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Governor's Budget Proposal Advances Key Priorities, Leaves Opportunities to Invest in Californians

On January 10, Governor Gavin Newsom released his proposed 2020-21 budget that advances a series of commitments to some of the most pressing needs facing Californians: addressing homelessness and behavioral health, providing access to affordable health coverage, and improving paid family leave so that more workers can care for their family members.

The Governor forecasts revenues that are \$5.8 billion higher (over a three-year "budget window" from 2018-19 to 2020-21) than previously projected in the 2019-20 budget enacted in June, driven largely by continued economic growth.

The Governor's proposal includes significant new funding to support access to housing and services to address homelessness, proposes to improve care for individuals who are homeless and/or individuals with substance use disorders through transforming how Medi-Cal services are delivered, and seeks to reform the Mental Health Services Act.

The proposal also builds upon expansions that were made in the 2019-20 budget that support Californians with low and middle incomes, particularly people of color, who are struggling to make ends meet and access greater economic opportunity, including: working toward universal preschool, expanding health care to move closer to universal coverage, boosting CalWORKs grants, and increasing investment in state higher education systems. The state's ongoing economic and fiscal health also means a significant increase in funding for K-12 education and community colleges.

Recognizing the reality that the state will eventually confront an economic downturn, the budget proposal calls for continuing to build up reserves and pay down debts in order to improve the state's fiscal resiliency.

Due to prudent planning and continued economic growth, state leaders have the opportunity to make additional investments to help the many Californians who are struggling to live and work in our communities and who are blocked from expanding income and wealth as a result of existing conditions and state policies. For example, the Governor's proposal does not ensure that all working immigrant families have access to the recently expanded California Earned Income Tax Credit (CalEITC).

The following sections summarize key provisions of the Governor's proposed 2020-21 budget. Please check the Budget Center's website (calbudgetcenter.org) for our latest commentary and analysis.

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Budget Overview

Governor Expects Pace of Economic Growth to Slow and Claims Risks to the Forecast Are Rising

The Administration's economic outlook expects that the nation's record-long economic expansion will continue through the forecast period, from 2020 to 2023, but projects that the pace of growth will slow both nationally and in California. The Administration rightly notes that "the state's strong economy has not lifted all Californians," that "economic inequality persists between regions of the state and for many living within the state's more prosperous regions," and that "wage and job growth have been uneven across the state and too many struggle to make ends meet." The outlook projects that California will continue to add jobs over the next few years, but at a slower pace. Additionally, the outlook projects that the tight labor market will boost wages and assumes that the wages of lower-wage workers will outpace inflation.

Although the Governor's economic outlook does not expect a recession in the forecast period, it notes that "continued growth is uncertain" due to a number of risks, many of which are outside of state policymakers' control. These include trade disputes, a stock market correction, and a global economic slowdown. The outlook also points out that beyond these immediate risks, California faces several longer-term risks to economic growth, including the economic impact of the state's housing shortage and the aging of the population.

Spending Plan Reflects Improved Revenue Forecast

The Governor's proposed budget assumes that revenues will continue to grow throughout the forecast period. For the budget year (fiscal year 2020-21), General Fund revenue is projected to total \$153.4 billion before transfers, such as deposits to the state's rainy day fund. The Administration projects that General Fund revenue (before transfers) over the three-year "budget window" – covering fiscal years 2018-19 through 2020-21 – will be \$5.8 billion higher than projected in the 2019 Budget Act. This improved outlook largely reflects stronger-than-expected corporate tax receipts. Additionally, \$1.8 billion of the increase is due to expected federal reimbursements of costs related to the 2017 and 2018 California wildfires.

The personal income tax (PIT), sales and use tax (SUT), and corporation tax (CT) are the three primary sources of General Fund revenue. Compared to the figures projected in the 2019-20 enacted budget, the Governor's proposed budget forecasts that PIT revenue will be \$1.5 billion lower over the three-year budget window. The budget proposal reflects higher-than-expected wages as well as higher capital gain realizations due to a strong stock market. However, the Administration notes that the PIT revenue forecast has been revised down, partly due to an assumption that many pass-through businesses (such as limited liability companies and S corporations), which are taxed under the personal income tax system, have been converting and will continue to convert into C corporations, which are taxed under the corporation tax system. This assumption is due to stronger-than-expected CT revenue growth and changes in federal tax law that may encourage more businesses to become C corporations. As a result, CT revenue is expected to be nearly \$5 billion higher over the budget window, more than offsetting the downgraded PIT forecast. However, the Legislative Analyst's Office notes that there is limited evidence for the Administration's assumption, and if other factors are responsible for the observed strength in corporate tax collections, CT revenue could be weaker than assumed in 2020-21. The forecast for SUT revenue is very similar to the 2019 Budget Act projections, with revenue over the budget window expected to be just \$129 million higher. The Administration notes that while consumer spending is expected to be higher than previously projected, the increase is mostly offset with lower projections for private investment.

The Governor's proposal also contains three tax policy changes:

- **A first-year exemption from the \$800 minimum tax for businesses that are organized as limited liability companies, limited partnerships, and limited liability partnerships.** This is expected to cost \$100 million annually, though the exemption would have to be authorized in the budget each year.
- **A new "vaping tax" of \$2 per 40 milligrams of nicotine, to go into effect January 1, 2021.** The tax is projected to raise \$32 million in 2020-21. The revenue from the tax is proposed to be deposited into a new special fund earmarked for administering the tax (\$9.9 million), enforcement, youth prevention, and health care workforce programs.
- **An extension of the sales and use tax exemption for diapers and menstrual hygiene products.** The 2019-20 budget agreement enacted this exemption, which is currently set to expire on January 1, 2022. The Governor proposes to extend the exemption through the end of the 2022-23 fiscal year.

Governor's Budget Proposal Continues to Build Reserves to Bolster State's Fiscal Resilience

California voters approved Proposition 2 in November 2014, amending the California Constitution to revise the rules for the state's Budget Stabilization Account (BSA), commonly referred to as the rainy day fund. Prop. 2 requires an annual set-aside equal to 1.5% of estimated General Fund revenues. An additional set-aside is required when capital gains revenues in a given year exceed 8% of General Fund tax revenues. For 15 years – from 2015-16 to 2029-30 – half of these funds must be deposited into the rainy day fund and the other half is to be used to reduce certain state liabilities (also known as "budgetary debt"). Prop. 2 also established a new state budget reserve for K-12 schools and community colleges called the Public School System Stabilization Account (PSSSA). The PSSSA requires that, when certain conditions are met, the state deposit a portion of General Fund revenues into the new reserve as part of California's Prop. 98 funding guarantee. (See "Increased Revenues Boost the Minimum Funding Level for Schools and Community Colleges" on page 19.)

The Governor's proposed budget includes a transfer of \$2 billion to the BSA for 2020-21, bringing the reserve's balance to \$18 billion by the end of the fiscal year. Prop. 2 requires that when the BSA balance has reached its constitutional maximum of 10% of General Fund tax revenues, any additional dollars that would otherwise go into the BSA must be spent on infrastructure, including spending on deferred maintenance. However, while the BSA has exceeded this maximum, the Governor's budget continues to assume that constitutionally required deposits will be made since the account's maximum balance was achieved in part through supplemental payments in prior years.

