

Senate Budget and Fiscal Review—Scott D. Wiener, Chair

SUBCOMMITTEE NO. 4

Agenda

Senator Stephen C. Padilla, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas



Thursday, May 20, 2024
9:00 a.m.
State Capitol – Room 113

Consultants: Timothy Griffiths and Diego Emilio J. Lopez

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ITEMS FOR VOTE ONLY

0509 GOVERNOR’S OFFICE OF BUSINESS & ECONOMIC DEVELOPMENT (GOBIZ)

Issue 1: Authority to Receive Additional Federal Grant Funding

Governor’s Budget Proposal: As part of the May Revision, the Governor’s Office of Business and Economic Development (GOBiz) requests an ongoing augmentation of \$325,000,000 in Federal Trust Fund authority to receive federal grants for the State Trade Expansion Program (STEP), the Grant Administration Plan (GAP), and the Building Resilience Plan without having to seek annual authorization to do so.

Background: STEP is a United States Small Business Administration grant program which funds outreach and assistance to businesses attempting to expand into export markets. Historically, California has applied for and received STEP grants, most recently under the leadership of GOBiz’ International Affairs and Trade (IAT) unit.

Separately, GO-Biz’s California Business Investment Services program (CalBIS) recently received two grants from the federal Economic Development Administration (EDA). One is a competitive grant in the amount of \$1,350,000 to support a “Regional Innovation, Regional Recovery: Building Resilience in California’s Unique Economies (Resilience) initiative. It is funded by EDA’s Public Works and Economic Adjustment Assistance (Public Works) program. According to GOBiz, this grant pays for “activities that provide economically distressed communities and regions with flexible resources to address a wide variety of economic needs.” The second is a \$1 million block grant from the EDA’s Statewide Planning, Research, and Network program. The Grant Administration Plan (GAP) promotes rebuilding regional economies by supporting statewide planning, research, and networks. GAP promotes rebuilding regional economies by supporting statewide planning, research, and networks.

GOBiz anticipates continuing to receive these same grants on an annual basis into the foreseeable future, as indicated in the table below:

Table 1 – History of Grant Awards - \$ in thousands

Grant Awards	2022-23	2023-24	2024-25 (est.)
STEP Grant	\$600	\$700	\$900
GAP Grant	\$1,000	\$1,000	\$1,000
Resilience Grant	\$1,350	\$1,350	\$1,350

The ongoing nature of this Federal Trust Fund augmentation request is intended to enable GOBiz to accept these and future federal grant awards without having to seek specific legislative authorization to do so.

Key Questions: None for this issue.

Staff Comments: The requested augmentation simply enables the infusion of federal funds into the mentioned programs.

Staff Recommendation: Approve as budgeted.

Issue 2: Additional Funding for Implementation of Recently Enacted Legislation

Governor’s Budget Proposal: As part of the May Revision, the Governor’s Office of Business and Economic Development (GOBiz) requests new General Fund allocations of \$2,297,000 in 2024-25 and \$252,000 in 2025-26 in order to implement AB 585 (R. Rivas, Ch. 336, Stats. 2023).

Background: Among other things, AB 585 requires GOBiz to prepare an assessment of barriers limiting the deployment of clean energy projects in California by January 1, 2026. In consultation with the California Air Resources Board, the California Public Utilities Commission, and the California Energy Commission, GOBiz is supposed to analyze all of the following:

- at least three clean energy project types;
- specific challenges impacting the different stages of clean energy project development;
- different methods for developing and deploying clean energy projects; and
- recommended approaches, models, or strategies for addressing the identified barriers, challenges, and impediments to clean energy project deliver.

This request seeks the necessary resources for GOBiz to carry out this task. Specifically, GOBiz explains that the new funding will be used for “one Staff Services Manager I (Specialist) position, a contract to assess impediments to clean energy and infrastructure deployment, and funding for stakeholder engagement, convenings and travel.”

Key Questions: None for this issue.

Staff Comments: During legislative consideration of AB 585, the Senate Appropriations Committee indicated that the bill would have “[u]nknown but likely significant ongoing costs” for GOBiz. Since the bill requires only one assessment, rather than assessments at regular intervals, it is not clear what the source of the ongoing costs would have been. In any event, this request is limited to 2024-25 and 2025-26.

Staff Recommendation: Approve as budgeted.

Issue 3: Minor Savings from Technical Adjustment

Governor’s Budget Proposal: As part of the May Revision, the Governor’s Office of Business and Economic Development (GOBiz) requests to revert \$2 million in unencumbered funds back to the General Fund.

Background: The 2021 Budget Act includes a \$2 million allocation to GOBiz for encumbrance or expenditure by June 30, 2026. Originally, that amount was part of a broader proposal to fund wood product innovation. This aspect of the proposal was withdrawn from the final budget, but the corresponding budget bill language was never removed. Accordingly, the \$2 million remains available. The proposal is to revert this amount back to the General Fund to help with the budget shortfall.

