

INTRODUCTION

The Budget addresses California's cost crisis while maintaining fiscal discipline. It makes necessary investments for a more effective government, promotes affordability and opportunity, and supports justice and dignity for all Californians.

STRONG FOUNDATION, INTENSIFIED RISKS

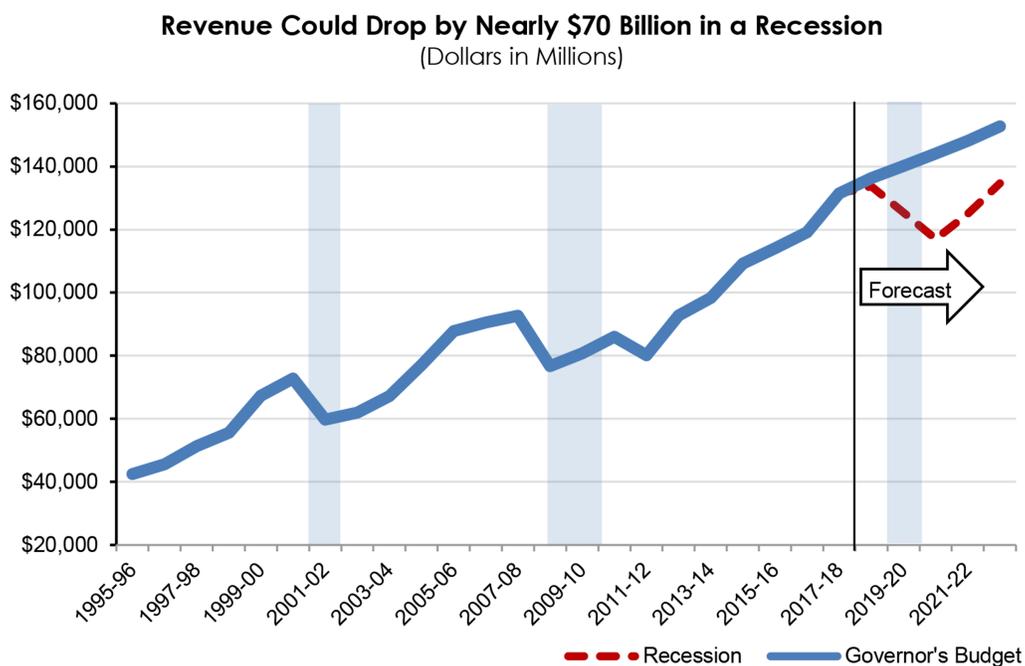
California's economy remains larger than all but four nations with an annual gross domestic product (GDP) of nearly \$3 trillion in 2018. Data for 2018 reflect that the growth in California's GDP continues to outpace the nation as a whole. However, this growth is taking place against a backdrop of increasing risks:

- The International Monetary Fund recently projected that 70 percent of the global economy would see a slowing of growth in 2019.
- The Federal Reserve Board projects slower U.S. growth.
- Total wages and salaries in 2018 grew at less than one-half the rate of growth during the last period of low unemployment (2000).
- Federal tax reform and other federal fiscal policies are also contributing to growing federal deficits, which will constrain the federal government's options to address an economic slowdown.

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The Budget recognizes these risks and the inextricable linkage between fiscal prudence and the state's ability to promote affordability and economic opportunity. Accordingly, it simultaneously builds budget resiliency and increases support for California's working families and most vulnerable populations. Growing uncertainty related to the global political and economic climate, federal policies, rising costs, and the length of the current economic expansion requires that the Budget be prudent.

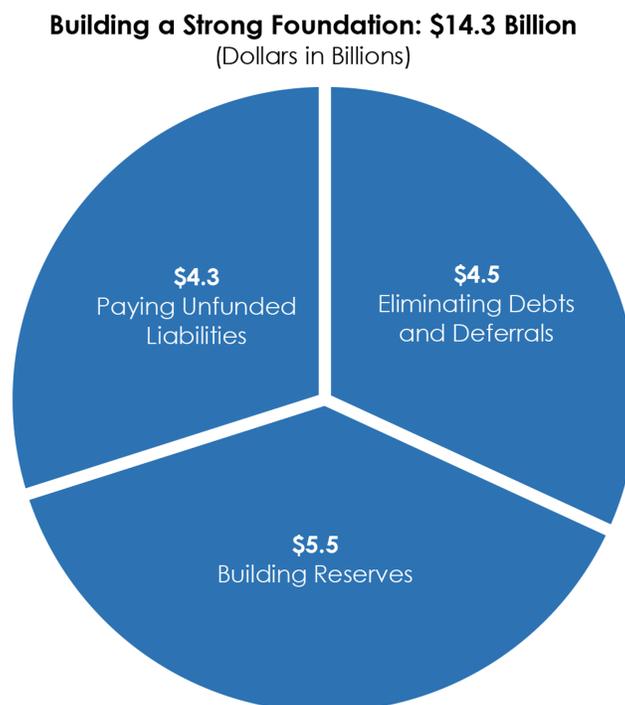
The state must be prepared for the possibility that even a moderate recession could result in revenue declines of nearly \$70 billion and a budget deficit of \$40 billion over three years.