The BSA is not California's only reserve fund.

- The proposed budget includes \$487 million in the PSSSA for K-12 schools.
- Each year, the state deposits additional funds into a "Special Fund for Economic Uncertainties" (SFEU). The Governor's proposed budget assumes an SFEU balance of \$1.6 billion.
- Additionally, the 2018-19 budget agreement created the Safety Net Reserve Fund, which holds funds that can be used to maintain benefits and services for CalWORKs and Medi-Cal participants in the event of an economic downturn. The Governor's proposal maintains that account at \$900 million, its 2019-20 level.

Taking into account the BSA, SFEU, Safety Net Reserve, and PSSSA reserve for K-12 education, the Governor's proposal would build state reserves to a total of \$21 billion in 2020-21.

Spending Plan Continues to Pay Down Unfunded Liabilities

The Governor's budget proposal includes required contributions to two state-run retirement systems: the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS). CalPERS and CalSTRS, like many retirement systems, are not funded at levels that will keep up with future benefits guaranteed to workers, resulting in the state needing to make higher annual contributions in order to pay down unfunded liabilities. In recent budget agreements, state leaders have also agreed to make supplemental payments to the two systems in order to help pay down those unfunded liabilities.

The Governor's proposed budget includes the required contributions to CalPERS (\$4 billion General Fund) and CalSTRS (\$3.6 billion General Fund). The enacted 2019-20 budget included a \$3 billion supplemental payment to CalPERS to be paid over the fiscal years 2018-19 to 2022-23 and a \$2.9 billion supplemental payment to CalSTRS to be paid over the fiscal years 2019-20 to 2022-23. The Governor's proposed 2020-21 budget reflects those prior commitments.

Homelessness and Housing

Governor Proposes Significant New Spending to Address Homelessness

California has more than 25% of the nation's population of homeless individuals, with an estimated 151,278 homeless residents as of January 2019. More than two-thirds of California's homeless residents are unsheltered, sleeping in locations such as in a vehicle, in a park, or on the street. The state's homelessness challenges are cited as a serious concern by California residents and have attracted national attention. The Administration highlights homelessness as a key challenge facing California and a major focus for new spending in the proposed budget, with a particular focus on addressing "street-based homelessness" and expanding access to behavioral health and other supportive services.

As a key strategy to address homelessness, the Governor proposes spending \$750 million one-time General Fund to create a new California Access to Housing and Services Fund, administered by the Department of Social Services and distributed through "performance-based contracts" between the state and "regional administrators." Funds would be used to provide short-term and long-term rental subsidies, support development of new affordable housing units (particularly on state-owned land made available for housing development), and stabilize board and care facilities through capital and operating support. The Fund would also "be used to engage with landlords to secure units and negotiate individual client leases" and to provide tenancy support services and case management for individuals receiving rent subsidies. The Administration asks the Legislature to expedite the establishment of the Fund in order to issue funding this summer.

Other significant proposals included in the budget aim to address the needs of homeless individuals through the state's health and behavioral health systems. These include:

- **Transforming Medi-Cal in ways that improve care for individuals experiencing homelessness and/or substance use disorders, as part of the broader Medi-Cal Healthier California for All proposal (formerly known as CalAIM).** Changes are designed to enable the Medi-Cal system to better connect individuals to services they need, including housing services. (See "Proposed Budget Highlights Ambitious Effort to Improve Health Outcomes by Transforming Medi-Cal" on page 9.)
- **Working to reform the Mental Health Services Act (Prop. 63), including enhancing the focus on individuals with mental illness who are also experiencing homelessness.** (See "Administration Aims to Improve the State's Behavioral Health System" on page 8.)

- **Allocating \$24.6 million in 2020-21 and \$364.2 million over six years to the Department of State Hospitals to implement a Community Care Collaborative Pilot Program, a six-year program to be piloted in three counties.** The goal of this program is to place individuals with mental health needs who are designated incompetent to stand trial into stable community placements instead of state hospitals or other institutions. This program will “target the development of community-based treatment options for individuals who are experiencing mental illness and are homeless.”

These proposals build on an executive order on homelessness issued by the Governor in early January 2020, a “100-Day Challenge” the Governor issued to local governments in December 2019, and funding and administrative actions addressing homelessness included in the 2019-20 budget.

Governor Proposes No Significant New Funding to Support Housing Production, But Legal Assistance Funds Will Increase Due to a Court Judgment

More than half of California renter households pay more than 30% of their income toward rent, making them housing cost-burdened, and high housing costs are a key driver of California’s high poverty rate. After significant new state investments in housing planning and development in the 2019-20 budget, including a \$500 million ongoing expansion of the state Low Income Housing Tax Credit (LIHTC) program, the Governor proposes no major new state funding specifically for housing production or affordability in the 2020-21 budget, other than funds included in the Administration’s proposal to address homelessness (see previous section) and a modest \$10 million annually over the next three years “to support the state’s efforts to increase housing production.” The Administration highlights last year’s investments and the fact that the state has secured \$4.5 billion in private funding, including loans, from major technology companies to finance affordable housing projects. A share of the proceeds from cap and trade auctions must be directed to the Affordable Housing and Sustainable Communities program to fund land-use, housing, transportation, and land preservation projects to support infill and compact development, totaling \$468 million in the budget proposal.

Additional funding for housing-related legal assistance and foreclosure prevention comes from a court decision last year (*National Asian American Coalition v. Newsom*) that found that the state previously (under Governor Brown) improperly diverted to the General Fund \$331 million intended for a special fund to assist California homeowners affected by the mortgage crisis. As a result, these funds have now been deposited in the National Mortgage Special Deposit Fund, and the Administration proposes managing the funds in a trust to support ongoing legal assistance related to housing issues for California renters and homeowners as well as borrower relief to prevent foreclosures.

In terms of administrative actions, the Governor continues to propose revamping the Regional Housing Needs Allocation (RHNA) process, including implementing more ambitious housing production goals, by 2023. The Governor also outlines plans for “exploring... the creation of an agency exclusively focused on housing and homelessness” and working with the Legislature on “additional actions to expedite housing production, including changes to local zoning and permitting processes.”

Health

Administration Aims to Improve the State’s Behavioral Health System

Behavioral health services are primarily provided by California’s 58 counties, with funding support from the state and federal governments. Californians with behavioral health conditions – mental health conditions and/or substance use disorders – confront many challenges in accessing services that are delivered by multiple complex systems. This is particularly true for Californians who are experiencing both homelessness and behavioral health conditions.

In order to address these challenges, the proposed 2020-21 budget includes a number of initiatives that aim to improve integration of behavioral health treatment with physical health care. Specifically, the Administration proposes to:

- Establish the Behavioral Health Task Force to improve the quality of care and coordinate system transformation efforts under the new Medi-Cal Healthier California for All initiative, which is discussed in the next section.
- Direct the Health and Human Services Agency and the Department of Managed Health Care to update and strengthen behavioral health parity laws, which require that health plans apply similar rules to mental health and substance use disorder benefits as they do for physical health benefits. These efforts will focus on timely access to treatment, network adequacy, and more.
- Develop a proposal to update the Mental Health Services Act (Proposition 63 of 2004), which created a 1% surtax on personal income above \$1 million to provide increased funding for mental health services. One of the proposed changes to the MHSA is to identify priority populations, including Californians experiencing homelessness, children and youth at risk, and justice-involved adults. The Administration plans to submit this proposal later this spring.

