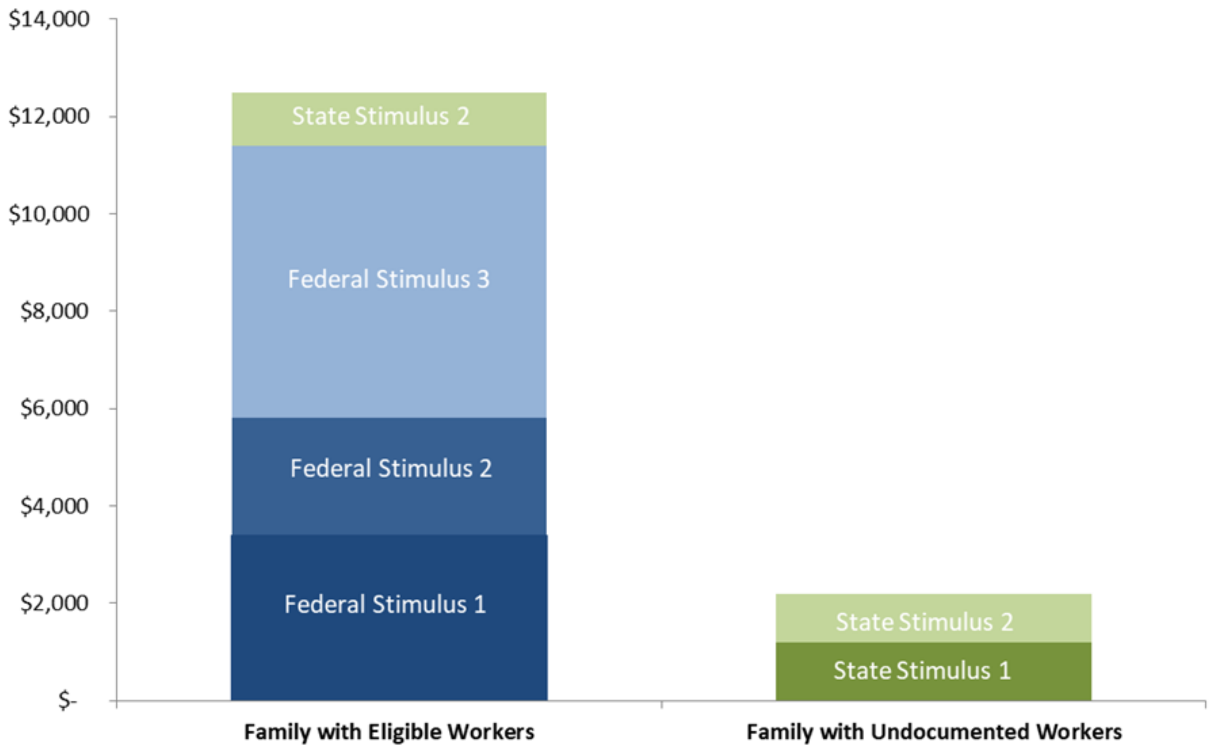
The LAO points out that most households proposed to receive payments under the Governor's expanded Golden State Stimulus have already benefited from unprecedented federal pandemic aid. As an example, as shown in the LAO figure below, an eligible family of four who would receive

[19] https://calbudgetcenter.org/resources/about-2-in-3-immigrant-workers-excluded-from-the-caleitc-are-covid-19-essential-workers/
[20] https://www.migrationpolicy.org/news/cares-act-excluded-citizens-immigrants-now-covered

a stimulus payment under the expanded proposal would, in total, receive more than $12,000 in federal and state stimulus payments. An otherwise similar family, but with undocumented workers, would receive much less overall—about $2,000—due to being ineligible for federal stimulus payments. Given the significant overlap with prior federal efforts, the Governor's expanded Golden State Stimulus proposal would not significantly fill in gaps in federal relief. Based on cost estimates provided by the administration, the LAO estimates that less than 10 percent of the proposed stimulus funds would benefit taxpayers and families who have been ineligible for federal aid programs during the pandemic.

Comparing Pandemic Stimulus Payments for Different Families

Example compares two families of four, the first with two eligible workers and two children, the second with two undocumented workers and two children.



The LAO suggests that a more targeted approached could fill the gaps:

- **Reworking Governor's Proposal to Fill in Gaps in Federal Relief.** Undocumented low-wage workers have faced significant job losses and have not benefitted from federal income support. The Legislature has options—to expand or redirect—the Governor's broad proposal in order to more equitably target state assistance to undocumented, low-wage workers. Below, the LAO provides two examples of these options:
    - **Expand Proposal to Provide Larger Payments to Undocumented Workers with Dependents.** One option the Legislature could consider is simply to build on the Governor's May Revision proposal by increasing the payment amount for undocumented families. As an example, by adding $2 billion in funds to the

Governor's stimulus proposal, the Legislature could increase payments to undocumented households with dependents who file using ITINs from $500 (under the Governor's proposal) to $4,000.

- **Redirect Some Proposed Payments to Provide Larger Payments to Undocumented Workers.** As an alternative, a second option is to work within the Governor's budgeted amount for the May Revision proposal. As an example under this option, the Legislature could limit the stimulus expansion to taxpayers with income below $50,000 instead of $75,000. The remaining funds could be redirected to increased payments for undocumented households with dependents who file using an ITIN. Using the remaining funds in this way, the LAO estimates that one-time payments to undocumented households could be increased from $500 to $3,000.

Recommendation: Hold open.

Issue 26: Homeless Hiring Tax Credit

Budget Proposal. The Legislature is considering a proposal to establish a tax credit between $2,500 and $10,000, per qualified individual hired, for employers that pay at least 120 percent of the state of California's minimum wage. Each eligible employee—certified by local Continuums of Care—must work not less than a specified number of hours (depending on the size of the credit) the year for which the employer is claiming the credit. A qualified employer would be able to claim $30,000 in tax credits annually, with an allowable maximum of $30 million in credits allocated annually statewide.

Background. According to a 2019 annual report by the United States Department of Housing and Urban Development (HUD), which compiles the point-in-time (PIT) counts from regions across the United States, California had 151,278 homeless individuals in 2019, which accounted for 27 percent of the nation's homeless population. In this count, most individuals experiencing homelessness across the nation lived in emergency shelters or transitional housing programs, while nearly 72 percent (108,432 people) of California's homeless population remained unsheltered. While these numbers provide a snapshot of the state's homeless population during a single night in 2019, they likely underestimate the scope of the crisis because: (1) the HUD PIT count only measures the homeless population on one day of the year, and (2) it does not capture everyone experiencing homelessness, as some do not wish to be counted, while others cannot be counted because their location is not known to the counters.

The COVID-19 pandemic has exacerbated the needs of California's most vulnerable communities and increased the risks for individuals experiencing homelessness, while the pandemic-generated recession has put severe strains on employers and businesses. During the state's crisis, it is now more critical than ever to provide tools to serve one of California's most vulnerable populations that face significant barriers to employment.

The proposed tax credit is intended to streamline the hiring of homeless individuals while providing incentives to businesses to provide these employment opportunities. The credit will facilitate the hiring of homeless individuals who frequently experience stigma and systemic barriers when attempting to attain employment. The purpose of the Homeless Hiring Tax Credit is to encourage qualified employers that provide family-sustaining career pathways to hire and retain employees from the homeless population.

Recommendation: Hold open.