Key Questions: None for this issue.

Staff Comments: None for this issue.

Staff Recommendation: Approve as budgeted.

0650 GOVERNOR'S OFFICE OF PLANNING & RESEARCH**Issue 4: Staff and Budget Augmentations to Implement Recently Enacted Legislation**

Governor's Budget Proposal: As part of the May Revision, the Governor's Office of Planning and Research (OPR) requests a new, ongoing General Fund allocation of \$392,000 and hiring authority for two additional positions to implements SB 69 (Cortese, Ch. 860, Stats. 2023). OPR further seeks \$385,000 and hiring authority for two additional positions to implement SB 306 (Caballero, Ch. 387, Stats. 2023).

Background: Among other duties, OPR serves as a clearinghouse for many of the public notices and reports required for compliance with the California Environmental Quality Act (CEQA). SB 69 requires local agencies in charge of CEQA projects to provide public notices about the project to OPR on specified timelines.

SB 306, among other things, requires OPR and the Natural Resources Agency, on or before July 1, 2026, and every three years thereafter, to update the Extreme Heat Action Plan in consultation with relevant state agencies in order to promote comprehensive, coordinated, and effective state and local government action on extreme heat. The bill further requires OPR to post the Extreme Heat Action Plan and subsequent updates on its website and provide copies to the relevant fiscal and policy committees of the Legislature.

This budget proposal requests the necessary staffing and budget augmentations for OPR to carry out these tasks.

Key Questions: None for this issue.

Staff Comments: Both of the requests are roughly consistent with the fiscal effects anticipated by the Senate Appropriations Committee during legislative consideration of the bills.

Staff Recommendation: Approve as budgeted.

Issue 5: Technical Adjustment to Align Regional Climate Resilience Program Expenditures

Governor's Budget Proposal: As part of the May Revision, the Governor's Office of Planning and Research (OPR) requests to transfer \$50 million between accounts to correctly align with program expenditures related to the Regional Climate Resilience Program.

Background: Currently, \$50 million of the allocation for Regional Climate Resilience is coded with a reference number indicating it is for local assistance when it is in fact intended for operational support. This request transfers the money so that it is correctly aligned.

Key Questions: None for this issue.

Staff Comments: None for this issue.

Staff Recommendation: Approve as budgeted.

Issue 6: Reappropriate Adaptation Planning Grants

Governor’s Budget Proposal: As part of the May Revision, the Governor’s Office of Planning and Research (OPR) requests to reappropriate up to \$1.2 million for the Adaptation Planning Grants program.

Background: Adaptation Planning Grants provide funding for communities to plan for and respond to climate risks in a variety of contexts. The 2021 Budget Act included money for this program. If any part of that allocation remains unspent and is not reappropriated this year, it will revert to the General Fund. The Administration asserts that \$1.2 million is unspent but is needed to “allow staff to continue to manage grant contracts and close out activities.” Accordingly, this proposal requests reappropriation of that amount.

Key Questions: None for this issue.

Staff Comments: None for this issue.

Staff Recommendation: Approve as budgeted.

Issue 7: Reappropriate Funding for Wood Products Innovation

Governor’s Budget Proposal: As part of the May Revision, the Governor’s Office of Planning and Research (OPR) requests to reappropriate up to \$130,000 for the Wood Products Innovation program.

Background: The 2023 Budget Act included funding for the development of pilot programs to test the use of wood as feedstock. If any part of that allocation remains unspent and is not reappropriated this year, it will revert to the General Fund. The Administration asserts that \$130,000 is unspent but is needed to “allow staff to manage existing contracts in 2024-25.” Accordingly, this proposal requests reappropriation of that amount.

Key Questions: None for this issue.

Staff Comments: None for this issue.

Staff Recommendation: Approve as budgeted.

Issue 8: Extension of Racial Equity Commission’s Framework Deadline

Governor’s Budget Proposal: As part of the May Revision, the Governor’s Office of Planning and Research (OPR) requests the approval of placeholder budget trailer bill language that would extend the deadline by which the Racial Equity Commission must submit its statewide Racial Equity Framework.

Background: The 2023 Budget Act established the Racial Equity Commission under the auspices of OPR and in accordance with Executive Order N-16-22. Under its statutory mandate, the 11 member Commission is charged with developing “resources, best practices, and tools for advancing racial equity, based upon publicly available information and data” by carrying out certain tasks. (Gov. Code § 8303.3(a)).

Among those tasks is the development of a statewide Racial Equity Framework. This Framework is supposed to set forth all of the following:

- Methodologies and tools that can be employed to advance racial equity and address structural racism in California.
- Budget methodologies, including equity assessment tools, that entities can use to analyze how budget allocations benefit or burden communities of color.
- Processes for collecting and analyzing data effectively and safely, as appropriate and practicable, including disaggregation by race, ethnicity, sexual orientation and gender identity, disability, income, veteran status, or other key demographic variables and the use of proxies.
- Input and feedback from stakeholder engagements.

