

Governor's Budget Proposal- January 10, 2019

San Diego Regional Chamber of Commerce Recap

The Governor shared his \$209 billion budget proposal on January 10, 2019. It was ambitious, significantly increasing spending with regard to education, preschool/childcare, healthcare, and housing. Of note, this proposal is simply that- it will be reviewed by budget subcommittees within the legislature and return with further details and adjustments in May during the May Revise process.

In a move former Governor Jerry Brown would likely appreciate, Newsom proposes using surplus monies to pay down the state's unfunded pension liability and expanding reserve funds while increasing those budgets. In reference to a commonly held belief that a recession will hit during his tenure, the Governor highlighted the fact that instead of relying on an average growth rate in previous budgets of 5%, this budget projects growth of 3.2%. Furthermore, he stated that his team has projected that should the recession hit, it would look less dramatic than the recession of 2007, and impact the budget at \$70 billion over the course of three years.

More specifically, the Governor allocated over \$3 billion to pay down PERS and CalSTRS unfunded liabilities, and dedicates funds to paying down the "wall of debt" often referenced by his predecessor. He will add \$2.7B for operating reserves, expecting those funds to be called on during future wildfires, earthquakes or other such disasters, and he proposed quadrupling the safety net reserve implemented recently.

The education budget is approximately \$80 billion, including a 3.4% Cost of Living Adjustment. Of those funds, \$576M will be for special education, and of that, \$186M is a one-time allocation. The CSU system will receive a \$562 allocation under the proposal, and of that \$308M will be ongoing. This is an 8% ongoing funding increase. The UC system on the other hand, will receive \$393M with \$200M of that ongoing, which represents an almost 7% budgetary boost. In line with these increases, Newsom also proposed significant CalGrant boosts for A, B, and C type grants.

The Governor's early childhood education programming continues to be a priority, however he proposes the funding that follows to be geared toward developing "frameworks" and strategies for further implementation and programs to be realized at a later date. In total, this area is proposed to receive \$1.8NHe has allocated \$750M for a one-time investment in universal, full-day preschool and has charged a number of agencies with coordinating grant funding to develop their strategies. \$500M was proposed for childcare, and a child college savings account for all children in the state.

The Governor included a \$1B investment into the "working families tax credit" formerly known as the Earned Income Tax Credit. Families earning up to \$15/hr would become eligible.

In continuance of his support of early childhood development, he vowed to continue to pursue the paid sick leave period of six months, stating that it makes fiscal sense and specifically called out chambers and the business community to back this proposal.

Housing emerged as a major policy priority during the speech, with significant policy changes to accompany the funding proposals. Specifically, he proposes \$1.75B to go to housing with \$750M to be performance-based funds for local government. In addition to updating the Regional Housing Needs Assessment proposal, he stated that housing production numbers, and their correlation to meeting

housing production goals, will be tied to a localities' ability to receive SB 1 funds, more commonly referred to as "gas tax" money. Newsom proposed adjusting the statewide goals to be more "nuanced" and to reflect the realities of each region, but also stated that he would like to give the Department of Housing & Community Development "more teeth" for oversight. To assist local governments in meeting housing goals, \$250M will be made available for technical assistance, and an additional \$500M will be available for those local governments actively and productively working toward meeting housing goals. Newsom also increased the funding to address the "missing middle" from \$43M to \$500M, a significant move. And finally, the Governor proposed adding \$500M for the state's tax credit program for four percent tax credits that are used by developers to finance affordable housing projects.

For community development, while many hoped this would be a furtherance of the Governor's previous statements that he may like to bring back redevelopment, many may have been disappointed. Instead, he stated that the state is gaining more funds to build thanks to SB 2 (Atkins), and as a result he will propose further Enhanced Infrastructure Financing Districts (EIFD). He proposed eliminated the current requirement of a 55% voter threshold for establishing new EIFD's, and stated that he would like to pair those districts with federal established opportunity zones, as long as those EIFD's were specific to developing affordable/moderate income housing and green tech.

Newsom also proposed a task force on impact fees, and doing an inventory on excess state properties that could be developed (and specifically stated such developments will have prevailing wage attached to them).

To tackle homelessness, the Governor proposed improving the shelters currently utilized by including aggressive navigation services. He committed \$500M to such structures, and proposed exempting them from CEQA.

In regard to Healthcare, Newsom again promised the return of the individual mandate at the state level (which was originally introduced as a component of the ACA at the federal level). That revenue, he said, would go toward giving larger subsidies to families earning 250-400% of federal poverty level, and expand subsidy eligibility to families earning up to 600% of the federal poverty level.

Furthermore, \$50M was proposed for workforce training for the field of mental health, and Prop 63 funds are expected to see significant increases.

As part of rehabilitations and corrections efforts, the Governor proposed \$5.8M to deal with retail theft, and proposed major overhauls of the Department of Motor Vehicles (DMV). The DMV will accept credit cards in 2019, and all 62 field offices are proposed to be open on Saturdays, as well as major technological advances including self-service terminals and apps for cell phones.

The full budget can be reviewed here: <http://www.ebudget.ca.gov/budget/2018-19/#/BudgetSummary>