

Economic and Business Development Highlights from the Governor's 2019-20 Budget

The Assembly Committee on Jobs, Economic Development, and the Economy (JEDE Committee), chaired by Assemblymember Sabrina Cervantes, has policy and oversight responsibilities related to business, economic, and workforce development, including international trade and public contracting with small businesses and disabled veteran business enterprises.

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 budget for fiscal year 2019-20.

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 California has faced “[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 that 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 communities disproportionately affected by past federal and state drug policies in California.
- \$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 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 with 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 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, teacher mentor program, and literacy coaches.

Questions and comments can be directed to: The JEDE Committee at (916) 319-2090 or jede@asm.ca.gov