Under the existing statute, the final version of the Framework must be approved by the Commission and submitted to the Governor and the Legislature by no later than April 1, 2025. Through proposed budget trailer bill language, OPR requests to extend that deadline to no later than December 1, 2025.

Key Questions: None for this issue.

Staff Comments: None for this issue.

Staff Recommendation: Approve as budgeted.

ITEMS FOR DISCUSSION

0509 GOVERNOR'S OFFICE OF BUSINESS & ECONOMIC DEVELOPMENT (GOBIZ)

Issue 9: Withdrawal of Previously Proposed CalCompetes Grant Funding

Governor's Budget Proposal: The Governor's January 2024 Budget proposed to allocate \$60 million to the Governor's Office of Business and Economic Development (GOBiz) for an additional year of CalCompetes grants. The proposed allocation would have derived from \$50 million in new 2024-25 General Fund spending and \$10 million left unspent from prior rounds of CalCompete grants. *The Governor's May Revision now withdraws this proposed new spending and reverts the unspent \$10 million back to the General Fund.*

Background: The CalCompetes program provides financial incentives to California businesses that might otherwise leave the state as well as to out-of-state businesses thinking about relocating here. GO-Biz states that "CalCompetes is the state's largest and strongest tool for attracting new and retaining existing employers in California."

In the first several years after it was established in 2014, CalCompetes offered all of its financial incentives to businesses in the form of non-refundable tax credits. Under the tax credit structure, CalCompetes gives businesses a reduction on their future state income tax bills in exchange for agreements to make certain capital investments and to hire a certain number of employees in California. If the business carries out the agreements, the business can utilize the tax credits to reduce or eliminate their future state tax bills. If the business does not comply with its agreements, the state recaptures the credits and recycles them back into the CalCompetes program.

For some businesses, however, the non-refundable tax credit structure does not work optimally. Newer companies and those still struggling to make money often do not owe enough in taxes to be able to utilize their tax credits before those credits expire. Similarly, businesses that reinvest earnings back into the company can wind up owing less in taxes than their CalCompetes credits are worth.

To address situations like these, the state added a grant-based component to CalCompetes beginning in 2021-22. Under the grant-based programs, CalCompetes provides up-front 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 2021-22, 2022-23 and 2023-24 Budget Acts each included one-time allocations of \$120 million to the CalCompetes Grant program. The 2022 Budget Act also directed GOBiz to prioritize making CalCompetes grant awards to companies in the semiconductor industry in order to capitalize on federal CHIPS Act funding, which requires some form of state-level match. According to the Legislative Analyst's Office (LAO), CalCompetes grants have been the state's

“primary tool” in this area the last couple of years, with around one third of California Competes grants across 2022-23 (\$30 million) and 2023-24 (\$51 million) going to semiconductor companies.

The Governor’s January 2024 Budget proposed to extend the CalCompetes Grant program for another year but the proposal was limited to just \$60 million. Of that total amount, the Governor’s January 2024 Budget would have included \$50 million in new 2024-25 General Fund spending and \$10 million left over from prior rounds when a CalCompetes grant applicant withdrew from contention late in the process.

The May Revision now withdraws the proposal to spend \$50 million in new General Fund on another year of CalCompetes Grants and reverts the leftover \$10 million back to the General Fund.

Key Questions:

- What impact will this have on the state’s ability to lure businesses here?
- Will the continued existence of CalCompetes tax credits and other public incentives be sufficient to enable the state to compete successfully for federal microchip manufacturing funding?

Staff Comments: The withdrawal of this proposal comports with the LAO’s recommendation. Regarding the original proposal, the LAO concluded that although independent academic research showed that the CalCompetes tax credit model can be effective, the grant program is comparatively “new” and “unproven.” Thus, the LAO stated that in the current budget environment, further investment in the CalCompetes grant model is “not prudent.”

Staff Recommendation: Hold open.

Issue 10: Reduce the Proposal to Recapitalize the Infrastructure State Revolving Fund

Governor’s Budget Proposal: The Governor’s January 2024 Budget proposed to allocate \$50 million in new, one-time General Fund spending to recapitalization of the Infrastructure State Revolving Fund (ISRF) Loan Program at the California Infrastructure and Economic Development Bank (IBank) within the Governor’s Office of Business and Economic Development (GOBiz).. *The Governor’s May Revision now reduces the proposed recapitalization to \$25 million instead.*

Background: The ISRF provides comparatively low-interest loan financing to local governments for public infrastructure projects. Some examples of ISRF-financed projects include:

- A \$40 million loan to the City of San Diego in 2024 to finance the Miramar Greenery organic waste processing facility that will assist the city in complying with state requirements to divert organic material from landfills.
- A \$35 million loan to the City of Fresno in 2019 to finance construction of a parking garage at the Fresno/Yosemite International Airport.
- A \$4 million loan to the City of Ukiah in 2017 to finance traffic and pedestrian improvements.
- A \$3 million loan to the City of Alameda in 2015 to finance replacement of the former fire station with a new state of the art firehouse and to construct the a stand-alone Emergency Operations Center.

