



March 2020

Pathways to Shared Prosperity

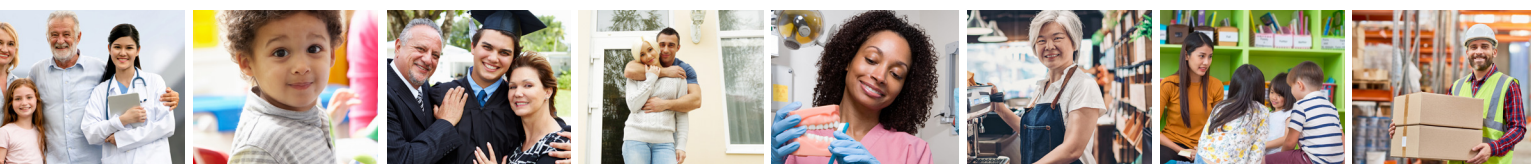
AN ECONOMIC POLICY AGENDA FOR ALL CALIFORNIANS

California has long been a place where people from diverse backgrounds seek a better life. From pioneers to entrepreneurs to immigrants, the history of the Golden State is rife with stories where people find opportunity, promise, and progress – a land of discovery and prosperity.

The Golden State has many economic successes to celebrate. California's economy is the fifth largest in the world in gross domestic product. Home to a global technology hub, a flourishing entertainment industry, centers of global trade and commerce, and bountiful agricultural regions and natural resources – all this is made possible and supported by a diverse and globally connected workforce. And our state's workforce is one that thrives because of the contributions of many individuals, including women, Californians of color, and immigrants.

And yet, pressing economic needs, some unaddressed for decades, are poised to have long-term, adverse consequences for our state and its people. Far too many Californians are struggling to live, work, and raise families in their communities. A state once renowned for creating a robust and growing middle class now confronts the reality that many Californians live at or near poverty level starting at birth and can expect to live their final years struggling to make ends meet as well. **California can and must do better for its people.**

Implementing **practical, effective policy solutions** is imperative to our state's future economic and social well-being. The policy choices that our state's leaders make today will have a profound effect on the growth, equity, and prosperity of California's nearly 40 million residents for generations to come.



CALIFORNIA CAN LEAD AGAIN AND BUILD A BETTER FUTURE

Despite California's many successes, California is at a crossroads. High housing costs, stagnating wages for workers earning low and middle incomes, decades of public education underfunding, an aging population and other demographic shifts that challenge workforce needs and put pressure on public services – Californians feel the toll. Too many people – particularly children, women, people of color, and immigrants – are paying a high price to keep California and its economy growing.

Further undermining opportunities for many Californians are legacies of racist policies, systemic and institutional racism, and practices that block access to vital social and economic opportunities for people of color.

California has the opportunity to lead again and change the social, political, and economic realities that have harmed people while still expanding our state's prosperity. At the California Budget & Policy Center, we believe – and we have analyzed and documented – that our state must chart a bolder pathway by putting people first. We can do this with **an economic policy agenda that focuses on improving conditions for all Californians** by giving everyone opportunities for a better life.

A POLICY AGENDA TO ADVANCE OPPORTUNITIES FOR ALL CALIFORNIANS

What kind of California do we want our children, grandchildren, aging parents, neighbors, friends, and colleagues to live in?

One where workers earn a living wage that covers the cost of housing and parents can find affordable child care so their children can learn while they are at work. A place where people have enough money to pay their bills now and plan for how they will spend their later years affording the cost of living and health care in California. A California that opens up multiple educational and workforce opportunities to students and individuals – no matter what region you grow up in.



There is clearly a need for bolder policy and bigger investment on a number of fronts. Our vision for California’s future includes **seven policy pathways** that are designed to improve the lives of every Californian, advance our state’s productive course, and plan for future needs.

In addition to policy recommendations, we outline how California can pay for these advances through a series of **tax policy reforms** and investments that will give California a stronger, more sustainable system of revenues and better position everyone in our state – regardless of age, background, culture, or economic level – to thrive.

OUR POLICY AGENDA



1 | Educating Children and Youth



Educating children and youth continues to be a top priority for Californians. It is widely recognized that investing in a child's education now will pay off for her long-term success as well as the state's. When every student who walks into a classroom has the opportunity to learn and succeed, our state and communities reap the benefits of that investment and commitment to quality education.

California is significantly underinvesting in education relative to need, even with modest improvements in funding in recent years.

Yet despite modest improvements in funding in recent years, the state is significantly underinvesting in education relative to need. Cuts that were made in recent decades continue to be felt by children and students and across K-12 schools, school districts, and early learning sites. Affordable preschool and childcare services are out of reach for many. California's support for K-12 education ranks low by any measure – per pupil spending relative to other states and measures such as students per teacher, students per guidance counselor, and students per librarian.

The population of Californians under age 18 is now more racially and ethnically diverse, and economically disadvantaged, than in prior generations – challenges that require more strategic and greater investment in order to realize significant and positive potential economic gains for these children and for the state overall. For instance, the state is significantly underinvested in its effort to support English Learners – students who live in homes where a language other than English is spoken.

California's children also confront higher levels of economic hardship. California's child poverty rate is significantly higher than that of adults, and higher than the US average. Many children living in poverty have needs that their families may not have the resources to provide – nutritious meals, special education, tutoring, health services, and afterschool enrichment programs, for example. Such obligations often default to schools and systems that are already insufficiently funded.

THE PATHWAY TO EDUCATING CHILDREN AND YOUTH

- Provide families with low and middle incomes with universal access to high-quality childcare and state preschool programs that advance early childhood development, boost economic security, and lead to improved educational and health outcomes.
- Ensure that adequate resources are available to provide California K-12 students with access to quality education, particularly disadvantaged students and those who speak languages other than English at home.
- Provide educators, teachers, parents, and students the structures and supports required to address the varied needs of the state's diverse population, including providing data that can help inform policies to improve outcomes and prioritizing the equitable allocation of resources for disadvantaged children and youth and those who speak languages other than English at home.

See our “Growing a Skilled Workforce” for related investments on higher education.

1 | Educating Children and Youth

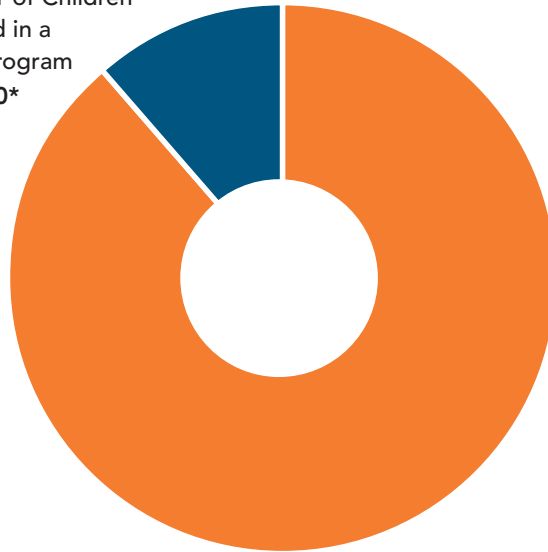
Eight Out of Nine Children Eligible for Subsidized Child Care Did Not Receive Services From Full-Day, Full-Year Programs in 2017

Estimated Number of California Children Eligible for Subsidized Child Care = 2,032,000

* Enrollment is for children from birth through age 12 in October 2017, except for California Community College CalWORKs Stage Two, which reflects a Department of Finance estimate for the 2017-18 fiscal year. Includes children enrolled in the full-day California State Preschool Program (CSPP). Excludes children enrolled in the part-day CSPP or the Handicapped Child Care Program.