Given the slowing economic forecast and the intensified risks, the Budget continues to save and prepare for uncertain times ahead and maintains structural balance in each year over the forecast period. To maintain this structural balance, several ongoing programmatic expansions will be suspended on December 31, 2021. The suspensions will be lifted if the Administration determines through the 2021 Budget Act process that there is sufficient General Fund revenue to support all suspended programs in the subsequent two fiscal years.

BUILDING BUDGET RESILIENCY AND PAYING DOWN UNFUNDED RETIREMENT LIABILITIES

The Budget allocates \$14.3 billion in 2019-20, and an additional \$500 million over the forecast period, for a total of \$14.8 billion to build budgetary resiliency and pay down the state's unfunded liabilities. This includes \$4.5 billion to eliminate debts and reverse deferrals, \$5.5 billion to build reserves, and \$4.3 billion to pay down unfunded retirement liabilities. The supplemental payment to California Public Employees' Retirement System (CalPERS) of \$3 billion is scheduled to be made over the forecast period, with \$2.5 billion being made this year and \$500 million scheduled over the following three fiscal years.



EFFECTIVE GOVERNMENT

Building budget resiliency promotes a more effective government that can withstand downturns in the economy, as well as natural and human-caused emergencies and disasters.

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The Budget includes critical investments needed to sustain and improve California's emergency preparedness, response, and recovery capabilities. This includes \$240.3 million to augment the California Department of Forestry and Fire Protection's (CAL FIRE's) firefighting capabilities by adding 13 additional year-round engines, replacing Vietnam War-era helicopters, deploying new air tankers, and investing in technology and data analytics that support CAL FIRE's initial fire suppression strategies. The Budget also provides a sizable investment in forest management to increase fire prevention and complete additional fuel reduction projects, including increased prescribed fire crews.

The Budget includes funding to continue supporting communities devastated by the 2018 wildfires by backfilling wildfire-related property tax losses and waiving the local share of costs for debris removal. Funding for impacted schools is also backfilled. Additionally, the Budget establishes a stable funding structure to implement an enhanced Next Generation 9-1-1 system and includes funding to protect vulnerable populations and preserve public safety in response to power interruptions planned by utilities during the upcoming fire season.

AFFORDABILITY AND OPPORTUNITY

The Budget makes major investments to address the fact that far too many Californians simply cannot pay basic bills, afford health care, find an affordable place to live, or provide opportunities for their children to thrive.

To provide immediate relief for working families, the Budget more than doubles the Earned Income Tax Credit (EITC) by investing \$1 billion in a new expanded EITC. The expansion includes help for low-income families with young children by providing an additional \$1,000 annually to address the costs of raising young children. This expansion will provide one million more economically distressed households with financial support to help with the costs of food, rent, and child care—bringing the total number of eligible households to three million.

The Budget reflects continued work to improve affordability and access to health care, including addressing the rising cost of prescription drugs and increasing health insurance subsidies so more middle-class Californians can afford health coverage through Covered California. The Budget also moves closer to universal coverage by expanding full-scope Medi-Cal coverage eligibility to the aged, blind, and disabled population from 123 percent to 138 percent of the federal poverty level, and to young adults ages 19 through 25 regardless of immigration status.

The Budget confronts the housing crisis head on with major one-time investments to spur housing development, and gives the courts new powers to hold persistently non-compliant cities and counties accountable to meet their housing production goals. The Budget also doubles General Fund support to legal aid resources to help renters fight back against rent gouging and other unfair practices.

The Budget prioritizes cradle-to-career opportunities by recognizing the crucial investments needed to support young children and their parents. These investments include increasing training for doctors so they can identify and treat issues related to childhood trauma, and additional funding for expanded investments in childcare.

The Budget takes initial steps to expand full-day full-year preschool to all income-eligible four-year olds, makes major investments in child care infrastructure and workforce training, and expands kindergarten facilities so more districts can offer full-day programs. The Budget also funds a master plan to develop a roadmap for providing universal preschool to all four-year olds, as well as a long-term plan to improve access to and the quality of subsidized child care.

The Budget takes a crucial first step toward the goal of expanding California's Paid Family Leave program so newborns can be cared for by a parent or close relative for the first six months of the child's life. The Budget expands paid family leave for each parent from six to eight weeks. This expansion adds an additional month of paid leave for two-parent families, allowing up to a combined four months of leave after the birth or adoption of their child.