ISRF is able to finance these loans by leveraging a pool of capital provided by the state. Specifically, upon establishing the ISRF in 1999, the state infused it with \$162 million in initial capital. Since then, the ISRF has repeatedly leveraged that initial capital by selling revenue bonds and then loaning out the proceeds. By maintaining an excellent credit rating, the ISRF can issue these loans at rates that fall below what its borrowers would ordinarily pay on the open market. In this way, the ISRF reports issuing over \$1 billion in loans, supporting over 100 projects and creating over 24,000 new jobs since its inception.

There is an outer limit on how far the ISRF can stretch its original capital, however. Without the infusion of further capital, the ISRF will eventually reach a point where it must either stop lending or risk the possibility that the bond markets will begin to view it as over-extended and downgrade its credit-rating accordingly. If the latter happened, the ISRF’s increased borrowing costs would force it to charge higher rates to its local government customers.

The ISRF now projects that it has reached or is coming very close to the limit past which it can no longer stretch its original capital. Accordingly, the Governor’s January 2024 Budget sought an additional infusion of \$50 million in capital for the ISRF. GOBiz projected that this amount would have been sufficient to enable the ISRF to meet loan demands for another two years.

In light of the budget shortfall, the May Revision reduces the requested recapitalization amount to just \$25 million.

Key Questions:

- Is \$25 million a sufficient amount to enable ISRF to continue making loans at optimal rates?
- How long could ISRF leverage the additional \$25 million before it would need to seek further capital infusions from the state?
- What, if any, are the risks and disadvantages of approving this lower allocation?

Staff Comments: The reduced request moves in the direction of the Legislative Analyst's Office, which recommending rejecting the originally proposed amount.

Staff Recommendation: Hold open.

Issue 11: Reductions to the Small Business Technical Assistance Expansion Program

Governor’s Budget Proposal: The Governor’s January 2024 Budget did not propose any changes to the Small Business Technical Assistance Expansion Program (TAEP) housed within the Office of the Small Business Advocate (CalOSBA) at the Governor’s Office of Business and Economic Development (GOBiz). *The Governor’s May Revision now proposes to cut \$13 million in General Fund from TAEP in 2024-25 and again in 2025-26.*

Background: CalOSBA operates a network of small business assistance offices throughout the state. These offices provide advice and assistance to entrepreneurs and small business owners as they seek their fortune.

Established as part of the 2018 Budget Act, the TAEP program is intended to expand upon that network of providers by offering funding “to create new or enhanced consulting and training services through existing and new Centers, including satellite offices.” Specifically, TAEP grant recipients can use the money to offer consulting and training services related to among other things:

- business plans and strategy;
- capital readiness and fundraising;
- expansion and revenue growth strategies such as export training, government and private procurement,
- e-commerce marketplace development and other business development strategies;
- marketing;
- management;
- operations;
- financial management;
- cybersecurity;
- production/manufacturing assistance and increased productivity strategies;
- innovation and tech transfer; and
- business resilience such as emergency preparedness, disaster economic recovery, succession planning and exit strategies.

CalOSBA indicates that it gives priority for TAEP funding to proposals that “fill opportunity gaps for underserved small business owners to help them reach greater parity in revenue creation and job creation..” This includes “new or enhanced services to underserved small business owners, including women, people of color and veteran-owned businesses and businesses in low-wealth, rural and disaster-impacted communities included in a state or federal emergency declaration or proclamation.”

The 2018 Budget Act allocated \$17 million in General Fund to TAEP annually for five years. The 2022 Budget Act increased this funding by \$6 million – for a total of \$23 million annually – and made it ongoing. To help address the budget deficit, the May Revision now proposes to trim this annual allocation back to \$10 million annually for fiscal years 2024-25 and 2025-26.

Key Questions:

- What specific services and programming would be lost as a result of this cut?
- Given that the program is specifically targeted toward expanding access to technical assistance to the state's underserved small business owners, how does this proposed cut comport with the state's committee to equity in economic opportunity?

Staff Comments: California recently received around \$1.2 billion in federal funds for the State Small Business Credit Initiative (SSBCI). The Initiative – administered partially by GOBiz and partially through the State Treasurer's Office – is meant to help states address the challenges small businesses face in securing financing. California's program includes an allocation of \$287 million to facilitate loan access for business owners who self-certify as Socially and Economically Disadvantaged Individuals (SEDI). The Subcommittee may wish to explore how the proposed cuts to TAEP might interact with the SSBCI, including where potentially synergies might be lost, but also ways in which SSBCI funding might help to offset some of the proposed reduction in services and assistance to small business owners.

