

Assembly Committee on Jobs, Economic Development, and the Economy

Summary of Selected 2019-20 Budget Proposals

This document includes summaries of the Governor's Proposed 2019-20 California Budget related to economic, community, and workforce development.

A Budget for All

Governor Gavin Newsom has branded the 2019-20 budget the "Budget for All" in order to emphasize his commitment to an inclusive economy and the reclaiming of the California Dream, which he describes as "the idea that every person can achieve a better life, regardless of where they start out."

The budget presents an expenditure plan of \$209 billion with \$144.2 billion in General Fund expenditures, including significant investments in strengthening the resiliency of the state budget against a future economic downturn. Below is a summary prepared by the JEDE Committee of key business and economic development related elements included in the Governor's Proposed 2019-20 Budget.

Investments in Building Budget Resiliency

The Governor states that making the \$13.6 billion investment in budget resiliency (described below) is an essential component to his "comprehensive framework for **making the California Dream more accessible** and affordable."

- **\$4 billion** to **eliminate budget debts and reverse the deferrals of past decades**, including:
 - **\$2.4 billion** to eliminate all outstanding loans from special funds and transportation accounts. First time in a decade.
 - **\$1 billion** to eliminate the annual June payroll deferral.
 - **\$700 million** to eliminate the deferral of the fourth-quarter payment to the California Public Employees Retirement System (CalPERS).
- **\$1.8 billion** transfer to the **Rainy Day Fund**. There are an additional \$4.1 billion in estimated transfers during the estimate period for a total of \$19.4 billion available by 2022-23. Please note that additional payments in prior years do not offset the 10% mandated deposits.
- **\$700 million** to the **Safety Net Reserve** created in the 2018-19 budget, bringing the total amount of reserves to \$900 million.
- **\$2.3 billion** to the **Special Fund for Economic Uncertainties** to address emergencies and unforeseen events.
- **\$3 billion** General Fund to make a supplemental contribution to pay down **unfunded pension liabilities at CalPERS**. This is estimated to save \$7.2 billion over the next 30 years.

- **\$1.1 billion** supplemental pension payment toward the state’s share of the **unfunded liability for the California State Teachers Retirement System’s** defined benefit program. Another \$1.8 billion payment is anticipated and, when combined, these payments are estimated to save \$7.4 billion over the next 30 years.

Investments in Emergency Response, Recovery, and Preparedness

The Governor states that “[f]our consecutive years of **catastrophic wildfires** have surpassed all previous records. [...] The budget proposes to **bolster the preparedness** of individuals and communities, makes additional **investments in prevention** and critical emergency response systems, and **builds up** the state’s **firefighting capabilities**, [...] and provides critical relief to communities struggling to recover.”

- One-time funds to backfill **local governments** for wildfire-related property tax losses.
- Waving of the **local government cost share** for debris removal related to wildfires.
- One-time funds to **backfill schools for reduced property taxes** related to wildfires.
- **\$50 million** one-time General Fund for local grants to prepare a comprehensive, statewide **education campaign on disaster preparedness and safety**.
- **\$60 million** one-time General Fund to jump-start upgrades to the **911 system**.
- **\$13 million** one-time General Fund to finish the build-out of the **Earthquake Early Warning System**.
- **\$200 million** General Fund to augment CalFIRE’s **firefighting capabilities**.
- **\$25 million** ongoing for **pre-positioning local government fire engines** to support the state’s critical infrastructure.
- **\$214 million** one-time for **increased fire prevention and completion of additional fuel reduction projects**.

Investments in Advancing a Prosperous and Inclusive Economy

The Governor states in his submittal letter of the 2019-20 budget that “[e]ven in a time of economic growth and record employment, **too many Californians** are experiencing the **squeeze of stagnant wages** and the **rising price of building block necessities** such as housing costs, health care premiums, higher education and child care.”

- **\$600 million** General Fund impact of a new **Working Families Tax Credit**, which can be applied in conjunction with the existing Earned Income Tax Credit (EITC). The \$500 Working Families Tax Credit allows a credit for households with children under the age of six and also increases the maximum household income to align with a full-time \$15 an hour job. The EITC can be claimed by

income-eligible workers, as well as those who are self-employed. Approximately \$400 million in EITC is expected to be granted in the 2019 tax year.

- **\$1 billion** General Fund impact for targeted federal tax conformity, including **small business flexibility**; capital gain deferrals and exclusions for **Opportunity Zones**; and limitations on fringe benefit deductions, like-kind exchanges, and losses for non-corporate taxpayers.
- **\$20 million** California Cannabis Tax Fund to implement the **California Community Reinvestment Grants Program**, a competitive grant program approved through the passage of Proposition 64 - The Adult Use of Marijuana Act and administered by the Governor’s Office of Business and Economic Development. Local public health departments and qualified community-based nonprofit organizations are eligible to apply for grants to support mental health treatment, substance abuse treatment, job placement, legal services, and other health and wellness-related programs for California communities disproportionately affected by past federal and state drug policies.
- **\$17 million** General Fund for the **Small Business Technical Assistance Expansion Program**, administered by the Governor’s Office of Business and Economic Development. The program provides grants to existing federally designated nonprofit small business service providers to provide free or low-cost one-on-one consulting and low-cost training. Program funding is focused on services to underserved business groups, including women-, minority-, and veteran-owned businesses and businesses in low-wealth, rural, and disaster-impacted communities.
- **\$3 million** General Fund for the **Capital Infusion Program**, administered by the Governor’s Office of Business and Economic Development. The program supports free one-on-one business consulting provided by the Small Business Development Center Network.