Source: California Department of Education, Department of Finance, Department of Social Services, and Budget Center analysis of US Census Bureau, American Community Survey data

Number of Children Enrolled in a State Program
228,100*



Number of Children Eligible for but Not Enrolled in a State Program
1,804,000

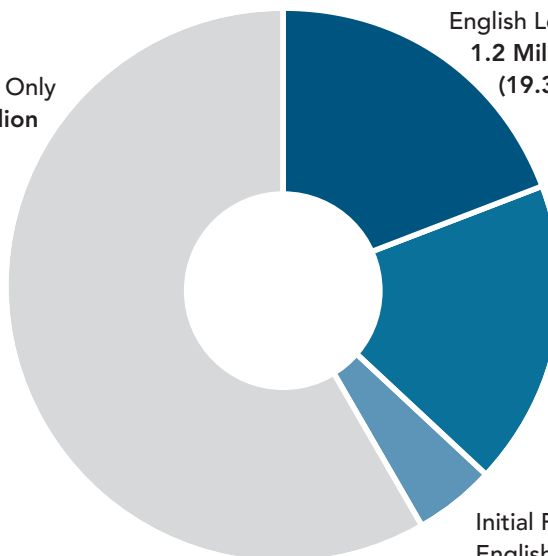
More Than 4 Out of 10 California K-12 Students Live in a Home Where a Language Other Than English Is Spoken

2018-19 K-12 Public School Enrollment = 6.2 Million

Note: Reclassified fluent English proficient students were once designated English learners and have demonstrated English proficiency. Initial fluent English proficient students demonstrate English proficiency when they enter school.

Source: California Department of Education

English Only
3.6 Million

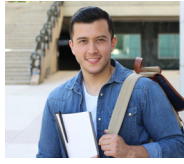


English Learner
1.2 Million
(19.3%)

Reclassified Fluent English Proficient
1.1 Million
(18.3%)

Initial Fluent English Proficient
261,000
(4.2%)

2 | Growing a Skilled Workforce



Too many of California's college-eligible students are unable to attend or finish college because they cannot cover the costs of tuition and the cost of living.

Community colleges, state universities, and other skills-building training and education programs are an essential pathway for students, families, and their children to change and raise their economic prospects. Training programs and education systems also ensure employers have access to a skilled, talented workforce. California's Golden State legacy includes building the state's

10-campus University of California (UC) and 23-campus California State University (CSU) systems, widely considered the "jewels in California's crown." Even today, after several decades of state disinvestment, these systems rate as higher-performing relative to cost than similar higher education institutions around the country.

We know California's future economic growth depends on higher education being affordable and accessible to California's students. However, over the last several decades, state support for higher education has significantly decreased, even as enrollment levels – along with tuition and registration fees, room and board, and the costs of educational supplies – have dramatically increased. At the same time, as the nature of work and demand for technical skills has changed, the state's investments in other skills-building training has not kept pace. Too many of California's college-eligible students are unable to attend or finish college, or obtain other technical skills, because they cannot cover the costs of tuition and basic needs. Meanwhile, California families confront the reality that their children may not be able to afford or access one of the state's colleges, universities, or programs. And college students are taking on unaffordable levels of debt, a potentially economically crippling decision that young people feel is the only option available if they want to pursue an education and pathway to economic security.

THE PATHWAY TO GROWING A SKILLED WORKFORCE

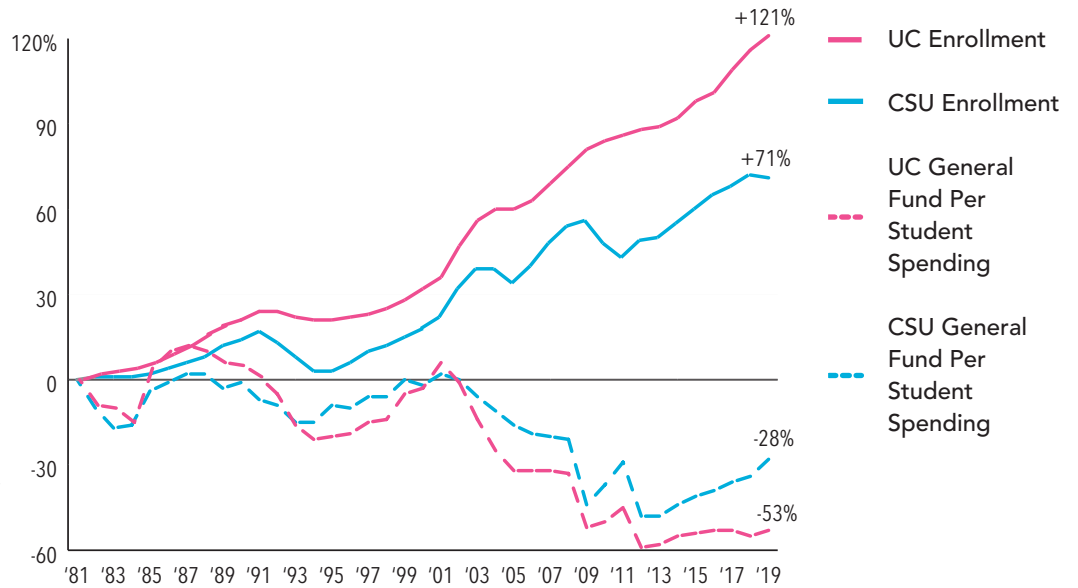
- Significantly expand financial assistance to cover the costs of tuition and basic needs for California high school graduates and community college transfer students from low and middle incomes households so they can afford to attend, and thrive in, the state's institutions of higher learning.
- Increase state funding for, and expand the capacities of, the CSU, UC, and California community colleges to meet the needs of more students.
- Invest in career pathways, career technical education, and adult education to prepare Californians for high-demand, better-paying jobs and industries.

2 | Growing a Skilled Workforce

Even As Enrollment Has Increased, State General Fund Support Has Declined at UC and CSU

