

JOBS AND ECONOMY

The current historic economic expansion has reduced unemployment from a peak of 12.2 percent during the Great Recession to 3.9 percent in November 2019. Real per capita personal income has increased by almost 25 percent from 2007 to 2018. The poverty rate has declined from over 16 percent at the start of the decade to just under 12 percent in 2018, lower than it was in 2007. This strong economic growth has enabled billions in investments to improve schools and roads, to increase access to and the affordability of higher education, to meaningfully move towards universal health care, to create a robust state earned income tax credit program and to steadily increase the state's minimum wage. These investments have strengthened California and made it more resilient.

This economic expansion, fueled by the state's innovative entrepreneurs, world-class education systems, and millions of hardworking residents, has unevenly benefited all regions of the state. Wage and job growth have been uneven across the state and too many struggle to make ends meet, even in the most prosperous areas.

The Budget continues to make targeted investments to move toward a more sustainable and inclusive California. These include investing in schools, colleges, universities, health care, and safety net services. They also include training the workforce of the future, building resilient infrastructure, investing in healthy communities, and mitigating and adapting to climate change.

SUPPORTING BUSINESS CREATION

More businesses start in California than anywhere in the United States, including many green technology businesses. Many of California's new businesses have gone on to become industry leaders, a direct result of the state's world-class colleges and universities, state-of-the-art laboratories, a talented workforce, and commitment to combatting climate change.

To encourage new and small businesses, which are a major engine of economic growth in California and are particularly impactful in rural and less populated areas of the state, the Budget proposes a first-year exemption from the \$800 minimum tax paid by limited liability companies, limited partnerships, and limited liability partnerships. This will put these entities on equal footing with corporations, which already enjoy a first-year exemption from the minimum franchise tax. These changes are expected to provide around \$100 million in tax relief per year, and are subject to annual budget authorization.

INVESTING IN INFRASTRUCTURE

Infrastructure and capital assets allow for the delivery of public services and the movement of goods across the state, both of which are essential components in fostering continued jobs and economic growth. To support this, infrastructure planning must be driven by the current and future needs of Californians, including mitigating the life-threatening impacts of climate change.

The 2020 Five-Year Infrastructure Plan (Plan) reflects the Governor's proposal for investing \$53 billion in state infrastructure over the next five years. It focuses on how these investments can be leveraged to create a sustainable and resilient California. Key areas include:

- The Road Repair and Accountability Act of 2017—SB 1 was passed to address the state's transportation crisis, increasing transportation funding and instituting much-needed reforms. SB 1 increased the gas fuel tax by 12 cents, providing the first significant, stable, and on-going increase in state transportation funding in more than two decades. Annual revenue is approximately \$5.4 billion, \$3.5 billion of which is dedicated to road projects, rehabilitation, and maintenance. The remaining \$1.9 billion is allocated each year to local transit, multi-modal projects, and other transportation priorities. The infusion of new and significant resources has funded

almost 8,000 projects throughout the state and created thousands of new jobs, both at the state and local level. These investments allow the state to continue repairing and maintaining its vast infrastructure and keeps California’s economy growing.

- **Broadband for All**—Affordable high-speed Internet is vital to the daily lives of all Californians, such as receiving medical treatment, completing school homework, and taking advantage of emerging economic opportunities. Digital equity and inclusion—ensuring all communities enjoy the fruits of innovation—necessitates Broadband For All. The state’s Broadband For All strategy is composed of four principal elements: (1) mapping the state of connectivity in California, including whether, where, and at what speed Californians have access to affordable high-speed Internet; (2) investing new resources, including \$51.4 million to improve school connectivity; (3) optimizing use of existing resources, including approximately \$900 million over the next five years; and (4) prioritizing connectivity across executive actions and policies.
- **Water Resilience Portfolio**—The Sierra snowpack, one of the primary sources of the state’s water supplies, is decreasing, reducing natural water storage and altering winter and spring runoff patterns. As climate change continues to threaten the reliability of the state’s water supplies, the Administration is advancing a comprehensive strategy to build a climate-resilient water system: the Water Resilience Portfolio. The Plan reflects a \$4.75 billion climate resilience bond for the November 2020 ballot. The bond is structured around climate risks, with over 60 percent of the proposed bond funding dedicated to programs that align with priorities identified in the Water Resilience Portfolio.