In other efforts to improve behavioral health outcomes, the budget also includes:

- \$24.6 million in 2020-21 and \$364.2 million over six years to the Department of State Hospitals to implement a Community Care Collaborative Pilot Program, a six-year program to be piloted in three counties. The goal of this program is to place individuals with mental health needs who are designated incompetent to stand trial into stable community placements instead of state hospitals or other institutions.
- \$10 million one-time General Fund for the development of an adverse childhood experiences (ACEs) cross-sector training program, as well as a statewide public awareness campaign on ACEs. This funding allocation builds on the Surgeon General’s goal of reducing ACEs and toxic stress for children.
- \$4.6 million (\$2.6 million General Fund) to provide training on person-centered, trauma-informed support services for individuals with both developmental disabilities and mental health conditions.
- \$2.3 million ongoing General Fund to improve behavioral health services at veterans homes by standardizing mental health support staffing.

Proposed Budget Highlights Ambitious Effort to Improve Health Outcomes by Transforming Medi-Cal

The Administration is leading an ambitious reform effort known as Medi-Cal Healthier California for All. (Medi-Cal is a joint federal-state program that provides health care services to nearly 13 million Californians with low incomes.) Building on previous pilot programs, this initiative aims to coordinate physical health, behavioral health, and social services in a patient-centered manner. It also aims to reduce complexity across all delivery systems and to implement value-based initiatives and payment reform. The main goal of these proposed changes is to improve care for Californians experiencing homelessness, children with complex medical conditions, Californians involved with the justice system, and older adults. As such, this initiative positions the state to take a population health, person-centered approach to providing health-related services, and potentially reduces health care costs.

The Administration assumes that implementation of these various reforms would begin on January 1, 2021, and that the following funding would be available during the initial fiscal year (2020-21):

- **\$695 million (\$348 million General Fund)** to 1) provide enhanced care management – a collaborative approach to providing intensive and comprehensive services to individuals; 2) support “in lieu of” services, which include housing transition services, recuperative care, and respite; 3) fund infrastructure needed to expand “whole person care” programs statewide; and

4) build upon existing dental initiatives, such as the Dental Transformation Initiative, which aims to expand preventive dental services for children.

- **\$45.1 million General Fund to implement a Behavioral Health Quality Improvement Program.** This funding will support counties in transforming their behavioral health systems as part of the Medi-Cal Healthier California for All initiative. Proposed changes include improving care coordination and establishing structures that support a value-based payment model, such as data collection, performance measurement, and reporting.

The proposed reforms – and the level of federal funding that will be provided – must be negotiated with the federal government through the Medicaid waiver process. The Administration’s goal is to transition all existing Medi-Cal managed care authorities into one consolidated 1915(b) managed care waiver. The Department of Health Care Services began a stakeholder engagement process last year and will continue to seek input over the coming months.

Governor Proposes to Expand Medi-Cal to Undocumented Seniors, Tackle Rising Health Care and Prescription Drug Costs

Building on the federal Affordable Care Act (ACA), California has substantially expanded access to health coverage in recent years. For example, nearly 13 million Californians with modest incomes – half of whom are Latinx – receive free or low-cost health care through Medi-Cal (California’s Medicaid program), several million more than before the ACA took effect. Another 1.2 million Californians with incomes up to 400% of the federal poverty line – \$49,960 for an individual – receive federal premium subsidies to reduce the cost of coverage purchased through Covered California, our state’s health insurance marketplace. In addition, California recently created state premium assistance subsidies to help further reduce the cost of health insurance purchased through Covered California. Most of these new subsidies benefit people with incomes between 400% and 600% of the poverty line (\$49,960 to \$74,940 for an individual). Despite these gains, around 3 million Californians remain uninsured, health care costs continue to rise, and many people continue to face both high monthly premiums and excessive out-of-pocket costs – such as copays and deductibles – when they use health care services.

The Governor’s health policy agenda for 2020-21 aims to further reduce the number of uninsured Californians as well as tackle health care cost growth. The proposed budget:

- **Expands eligibility for comprehensive Medi-Cal coverage to seniors regardless of immigration status.** Federal policy prohibits states from using *federal* dollars to provide comprehensive (“full scope”) health coverage to undocumented immigrants through the Medicaid program. States, however, may use their own funds to provide such coverage. In

recent years, California has used this option to extend full-scope Medi-Cal coverage to undocumented immigrants under age 26 who otherwise qualify for the program. The Governor proposes to expand this state policy to include undocumented adults age 65 or older, no sooner than January 1, 2021. The Administration estimates that 27,000 undocumented seniors would enroll in full-scope Medi-Cal in the first year. This expansion would initially cost \$80.5 million (\$64.2 million General Fund), rising to an estimated \$350 million (\$320 million General Fund) in 2022-23. The Governor's proposal would continue to leave undocumented immigrants ages 26 to 64 without access to comprehensive Medi-Cal coverage.

- **Proposes to create an "Office of Health Care Affordability."** This new office would have several functions, including boosting price transparency, developing "cost targets" for various sectors of the health care industry, establishing financial penalties "for entities that fail to meet these targets," and addressing hospital cost trends, particularly "cost increases driven by delivery system consolidation." A formal plan is expected to be released in the spring of 2020.
- **Includes proposals aimed at reducing prescription drug costs.** These include a plan to establish a single market for drug pricing in California that would allow all purchasers, such as Medi-Cal and private insurers, to "combine their purchasing power." Another proposal would involve establishing California's own generic drug label, which the Administration argues would "increase competition in the generic market, resulting in lower generic drug prices for all purchasers." Formal plans for both of these proposals are expected to be released in the spring of 2020.

Economic Security

Administration Proposes No New Investments in CalEITC, Fails to Extend Credit to Excluded Californians

The California Earned Income Tax Credit (CalEITC) and Young Child Tax Credit (YCTC) are California's only refundable tax credits that boost the incomes of families and individuals who earn little from their jobs, helping them to afford necessities, like food and utilities. The overwhelming majority of people who are eligible to benefit from the CalEITC and YCTC are people of color. In addition, women and children make up the majority of people who are eligible to benefit from the YCTC.

Policymakers are required to specify in each year's state budget bill how large a credit to provide through the CalEITC and YCTC. The Governor's proposed budget maintains the increased investments in these credits that were made in the 2019-20 budget and does not provide any additional investments.

The CalEITC coalition, which includes more than 30 organizations across the state, recommends that the Governor extend the CalEITC and YCTC to the hundreds of thousands of immigrant families who earn low wages, pay taxes, and experience significant economic disparities in communities throughout the state, but are excluded from these credits. Both the Assembly and Senate adopted a proposal to make the CalEITC and YCTC more inclusive as part of their 2019-20 budget plans, but it was left out of the final budget deal with the Governor. Extending the CalEITC and YCTC to excluded immigrants could benefit an estimated 505,000 to 722,000 Californians, including 171,000 to 244,000 children, at a cost of just \$79 million to \$113 million, according to Budget Center estimates. Previous Budget Center analyses have shown that making these credits more inclusive of immigrant families would be a smart investment for the state from both an equity and economic perspective.

