

**SACRAMENTO UPDATE- MAY 9, 2019
THE GOVERNOR’S 2019-20 BUDGET**

This morning Governor Newsom released his revised budget proposal based on updated revenue projections. All eyes were on the updated revenue projections as tax revenues came up \$2 billion short at the end of the year. The big question was whether California would make that deficit up with late tax returns due to the new federal tax law. The short answer? California made up the returns and added to the projected surplus originally reported in January.

The May Revision projects short-term revenues of \$3.2 billion above the Governor's January Budget proposal. It is worth noting that most of the increased revenues are constitutionally obligated to reserves, debt repayment, and schools. Therefore, the budget surplus remains relatively unchanged in the May Revision. Despite the short-term gains, slower economic growth has led to a lower forecast in out-year revenues, \$1.6 billion lower in 2022-23 compared to the forecast in January. The \$213.5 billion (\$147 billion General Fund) spending plan represents a \$4.5 billion spending increase from the proposed January budget. The revenue estimates forecast continues to show a stronger than normal revenue growth, allowing the Governor to continue focusing on building up budget reserves and paying down debt while also committing to new spending priorities. The Budget allocates \$15 billion to building budgetary resiliency and paying down the state's unfunded pension liabilities, an increase of \$1.4 billion from the January Budget proposal. The Budget continues to prioritize a comprehensive early childhood plan, increased investment in K-12 and higher education, additional spending for “health care for all”, improved spending for emergency readiness, response and recovery, and added investment for local housing development.

The Governor today in his press conference re-emphasized that the “California Dream must be built on a strong fiscal foundation,” and that “This budget fortifies California’s fiscal position while making long-sighted investments to increase affordability for California families...that’s why this budget tackles those challenges head-on by focusing on housing, health care, early childhood and higher education.”

The chart below summarizes state revenues, expenditures, and reserves over the past fiscal year to date.

General Fund	2019-20 AS PROPOSED January 2019 (Billions)	2019-20 AS REVISED May 2019 (Billions)
Resources	\$147.9	\$150.0
Expenditures	\$144.2	\$147.0
Rainy Day Fund	\$15.3	\$16.5

Significant features of the 2019-20 spending plan include:

REVENUES

While high-income individuals and corporate profits outperformed expectations from Governor's Budget, the boost is expected to be temporary and revenues will be lower beyond the forecast window. From 2017-18 through 2019-20, the May Revision revenues have increased by approximately \$3.2 billion before accounting for transfers. After accounting for transfers, which includes loan repayments as well as automatic and discretionary transfers to the Rainy Day Fund, General Fund revenues at the May Revision forecast are higher than the Governor's January Budget by over \$1.1 billion in 2018-19 and almost \$1.2 billion in 2019-20.

General Fund Long-Term Forecast – The long-term economic forecast reflects slowing growth, but does not predict a recession.

RAINY DAY FUND AND DEBT

The May Revision continues to build additional reserves, allocating \$15 billion to building budget resiliency and paying down debt, \$1.4 billion higher than proposed in January's Budget. An additional \$1.2 billion deposit into the Rainy Day Fund brings the reserve to \$16.5 billion in 2019-20. The Rainy Day Fund is now expected to reach its constitutional cap of 10 percent of General Fund Revenues in 2020-21—two years earlier than predicted in January. By the end of 2022-23, the Rainy Day Fund balance is projected to be \$18.7 billion.

In addition to \$5.7 billion to build reserves, the Governor's budget proposal also includes \$4.5 billion to eliminate debts and reverse deferrals and an additional \$4.8 billion to pay down unfunded retirement liabilities.