Percent Change Since 1980-81 in Enrollment and Direct General Fund Spending

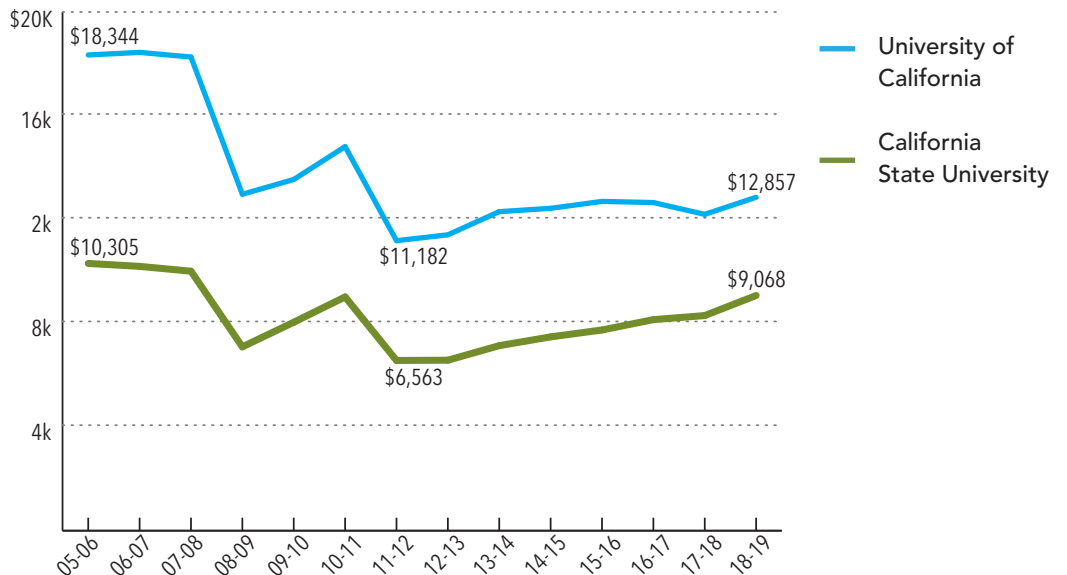
Note: Figures reflect "full-time equivalent" enrollment, which accounts for credits taken by each student relative to a full-time course load. Expenditures are inflation-adjusted and exclude indirect state funding for UC and CSU attributable to Cal Grant tuition and fee payments.
Source: Department of Finance, California State University, and University of California



State Spending Per Student at CSU and UC Remains Well Below Pre-Recession Levels, Despite Recent Increases

Direct General Fund Expenditures Per Full-Time Student, Inflation-Adjusted

Note: Figures are in 2018-19 dollars and reflect "full-time equivalent" enrollment, which accounts for credits taken by each student relative to a full-time course load. Data exclude indirect state funding for CSU and UC attributable to Cal Grant tuition and fee payments.
Source: Department of Finance, California State University, and University of California



3 | Helping Families Thrive



While California is one of the wealthiest states in the US, it also has one of the highest poverty rates when accounting for ever-increasing cost of living expenses.

California's families are the backbone of the California economy. A thriving economy exists when individuals and families can afford to live in their community, find work that pays a living wage, and build wealth to save for their children's future, retirement security, and emergencies that happen in life.

But, California's high cost of living, widening wealth and income inequality, and high levels of poverty and economic insecurity pose serious challenges for families and whether economic growth is possible in a lifetime – or in their children's lifetimes.

Although the state has enjoyed a sustained period of economic growth in recent years, the majority of gains from that growth have accrued to the few wealthiest households. The purchasing power of lower- and middle-income Californians has not kept pace with sharp increases in the state's cost of living. Wages for this group have remained virtually unchanged for decades, with hourly earnings for the state's lowest-paid workers remaining below their 1979 levels (adjusting for inflation) for 36 years in a row. At the same time, wages, income, and wealth levels for the wealthiest Californians have increased dramatically.

Today, one in five Californians lives below the poverty line, and they are disproportionately children and people of color. Our analysis of what it takes for workers with low and middle incomes to afford basic household budget costs like housing, health care, child care, food, and transportation, shows families come up short every month and fall deeper into poverty in many California counties. The day-to-day reality for many Californians is that their wages and income are not sufficient to keep up with California's rising costs of living.

In recent years, state leaders have made progress in bringing much-needed relief for workers and their families – expanding access to health care, raising the minimum wage, expanding supports for children and families, and enacting and expanding the California Earned Income Tax Credit (CalEITC). Even more robust policy responses are needed to ensure that California is a place where individuals and families can thrive.

THE PATHWAY TO HELPING FAMILIES THRIVE

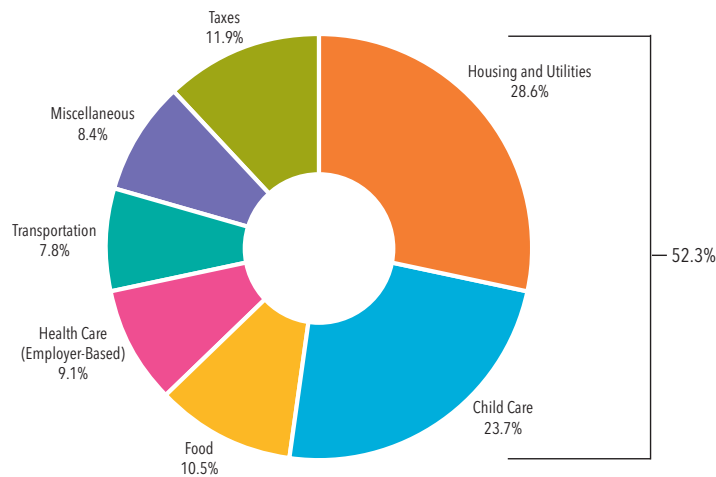
- Expand California's Earned Income Tax Credit (CalEITC) by increasing the income thresholds to reach more Californians, increasing credit levels, and broadening eligibility to all tax filers, including immigrant families, as well as students and caregivers with low incomes.
- Increase cash assistance available to families receiving California Work Opportunity and Responsibility to Kids (CalWORKs) support and services, and extend the amount of time that parents may participate in activities, such as vocational education, that promote job readiness and economic security.
- Boost enrollment in SNAP (CalFresh) food assistance – and thus increase families' ability to put enough food on the table – by improving public education and outreach.
- Improve paid family leave so more workers can utilize the benefits, including receiving job protections and adequate payments while caring for family members.
- Strengthen support for seniors with low incomes and people with disabilities by increasing grant levels and restoring cost-of-living adjustments for Supplemental Security Income/State Supplementary Payment (SSI/SSP).

3 | Helping Families Thrive

More Than Half of the Average Single-Parent Family Budget in California Goes Toward Housing and Child Care

Statewide Average Annual Basic Family Budget for a Single-Parent Family = \$65,865

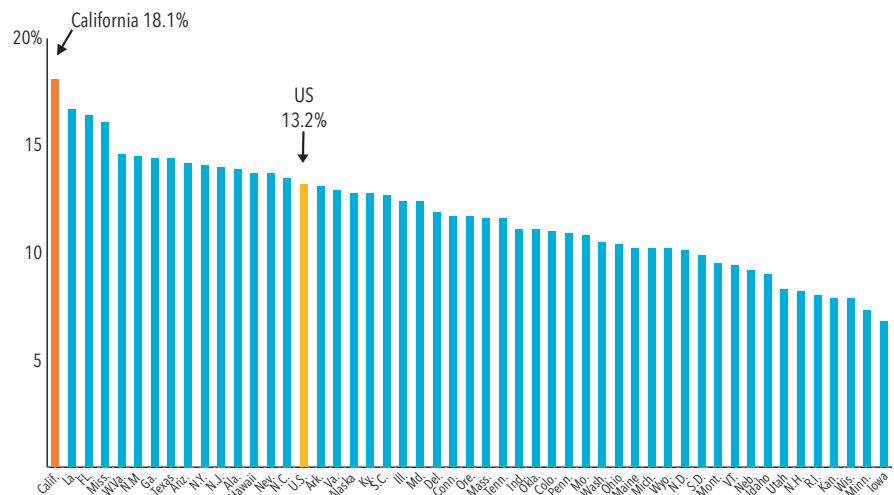
Note: Statewide average family budget calculated by averaging all county family budgets, weighted by county population.
Source: Budget Center *Making Ends Meet 2017*