In addition to maintaining the CalEITC and YCTC at current levels, the Administration proposes to allocate \$10 million for outreach efforts to encourage greater participation in the credits. This continues the same level of investment in outreach provided through the state budget in recent years. Budget documents also indicate that the Administration is continuing to develop “a program that would allow workers to receive a portion of the [Cal]EITC in monthly payments.” The 2019-20 budget directed the Franchise Tax Board (FTB) to work with the Legislature and the Department of Finance to determine how such a program might work, and the FTB is expected to publish a report of recommendations in the spring.

Job Protections Expanded for Paid Family Leave as Part of January Proposal

Over the span of a career, most working adults need time off to care for a new child or a sick family member. The California Paid Family Leave program allows caregivers to take up to six weeks of paid time off to care for a family member or bond with a newborn or adopted child. As part of the 2019-20 budget agreement, caregivers will be allowed to take up to eight weeks of paid time off, effective July 1, 2020.

While the vast majority of California workers contribute to the paid family leave program and are eligible to take paid time off to care for a new child or family member, workers are not guaranteed their job when their paid-leave period ends. This is because the state’s paid leave program does not provide job protections when a worker needs to take paid time off. As a result, many workers are unable to utilize paid leave in California. A lack of job protections is more likely to affect workers with low wages, who are disproportionately women and Black and Latinx workers. The budget proposal signals the intent to include statutory language to “align paid family leave benefits with job protections.” The

budget proposal also states that resources will be provided to support small businesses that provide paid family leave benefits to their employees.

Governor Proposes Continued Investments in CalWORKs

The California Work Opportunity and Responsibility to Kids (CalWORKs) program provides modest cash assistance for over 720,000 low-income children while helping their parents overcome barriers to employment and find jobs. CalWORKs primarily serves families of color, making it an important source of support in a state where children of color are more likely than white children to face economic insecurity. In recent years, state policymakers have taken steps to increase economic security for CalWORKs families. In the 2019-20 budget agreement, policymakers significantly increased the maximum CalWORKs grant, as the annualized grant had been well below the deep poverty threshold (50% of the federal poverty line) for over a decade. In this January proposal, the Governor plans to increase the maximum grant by an additional 3.1%, effective October 1, 2020. The proposed budget provides \$73.6 million in 2020-21 and \$98.1 million in 2021-22 from realignment funds for this increase.

The Administration also calls for increasing the amount of child support payments that are passed through to CalWORKs families, effective January 1, 2022. Currently, when one CalWORKs parent has primary custody of a child, the non-custodial parent must provide child support payments. However, the family only receives the first \$50 of each monthly payment; the remainder must go to the state, county, and federal governments as “reimbursement” for the costs associated with the CalWORKs program. The Governor proposes allowing parents to retain \$100 for a family with one child and \$200 for a family with two or more children. The Administration provides \$1.4 million (\$900,000 General Fund) in 2020-21 to implement these changes and anticipates that this change will cost \$17 million General Fund annually, beginning 2021-22. The proposed budget also includes statutory changes to forgive child support debts that the state determines to be uncollectible, beginning January 1, 2022.

Proposed Budget Lacks a State Increase for SSI/SSP Grants

Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants help well over 1 million low-income seniors and people with disabilities to pay for housing and other necessities. Grants are funded with both federal (SSI) and state (SSP) dollars. State policymakers made deep cuts to the SSP portion of these grants in order to help close budget shortfalls that emerged following the onset of the Great Recession in 2007. The SSP portions for couples and for individuals were reduced to federal minimums in 2009 and 2011, respectively. Moreover, the annual statutory state cost-of-living adjustment (COLA) for SSI/SSP grants was eliminated beginning in 2010-11. Since then, state policymakers have provided only one discretionary COLA for the state’s SSP portion of the grant – a

2.76% boost that took effect in January 2017, resulting in monthly state SSP grant levels of \$160.72 for individuals and \$407.14 for couples, which remain in effect today.

The Governor does not propose a state increase for the SSP portion of SSI/SSP grants in 2020-21. However, the Administration does project that the federal government will boost the SSI portion of the grant by 1.7% effective January 1, 2021.

As a result of this projected *federal* increase:

- The maximum monthly combined SSI/SSP grant for individuals who live independently would increase from the current level of \$943.72 to \$957.72 on January 1, 2021. This projected 2021 grant level equals 92% of the current federal poverty guideline for an individual (\$1,041 per month).
- The maximum monthly combined SSI/SSP grant for couples who live independently would increase from the current level of \$1,582.14 to \$1,602.14 on January 1, 2021. This projected 2021 grant level equals 113.7% of the current federal poverty guideline for a couple (\$1,409 per month).

One-Time Funding to Fight Food Insecurity Included in Proposed Budget

Millions of Californians face food insecurity, not knowing where their next meal will come from. Californians with low incomes can receive emergency food assistance through a federal program called the Emergency Food Assistance Program (EFAP), which provides food to local food banks across the state. The federal program is supplemented with food purchased by food banks, supported by private donations, state funds, and other sources. The Governor's budget proposal includes \$20 million in one-time General Fund dollars in the Department of Social Services budget for food banks and other EFAP providers to expand their food purchases.

The Administration notes that this one-time expenditure is intended to offset the loss of CalFresh benefits (California's version of the Supplemental Nutrition Assistance Program, or SNAP) due to recent federal rule changes. Specifically, the Trump Administration issued a rule in December that restricts states' ability to qualify for waivers of a rule limiting the receipt of SNAP benefits to just three months out of every three years for unemployed and underemployed individuals ages 18 through 49 who are not raising children. Previously, states could seek waivers to the three-month limitation for certain areas or the entire state during times of high unemployment, but the new rule severely limits the situations in

which states can be granted a waiver. As a result, the Trump Administration estimated that nearly 700,000 people nationwide would lose SNAP benefits.

Additionally, another federal rule issued in August expanded the definition of “public charge” (people who can be denied entry into the US or permission to remain in the US on the grounds that they are likely to require public support) to include those receiving SNAP benefits and other types of non-cash assistance. The likely result is a “chilling effect” among individuals in families that include noncitizen immigrants, whereby families do not access public supports to address basic needs for which their family members are eligible, such as CalFresh, and disenroll from supports that they currently access out of fear and confusion about the consequences of accessing these types of supports. While the US Department of Homeland Security remains blocked from implementing the public charge rule due to litigation efforts, some potentially affected families may disenroll from CalFresh and other benefits due to fear and uncertainty.

Finally, another rule change proposed by the Trump Administration, but not yet finalized, would limit states' ability to use "broad based categorical eligibility" to provide access to SNAP food assistance for families with modest savings and those with somewhat higher incomes who have significant expenses for housing or child care. If implemented, this rule could be particularly harmful in California due to the state's high cost of living.