For additional information, see the Infrastructure chapter.

TRANSITION TO CARBON NEUTRALITY

California is committed to achieving carbon neutrality by 2045 and reducing greenhouse gas emissions to 80 percent below 1990 levels by 2050.

In recognition that the state’s ambitious climate policies are also economic and work force policies, with the potential to create a more inclusive and sustainable economy for all Californians, the Budget includes \$1 billion over the next four years for a new Climate Catalyst Fund. This investment will simultaneously benefit the state’s environment and economy across all regions. This new Fund will dramatically increase and leverage private sector investment to support climate-related projects. This

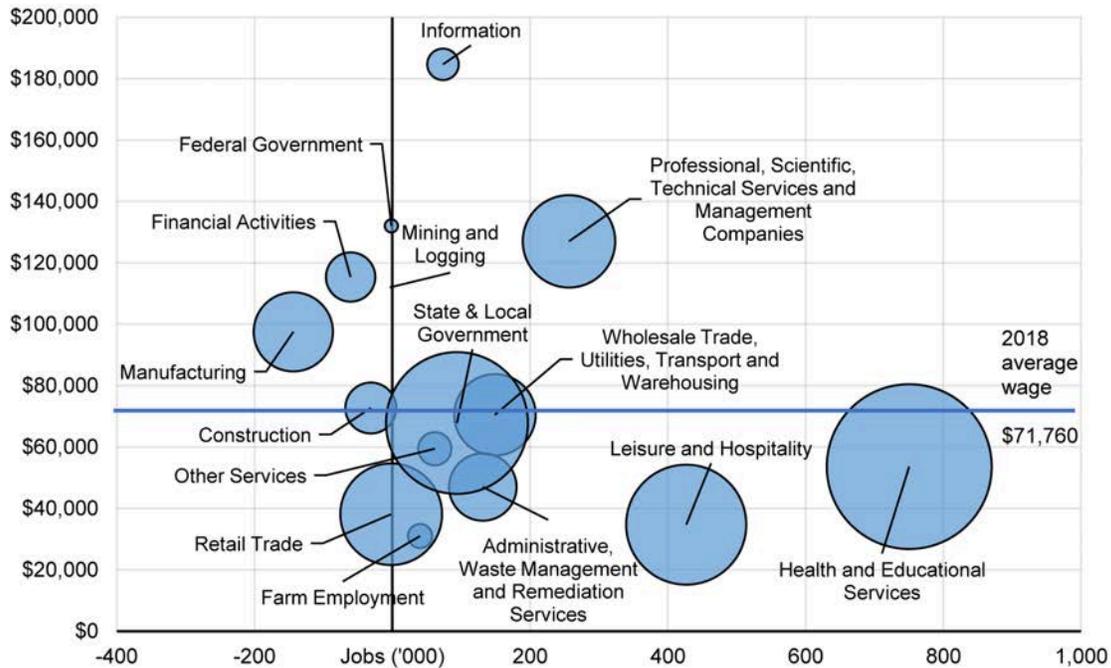
revolving loan fund will provide low-interest loans for a portfolio of projects, focused on areas that help meet the state's climate and equity goals, where technologies and infrastructure exist that could be deployed at much greater speed and scale but face barriers in the private market. Further, it will be designed to support good jobs and a just transition to achieving California's climate goals. For additional information, see the Climate Resilience chapter.

The Budget also reflects the continuation of a major commitment to preparing workers for a carbon-neutral economy by dedicating \$165 million over a five year period for multi-craft pre-apprenticeship programs to increase access to careers in the fast-growing construction industry and expanding the High Road Training Partnership program.