California Has the Highest Poverty Rate of the 50 States Under the Supplemental Poverty Measure (SPM)

State Poverty Rate Under the SPM, 2016-2018

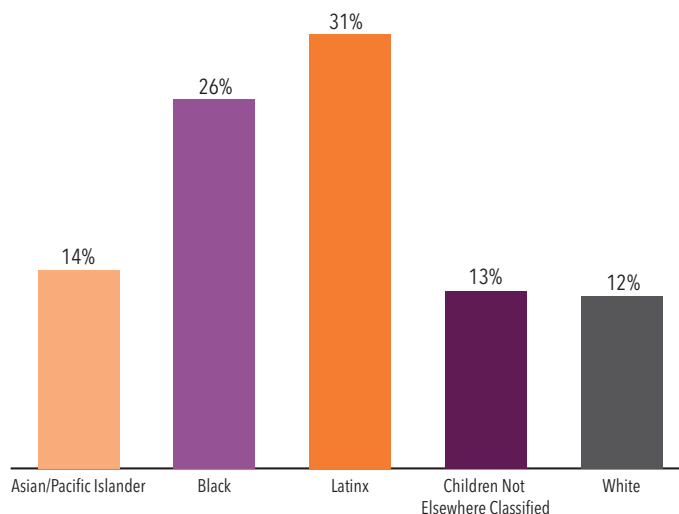
Source: US Census Bureau, Current Population Survey



Children of Color Are More Likely to Live in Poverty Due to the Legacy of Racist Policies and Ongoing Forms of Discrimination

Poverty Rate for California Children Based on the Supplemental Poverty Measure, 2013-2017

Note: Racial and ethnic groups are mutually exclusive. Due to data limitations, children who were not identified as Asian/Pacific Islander, Black, Latinx or white were grouped together. These figures provide only a preliminary understanding of disparities by race and ethnicity, as the data are not available or cannot be reported for all racial and ethnic groups.
Source: Budget Center analysis of US Census Bureau, Current Population Survey data



4 | Building Healthy Communities



The opportunity to live, work, learn, and thrive in a healthy environment is the cornerstone of individual and community well-being. Yet, many Californians lack access to basic health care due to prohibitive costs, immigration status, or an insufficient supply of health care providers. This affects the health of all Californians.

California has been a national leader in expanding health coverage, but further progress is needed to ensure that more people can access and afford the care that they need.

When California led the nation in adopting and implementing the federal Affordable Care Act (ACA) nearly a decade ago, there was recognition that when every Californian has access to affordable, high-quality health care there is also an opportunity to broaden economic prosperity in our state. And the state has made significant progress in this regard, including by fully adopting the ACA and expanding full Medi-Cal (Medicaid) benefits to undocumented Californians through age 25 who have low incomes, as well as by providing state assistance to reduce consumers' premiums for health plans purchased through Covered California, our state's health insurance marketplace.

However, while the share of Californians without health coverage has declined from over 18% to less than 8%, the state's uninsured rate stalled out in 2018 at 7.2%, in part due to the political uncertainty created by the efforts of the President and Congress to undermine the ACA.

State policymakers should continue to build on California's recent progress in dramatically reducing the share of people who lack access to health insurance, with the goal of achieving universal health coverage that provides access to a broad array of necessary services, including mental health and substance use disorder treatment – together known as behavioral health services. At the same time, our state needs to rein in the skyrocketing costs of health care to ensure that coverage is affordable to all Californians, including those who receive health insurance through their jobs. Building healthy communities in California also requires that state leaders make progress in addressing social factors that affect health outcomes, such as economic insecurity, lack of affordable housing, and unequal access to high-quality education.

THE PATHWAY TO BUILDING HEALTHY COMMUNITIES

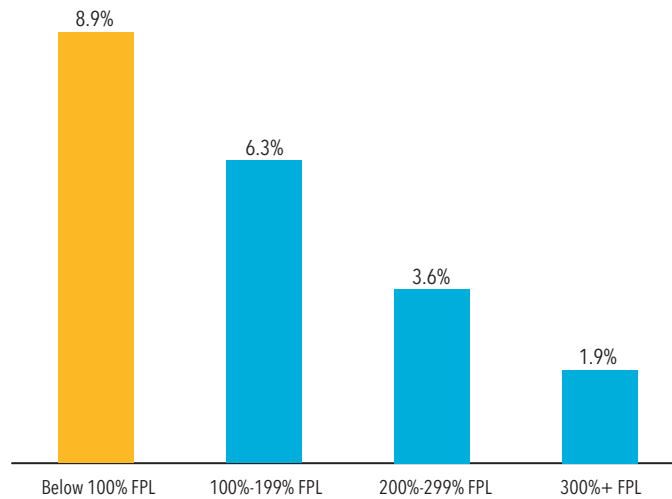
- Provide affordable health coverage options for Californians regardless of immigration status, including by expanding comprehensive Medi-Cal coverage to undocumented adults who have low incomes.
- Further reduce the burden of health care costs on both middle- and lower-income households by expanding state premium assistance subsidies, by providing additional state assistance to decrease consumers' out-of-pocket costs, such as for deductibles and office visit co-pays, and by lowering prescription drug costs.
- Ensure that all Californians have timely access to treatment for behavioral health conditions by increasing the availability of services and coordinating health, behavioral health, and social services for individuals.
- Promote policies that increase prevention and early intervention services that help to identify mental health issues at an early age and respond with appropriate treatment and supports.
- Boost outreach efforts to ensure that all Californians who are eligible for Medi-Cal or for subsidized insurance through Covered California understand that they are eligible and actually enroll in coverage.
- Help to bring health care costs under control by establishing cost targets for the health care industry along with financial consequences for failing to meet those targets in order to make coverage more affordable.
- Advance a population health approach that focuses on improving physical environments – neighborhoods, schools, workplaces – as well as the health and social support systems that promote positive health outcomes.

4 | Building Healthy Communities

Serious Mental Illness Is More Common Among Adults Living in Poverty

Serious Mental Illness Among Californians Age 18 and Older by Income, 2015

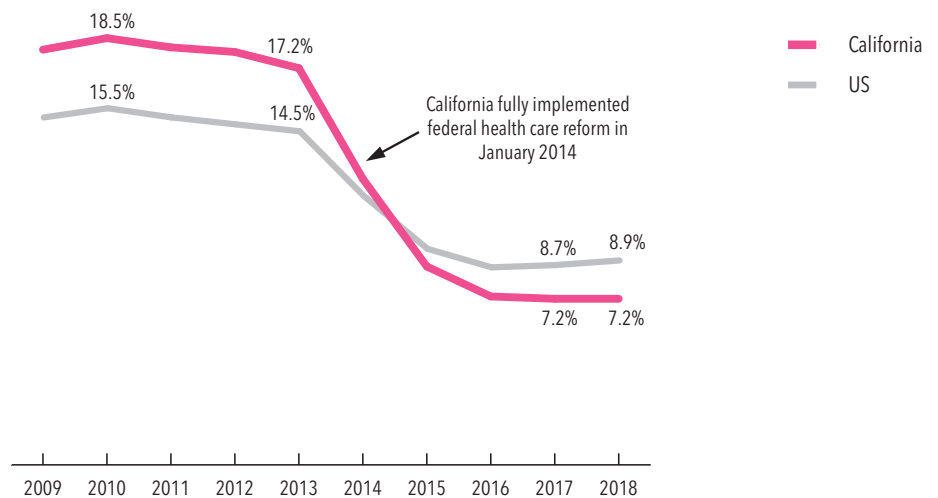
FPL = Federal Poverty Line
Source: Data provided by Charles Holzer and Hoang Nguyen



California's Uninsured Rate Stalled Out in 2018

Percentage of People Without Health Coverage, 2009 to 2018

Note: Estimates are based on survey respondents' health care coverage status at the time of the interview. The change in the US rate from 2017 to 2018 is statistically different from zero at the 90% confidence level.
Source: US Census Bureau, American Community Survey



5 | Ensuring Economic Security for Workers



California's employers in the private sector have essentially off-loaded the responsibility for taking care of their workers to the public sector, which has struggled to adequately respond.