The Budget further expands funding for K-12 schools by providing approximately \$5,000 more per pupil than eight years ago, including greater investments to assist students with the greatest needs. The Budget reflects a significant increase in funding for special education, and also makes significant investments in the recruitment and retention of qualified teachers by revamping teacher training and providing targeted grants. To provide immediate and long-term relief to school districts that face rising pension costs, the Budget also provides \$3.15 billion to the California State Teachers' Retirement System and the CalPERS Schools Pool.

For higher education, the Budget includes funding for two free years of community college tuition for first-time full-time students, and provides significant increases for the California State University and the University of California to expand enrollment at the systems by nearly 15,000 students while preventing tuition increases this year. The Budget also increases the number of competitive Cal Grants by nearly 60 percent and

provides a new Cal Grant Access Award for students with children to help meet basic family needs while increasing their likelihood of degree completion.

JUSTICE AND DIGNITY

California is facing a homelessness epidemic across the state. The Budget recognizes the importance of mental health and substance use disorder treatment services, as well as emergency shelters and housing supports, in the fight against homelessness. It invests \$650 million in one-time funds to support local governments on the front line combating this epidemic. The Budget also expands whole person care pilot projects to additional counties and makes a major investment in the workforce, education, and training of mental health professionals. In total, the Budget includes \$1 billion to prevent and mitigate the homelessness epidemic.

Access to safe and affordable drinking water is a fundamental right, yet an estimated one million Californians lack access to safe drinking water. The Budget provides ongoing funding to provide relief to communities without safe drinking water now and into the future.

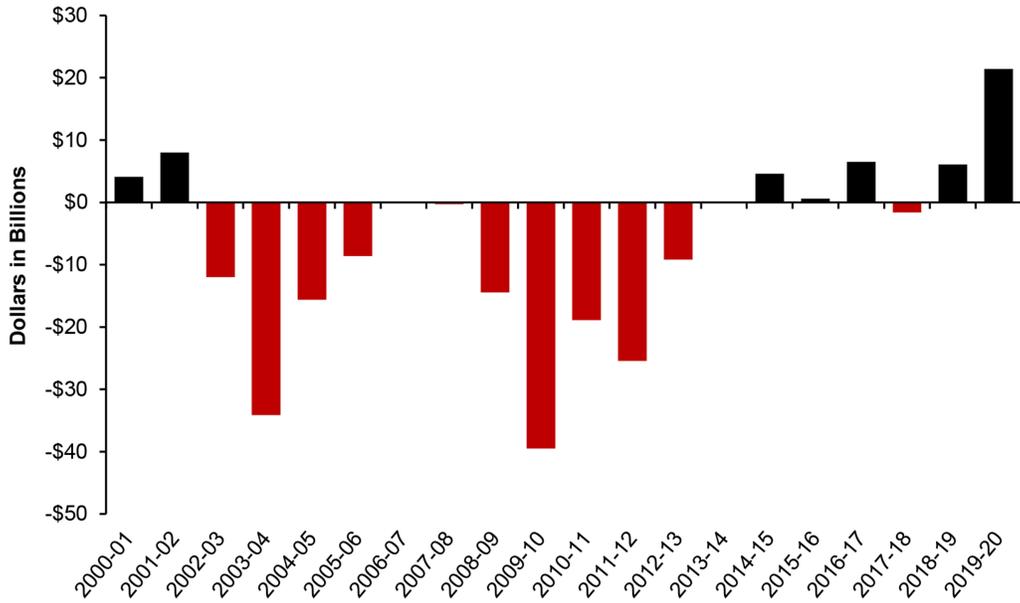
A critical component of a well-functioning correctional system is providing offenders greater opportunity for rehabilitation, starting with the youngest offenders. The Administration will transform its youth correctional facilities to focus on rehabilitation and education through therapeutic community models. The Budget also overhauls substance use disorder programs in prison, and makes major investments in reentry services to continue progress in closing gaps and supporting all Californians in having access to justice and dignity.

A STRONG FOUNDATION IS FUNDAMENTAL TO A CALIFORNIA FOR ALL

Maintaining California's fiscal health is an ongoing challenge given the state's volatile revenue base and limited spending flexibility. As shown in the graphic below, balanced budgets have been quickly followed by huge deficits. The Budget demands constant attention to stay in balance—especially in light of the record length of the economic expansion and ongoing federal uncertainty. The Budget takes a careful approach by allocating \$14.3 billion toward building more budget resiliency through paying off debts and deferrals, building reserves, and paying down unfunded liabilities. It makes strategic investments, mainly one-time, to expand affordability and opportunity, strengthen the state's readiness and emergency response capabilities, and promote

access to justice and dignity. Building a strong fiscal foundation now is the best way the state can prepare for the future and continue to build a California for all.

Balanced Budgets Have Been Quickly Followed by Huge Deficits^{1/}



^{1/}Budget shortfalls or surplus, measured by the annual Governor's Budget.

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