MAJOR REVISIONS TO FUNDING PRIORITIES

As noted above, the continuance of strong revenue projections is allowing the newly elected Governor to focus both on reserves and debt, as well as expand on major funding commitments that were proposed in January. Below is a quick recap of the changes to the Governor's major funding priorities:

- **Moves the state closer towards health care for all & single payer:** The budget proposal maintains a number of the Governor's budget priorities from January and moves the state toward health care for all while the state gears up for single payer. The Governor proposes making California the first state to expand Medi-Cal coverage eligibility to young adults ages 19 through 25 regardless of immigration status. The budget also proposes first-in-the-nation subsidies for middle-income earners to be able to purchase health care on the Covered California exchanges.
- **Takes on California's housing affordability crisis:** The Governor's January budget included \$1.75 billion General Fund to increase housing production. The May Revision maintains this commitment to spur housing production but refocuses \$500 million to remove barriers to building mixed-income housing.
- **Extends Paid Family Leave:** The May Revision expands paid family leave for each parent to eight weeks, allowing parents to take up to four months of leave after the birth or adoption of their child.

- **Proposes 2 years free community college tuition:** The May Revision maintains funding for two free years of community college tuition for first-time full-time students as well as significant increases in funding for the California State University and University of California to prevent tuition increases in the budget year.
- **Expands the Earned Income Tax Credit:** Governor Newsom's budget proposes big expansions to the Cal-EITC including a Cost-of-Living Refund, which helps economically distressed families with the costs of food, rent and child care. The May Revision proposes increasing the additional credit for families with young kids proposed in January, from \$500 to \$1,000.
- **Largest-ever investment in K-12 schools:** The budget invests in K-12 schools by providing approximately \$5,000 more per pupil than 8 years ago, including additional investments to assist students with the greatest needs. It also increases the ongoing funding for Special Education by almost \$200 million compared to the January budget proposal. The May Revision also makes significant investments in the recruitment and retention of qualified teachers by revamping teacher training and providing targeted service scholarships.
- **Fighting Homelessness:** Budget proposes to double the January proposal to fight homelessness from \$500 million to \$1 billion, including \$650 million to local governments for homelessness emergency aid.
- **Preparing for Emergencies:** The Governor's January budget proposed \$769 million in additional funding to support the state's wildfire prevention, response and recovery. The revised budget maintains these investments and adds an additional \$39.9 million to enhance the state's capacity to tackle more frequent.

Environmental Protection

ACHIEVING A CARBON-NEUTRAL ECONOMY

California is committed to achieving a carbon-neutral economy, including the long-term transition away from fossil fuels. The May Revision invests in this transition by providing additional funds for transit-oriented communities; bus, truck, freight and tractor engine upgrades to reduce diesel use; methane reductions in agriculture; and providing apprenticeships and job training in careers that will build a future green economy. The May Revision also recognizes the need for careful study and planning to decrease demand and supply of fossil fuels, while managing the decline in a way that is economically responsible and sustainable.

The Cap and Trade Program is one important element of California's greenhouse gas emissions reduction strategy. It is a market-based mechanism that establishes a statewide declining cap on greenhouse gas emissions and a state-run auction of emissions allowances. Under the program, major carbon emitters must acquire allowances to represent their emissions and turn them in to the state each year. This establishes a price signal necessary to drive long-term investment in cleaner electricity and fuels, as well as more efficient energy use. The system also provides entities covered by the program the flexibility to reduce emissions in a cost-effective manner.

The Governor's Budget included a \$1 billion Cap and Trade Expenditure Plan to support programs that reduce or sequester greenhouse gases, including programs that benefit disadvantaged and low-income communities. **In recognition of the continued strength of recent Cap and Trade auctions, the May Revision proposes an additional \$251.5 million that promotes affordable housing, sustainability and resiliency priorities (see 2019-20 Cap and Trade Expenditure Plan chart).**