Even as California workers with low or moderate incomes have built much of the state's wealth, building their own economic security remains a dream for many. Workers who are Black, Latinx, or women experience some of the greatest economic disadvantages and discrimination in the workplace.

Over several decades, full-time employment and once-common benefits of employment such as health care, merit-based and cost-of-living raises, collective bargaining, paid leave, retirement programs, and many other employment benefits historically negotiated between employers and employees have been curtailed or cut completely. Union representation is on the decline and under ongoing attack, resulting in far fewer workers having access to collective bargaining. California's private sector employers have essentially off-loaded the responsibility for taking care of their workers to the public sector, which has lacked the funding and capacity to adequately respond.

These shifts are economically, intergenerationally, and racially inequitable. Younger workers confront the combined forces of lower and stagnating wages, fewer benefits, less stable work, and less promise of retirement security. These conditions are particularly pronounced among communities of color, many of whom work in lower-paying jobs with fewer benefits and job security.

Political and media attention tend to focus on the danger of losing wealthy households and corporations to other states. However, migration research suggests that the bigger threat to California's economy is the loss of lower- and middle-income households as workers and their families look elsewhere for more lucrative employment opportunities, more affordable housing, higher-achieving schools and a lower cost of living. California's economic future requires creating economic opportunities for these workers in order to improve their economic conditions, support industries and sectors, and create new business and employment opportunities.

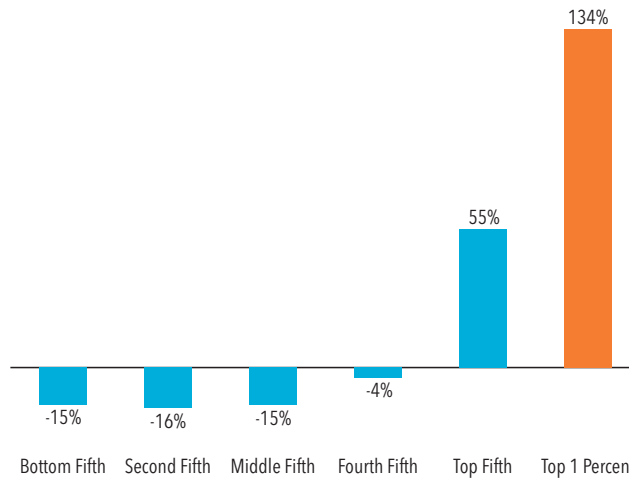
THE PATHWAY TO ENSURING ECONOMIC SECURITY FOR WORKERS

- Advance policies aimed at increasing workers' bargaining rights and voices in determining working conditions.
- Pursue policies that reduce racial, ethnic, and gender disparities in pay and access to workplace benefits.
- Create a state-administered, portable health benefits system for workers who are not provided health care benefits at their place of employment.
- Fully implement and expand the CalSavers retirement security system for workers who do not receive retirement benefits from their employers.
- Strengthen state policies on wage theft and fair scheduling to stop irregular work schedules and insufficient hours, which do not allow families to plan their incomes or lives.
- Raise standards for contingent workers, including making sure that businesses do not improperly classify employees as independent contractors; extending basic rights, protections, and benefits to all workers; and, holding businesses accountable for the working conditions of workers with whom they subcontract.
- Ensure adequate funding to meet the state's pension and health benefit obligations earned by public employees. This would include pre-funding health care benefits earned by retirees and increasing retirement contributions by all negotiating parties.
- Ensure that working Californians can make ends meet through state policies like the CalEITC and minimum wage.

5 | Ensuring Economic Security for Workers

Incomes Have Grown Only for the Highest-Income California Families

Percent Change in Average Adjusted Gross Income (AGI), 1987-2017, Inflation-Adjusted

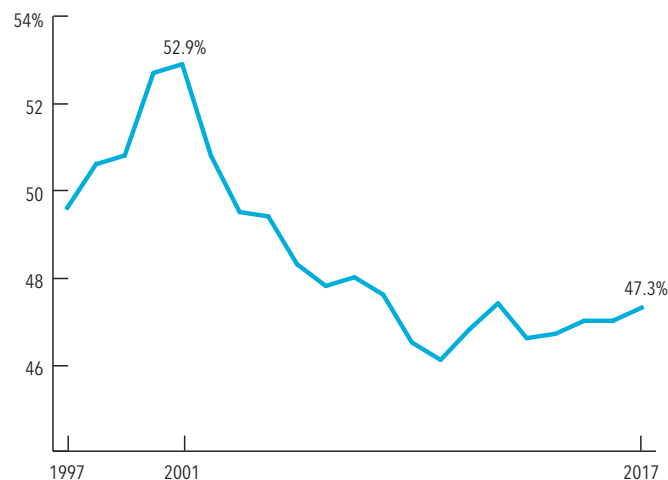


Source: Franchise Tax Board

Workers' Share of California's Income Has Fallen in the Past Two Decades

Ratio of Employee Compensation to State Gross Domestic Product (GDP), Private Industries

Note: Employee compensation includes wages, salaries, and employer contributions for pension and insurance funds and government social insurance. GDP for private industries includes all economic activity in the state that is not attributable to government and government enterprises. Source: Budget Center analysis of Bureau of Economic Analysis data



6 | Making Housing More Affordable



For much of the state's history, the California Dream meant the opportunity to live in and own a home. It's why many families have worked so hard to save and set aside their wages for a place to call home. Housing costs are the largest share of most family budgets and a key driver of economic stability.

Today, the high cost of housing and a lack of alternative affordable housing options are the primary economic challenges confronting many Californians. More than one-half of California renters and one-third of California homeowners report that they spend more than one-third of their household income on housing. Many – across age and family circumstances – are obliged into shared housing arrangements to save on rent or mortgage, or settle for substandard housing in neighborhoods that are disconnected from job opportunities and transit options and often in neighborhoods with substandard housing, schools, and other services. While housing costs vary across California, housing affordability is clearly a problem no matter what county or region a family lives in when housing costs are compared to incomes.

Families with low incomes are forced to make difficult choices, such as paying rent or paying for food and medicine when money runs out at the end of the month. California families are living one paycheck away from homelessness because no matter how many hours they work, the cost of housing leaves little to no money to save or plan ahead.