Budget Proposal Provides Few New Subsidized Child Care Spaces, Creates Department of Early Childhood Development

Subsidized child care allows parents with low and moderate incomes to find jobs and remain employed, feeling secure that their children have a safe space to learn and grow. These programs provide a critical service for families struggling with the state's high cost of living. While the 2019-20 budget agreement made a significant investment in the state's subsidized child care and development system, millions of eligible children and families – disproportionately families of color – are unable to access services due to a lack of state and federal funding. The Governor's proposal does provide 621 additional General Child Care slots (\$10.3 million Cannabis Fund). Further, as part of the 2019-20 budget agreement, just over 3,000 General Child Care slots were added with \$50 million one-time General Fund. According to legislative documents, these spaces were to be funded with Proposition 64 Cannabis Fund dollars in future years. The Governor's 2020-21 proposal replaces the \$50 million in one-time General Fund support for General Child Care spaces with ongoing funding from the Cannabis Fund. This does not address the vast unmet need for subsidized child care.

In addition, the Governor's budget proposal calls for a new Department of Early Childhood Development that would restructure the governance of subsidized child care programs. Currently, both the California Department of Education (CDE) and the Department of Social Services administer subsidized child care programs. The Administration is proposing to shift all subsidized child care programs into the new department under the California Health and Human Services Agency, effective July 1, 2021. The California State Preschool Program will remain under the purview of the California Department of Education. The budget proposal includes \$8.5 million General Fund for the California Health and Human Services Agency to support a transition team. This proposal precedes the recommendations that will be made in the Master Plan for Early Learning and Care, due October 1, 2020.

Immigration

Governor's Budget Proposes Extending Full-Scope Medi-Cal to Undocumented Seniors, but Misses Key Opportunity to Expand CalEITC to ITIN Filers

California has the largest share of immigrant residents of any state, and half of all California workers are immigrants or children of immigrants. Given the prominence of immigrants in California's population and the state's economy, recent and ongoing federal actions that limit immigration, aggressively enforce immigration laws, and seek to exclude immigrant communities have significant negative implications for California. The 2020-21 budget agreement makes important strides to support immigrant communities but also misses a key opportunity. Specifically, the Governor's proposed budget:

- **Expands eligibility for comprehensive Medi-Cal coverage to seniors regardless of immigration status.** In recent years, California has extended full-scope Medi-Cal coverage to undocumented immigrants under age 26 who otherwise qualify for the program. The Governor proposes to expand this state policy to include undocumented adults age 65 or older, no sooner than January 1, 2021. The Administration estimates that 27,000 undocumented seniors would enroll in full-scope Medi-Cal in the first year. This expansion would initially cost \$80.5 million (\$64.2 million General Fund), rising to an estimated \$350 million (\$320 million General Fund) in 2022-23. The Governor's proposal would continue to leave undocumented immigrants ages 26 to 64 without access to full-scope Medi-Cal.

- **Continues ongoing annual funding for immigration services.** The budget proposal includes \$65 million in ongoing General Fund for the unaccompanied undocumented minors and Immigration Services Funding programs. The Department of Social Services allocates funds through these two programs to nonprofit organizations who provide immigration services.
- **Includes funding for the California Newcomer Education and Well-Being Project (CalNEW).** The budget proposal allocates \$15 million one-time Proposition 98 General Fund to continue support for school districts with a significant number of refugee and unaccompanied undocumented students. The funding is intended to assist schools in planning, designing, and implementing supplementary instructional and social adjustment support services that improve students' well-being, English language proficiency, and academic performance.
- **Increases support for undocumented community college students.** The budget proposal includes an increase of \$10 million to support legal services for undocumented students, faculty, and staff on community college campuses and an increase of \$5.8 million Prop. 98 for Dreamer Resource Liaisons and other student support services for community college students.
- **Establishes the Social Entrepreneurs for Economic Development Initiative.** The proposed budget includes \$10 million in one-time General Fund to provide micro-grants and entrepreneurial trainings to immigrants. The funding would be administered by the California Workforce Development Board, which would be overseen by the newly proposed Department of Better Jobs and Higher Wages.
- **Provides funding to monitor compliance with a recent law that limited the use of the California Law Enforcement Telecommunications System (CLETS) for immigration enforcement purposes.** The CLETS is a statewide telecommunications system used by law enforcement agencies. Assembly Bill 1747 (Gonzalez, Chapter 789 of 2019) prohibited subscribers to the system from using information other than criminal history information transmitted through the system for certain immigration enforcement purposes. The proposed budget allocates to the Department of Justice \$2.8 million in 2020-21, \$3.3 million in 2021-22, and \$2.9 million annually thereafter from the General Fund to conduct investigations and audits to monitor compliance with the new law.
- **Does not extend the California Earned Income Tax Credit (CalEITC) or Young Child Tax Credit (YCTC) to workers who file taxes with an Individual Taxpayer Identification Number (ITIN).** Immigrants who do not have Social Security Numbers (SSNs) can file taxes using federally issued ITINs instead, but they are currently ineligible for both the CalEITC and YCTC. As mentioned in the CalEITC section, the CalEITC coalition was looking to the Governor to extend the CalEITC and YCTC to the hundreds of thousands of immigrant families who earn low wages, pay taxes, and experience significant economic disparities in communities throughout the state, but are excluded from these credits. Extending the CalEITC and YCTC to excluded immigrants

could benefit an estimated 505,000 to 722,000 Californians, including 171,000 to 244,000 children, at a cost of just \$79 million to \$113 million, according to Budget Center estimates.

While California continues to make strides to provide support and create safe communities for immigrants, ensuring that all Californians are protected and can access economic opportunity requires enacting policies that extend vital state supports to immigrants and their families.

Education

Budget Proposal Provides Additional Preschool Spaces, and Expands Funding Opportunities for Early Learning Facilities

State policymakers have taken steps in recent years to expand access to full-day early learning opportunities for young children, including funding additional spaces in the California State Preschool Program (CSPP) and creating grant programs for early learning facilities. The Governor's budget proposal continues to invest in early learning opportunities. Specifically, the budget proposal:

- **Provides \$31.9 million General Fund to increase the number of full-day spaces in the California State Preschool Program.** The budget agreement adds 10,000 full-day preschool spaces, effective April 1, 2021, for community-based state preschool providers that are not Local Education Agencies.
- **Provides \$75 million Proposition 98 General Fund for the Inclusive Early Education Expansion Program.** The Inclusive Early Education Expansion Program was created with one-time Prop. 98 funds as part of the 2018-19 budget agreement in order to increase access to early care and education programs for children with special needs. Funds are limited to Local Education Agencies to build or modify facilities. The 2019-20 budget provided additional funds, bringing the total amount to \$177 million. The 2020-21 budget proposal provides an additional \$75 million for this grant program.
- **Proposes increased flexibility for the Full-Day Kindergarten Facilities Grant Program.** The 2018-19 and 2019-20 budget agreements set aside a total of \$400 million one-time General Fund for building or retrofitting school district facilities in order to transition part-day kindergarten programs to full-day programs. Priority is given to school districts with either a large number of students eligible for free or reduced-price meals or districts that are experiencing "financial hardship." However, roughly three-quarters of this funding remains

unused. As a result, the Governor proposes to dedicate a portion of these funds for the construction of preschool facilities on school campuses.