Staff Recommendation: Hold open.

Issue 12: Additional Delays to the City of Fresno Infrastructure Plan Funding

Governor’s Budget Proposal: The 2023 Budget Act included an allocation of \$250 million in General Fund to support implementation of the City of Fresno’s Public Infrastructure Plan, distributed according to the following schedule: \$50 million in 2023-24; \$100 million in 2024-25; and \$100 million in 2025-26. The Governor’s January 2024 Budget maintained the \$50 million in 2023-24 spending as well as the overall total, but it proposed to delay one of the \$100 million disbursements by one year. *The Governor’s May Revision now proposes to delay the other \$100 million by a year as well.*

Background: The City of Fresno’s Public Infrastructure Plan calls for investment in a high speed rail station, parking, green space, walkability, and water projects in the downtown area. Among other things, the City of Fresno expects these improvements to facilitate significant new residential housing development in the vicinity.

The 2023 Budget Act included an allocation of \$250 million in General Fund to support implementation of this Plan, distributed according to the following schedule: \$50 million in 2023-24; \$100 million in 2024-25; and \$100 million in 2025-26.

In order to achieve 2024-25 and 2025-26 General Fund savings, however, the Governor’s Budget proposal, as modified by the May Revision, pushes back the distribution schedule as follows: \$50 million in 2023-24; \$200 million in 2026-27.

Key Questions:

- Is the remaining \$50 million in 2023-24 sufficient to enable the project to get underway?
- What are the costs associated with delaying part of this funding?
- Will the delays have any other impact on the project?

Staff Comments: None for this issue.

Staff Recommendation: Hold open.

Issue 13: Sweep of the Performing Arts Equitable Payroll Fund

Governor’s Budget Proposal: The Governor’s May Revision proposes to revert \$12.5 million from the Performing Arts Equitable Payroll Fund back to the General Fund.

Background: The California Venues Grant Program and the California Small Nonprofit Performing Arts Grant Program both provided subsidies to assist elements of the live arts community to withstand revenue losses during the COVID-19 pandemic when in-person performances were not possible. As of last year, both programs had unspent balances left over, so the 2023 Budget Act took the combined total, \$12.5 million, and redirected it to fund the new Performing Arts Equitable Payroll Fund established under SB 1116 (Portantino, Ch. 731, Stats. 2022).

As its name implies, the Performing Arts Equitable Payroll Fund grant program was designed to support the workers behind live performances by reimbursing many payroll expenses.

In light of the current budget shortfall, the May Revision now proposes to revert the Performing Arts Equitable Payroll Fund back to the General Fund.

Key Questions:

- Stakeholders within the performing arts community have indicated to the Subcommittee that they continue to face challenges generating the revenue due to a lingering public hesitation to return to live events. Given that context, why has the Administration chosen to propose elimination of this fund?
- How would this cut impact the performing arts community? Do we risk losing some of our long-standing California performing arts programming, potentially forever?

Staff Comments: None for this item.

Staff Recommendation: Hold open.

Issue 14: Sweep Savings from the Small Agricultural Business Drought Relief Grant Program

Governor’s Budget Proposal: As part of the May Revision, the Governor proposes to revert \$5 million from the Small Agricultural Business Drought Relief Grant Program back to the General Fund.

Background: Drought conditions in California, particularly in the period 2020-2022, had a punishing financial effect on agricultural producers, especially smaller growers and ranchers unable to absorb sustained losses. In response, the 2022 and 2023 Budget Acts allocated a combined \$75 million for the Small Agricultural Business Drought Relief Grant Program. Eligible applicants had to have 100 or fewer workers and had to show financial impacts from specified, severe drought conditions.

Of the total amount allocated to the program, \$5 million remains unspent. To help address the budget deficit, the May Revision now proposes to revert that amount back to the General Fund.

Key Questions:

- Why was this amount left unspent?
- Are there meritorious applicants for these grants who did not receive one?

Staff Comments: None for this item.

Staff Recommendation: Hold open.

Issue 15: Cut the Local Government Budget Sustainability Fund

Governor’s Budget Proposal: As part of the May Revision, the Governor proposes to revert the \$50 million balance from the Local Government Budget Sustainability Fund back to the General Fund.

Background: The 2023 Budget Act established the Local Government Budget Sustainability Fund to provide grants to support revenue stability in counties with high unemployment and high rates of poverty. As originally proposed in the Governor’s January 2023 Budget, the Fund would have contained \$300 million for that purpose. The Governor’s 2023 May Revision pulled \$250 million from the original proposal and redirected it toward implementation of the Downtown Fresno Infrastructure Plan. That change was ultimately incorporated into the final 2023 Budget Act, leaving the Local Government Budget Sustainability Fund with a balance of just \$50 million. In light of the budget shortfall, the May Revision now proposes to revert that amount back to the General Fund.