Proposition 13

In 1978, California voters passed an initiative – Proposition 13 – that limits local property taxes. Prop. 13 contributes to the state's housing affordability challenge in a number of ways – reducing local revenues available to invest in housing, increasing the costs of housing through development fees that are passed on to owners and renters, and shifting the burden of paying for infrastructure to more recent homeowners. While the state's property values have increased exponentially in the ensuing 40 years, Prop. 13 has artificially restricted the ability of property tax revenues to reflect the value of the state's property. This is especially true for commercial property. As a result, local governments have far less revenue available to support local housing and related services.

THE PATHWAY TO MAKING HOUSING MORE AFFORDABLE

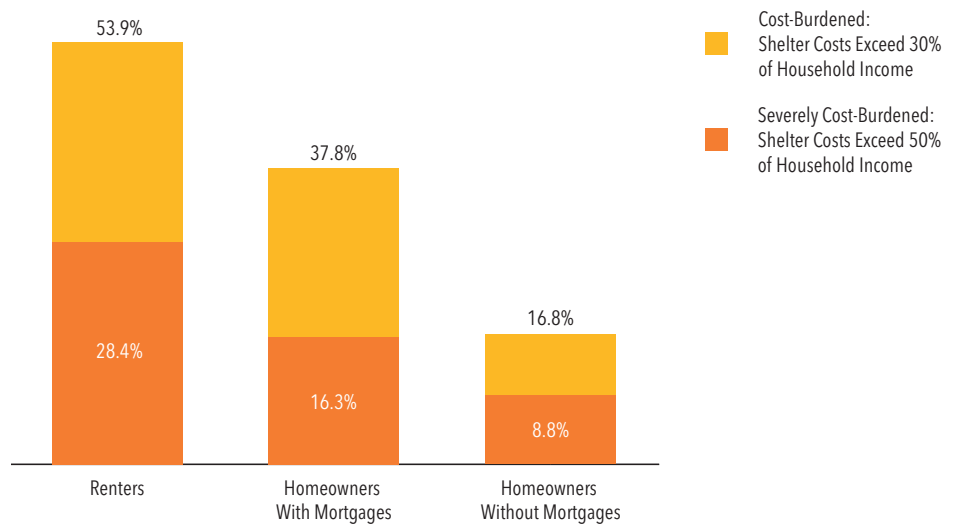
- Provide a permanent and stable source of funding for building and preserving affordable housing.
- Consider thoughtfully designed policies to protect tenants and provide rent stabilization.
- Streamline state and local regulatory structures that impede the development of housing, including affordable units.
- Increase incentives, accountability, and tools for local jurisdictions to produce their fair share of housing, especially for lower-income households.
- Provide additional assistance for low-income households, such as through vouchers, a refundable and expanded renter's credit, and/or a shared equity program.
- Convert the state's mortgage interest deduction into an income-based tax credit better designed to assist low- and middle-income households.

More than one-half of California renters and one-third of California homeowners report that they spend more than one-third of their household income on housing.

6 | Making Housing More Affordable

More Than Half of California's Renters and over a Third of Homeowners with Mortgages Have High Housing Costs

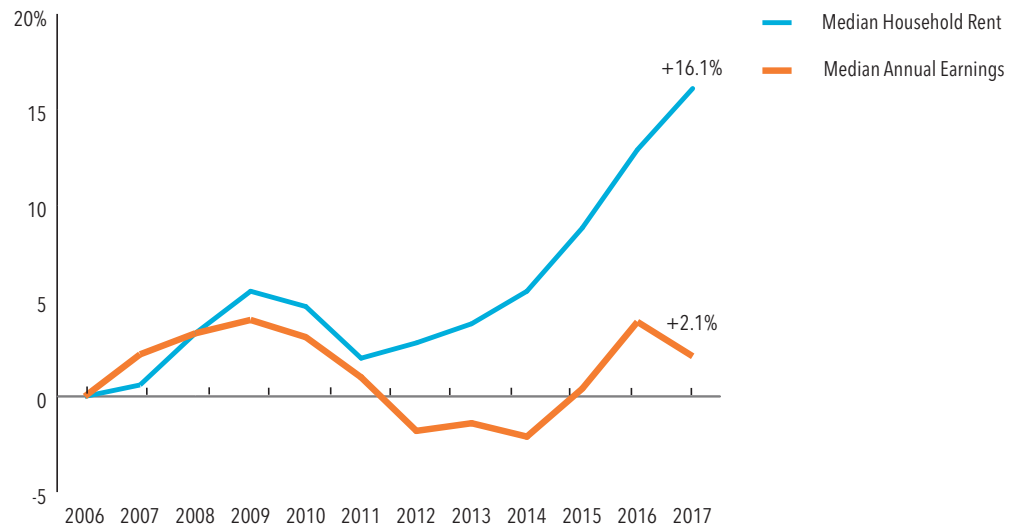
Percentage of Households With Housing Cost Burden or Severe Housing Cost Burden, 2017



Note: Definitions of housing cost burden are from the US Department of Housing and Urban Development.
Source: Budget Center analysis of US Census Bureau, American Community Survey data

Workers' Earnings Have Not Kept Pace with Rents in California

Percent Change in Inflation – Adjusted Median Rent and Median Annual Earnings Since 2006



Note: Median annual earnings for individuals working at least 35 hours per week and 50 weeks per year. Excludes workers with \$0 or negative total earnings.
Source: Budget Center analysis of US Census Bureau, American Community Survey data

7 | Creating Safe and Just Communities



Creating a strong economy and avenues for Californians to thrive means ensuring safe and just communities. Too many Californians are permanently locked out of economic opportunity because of previous involvement with the criminal justice system that has resulted in incarceration, financial penalties, and collateral consequences that include lost job and housing opportunities.

Families and communities, especially communities of color, also pay a price when loved ones are prevented from rebuilding their lives.

Too many Californians – and their families – are permanently locked out of economic opportunity because of involvement with the criminal justice system.

Roughly 200,000 Californians are incarcerated at the state level – primarily in state prisons – as well as in county jails. Black and Latinx men as well as Black women are *overrepresented* among people incarcerated by the state. For example, Black men make up more than one-quarter (29%) of men incarcerated in state prisons – almost *five times higher* than their share of California’s adult male population (6%). The fiscal costs of incarceration – more than \$80,000 per state prisoner per year – far exceed the costs of prevention, successful reentry, and anti-recidivism efforts that have lacked adequate funding for decades. On top of these costs, people who come into contact with the criminal justice system, and their families, often confront excessive fines, fees, and penalties that further exacerbate economic hardship. And the economic costs of locking people up and making it difficult for them to find work and housing for years or even decades after arrest or conviction undermines both individual well-being and California’s economy.

California must promote better outcomes for the people who come into contact with the system and make smarter choices about the allocation of public dollars. California needs to continue reforming – and shrinking – its vast, complex criminal and juvenile justice systems in order to both address racially disparate impacts and boost investments in the county-based behavioral health system (mental health and substance use disorder treatment services). Such reforms would help to reduce incarceration and promote community-based approaches that help improve the lives of people as they reestablish themselves with their families and communities.