- **Transformative Climate Communities**—A one-time increase of \$92 million to support integrated, community-scale housing, transit-oriented development, and neighborhood projects that reduce emissions in some of the state's most disadvantaged areas.
- **Low Carbon Transportation**—A one-time increase of \$130 million for programs that will reduce emissions from the transportation sector, with a focus on diesel pollution, including: (1) \$65 million to replace and upgrade diesel engines and equipment in the agricultural sector, and (2) \$50 million to provide incentives for zero-emission trucks, transit buses, and freight equipment. In addition, \$15 million is proposed to help individuals replace old, highly polluting vehicles with newer, more efficient cars and trucks.
- **Climate Smart Agriculture**—A one-time increase of \$20 million, including: (1) \$10 million for the Healthy Soils program that increases carbon sequestration and keeps our leading agricultural industry productive and growing far into the future, and (2) \$10 million for methane reduction programs that will support the state's short-lived climate pollutant goals.
- **Preparing Workers for a Carbon-Neutral Economy**—An ongoing increase of \$8 million to increase job training and workforce development as the state transitions to a carbon-neutral economy. When combined with the funding proposed in the Governor's Budget, this proposal invests \$35 million annually for five years in two key areas: (1) targeted pre-apprenticeship and apprenticeship programs for the fast-growing construction industry, which is necessary to build the infrastructure needed for climate resiliency and a carbon-neutral economy; and (2) a new High Road Training Partnership program to foster connections between employers, workers, and communities with an emphasis on regions and industries that have been

traditionally dependent on fossil fuels, including Kern County, as California transitions to a carbon-neutral economy.

- Transition to a Carbon-Neutral Economy—A one-time increase of \$1.5 million for a study laying out the key actions the state must take to transition toward a carbon-neutral economy. The study will emphasize environmental and economic programs and policies to dramatically reduce fossil fuel demand by 2050, in line with the state's overall climate goals. The study will inform the California Air Resources Board's Scoping Plan, which lays the foundation for achieving California's ambitious goals, including achieving carbon-neutrality by 2045 and reducing greenhouse gas emissions to 80 percent below 1990 levels by 2050.

2019-20 Cap and Trade Expenditure Plan

(Dollars in Millions)

Investment Category	Department	Program	Governor's Budget	May Revision	Total
Air Toxic and Criteria Air Pollutants	Air Resources Board	AB 617 - Community Air Protection	\$200	-	\$200
		AB 617 - Local Air District Implementation (\$50 million total, including other funds)	\$20	-	\$20
		Technical Assistance to Community Groups	\$10	-	\$10
Low Carbon Transportation	Air Resources Board	Clean Vehicle Rebate Project	\$200	-	\$200
		Clean Trucks, Buses, & Off-Road Freight Equipment	\$132	\$50	\$182
		Enhanced Fleet Modernization Program & Transportation Equity Projects	\$50	\$15	\$65
		Agricultural Diesel Engine Replacement & Upgrades	\$25	\$65	\$90
Healthy Forests	CAL FIRE	Healthy & Resilient Forests	\$165	-	\$165
		Prescribed Fire & Fuel Reduction	\$35	-	\$35
Climate Smart Agriculture	Department of Food & Agriculture	Healthy Soils	\$18	\$10	\$28
		Methane Reduction	\$25	\$10	\$35
Short-Lived Climate Pollutants	CalRecycle	Waste Diversion	\$25	-	\$25
Integrated Climate Action: Mitigation & Resilience	Strategic Growth Council	Transformative Climate Communities	\$40	\$92	\$132
	Coastal Commission & BCDC	Coastal Resilience	\$3	-	\$3
	Community Services & Development	Low-Income Weatherization	\$10	-	\$10
	California Conservation Corps	Energy Corps	\$6	-	\$6
Workforce Training	Workforce Development Board	Preparing Workers for a Carbon-Neutral Economy	\$27	\$8	\$35
Climate and Clean Energy Research	Strategic Growth Council	Climate Change Research	\$10	-	\$10
	California Environmental Protection Agency	Transition to a Carbon-Neutral Economy	-	\$1.5	\$1.5
Total			\$1,001	\$252	\$1,253