Increased Revenues Boost the Minimum Funding Level for Schools and Community Colleges

Approved by voters in 1988, Proposition 98 constitutionally guarantees a minimum level of annual funding for K-12 schools, community colleges, and the state preschool program. The Governor's proposed budget assumes a 2020-21 Prop. 98 funding level of \$84 billion for K-14 education, \$3 billion above the 2019-20 funding level of \$81.1 billion estimated in the 2019-20 budget agreement. The Prop. 98 guarantee tends to reflect changes in state General Fund revenues and estimates of General Fund revenue in the proposed budget are higher than those in the 2019-20 budget agreement. As a result, the Governor's proposed budget assumes a 2019-20 Prop. 98 funding level of \$81.6 billion, \$517 million above the level assumed in the 2019-20 budget agreement, and a \$78.4 billion 2018-19 Prop. 98 funding level, \$301.5 million above the level assumed in the 2019-20 budget agreement.

The Governor's proposed budget also projects that a deposit of \$524.2 million into the Public School System Stabilization Account (PSSSA) is required in 2019-20, the first deposit into this state budget reserve for K-12 schools and community colleges. The 2019-20 PSSSA deposit reflects an increase of \$147.7 million above the amount that was previously projected in the 2019-20 budget package. The Governor's spending plan assumes a withdrawal of \$37.6 million from the PSSSA will be required in 2020-21, which would leave a balance of \$486.6 million in the budget reserve for K-14 education.

The largest share of Prop. 98 funding goes to California's school districts, charter schools, and county offices of education (COEs), which provide instruction to approximately 6.2 million students in grades kindergarten through 12. The Governor's proposed budget increases funding for the state's K-12 education funding formula – the Local Control Funding Formula (LCFF) – and supports the recruitment and professional development of educators. Specifically, the Governor's proposed budget:

- **Increases LCFF funding by \$1.2 billion.** The LCFF provides school districts, charter schools, and COEs a base grant per student, adjusted to reflect the number of students at various grade levels, as well as additional grants for the costs of educating English learners, students from low-income families, and foster youth. The Governor's proposal reflects a 2.29% cost-of-living adjustment (COLA) and would result in \$64.2 billion in total LCFF funding. The proposed budget also provides \$5.7 million to fund a 2.29% COLA for COEs and \$600,000 in one-time funding intended to improve LCFF fiscal accountability and access to statewide data.

- **Provides \$532.1 million in one-time funding for educator recruitment and preparation.** The Governor's proposed budget provides funding for new programs intended to address the state's shortage of teachers and other educators including \$193 million for a Workforce Development Grant Program to address shortages in high-need subjects and \$100 million for a California Teacher Credential Award Program, which would provide \$20,000 stipends to fully credentialed teachers who teach a high-need subject in a high-need school for four years. The Governor's proposed budget also increases funding for existing programs by providing \$175 million for the Teacher Residency Grant Program, a competitive grant program established in 2018 to recruit and prepare special education, science, technology, engineering, mathematics, and bilingual education teachers to teach in high-need communities and \$64.1 million for the California Classified School Employee Teacher Credential Program, which provides grants to K-12 school districts to recruit school employees to become classroom teachers.
- **Provides \$368 million in one-time funding to increase support for the Educator Workforce Investment Grant Program.** The 2019-20 budget agreement provided \$38.1 million to establish the Educator Workforce Investment Grant Program, which supports competitive grants to institutes for higher education or nonprofit organizations with expertise in providing professional learning for K-12 educators. The Governor's proposal increases funding for the program by \$350 million, which would be provided to school districts through a competitive process to conduct training in high need areas such as special education, mental health interventions, science, technology, engineering, and math as well as supporting English language learners. The proposed budget also provides \$18 million to the California Collaborative for Educational Excellence to increase awareness of the services and supports available to school districts through the grant program.
- **Provides \$300 million in one-time funding to establish community school grants.** Community schools provide integrated educational, health, and mental health services to students. The Governor's budget proposes to use community school grants for school districts to implement programs aligned with the community school model, including intensive health, mental health, and social services, support for educator professional development, and expanded learning opportunities.
- **Provides \$300 million in one-time funding to assist low-performing schools and school districts.** The Governor's proposed budget would establish "opportunity grants" for the state's lowest-performing schools and school districts with the intention of closing achievement gaps. The Governor's proposed budget would use a portion of the one-time funding to expand the capacity of the California Collaborative for Educational Excellence in several areas such as improving the school and school district review process, expanding educational leadership training, and evaluating state and local continuous improvement efforts.

- **Increases special education funding by \$250 million.** The Governor proposes to allocate the increased funding to school districts based on the number of preschool-age children with disabilities that a district serves. The increase in special education funding in the Governor's spending plan is part of a proposed multi-phase, multi-year process that includes a new special education base rate funding formula that would continue to be allocated to Special Education Local Plan Areas (SELPA).
- **Provides \$122.4 million to fund COLAs for non-LCFF programs.** The Governor's proposed budget funds a 2.29% COLA for several categorical programs that remain outside of the LCFF, including special education, child nutrition, and American Indian Education Centers.
- **Provides \$70 million for school nutrition programs.** The Governor proposes to increase school nutrition funding by \$60 million to encourage participation in the state and federal school nutrition programs and to improve the quality of subsidized school meals. The Governor's proposal also includes \$10 million to train school food service workers to promote healthier meals.

Budget Proposal Includes Significant Investments in Community College Workforce Development and Increases Funding for Cost-of-Attendance Expenses

A portion of Proposition 98 funding provides support for California's community colleges (CCCs), which help prepare over 2 million students to transfer to four-year institutions as well as obtain training and employment skills. The 2020-21 budget proposal expands support for workforce development programs, increases funding for some cost-of-attendance expenses, creates a pilot program to increase faculty diversity, and makes other investments.

Specifically, the proposed spending plan:

- **Includes significant investments in workforce development programs.** The Administration's proposal includes \$48.2 million Prop. 98 for increased apprenticeship instructional hours, \$15 million Prop. 98 for the California Apprenticeship Initiative, and \$20 million one-time Prop. 98 to expand access to work-based learning programs. The proposal also includes \$17 million one-time General Fund to support students in the greater Fresno region from secondary school through college and into high-wage jobs.
- **Provides an increase of \$31.9 million for enrollment growth.**
- **Provides \$21.4 million to support students' non-tuition cost-of-attendance expenses.** The budget allocates \$11.4 million Prop. 98 General Fund to establish and support food pantries at

community colleges and \$10 million one-time funding to develop and implement the Zero-Textbook-Cost Degree Program, which eliminates the cost of textbooks for certain degrees and certificate programs.

- **Increases support for undocumented and immigrant students by \$15.8 million.** The budget proposal includes \$10 million to support legal services for undocumented students, faculty and staff on community college campuses and an increase of \$5.8 million Prop. 98 General Fund for Dreamer Resource Liaisons and other student support services for immigrant community college students.
- **Provides \$15 million one-time funding to pilot a fellowship program to improve faculty diversity.**
- **Maintains the structure of the Student Centered Funding Formula.** The 2019 budget package included revisions to CCC general-purpose apportionments, which is now in its second year of implementation. The Governor's proposed 2020-21 budget makes no further revisions to the formula but signals support for including first-generation students in future formula metrics.

Spending Plan Increases Funding for CSU and UC

California supports two public four-year higher education institutions: the California State University (CSU) and the University of California (UC). The CSU provides undergraduate and graduate education to roughly 481,000 students on 23 campuses, and the UC provides undergraduate, graduate, and professional education to about 285,000 students on 10 campuses.