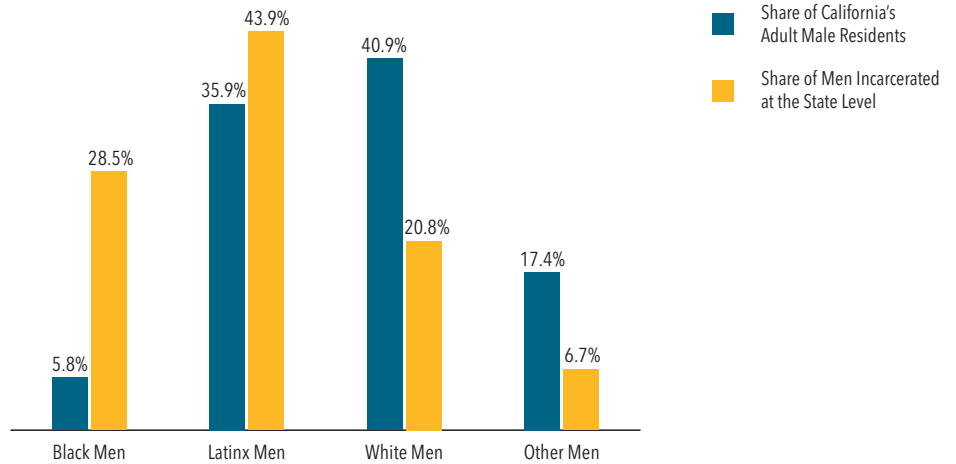
THE PATHWAY TO CREATING SAFE AND JUST COMMUNITIES

- Expand reforms of adult and youth sentencing laws to both reduce California’s over-reliance on incarceration and improve outcomes for people who come in contact with the criminal and juvenile justice systems, particularly people of color.
- Advance policies that address racial and ethnic disparities in the criminal justice system.
- Address the significant number of collateral consequences – such as legal barriers to housing, employment, and voting – that affect people with criminal records long after they have served their sentences.
- Focus on prevention, diversion, and reentry strategies to reduce the incarceration of youth and adults with mental illness and substance use disorders, including by increasing investments in the community behavioral health system.
- Reduce and eliminate fines and fees imposed on people who come into contact with the criminal justice system.

7 | Creating Safe and Just Communities

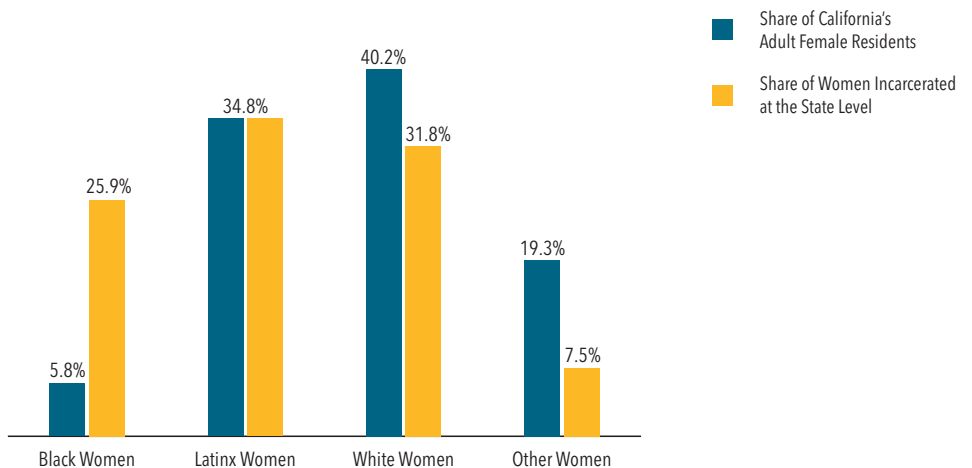
In California, Black Men Are Severely Overrepresented Among Men Incarcerated at the State Level

Note: All data reflect Californians age 18 or older. California population estimates are as of July 1, 2017; state-level incarceration data are as of December 31, 2017. Subtotals may not sum to 100 due to rounding.
Source: Budget Center analysis of California Department of Corrections and Rehabilitation and US Census Bureau data



In California, Black Women Are Severely Overrepresented Among Women Incarcerated at the State Level

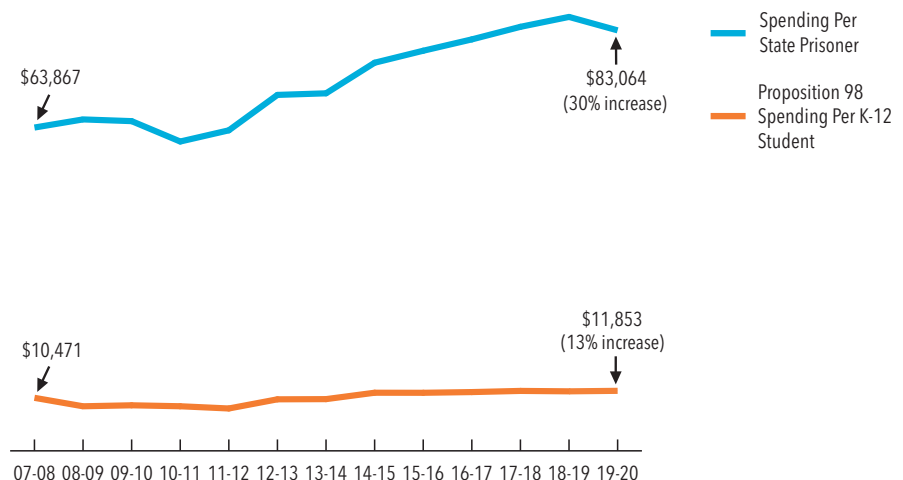
Note: All data reflect Californians age 18 or older. California population estimates are as of July 1, 2017; state-level incarceration data are as of December 31, 2017. Subtotals may not sum to 100 due to rounding.
Source: Budget Center analysis of California Department of Corrections and Rehabilitation and US Census Bureau data



Since 2007-08, Spending Per State Prisoner Has Increased More Than Twice as Fast as Spending Per K-12 Student

Inflation-Adjusted Per Capita Expenditures

Note: 2018-19 spending is estimated; 2019-20 is proposed. The "state prisoner" category includes a relatively small number of individuals housed in state fire camps. Proposition 98 spending includes both state General Fund and local property tax dollars.
Source: Department of Finance and Legislative Analyst's Office



INVESTING IN CALIFORNIA'S PEOPLE AND FUTURE: REFORMING TAX POLICY



LOST REVENUE

California can add **\$10–\$12 billion annually in revenues by reassessing most commercial properties at market value, according to a recent study by researchers at the University of Southern California. This revenue could support education, housing, public safety, and other services that are the responsibility of local and state governments.**

A strong California economy requires a robust, stable, and equitable revenue system that is able to meet the demands of a 21st-century economy and workforce. Our state's revenue system includes a series of outdated, inefficient, and irrational restrictions and policies that inhibit state and local governments from aligning revenues with modern economies while exacerbating wealth and income disparities.

The majority of the state's \$60 billion in "tax expenditures" – tax credits, exemptions, and deductions – contribute to an "upside-down" tax system, weighting benefits to corporations and higher-income households and failing to provide the intended outcomes of innovation, reinvestment, economic development, and job creation. Between 1980 and 2017, the share of corporate income paid in state taxes fell by more than half as a result of reduced tax rates and increased tax expenditures.

While California's personal income tax is among the most progressive in the country – taxing higher-income households at higher rates than lower-income households – the state's tax code overall remains overly reliant on contributions from low- and middle-income households. California's lowest-earning workers (the bottom 10%) pay more of their income in total combined state and local taxes than the top 10%. In total, across all California households, state and local taxes (including property, sales, and income taxes) paid as a share of income declined between 1980 and 2016, in large part because state tax policies have not kept pace with rising income and wealth inequality.