Key Questions:

- What impact would this cut have on the budgets of the local governments for which the Fund was originally intended?
- Much of the idea behind this Fund was to bring some relief to communities that are really struggling economically. To what degree have those communities been relying on assistance from this Fund to help manage their finances?

Staff Comments: None on this issue.

Staff Recommendation: Hold open.

0650 GOVERNOR'S OFFICE OF PLANNING & RESEARCH**Issue 16: Department Reorganization**

Governor's Budget Proposal: The Governor's January 2024 Budget proposed a general reorganization of the Governor's Office of Planning and Research, but offered few details. *The Governor's May Revision now provides fuller details including, among other things:*

- Establishment of a new Governor's Office of Service and Community Engagement (Cal-SERVE) encompassing what is now California Volunteers, the Office of Community Partnerships and Strategic Engagement, the Youth Empowerment Commission.
- Transfer of the Jobs First Unit from OPR to the Governor's Office of Business and Economic Development (GOBiz).
- Transfer of the Zero Emissions Vehicle Program from OPR to GOBiz.
- Transfer of the California Initiative to Advance Precision Medicine from OPR to the Health and Human Services Agency.
- Changing the name of the remaining elements of OPR to the Governor's Office of Climate and Land Use Innovation (GO-CALI).

Background: OPR has grown rapidly in recent years, both in terms of its size and the scope of its mission. Numerous and varied new initiatives have been assigned to OPR, including CalVolunteers, the Office of Community Partnership and Strategic Communication (OCPSC), the Racial Equity Commission (REC), and the Youth Empowerment Commission (YEC), among others. Reflecting this expansion, OPR's budget has risen from just \$54 million in 2016-17 to a proposed \$1.1 billion in 2024-25. The result is something of a "Frankenstein" department; a conglomeration of programs that often do not have any obvious connection to one another. Moreover, several of those programs do have logical thematic links and potential synergies with programs located in other departments.

With some of these considerations in mind, the Governor indicated in the January 2024 Budget that a proposed restructuring of OPR would be forthcoming as part of the May Revision. The current proposal fulfills that stated intent.

In its Finance Letter setting forth these proposed changes, the Administration indicates that they will "result in net-zero impacts on state resources."

Key Questions:

- Do the proposed organizational changes make sense from the point of view of sound governmental operation?

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- Should the Legislature acquiesce to approving these changes as part of the 2024 Budget even though the Administration is detailing them for the first time in the May Revision? Or should the Legislature insist upon greater time for consideration of these changes, either through the Little Hoover Commission process or through the full legislative policy or budget process next year?
 - Will these changes truly result in net-zero impacts on state resources? How will things like rebranding and office relocation expenses be covered?

LAO Comment: The LAO recommends rejecting the proposed organization “without prejudice and potentially consider it at a future date.” The LAO concludes that:

While reorganizing the functions that OPR currently performs could have some merit, including the proposal as part of the May Revision gives the Legislature insufficient time to review the plan, scrutinize potential implications and consequences, consider alternatives, or ensure it aligns with legislative priorities. Moreover, reorganizing OPR and establishing a new office likely would result in additional costs at a time when the state is experiencing a revenue shortfall and is unable to fund its existing commitments.

Staff Comments: On first impression, the proposed reorganization makes greater logical sense than OPR’s current structure. It is harder to ascertain whether the reorganization makes financial sense as proposed. For instance, the Subcommittee may wish to probe further into why OPR is simultaneously seeking additional funding for expanded administrative support and information technology when the proposed reorganization appears to shrink the overall size of the department by transferring several existing OPR programs to other parts of the state government.

Staff Recommendation: Hold open.

Issue 17: Staff and Budgetary Augmentations Associated with Transition to Civil Service

Governor’s Budget Proposal: As part of the May Revision, the Governor’s Office of Planning and Research requests a new, ongoing General Fund allocation of \$977,000 and the authority to hire six new positions to address increased administrative workload associated with the Office’s previously approved transition to civil service staffing.

Background: Unlike most other state government departments, the personnel at OPR long lacked civil servant status. Last year, as part of its effort to evolve into a more traditional government department structurally, OPR began a process of transitioning its staff into the civil service ranks.

OPR now states that “[t]here is a need to address the increased workload and strengthen the Human Resources Office to ensure efficiency and compliance with all state and federal laws.” More specifically, it asserts that:

The process of transforming [OPR] into a more traditional state department will require new processes and policies that the current HR team does not have capacity for. Between growth in the number of positions and increasing complexity of personnel transactions related to civil service, the HRO requires additional capacity to process its monthly workload in an efficient manner.