The Governor's proposed 2020-21 budget increases support for the CSU and the UC with the expectation that the institutions will continue to support college affordability and access, and improve completion rates. Notably, the proposal does not make funding contingent upon the institutions maintaining current tuition rates.

At the CSU, the proposed budget:

- **Increases ongoing funding for the CSU by \$199 million.** This 5% increase in base resources includes funding for operational costs, enrollment growth, and the Graduation Initiative, which seeks to improve graduation rates and eliminate opportunity and achievement gaps.
- **Proposes \$6 million one-time funding for degree and certificate completion programs.** These funds would be directed toward the development and expansion of degree and certificate completion programs to support those with some college but no degree.

- **Extends summer-term financial aid.** The 2019-20 budget allocated \$6 million to CSU to provide summer-term financial aid to low-income students, including undocumented students. This funding is set to be suspended in December 2021 if revenues do not reach certain levels. The proposed budget extends this date to June 2023. This summer financial aid maintains the exclusion of California Community Colleges and private institutions.

At the UC, the proposed budget:

- **Increases ongoing funding for the UC by \$218 million.**
- **Provides increased funding for enrollment growth.** The spending plan increases base funding by \$169 million for undergraduate enrollment growth, operational costs, and student support services. The Governor's budget also provides \$25 million ongoing for enrollment and operational support at UC Riverside School of Medicine and \$15 million ongoing to expand the UC San Francisco School of Medicine Fresno Branch Campus in partnership with UC Merced.
- **Provides \$4 million one-time funding to support degree and certificate completion programs.**
- **Extends summer-term financial aid.** The 2019-20 budget allocated \$4 million to UC to provide summer-term financial aid to low-income students, including undocumented students. This funding is set to be suspended in December 2021 if revenues do not reach certain levels. The proposed budget extends this date to June 2023. This summer financial aid maintains the exclusion of California Community Colleges and private institutions.

Administration Proposes Student Loan Debt Workgroup

Cal Grants are the foundation of California's financial aid program for low- and middle-income students pursuing higher education in the state. Cal Grants provide aid for tuition and living expenses that do not have to be repaid. The Governor's spending plan maintains Cal Grant award levels and total available awards, and expects the California Student Aid Commission's financial aid reform working group to "consider strategies to mitigate the underlying drivers of non-tuition costs."

The proposed budget also includes \$5 million one-time to address student loan debt. The funds would support a student loan working group and the development of an informational website to ensure students have access to information regarding loan programs, repayment plans, debt forgiveness options, and workshop opportunities to assist borrowers. This funding would also be used to create grants to public colleges to notify students of available loan repayment options.

Governor's Proposed Budget Includes Several Labor and Workforce Development Proposals

The Administration proposes to create a new Department of Better Jobs and Higher Wages that would house several workforce development programs in order to align “fragmented workforce programs.” In addition, the proposed budget includes “statutory changes to consolidate the workforce functions dispersed across the Labor and Workforce Development Agency.” The new department would be composed of the California Workforce Development Board, the Employment Training Panel, the Workforce Services Branch and Labor Market Information Division (currently part of the Employment Development Department), and the Division of Apprenticeship Standards (currently part of the Department of Industrial Relations). According to the Administration, this consolidation is intended to “better align data, policy, and program analysis of the state’s workforce training programs.” The budget allocates \$2.4 million in one-time General Fund to establish executive staff for the new department.

The proposed budget also includes \$50 million one-time General Fund to support investments in the Fresno area aimed at “improving the economic mobility of Californians living in the region.” Specifically, this includes:

- \$33 million for the establishment of a Fresno-Merced Food Innovation Corridor. Budget documents describe this as a collaboration between academic institutions and industry intended “to spur additional economic development” and “support advanced sustainable agricultural production and high-quality jobs in the San Joaquin Valley.”
- \$17 million for the Fresno Integrated K-16 Education Collaborative, which budget documents describe as “a plan to design educational pathways to improve social and economic mobility in the greater Fresno region.”

In addition to these proposals, the budget allocates additional funds to several departments to enforce compliance with Assembly Bill 5 (Gonzalez, Chapter 296 of 2019). This bill codified in state law a recent California Supreme Court decision, *Dynamex Operations West, Inc. v. Superior Court of Los Angeles County*, that requires companies to classify more workers as employees rather than independent contractors. Specifically, the budget proposes to provide \$17.5 million to the Department of Industrial Relations, \$3.4 million to the Employment Development Department, and \$780,000 to the Department of Justice.

Criminal Justice

Proposed Budget Projects California Could Close a State Prison Within Five Years, Boosts Funding for Rehabilitative Services

Nearly 123,800 adults who have been convicted of a felony offense are serving their sentences at the state level, down from a peak of around 173,600 in 2007. Currently, more than 7 in 10 state prisoners are Black or Latinx – a racial disparity that reflects implicit bias within the criminal justice system, structural disadvantages faced by these communities, and other factors. Among all incarcerated adults, most – about 114,400 – are housed in state prisons designed to hold fewer than 85,100 people. This level of overcrowding is equal to 134.5% of the prison system’s “design capacity,” which is below the prison population cap – 137.5% of design capacity – established by a 2009 federal court order. (In other words, although state prisons remain severely overcrowded, the state is complying with the court order.) In addition, California houses over 9,300 people in facilities that are not subject to the court-ordered cap, including fire camps, in-state “contract beds,” and community-based facilities that provide rehabilitative services. The sizeable drop in incarceration has resulted largely from a series of policy changes adopted by state policymakers and California voters in the wake of the federal court order.

The proposed spending plan:

- **Assumes that California will be able to close a state-operated prison “within the next five years” due to projected declines in the number of incarcerated adults.** This timeline assumes that the state will *first* end the use of in-state contract facilities – both public and private – that house men. (This is expected to occur by July 2022.) This timeline also assumes that the number of adults incarcerated at the state level will drop by about 4,300 from June 2021 to June 2024. The Newsom Administration plans to close a state-operated prison “if these population trends hold,” according to the budget summary.
- **Includes new approaches to help incarcerated adults boost their education and skills and prepare to successfully reenter society.** Specifically, the Governor proposes to:
 - Create, at selected state prisons, “Youth Offender Rehabilitative Communities” focused on adults under age 26. The aim is to develop “campus-style environments” in which young adults can connect with “positive mentors” and participate in “rehabilitative and educational programs targeted to their unique needs.” The General Fund cost would be \$6.2 million in 2020-21, rising to \$10.1 million ongoing.

- Boost access to technology, including laptop computers, in order to improve academic and vocational training for incarcerated adults, at a General Fund cost of \$26.9 million in 2020-21 and \$18 million ongoing.
- Partner with the California State University system to establish bachelor’s degree programs for incarcerated adults who have already an associate’s degree. The General Fund cost would be \$1.8 million in 2020-21 and \$3.5 million ongoing.
- **Expands the use of “telepsychiatry” – or secure videoconferencing – to increase incarcerated adults’ access to mental health services.** This proposal would cost \$5.9 million General Fund in 2020-21, rising to \$8.4 million by 2024-25.