Investments in Modernizing State Government to Meet Current Market Challenges

The Governor’s 2019-20 Proposed Budget states that “the state must **transform from a passive government** model that largely responds to individual statutory and policy mandates to one that actively establishes **measurable customer service benchmarks**.”

- **\$36.2 million** with \$33.7 million from the General Fund to establish the **Office of Digital Innovation** (Office) within the Government Operations Agency. The Office will be provided with the authority to develop and enforce the requirement that departments assess their service delivery models and underlying business processes from an end-user perspective. The Office will focus on business process reengineering and leveraging digital innovation.
 - Establishment of an **Innovation Academy** within the Office of Digital Innovation that will help foster a culture of continuous improvement and a thoughtful approach to human change management within the state government. All state supervisors, managers, and executives will be mandated to attend.
 - **Mandatory training** for state contract management staff on agile and other modern information technology methods to improve service delivery.
 - **\$20 million** for the establishment of an **Innovation Fund** that can be used by the Office to assist state agencies in undertaking **transformational customer-focused digital service delivery**.

- **\$5.8 million** General Fund for the California Highway Patrol to coordinate with the Department of Justice in the creation of **regional task forces aimed at reducing organized retail theft**, pursuant to AB 1065 (Jones-Sawyer) from 2018.

Investments in Educating and Training California’s Current and Future Workforce

The Governor’s proposed budget states that “[p]roviding **children in California with a healthy start** is one of the **best investments** the state can make.” The early childhood education framework proposed in the Governor’s budget invests in **universal preschool, full-day kindergarten, and child care**, including new facilities.

- **\$124.9 million** non-Proposition 98 General Fund to provide **universal full-day, full year preschool** for all income eligible four-year-olds. With additional investments in the following two years, the goal is to have 200,000 preschool slots.
- **\$50 million** one-time General Fund to support **Child Savings Account** pilot projects that support the development and testing of cost-effective models.
- Expands the state’s **paid family leave program** to cover the first six months after birth with implementation developed through a task force.
- **\$500 million** one-time General Fund to build **childcare infrastructure**, including the education of the childcare workforce.
- **\$80.7 billion** is the **Proposition 98 guaranteed General Fund** amount for K-12 schools and community colleges. This is up from a recessionary low of \$47.3 billion in 2011-12.
- **\$576 million** Proposition 98 guaranteed General Fund to support expanded **special education services** in school districts with high concentrations of special education students.
- **\$750 million** one-time General Fund to address **barriers to full-day kindergarten**. This builds on the \$100 million in the 2018-19 budget.
- **\$1.4 billion** (\$942 million ongoing) for higher education, comprised of the following:
 - **\$402 million** ongoing Proposition 98 guaranteed General Fund for **Community Colleges**, including funding a **second year of free Community College** education.
 - **\$300 million** ongoing General Fund for the **California State University** for operational costs, **increased enrollment**, and continued progress on **equity goals**.
 - **\$247 million** one-time General Fund for expansion of **California State University** on-campus child care facilities, and \$15 million one-time General Fund for student hunger and housing initiatives.

- **\$240 million** ongoing General Fund to the **University of California** for operational costs; student success, **student hunger**, and **housing initiatives**; ongoing graduate medical school support; and mental health resources.
- **\$138 million** one-time General Fund for **deferred maintenance** for the **University of California**.
- **\$10 million** General Fund for grants to **higher education institutions serving the Inland Empire** and the **San Joaquin Valley** to implement innovative education strategies that increase postsecondary capacity, reduce achievement gaps, and create a multi-generational culture of educational attainment.
- **\$27 million** out of \$1 billion in proposed expenditures from the Greenhouse Gas Reduction Fund to increase **job training and apprenticeship opportunities** within the green economy for workers from disadvantaged communities:
 - **\$10 million** General Fund annually for five years for **Pre-Apprenticeship Construction Partnerships**. This will place approximately 3,000 disadvantaged workers in apprenticeships for careers in the trades by **doubling the training capacity** for each of the existing 14 regional hubs.
 - **\$10 million** General Fund annually for **five years for training partnerships** to place 2,000 disadvantaged workers into entry-level jobs and develop their skills in climate and technology-related occupations through the expansion of existing partnerships.
 - **\$5 million** General Fund annually for **five years for a Worker Transition Fund** to provide **income replacement** in conjunction with retraining for approximately 1,500 displaced workers resulting from climate policies or automation.
 - **\$2 million** one-time General Fund to the California Workforce Development Board, including **11 positions for technical assistance** and program administration.
- **\$5.5 million** General Fund for a package of programs targeted at **improving literacy rates** among the **offender population**. Key elements of the package include a diagnostic remedial reading program, computer-based learning, English as a Second Language courses, a teacher mentor program, and literacy coaches.