Key Questions:

- Why does the transition to civil service result in increased administrative workload?
- This transition has been underway for some time. Why is the need for increased administrative workload support being raised now?
- The proposed reorganization would reassign many existing OPR programs outside the department. Would that not reduce the number of personnel and therefore the needs for additional human resources support?

LAO Comments: The Legislative Analyst’s Office recommends rejecting this request. The LAO considers the request “premature” given that OPR’s overall reorganization has not yet been approved. “Until the Legislature makes a decision regarding whether, when, and how it might want to reorganize the office and a comprehensive assessment of the resulting implications has been conducted, the extent to which these additional resources are needed will remain unclear,” the LAO concludes.

Staff Comments: None for this issue.

Staff Recommendation: Hold open.

Issue 18: Ongoing Funding for Information Technology Unit

Governor’s Budget Proposal: As part of the May Revision, the Governor’s Office of Planning and Research requests a new, ongoing General Fund allocation of \$3.7 million to cover its information technology needs.

Background: For years, OPR relied on the Governor’s Office to manage OPR’s informational technology needs. OPR has recently expanded significantly in terms of assigned responsibilities and personnel. Last year, OPR declared that the Governor’s Office could no longer support OPR’s information technology needs. Accordingly, OPR sought and eventually received \$5.3 million in *ongoing* General Fund to establish its own, internal IT unit.

OPR now seeks still further, ongoing General Fund in the amount of \$3.7 million annually for information technology.

Key Questions:

- Why was last year’s information technology allocation insufficient to serve OPR’s needs?
- Why does OPR need additional money for information technology at a time when it proposes to reassign several of its programs to other state agencies and departments?

LAO Comment: The Legislative Analyst’s Office recommends rejecting this request. The LAO considers the request to be premature given that OPR is also proposing a reorganization at the same time. While acknowledging the Administration’s assertion that the increased IT funding request is not related to the reorganization, the LAO observes that:

[P]ast reorganizations of state departments typically have resulted in changes to department needs for administrative and information technology resources. Moreover, whether and how the Legislature realigns OPR’s current responsibilities will affect resource needs. For example, if certain responsibilities—such as the precision medicine initiative—are shifted to another existing department, the receiving entity might need additional support funding and the reconstituted OPR might have decreased needs. Similarly, creating a new and separate office—such as the proposed “Cal-SERVE” office—likely would result in new and additional resource needs.

Accordingly, the LAO concludes that the Legislature should consider increasing OPR’s IT and other support funding “only after it has determined whether and when it may make changes in how the department’s activities are organized across state government and a detailed implementation plan has been developed.”

Staff Comments: None for this issue.

Staff Recommendation: Hold open.

Issue 19: Reductions to the California Education Learning Lab

Governor’s Budget Proposal: As part of the May Revision, the Governor proposes to reduce the General Fund allocation to the California Education Learning Lab by \$5.5 million in 2024-25 and 2025-26.

Background: The California Education Learning Lab was established as part of the 2018 Budget Act. As described by the Learning Lab itself, the intent behind the bill was to “improve learning outcomes and close equity gaps across California’s public higher education segments, particularly in the Science, Technology, Engineering, and Math (STEM) disciplines.” The Learning Lab provides competitive grants to “innovative, intersegmental, faculty-led projects that leverage technology tools and the science of human learning to foster student success in online and hybrid learning environments.”

The Learning Lab currently relies on an annual General Fund allocation of around \$8 million to operate. In light of the budget shortfall, the Governor’s May Revision proposes to cut \$5.5 million of that amount in both 2024-25 and 2025-26.

Key Questions:

- What specific impact would this cut have on curriculum development and improvement across California’s public higher education system?
- If the Legislature were to approve this proposed cut, what alternative funding streams and grants exist to incentivize the work that the Learning Lab promotes?

Staff Comments: In the past, the Legislative Analyst’s Office has questioned the ongoing value of the Learning Lab. The LAO observes that the impetus behind the Learning Lab – to foster greater and more effective use of online learning platforms – pre-dates the COVID-19 pandemic’s widespread and forced natural experiment in remote online learning and may no longer be as necessary.

Staff Recommendation: Hold open.

Issue 20: Reduction to the Golden State Awards

Governor’s Budget Proposal: As part of the May Revision, the Governor proposes to revert \$9.9 million for the Golden State Awards program back to the General Fund.

Background: The Golden State Awards program is designed to give monetary rewards to individuals or teams at or associated with California’s public institutions of higher education who develop innovative practices. Awards can cover any activity deemed innovative and high impact, including but not limited to programs that improve student outcomes, research on climate change, and research on low-carbon industries.

The 2022 Budget Act allocated \$10 million in General Fund to the Golden State Award program. In light of the budget shortfall, the Governor’s May Revision now proposes to revert \$9.9 million of that amount back to the General Fund.