State Tax Breaks Mostly Benefiting the Wealthy and Businesses Far Exceed Those for Households of Less Means

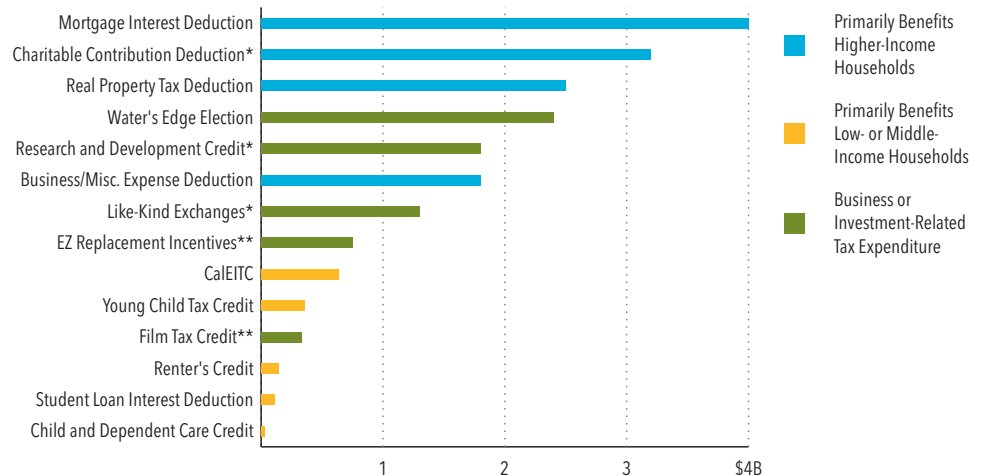
Projected 2019-20 California Revenue Loss by Tax Expenditure, in Billions

* Includes corporate income tax and personal income tax components.

** Includes corporate income tax, personal income tax, and sales tax components.

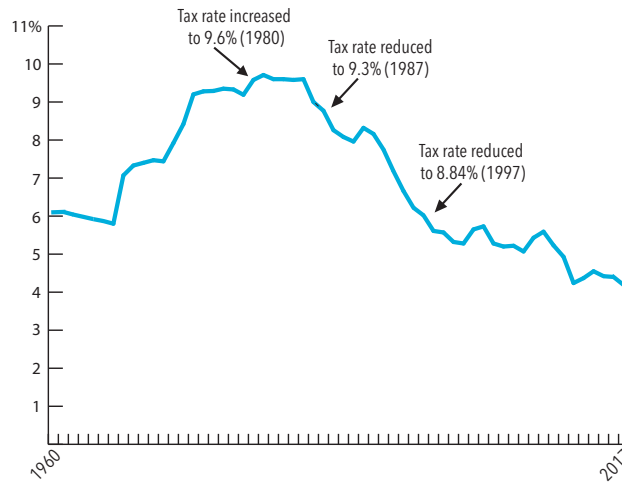
Notes: Enterprise Zone (EZ) Replacement Incentives and the Film Tax Credit reflect legislated caps rather than projected expenditures.

Source: Department of Finance and Franchise Tax Board



The Share of Corporate Income Paid in State Taxes Declined By More Than Half Between the Early 1980s and 2017

Corporate Taxes as a Percentage of Income for Corporations Reporting Net Income in California



Source: Franchise Tax Board

LOST REVENUE

California has opportunities to generate more revenue, such as reexamining tax breaks. Between 1980 and 2017, the share of corporate income paid in state taxes fell by more than half as a result of reduced tax rates and increased tax expenditures.

Moreover, many of the state's tax policies are based on historical legacies of racial and ethnic exclusion, or have the effect of worsening racial income and wealth inequality, making it harder for people of color to share in California's prosperity. And many of these policies are intergenerationally unfair, placing higher burdens for paying for public services on younger, newer residents and taxpayers. Prop. 13's restrictions on local property taxes are also heavily weighted toward older, whiter homeowners at the expense of younger and more diverse residents.

The bottom line: California has the space and many opportunities to generate significantly more revenue to make the kinds of investments that support all its people. Moreover, these changes in revenue and tax policy would also make the state's tax code more equitable, modern, and efficient. Our state can invest to ensure that Californians and our shared economy are positioned to thrive in the future.

THE PATHWAY TO INVESTING IN CALIFORNIA'S PEOPLE AND FUTURE

LOCAL REVENUES

To reform the local tax system, California should:

- **Tax commercial property based on the current market value**, not on the purchase price, as is currently done. The result will boost local revenues and end the tax disadvantage faced by newer businesses.
- **Reduce the two-thirds voter approval requirement** to approve local special taxes.

STATE REVENUES AND TAX EXPENDITURES

To reform the state tax system, California should:

- **Increase income tax rates and/or eliminate or significantly reduce tax breaks and loopholes** in the income tax that have no rational basis, lack accountability, or result in windfall gains to a small number of wealthy individuals.
- **Increase corporate tax rates and/or eliminate tax breaks and loopholes** in corporate taxes that have no rational basis, lack accountability, or result in windfall gains to a small number of wealthy corporations.
- **Modernize the sales tax** by expanding its base to include selected services to reflect the economy's fundamental shift from goods to services, while maintaining important exemptions for basic goods and services.
- **Eliminate, significantly reduce, or restructure "tax expenditures"** that overwhelmingly benefit larger corporations and wealthier households so that the state's spending through the tax code increases the income, wealth, and life outcomes of Californians with low and middle incomes.
- **Require that all "tax expenditures" be subject to automatic annual/periodic review and approval**, including review by independent evaluators to assess whether they are meeting intended policy goals.
- **Remove the supermajority requirement** for legislative approval of additional state revenues and legislative elimination of tax expenditures.
- **Institute an estate tax** on the very highest-valued estates, which would generate additional revenue and counter recent tax breaks enacted at the federal level that further concentrate wealth among the very wealthiest households.
- **Selectively conform to federal tax rules**, including rule changes in the 2017 federal tax law, which would allow California to raise additional revenues and increase the fairness and efficiency of its tax code.



CONCLUSION

Our state leaders have a golden opportunity to create pathways to shared prosperity for more Californians. This can be achieved by prioritizing the economic and social well-being of people in our communities and focusing the state's economic agenda around policies that ensure prosperous thriving lives for all Californians.

California has shown its ability to lead. Policymakers can advance an economic policy agenda that moves beyond the dated and unfair policies of the past that have undermined the economic security and overall well-being of millions of Californians and put the state's long-term economic growth at risk. We can dismantle social and economic barriers facing women, people of color, and immigrants. We can build a broad and inclusive middle class, with ample opportunities for families to hold good-paying jobs and have money to afford housing, child care, and health care. And California can build additional wealth and invest in a future that benefits us all – our workers, communities, and businesses.

California can achieve all this by providing everyone pathways to shared prosperity and by responsibly investing in its most powerful economic asset – its own people.

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The California Budget & Policy Center was established in 1995 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The Budget Center engages in independent fiscal and policy analysis and public education with the goal of improving the economic and social well-being of low- and middle-income Californians.

We welcome your questions and feedback, and we invite you to visit our website to learn more: calbudgetcenter.org



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