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LEGISLATIVE REVIEW COMMITTEE STAFF REPORT

Meeting: March 2, 2020

Subject

Update on the Governor's proposed state budget

Recommended Action

Receive update on the Governor's proposed state budget

Summary

On Friday, January 10th, Governor Newsom released his January Budget Proposal for the FY 2020-21 State Budget (summary document can be read [here](#)ⁱ). This event marked the official beginning of the state budget process, which will culminate with the Legislature's approval of a state budget in mid-June.

Overview

The Governor's January Budget Proposal contains \$222 billion in proposed expenditures, \$153.1 billion of which would be from the State's General Fund. These proposed expenditures represent a 2.2% increase in spending over the budget that was adopted last year. The January Budget proposal includes a \$5.3 billion surplus for FY 2020-21, which is over a billion dollars lower than was projected by the Legislative Analyst's Office in November.

During his three-hour press conference, the Governor reinforced that his proposed budget makes a number of innovative investments, but does so in a way that acknowledges that the State's economy is seeing a slowing in growth and could slip into a recession in the near future. As such, the Governor's budget proposal focuses largely on one-time expenditures, in addition to investing in the State's Rainy Day Fund and other budget reserves. The proposed budget would increase the State's Rainy Day Fund to \$18 billion by the end of FY 2020-21 and would reach the constitutional 10% reserve cap in FY 2021-22.

During his press conference, the Governor touched on nearly all of the major items within his budget proposal; however, the main focuses of the January budget are: education, housing and homelessness, and climate resiliency.

Education

The Governor's January budget proposes \$84 billion in Proposition 98 funding for K-12 and community college districts, up approximately \$3.8 billion from the current fiscal year. The bulk of the increased funding is being focused on continuing efforts to strengthen underperforming schools, close achievement gaps, and improve student services in K-12 districts.

Within the education section of the budget, Governor Newsom specifically highlighted efforts to improve funding for teacher recruitment and retention, which total \$900.1 million. An additional \$100 million will be allocated to provide stipends for individuals who elect to teach at some of the state's most needy districts. These teachers would receive a \$20,000 stipend if they serve four years at a high priority school district. Expansion of school meal programs, increased focus on STEM, and additional funding for school facilities are also among the increases outlined in the proposal.

On the community college side, the January budget offers only minor increases to programs and called on the system to continue gathering data on the implementation of the new Student-Centered Funding Formula. Approximately \$83.2 million has been allocated to improve apprenticeship opportunities and \$15.8 million has been allocated for Dreamers and other resources for immigrant students.

Affordable Housing and Homelessness

The Governor's budget proposal builds on investments over the past two budgets in the areas of housing and homelessness. Most notably, the budget contains \$750 million in one-time funding to establish the California Access to Housing and Services Fund, which would be administered by the Department of Social Services. This funding would be used to reduce homelessness by moving individuals and families to permanent housing and to increase the number of units available to those that are at risk of becoming homeless. The budget proposes to disperse the funding through regional administrators that can provide short- and long-term rental subsidies, make contributions to the development of units, and stabilize community facilities through capital projects and operating subsidies. These efforts are in addition to the funding that was released via Executive Order prior to the budget announcement to secure temporary trailers and tents for emergency shelters for homeless individuals.

The Governor's budget also continues to build on the investments that were made in last year's budget to expand the amount of affordable housing that is produced in the State. Several of the major programs that were included as part of the FY 2019-20 State Budget, including funding for infill infrastructure and multi-family housing, are just now being made available through grant programs through the Department of Housing and Community Development. This year's budget proposal would increase state funding to help expedite the release of those funds, as well as provide over \$6.8 billion in funding to over 25 different programs aimed at increasing the amount of housing in California.

The Governor's budget proposal also contains funding for the State to continue to assess and make recommendations to improve the RHNA process. The Governor has directed the Department of Housing and Community Development to work with stakeholders to revamp the RHNA process by 2023. This aligns with the Governor's stated goal of working with the Legislature to expedite housing production, including making changes to local zoning and permitting processes and by adding predictability and reducing the cost of development fees.

Climate Resiliency

In addition to the investments in education and housing/homelessness, the Governor's January budget proposal contains significant resources for climate resiliency in response to, and in preparation for, extreme wildfires, flooding, heat, and mudslides due to climate change. The cornerstone of the Governor's proposal is a new \$4.75 billion climate resiliency bond that the Governor proposes to be placed on the November 2020 ballot. The bond measure would provide funding to five major areas: Drinking Water, Flood, Drought (\$2.9B), Wildfire (\$750M), Sea Level Rise (\$500M), Extreme Heat (\$325M), and Community Resilience (\$250M).

In addition to the new bond measure, the Governor's budget proposes \$1.7 billion in climate related investments in FY 2020-21 and \$12.4 billion in investments (including the bond) over the next five years. These additional funds would be spread over a large number of programs that focus on responding to the climate problem, including: transportation emission reductions, smart agriculture and forestry, water resiliency, and emergency response and preparedness.

Next Steps

The next step in the budget process is for the Legislature to begin to consider the Governor's budget. In the coming weeks, the Senate and Assembly Budget Committee, and the various Budget Subcommittees, will conduct hearings to receive more detail about the various items within the Governor's budget proposal. Additionally, the committees will begin the process of determining legislative priorities for inclusion in the budget. These hearings will continue for several months until the Governor releases his May Revise of the budget, which will contain updated revenue and expenditure figures, revised policy proposals, and incorporate certain legislative items. Once the May Revise is released, the Legislature will move swiftly to make final changes to the FY 2020-21 budget, which they will need to approve by June 15th.

Prepared by: Townsend Public Affairs

ⁱ <http://www.ebudget.ca.gov/2020-21/pdf/BudgetSummary/FullBudgetSummary.pdf>