

ENCOURAGING RECOVERY

Until February, California enjoyed an historic economic expansion that reduced unemployment from a peak of 12.3 percent to 3.9 percent, and lowered the poverty rate from a peak of over 16 percent to under 12 percent. Real per capita personal income had increased by almost 25 percent between 2007 and 2018. This strong economic growth enabled billions of dollars in investments to improve schools and roads, to increase access to and affordability of higher education, to create a robust state earned income tax credit program, and to steadily increase the state's minimum wage. But even during this period of expansion, growth was uneven and unequal, and too many people continued to struggle to make ends meet.

The COVID-19 Recession ended the longest recovery period in the state's history. The ensuing recession has caused massive job losses, precipitous drops in family and business income, and has exacerbated inequality. The May Revision forecast included a peak unemployment rate of 24.5 percent in the second quarter of this year and a decline in personal income of nearly 9 percent in 2020. The official unemployment rate exceeded 16 percent in April and May.

Since February, more than 1 million Californians have left the labor force, meaning they are no longer employed nor actively searching for work. Including those individuals, as well as reclassifying employees who had been furloughed without pay, would increase the unemployment rate to close to the May Revision forecast. Although there are signs of improvement as businesses reopen, there were fewer than 15.5 million employed Californians in May, the lowest level since April 1999.

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The Budget enacts policies and investments to encourage recovery for all Californians. With additional funding and policy changes at the federal level, there are greater opportunities for state and local government to shape a safe, swift recovery that will promote greater resilience and sustainability.

REVENUE SOLUTIONS

The Budget maintains three tax measures included in the Governor's Budget:

- Extending the sales tax exemption for diapers and menstrual products through the end of 2022-23.
- Extending the carryover period for film credits from 6 years to 9 years.
- Extending the current exemption from the minimum tax for first year corporations to first year Limited Liability Corporations, partnerships, and Limited Liability Partnerships.

In addition, the Earned Income Tax Credit (EITC) has been expanded to taxpayers that use an Individual Taxpayer Identification Number (ITIN) rather than a Social Security number for taxpayers with at least one child age 5 or younger.

As part of a balanced approach to managing the budget deficit, the Budget also includes two significant temporary changes to tax law, as well as a measure to reduce the sales tax gap. These measures are intended to raise revenue, stimulate economic growth, and help those in need. They are:

- Suspending Net Operating Losses for 2020, 2021, and 2022 for medium and large businesses.
- Limiting business incentive tax credits from offsetting more than \$5 million of tax liability for 2020, 2021, and 2022.
- Requiring used car dealers to remit sales tax to the Department of Motor Vehicles with the registration fees.

These revenue measures net \$4.3 billion in 2020-21, \$3.1 billion in 2021-22 and \$1.3 billion in 2022-23.

While the Budget does not include a new tax on e-cigarettes based on nicotine content, the Administration remains committed to working with the Legislature to enact this measure.

Changes in Revenues
(Benefit to General Fund, Dollars in Millions)

	2020-21	2021-22	2022-23
Suspend Net Operating Losses for 2020, 2021, and 2022	\$1,820	\$1,300	\$380
Limit Business Incentive Tax Credits to Offset no more than \$5 million of Tax Liability Per Year for 2020, 2021, and 2022	1,955	1,505	890
Interaction Between NOL Suspension and Credit Limitation	611	454	206
Require Used Car Dealers to Remit Sales Tax to DMV with Registration Fees	12	24	24
Expand EITC to ITIN taxpayers with children age 5 or younger	-65	-60	-60
New May Revision General Fund Revenue Solutions	\$4,333	\$3,223	\$1,440
Provisions included in Governor's Budget			
Extension of Sales Tax Exemption for Diapers and Menstrual Products through 2022-23	0	-23	-46
Extend the First Year Exemption from Minimum Tax to LLCs, Partnerships, and LLPs	-50	-100	-100
Extend Carryover Period for Program 2.0 Film Credits from 6 years to 9 years	0	0	-1
General Fund Revenue Solutions	\$4,283	\$3,100	\$1,293

SUPPORTING THE RECOVERY OF SMALL BUSINESS

Small businesses are the core of California's economy—nearly 4 million businesses employ approximately half of the private workforce.

Small businesses have suffered massive losses as a result of the COVID-19 Recession and they are facing increased costs to modify their operations in order to reduce the transmission of COVID-19. Given their critical role in California's economy, the Budget increases funding to support the recovery of this sector in the near- and long-term.