A STRONGER, MORE INCLUSIVE ECONOMY

As of November 2019, California had added more than 2 million payroll jobs since the last pre-recession peak in 2007. However, while average per capita income has increased almost 25 percent in real terms from 2007 to 2018, median household income was flat over that period. As can be seen in the figure on Jobs Added Since 2007 and Average Wages, most of the jobs added have been in lower-wage sectors that have employed the largest numbers of workers. For example, educational and health services added over 600,000 jobs to total around 2.7 million jobs in 2018 at an average wage of less than \$54,000.

Jobs Added Since 2007 and Average Wages
Bubble size indicates total number of 2018 jobs



Sources: CA Department of Finance; CA Employment Development Department, Labor Market Information Division

California's unemployment rate was at a record-low 3.9 percent in November 2019. Typically, low unemployment rates cause employers to raise wages and increase benefits to attract workers. But instead, median household income is stagnant and average wage growth is relatively low.

Income inequality persists and prosperity is not shared by all regions of the state. To create inclusive, long-term economic growth and ensure workers and their families share in that success, the Governor established the Future of Work Commission. The Commission is examining ways to broaden opportunity, better prepare the state's workforce, modernize worker safety-net protections, and preserve and grow good jobs. The Commission will bring forward a set of recommendations later this spring.

HIGHER WAGES FOR WORKING CALIFORNIANS

MINIMUM WAGE

The California state minimum wage increased by \$1 per hour on January 1, 2020 to reach \$12 per hour for businesses with 25 or fewer employees, and \$13 per hour for businesses with 26 or more employees.

Annual increases of \$1 per hour are scheduled to continue until the statewide minimum wage reaches \$15 per hour for everyone, indexed for inflation after that.

EARNED INCOME TAX CREDIT (EITC)

The 2019 Budget Act significantly expanded the EITC, by more than doubling the existing credit from \$400 million to \$1 billion. The expanded program extended credits to 1 million additional households, raising the number of households receiving the credit to 3 million. The expanded credit includes a \$1,000 credit for every family that otherwise qualifies for the credit and has at least one child under the age of 6. The Budget continues the expanded EITC, as well as outreach to encourage higher levels of household participation. In addition, the Budget continues development of a program that would allow workers to receive a portion of the EITC in monthly payments.

ENFORCEMENT OF LABOR LAWS

While new forms of work have provided flexibility for workers, the state has seen an increase in the use of independent contractors, rather than employees, that may be contributing to lower wage growth.

In California, employees are protected by labor laws that mandate a minimum wage, on-the-job breaks, paid time off, coverage for job injuries, unemployment insurance, reimbursement for expenses, health insurance in some instances, and protections against discrimination and harassment. These benefits can range in value from 25 to 50 percent of an hourly wage. For example, an employee making minimum wage of \$12 per hour would receive the equivalent of \$15 to \$18 per hour when benefits are included. By contrast, an independent contractor is paid per contract, and their revenue has to cover time spent working or waiting for a task, all of the insurance benefits, and expenses.

The misclassification of workers as independent contractors erodes worker protection and harms fair market competition, giving some employers an unfair advantage over competitors who pay their fair share of wages, payroll taxes, and benefits.

In 2018, the California Supreme Court issued a landmark ruling in the *Dynamex* decision, which established an employment test to determine whether a worker should be classified as an employee or independent contractor for certain purposes. This new standard presumes all workers are employees unless the employer can demonstrate a worker meets specified conditions, known as the ABC Employment Test.

Chapter 296, Statutes of 2019 (AB 5) codified the ABC Employment Test and expanded its application to include the Labor Code and the Unemployment Insurance Code. The Budget includes resources to enforce compliance with this new law, including:

- \$17.5 million for the Department of Industrial Relations to address workload associated with increased utilization of the workers' compensation program, investigations of labor law violations related to worker status, wage claim filings, and workplace health and safety inspections.
- \$3.4 million for the Employment Development Department to train staff and administer the ABC Employment Test, and to conduct hearings and investigations of worker status.
- \$780,000 for the Department of Justice to address increased enforcement actions and to prosecute cases involving misclassification of employees as independent contractors.