Key Questions:

- What specific programmatic impact would the loss of this funding cause?

Staff Comments: In the past, the Legislative Analyst’s Office has questioned the value of the Golden State Awards program, saying that it lacks focus and suffers from fundamentally poor design.

Staff Recommendation: Hold open.

0954 SCHOLARSHARE INVESTMENT BOARD**Issue 21: Eliminate CalKIDS Financial Literacy Outreach Support – May Revision**

May Revision. The May Revision proposes an ongoing reduction of \$5 million to the CalKIDS Program Financial Literacy Outreach program.

Staff Recommendation. Hold Open.

1115 DEPARTMENT OF CANNABIS CONTROL**Issue 22: Local Jurisdiction Retail Access Grant Program – May Revision**

May Revision. The May Revision proposes to revert \$16.5 million General Fund in 2023-24 for the Local Jurisdiction Retail Access Grant Program in the Department of Cannabis Control.

Staff Recommendation. Hold Open.

7502 DEPARTMENT OF TECHNOLOGY**Issue 23: Middle Mile Broadband Initiative – May Revision**

May Revision. The Governor’s Budget proposed \$250 million General Fund in 2024-25 and \$1.25 billion in 2025-26 for the Middle Mile Broadband Initiative (MMBI) with provisional language allowing up to \$500 million additional General Fund in 2024-25. The May Revision withdraws this proposal and instead adds provisional language to allow the Director of Finance to augment MMBI’s budget by up to \$1.5 billion, in 2024-25, upon notification to the Joint Legislative Budget Committee.

Staff Comments. As part of the 2023 Budget Act, AB 102 (Ting, Chapter 38, Statutes of 2023), the Department of Technology is required to biannually report specified information on the MMBI to the Legislature and the LAO, including:

- The total number of middle-mile broadband network miles leased or to be leased, by county.
- The total number of middle-mile broadband network miles constructed or to be constructed as standalone projects built by the Department of Transportation (Caltrans), by county.
- The total number of middle-mile broadband network miles jointly constructed or to be jointly constructed by Caltrans and other entities, by county.
- The total number of middle-mile broadband network miles purchased or to be purchased, by county.
- All contracts executed by the administration for the middle-mile broadband network, listed by network acquisition method—that is, by leases, standalone construction projects, joint-build construction projects, and/or purchases.
- The amount of federal funding from the Coronavirus State and Local Fiscal Recovery Funds, as authorized by the American Rescue Plan Act of 2021 (P.L. 117-2), encumbered and expended on CDT’s MMBI.
- The amount of federal funding from the Enabling Middle-Mile Broadband Infrastructure Program, as authorized by the Infrastructure Investment and Jobs Act of 2021 (IIJA) (P.L. 117-58), encumbered and expended on CDT’s MMBI.
- The amount of General Fund funds encumbered and expended on CDT’s MMBI.

As of the writing of this agenda, the Department of Technology has not submitted a report that has been in compliance with the requirements of AB 102. Additionally, the Department of Technology has not provided to the subcommittee, detailed information on a vast majority of the mile project segments to be constructed by Caltrans. Without this, and other information, it continues to be difficult for the subcommittee to effectively evaluate the implementation of the MMBI and ensure that the statewide middle-mile network is completed in a manner that prioritizes connectivity in unserved and underserved communities and last-mile connections necessary for a sustainable network.

Staff Recommendation. Hold Open.

7760 DEPARTMENT OF GENERAL SERVICES**Issue 24: Capitol Repairs Funding Reduction – May Revision**

May Revision. The May Revision proposes a reduction of \$7.1 million annually in 2024-25 and 2025-26 to the Capitol Repairs Fund.

Staff Recommendation. Hold Open.

Issue 25: Net Zero Greenhouse Gas Emissions Funding Reversion and Reduction – May Revision

May Revision. The May Revision proposes to revert \$2.5 million General Fund in 2023-24 and a reduction of \$2.5 million General Fund in 2024-25 and 2025-26. This adjustment eliminates funding provided in the 2023 Budget Act to implement net-zero greenhouse gas emissions in state agency operations, pursuant to SB 1203 (Becker, Chapter 368, Statutes of 2022).

Staff Recommendation. Hold Open.

**0509 GOVERNOR’S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT
8260 ARTS COUNCIL****Issue 26: Arts Grant Program Reduction – May Revision**

May Revision. The May Revision proposes a reduction of \$10 million ongoing to the Arts Grants Program in the Arts Council.

Staff Recommendation. Hold Open.

Issue 27: Trailer Bill: Move the Arts Council to Within the Governor’s Office of Business and Economic Development (GO-Biz) – May Revision

May Revision. The May Revision proposes trailer bill language to move the entirety of the Arts Council to be a program within the Governor’s Office and Economic Development.

Staff Recommendation. Hold Open.