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Re: **Governor's 2020-21 Proposed Budget**

Governor Gavin Newsom introduced his second state budget today on his Twitter account. His presentation was upwards of two hours and ran the gamut of fiscal proposals and policy priorities. The Governor started his presentation by praising his administration and his successes within his first year as Governor of the State of California:

- Record unemployment: 3.9%
- 117 months of consecutive job growth in the state
- 3.8% GDP growth
- Record budget surpluses
- Back to back bond rating increases
- Debt reduction
- Leader in innovation

The Governor's budget is a tangible document that reflects the Newsom administration's guiding principles. Those guiding principles are:

1. Dealing with the Cost and Affordability Crisis
2. Justice for All
3. Good government

**BELOW ARE A FEW HIGHLIGHTS OF THE GOVERNOR'S
PROPOSED BUDGET:**

Local Government

The 2019 Budget Act included \$1.75 billion to increase housing supply, including funding to local governments for planning and infrastructure, an investment in the state's housing loan program, and an expansion of state housing tax credits.

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- The Budget includes \$758,000 ongoing General Fund for four positions for the Governor's Office of Business and Economic Development to be located in the Central Valley, Inland Empire, Central Coast, and North Coast to provide a focus on bringing business and economic development to these regions, by promoting the benefits of these regions and facilitating business expansion.
- The Budget authorizes \$500 million annually for the state's housing tax credit program.
- The Administration is also committed to working with the Legislature on additional actions to expedite housing production, including changes to local zoning and permitting processes, as well as adding predictability and reducing the costs of development fees.
- The Budget proposes a radical shift in the state's involvement to house the many unsheltered persons living in California, by launching the California Access to Housing and Services Fund with a \$750 million initial investment. The Administration will also send out multi-agency strike teams to assist cities and counties in moving individuals from encampments into shelters and connecting them to services.
- By 2023, HCD, in consultation with stakeholders, will revamp the next RHNA cycle to promote and streamline housing development. This will maximize the number of new homes for which California's cities and counties plan and zone.
- The Budget includes \$50 million one-time General Fund to support additional preparedness measures that bolster community resiliency to combat any future public safety power shutoffs (PSPS).
- In recognition of the unprecedented wildfires the state has experienced in recent years, the bond allocates \$750 million to harden critical public infrastructure in high fire-risk communities.
- Over the next five years, \$22 billion will be available for new state highway repair and rehabilitation projects in the State Highway Operations and Protection Program (SHOPP).
- The state's Broadband For All strategy is composed of four principal elements:
 - (1) mapping the state of connectivity in California, including whether, where, and at what speed Californians have access to affordable high-speed Internet;
 - (2) investing new resources, including \$51.4 million to improve school connectivity;
 - (3) optimizing use of existing resources, including approximately \$900 million over the next five years; and
 - (4) prioritizing connectivity across executive actions and policies.
- Income inequality persists and prosperity is not shared by all regions of the state. To create inclusive, long-term economic growth and ensure

workers and their families share in that success, the Governor established the Future of Work Commission.

- The California state minimum wage increased by \$1 per hour on January 1, 2020 to reach \$12 per hour for businesses with 25 or fewer employees, and \$13 per hour for businesses with 26 or more employees.
- The 2019 Budget Act significantly expanded the EITC, by more than doubling the existing credit from \$400 million to \$1 billion. The expanded program extended credits to 1 million additional households, raising the number of households receiving the credit to 3 million. The expanded credit includes a \$1,000 credit for every family that otherwise qualifies for the credit and has at least one child under the age of 6.

Healthcare

The Budget includes \$167.9 billion (\$47.4 billion General Fund and \$120.5 billion other funds) for all health and human services programs.

- A vaping levy of \$2 per 40 milligrams of nicotine, which would raise about \$32 million that would be used for youth prevention and other health care programs.
- Instituting a state individual mandate to stabilize the health insurance market;
- Augmenting premium assistance for Covered California enrollees, making California the first state in the nation to provide additional state premium assistance for the middle class;
- Extending Medi-Cal to income-eligible young adults regardless of immigration status;
- Expanding eligibility for no-cost Medi-Cal for persons aged 65 and older and persons with disabilities up to 138 percent of the federal poverty level;
- Restoring optional benefits and extending full-scope Medi-Cal coverage to new mothers with a maternal mental health diagnosis;
- Expanding preventative services with a specific focus on screening for adverse childhood experiences;
- Increasing Medi-Cal provider rates;
- Repaying loans for doctors and dentists who agree to serve Medi-Cal patients in under-resourced parts of the state; and
- Addressing the high costs of prescription drugs.

Building Reserves and Reducing Liabilities

California is continuing to build a strong economic foundation to anticipate potential risks. The Budget continues to grow the reserves in the Rainy Day Fund and assumes an additional transfer of nearly \$2 billion in 2020-21 and an additional \$1.4 billion over the remainder of the three-year forecast period. The

Rainy Day Fund balance is projected to be \$18 billion in 2020-21 and \$19.4 billion by 2023-24. The Budget also:

- Maintains \$900 million in the Safety Net Reserve
- Sets aside \$110 million more in the Public School System Stabilization Account, bringing its total balance to \$487 million.
- Reserves \$1.6 billion in the Special Fund for Economic Uncertainties to address emergencies and other unforeseen events. Overall, the Budget has \$21 billion set aside in reserves.

Confronting the Homelessness Crisis

Homelessness is an issue that impacts both urban and rural communities throughout the state and puts stress on public resources from emergency rooms to jails and public works departments. It is a complex social services problem and must be combatted at its root causes, which is why the Budget introduces several new strategies to build on the \$1.15 billion provided to local governments in the last two budgets.

The Budget proposes more than \$1 billion to radically shift the state's involvement to house the many unsheltered individuals living in California, by launching the California Access to Housing and Services Fund with a \$750 million initial investment. This Fund will create a structure for developing affordable housing units, supplementing and augmenting rental subsidies, and stabilizing board and care homes.

The additional funding will come from the Medi-Cal Healthier California for All initiative and will also contribute to addressing the homelessness crisis by transforming the Medi-Cal system to better serve individuals experiencing mental illness and homelessness. The Administration will form a task force to improve the state's behavioral health system as well as strategies to strengthen enforcement of behavioral health parity laws.

Climate Budget

The Budget proposes a comprehensive approach to California's investments to protect the state's environment, address the effects of climate change, and promote resiliency. This climate budget includes \$12 billion over the next five years. Three key areas of the climate budget are a proposed climate resilience bond, cap-and-trade expenditures to continue the transition to a carbon-neutral economy, and a new Climate Catalyst Fund to promote the deployment of new technologies, especially by small businesses and emerging industries.

The Climate Catalyst Fund, which will be administered by the Infrastructure and Economic Development Bank, will finance investments in low-carbon transportation, sustainable agriculture and waste diversion through low-interest

loans. The Budget proposes to capitalize the Fund with \$1 billion General Fund over the next four years.

The Fund will have a revolving loan structure that will leverage private capital and will support projects well into the future. It will be designed to support good jobs and a just transition to achieving California's climate goals.