DEPARTMENT OF BETTER JOBS AND HIGHER WAGES

Historically, the state has created workforce programs in various entities in response to specific needs and available funding. This has resulted in a fragmented workforce system. Such programs include the Workforce Innovation and Opportunity Act Program in the California Workforce Development Board, employer services funded by the Wagner-Peyser Act in the Employment Development Department, and the Apprenticeship USA grant within the Department of Industrial Relations.

As rapid advancements in technology, automation, and artificial intelligence reshape the economy and the nature of work, more needs to be done to promote high-quality jobs and economic security for workers, families, and communities. Aligning fragmented workforce programs is a necessary component of these efforts. The Budget proposes a new Department of Better Jobs and Higher Wages and statutory changes to consolidate the workforce functions dispersed across the Labor and Workforce Development Agency. The Department will be comprised of the California Workforce Development Board, the Employment Training Panel, Workforce Services Branch and Labor Market Information Division, which are currently in the Employment Development

Department, and the Division of Apprenticeship Standards currently in the Department of Industrial Relations.

This reorganization is intended to better align data, policy, and program analysis of the state's workforce training programs. The new Department will help the education and training of workers for the jobs of the future. The Budget includes \$2.4 million one-time General Fund to establish executive staff for the new Department.

REGIONS RISE TOGETHER

Regions within the state can have very different growth patterns and challenges. In 2019, the Governor's Office of Business and Economic Development launched a Regions Rise Together initiative. Regions Rise Together seeks to overcome California's regional disparities by identifying and leveraging economic assets within each of the state's regions, as well as strengthening the connections among them. This includes working with local officials on their economic development plans.

The Budget includes \$758,000 ongoing General Fund for four positions for the Governor's Office of Business and Economic Development to be located in the Central Valley, Inland Empire, Central Coast, and North Coast to provide a focus on bringing business and economic development to these regions, by promoting the benefits of these regions and facilitating business expansion.

INVESTING IN INLAND CALIFORNIA

As referenced in the Higher Education chapter, the Budget includes \$25 million ongoing General Fund to support expanded enrollment for the UC Riverside School of Medicine and \$15 million ongoing General Fund to expand services provided by the UC San Francisco School of Medicine Fresno Branch Campus in partnership with UC Merced. These investments will improve access to health care in these underserved regions of the state.

The Budget also includes \$50 million one-time General Fund to support Fresno area regional investments that are focused on improving the economic mobility of Californians living in the region. Specifically, the Budget includes the following investments:

- Fresno-Merced Food Innovation Corridor—An increase of \$33 million one-time General Fund for the establishment of an innovation corridor to stimulate research

and development, commercialization, and innovation to support advanced sustainable agricultural production and high-quality jobs in the San Joaquin Valley. This collaboration between academic institutions and industry will spur additional economic development in a region of the state that for decades has faced nearly double the unemployment rate of the rest of the state.

- Fresno Integrated K-16 Education Collaborative—An increase of \$17 million one-time General Fund to support a plan to design educational pathways to improve social and economic mobility in the greater Fresno region. The project will increase educational attainment and economic mobility by building an efficient path for students in the region, from secondary school through college, and into jobs in high-wage, high-growth sectors.

SUSTAINABLE GROUNDWATER

A significant number of groundwater basins in the Central Valley are critically overdrafted. In recognition that the amount of groundwater available for use will be lower than historical pumping levels that have depleted aquifers, the Administration is focused on supporting local communities' transition to sustainable groundwater use by aligning state investments and policies to enable implementation of the Sustainable Groundwater Management Act. The climate resilience bond proposes \$395 million for projects to implement Groundwater Sustainability Plans. In addition, the Budget proposes \$60 million General Fund to support planning and water trading pilot projects across critically overdrafted basins, and water efficiency improvements in depleted groundwater basins. For additional information, see the Climate Resilience and Infrastructure chapters.