Governor Proposes Reforms to the Local Correctional System, Expands Select Judicial Programs for Low-Income Californians

California’s 58 counties play a key role in the state’s local correctional system. For example, counties operate jails, which house roughly 72,000 people on a given day, and supervise individuals on probation. Adults under county probation supervision were convicted of a misdemeanor or felony but allowed to return to their communities instead of remaining incarcerated with certain requirements. California’s correctional system underwent a series of reforms beginning with the state-to-county “realignment” that took effect in 2011, following a US Supreme Court order that required the state to reduce its prison population. Under realignment, counties took responsibility for managing certain adults who had traditionally been housed in state prisons and supervised by state parole officers upon their release. Each year, the state provides counties with constitutionally protected funding to support their responsibilities under the 2011 realignment.

The Governor’s proposed budget focuses on reforming the adult probation system with the goal of reducing recidivism rates and using evidence-based practices for people with felony and misdemeanor convictions. Specifically, the proposed spending plan:

- **Allocates \$60 million General Fund annually for the next three years to increase probation services targeting individuals with misdemeanor convictions.** The Governor assumes this annual funding decreases to \$30 million in 2023-24.
- **Provides an increase of \$11 million in ongoing funding for the California Community Corrections Performance Incentives Act of 2009.** Under this law, also known as Senate Bill 678 (Leno, Chapter 608 of 2009), counties have financial incentives to reduce the number of individuals on felony probation who are sent to state prison. The increase is an addition to the existing baseline funding of \$113.8 million General Fund.

- **Includes reforms to limit felony and misdemeanor probation terms to two years and allows for earned discharge for individuals on probation.** Formal probation supervision normally lasts three to five years depending on the crime committed and the county in which individuals are convicted.

The Administration proposes other funding increases to select judicial services, while also attempting to encourage further state oversight of county jails. The proposed budget:

- **Allocates \$11.5 million General Fund in 2020-21 and proposes an increase to \$56 million ongoing General Fund by 2023-24 to expand the “MyCitations” online pilot program to county courts statewide.** The Judicial Council of California oversees the online pilot tool “MyCitations” that is currently only administered by four county courts. This tool allows qualifying individuals to request a payment plan, more time to make payments, or community service as a payment option for certain traffic and non-traffic infractions. Depending on a person’s income, they may additionally qualify for a reduction in the criminal fines and fees they owe for these same citations.
- **Dedicates \$4 million General Fund in 2020-21 and \$3.5 million in following years to improve the quality of legal representation provided by the Office of State Public Defender (OSPD).** It also assigns \$10 million one-time General Fund to supplement local funding for public defenders. OSPD primarily handles death penalty post-conviction appeals for individuals who cannot afford their own legal defense.
- **Strengthens the state’s oversight of county jails through facility inspections.** The Governor proposes that the Board of State and Community Corrections (BSCC) more thoroughly engage with counties to correct issues identified during jail inspections that the BSCC conducts.

Other Priorities in the Proposed Budget

Governor’s Proposal Makes Critical Investments in Climate Resilience and Emergency Preparedness

In recent years, California has faced unprecedented wildfires, flooding, and extreme heat events that have been exacerbated by climate change. These events are especially devastating for low-income communities, particularly people of color, who are more susceptible to the effects of climate change as they tend to live in more polluted areas or areas with high heat risks, and have fewer resources to recover from a disaster. To mitigate the effects of climate change, the Governor has proposed spending \$1.73 billion in 2020-21 (\$12.5 billion over five years). The proposed budget:

- **Recommends placing a \$4.75 billion bond on the November 2020 ballot.** This bond would fund improvements to climate resilience over the next five years. Approximately 80% of bond funds would support projects addressing immediate, short-term risks such as floods, drought, and wildfires. The remaining 20% would address longer-term risks like extreme heat and rising sea levels. These projects include efforts specifically supporting low-income communities, such as \$360 million to increase access to safe drinking water through improving water supplies, treatment, and distribution, and \$500 million to harden drinking water infrastructure, emergency shelters, and public medical facilities in low-income areas with high wildfire risk.
- **Allocates \$965 million of existing Cap and Trade funds in 2020-21 (\$4.83 billion over five years) to support a variety of programs.** These programs include \$400 million to promote clean mobility for low-income households and to reduce transportation emissions in low-income communities. The Administration also proposes \$235 million to support community air monitoring and emissions reduction through Assembly Bill 617 (Garcia, Chapter 136 of 2017).
- **Provides \$250 million General Fund in 2020-21 (\$1 billion over five years) to create a Climate Catalyst Fund.** The Governor proposes creating a loan fund to increase and leverage private sector investment in climate-related projects that meet the state's climate and equity goals but face barriers in the private market.
- **Includes \$204 million General Fund for one-time and ongoing investments.** These investments include \$169 million in one-time spending in 2020-21 for projects reducing the risk of urban flooding and supporting the draft Water Resilience Portfolio. The portfolio is the state's plan to improve the water system and waterways through groundwater management, conservation, flood protection, and more. Another \$35 million in ongoing funds would further support the draft Water Resilience Portfolio.
- **Provides \$308 million of existing bond and special funds in 2020-21 (\$1.42 billion over five years) for charging stations for electric vehicles and natural resource projects.** The proposal reflects \$51 million in one-time use of the Alternative and Renewable Fuel and Vehicle Technology Fund and \$257 million of primarily Proposition 68 dollars. Voters approved Prop. 68 in 2018 to authorize \$4 billion in bonds for water infrastructure, protecting natural resources, and more.

The proposed budget also provides investments to improve the state's ability to prepare for, respond to, and recover from natural disasters. Among these investments are:

- \$50 million one-time General Fund to support a matching grant program to help local governments prepare for and respond to power shutoffs by investor-owned utilities, including

bolstering community services vulnerable to such outages, such as schools and food storage reserves.

- \$26.8 million General Fund (\$25 million one-time) for the Department of Forestry and Fire Protection (CAL FIRE) and the Office of Emergency Services (Cal OES) to administer a “home-hardening pilot program.” This program would be part of the implementation of the Wildfire Mitigation Financial Assistance Program, authorized by Assembly Bill 38 (Wood, Chapter 391 of 2019), and would provide financial assistance for upgrades to homes to decrease their vulnerability to wildfires, with a focus on homes in low-income communities with high fire risks. State funds are expected to leverage \$75 million in federal funding, bringing total support to roughly \$100 million.

Proposed Budget Establishes New Consumer Financial Protections and Expands State’s Authority to Enforce Those Protections

In response to federal actions that have weakened consumer financial protections, the Administration proposes to establish a new California Consumer Financial Protection Law that will “provide consumers with more protection against unfair and deceptive practices when accessing financial services and products.” In addition, the budget expands the authority and capacity of the Department of Business Oversight (DBO) to administer the new law. Specifically, the department will have increased authority to “pursue unlicensed financial services providers not currently subject to regulatory oversight such as debt collectors, credit reporting agencies, and financial technology (fintech) companies, among others.” Specific new activities include “licensing and examining new industries that are currently under-regulated” and establishing a new Financial Technology Innovation Office to “proactively cultivate the responsible development of new consumer financial products.” To better reflect the DBO’s new responsibilities, the Administration proposes renaming the department the Department of Financial Protection and Innovation and includes \$10.2 million Financial Protection Fund in 2020-21 for the establishment and administration of the law. The Administration anticipates funding growing to \$19.3 million in 2022-23.