MINIMUM FRANCHISE TAX

To support new business creation and innovation, the Budget waives the \$800 minimum franchise tax—often a costly barrier for start-up businesses—for the first year of operation.

SMALL BUSINESS LOAN GUARANTEES

The California Infrastructure and Economic Development Bank's (IBank) Small Business Finance Center manages California's small business loan guarantees, disaster loan guarantees, and direct lending programs. The Budget includes \$50 million additional

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General Fund to provide a total of \$100 million General Fund for the Small Business Finance Center to address gaps in available federal assistance and grow California's program. This increase will be leveraged to access existing private lending capacity and philanthropic funding to increase the funds available to provide necessary capital to restart California small businesses.

Further, the Budget includes \$25 million General Fund for IBank to provide capital to Community Development Financial Institutions (CDFIs) and other mission based lenders to enable the origination of more loans in underbanked communities. IBank works with the CDFI network to serve economically disadvantaged small businesses, including the underbanked and unbanked. This funding will increase liquidity and available capital in these areas.

As part of the federal Payroll Protection Program, over 750,000 California small businesses have received a combination of grants and loans totaling over \$85 billion primarily to support continued payment of employees and to help overcome the temporary loss of revenue they are experiencing. While these amounts are significant, the awards to date benefit less than 20 percent of California's 4 million small businesses. The recently enacted Paycheck Protection Flexibility Act of 2020 (HR 7010) extends the time to spend funds from 8 to 24 weeks, reduces the percentage of funds required to be spent on payroll from 75 percent to 60 percent, and provides more time to return to pre-COVID-19 staffing levels.

SMALL BUSINESS AND ECONOMIC DEVELOPMENT

To further support the needs of underserved communities and direct small businesses to capital options, California helps fund a network of federally contracted centers to consult and train California small business owners. The Governor's Office of Business and Economic Development administers a grant program that funds business technical assistance centers to expand services to underserved small businesses, and the Capital Infusion Program to help small businesses access capital.

The Budget includes an investment of \$758,000 ongoing General Fund for four positions to bring business and economic development to Inland and Northern California.

SUPPORTING JOB CREATION

This Budget includes measures to support job creation including: assistance to help spur the recovery of small businesses and the jobs they create, support for increased housing

affordability and availability, and investments in human and physical infrastructure. The investments and actions will focus on equity, shared prosperity and long-term growth.

The Governor has also convened a Task Force on Business and Jobs Recovery—a diverse group of leaders from business, labor, and the non-profit sector—to develop actionable recommendations and advise the state on how economic recovery can be expedited and address the effects of wage disparity that are being made even worse by the COVID-19 Recession. The Administration is committed to additional actions, informed by the Legislature, the Governor's Council of Economic Advisers, the Task Force, and other stakeholders to support a safe, swift and equitable economic recovery.

TRANSPORTATION INVESTMENTS

In the immediate term, the Department of Transportation (Caltrans) will accelerate projects to achieve cost savings, support the creation of new jobs in the transportation sector, and improve roads. The Federal Highway Administration estimates that approximately 13,000 jobs are created for every billion dollars spent on highway infrastructure. While fuel tax revenues used to fund transportation projects are expected to decline by a total of \$1.8 billion through 2024-25, the Budget maintains current planning and engineering staffing levels to continue developing and designing previously programmed projects. Not only does Caltrans plan to award all of the projects it currently has programmed for construction in the coming year, but the continued project development work will support preparedness for when additional stimulus funding becomes available.

HOUSING

The COVID-19 pandemic and resulting recession has impacted vulnerable communities and made the housing shortage crisis more acute. In response, the Budget prioritizes expanded state tax credits and maximizing federal funds to focus on housing.

This builds upon the Governor's series of actions earlier this year to temporarily halt evictions statewide and financial institutions' foreclosure proceedings. Additionally, the federal government has prohibited federally backed mortgage lenders from initiating foreclosure proceedings for 60 days and provided certain homeowners a right of forbearance for 180 days due to COVID-19-related financial hardships.

LOW-INCOME HOUSING TAX CREDITS

The 2019 Budget Act provided expanded state tax credits for low-income housing that pair with a federal 4-percent tax credit. With continued increased demand for these tax credits, the Budget allocates up to \$500 million in additional tax credits in 2021, provided the committees involved in the tax credit allocation process, the California Debt Limit Allocation Committee and the California Tax Credit Allocation Committee, adopt regulations that further align their programs to continue to increase production, contain costs, and take into consideration maximizing the efficient use of public subsidies and benefits that would be created. New data collection and reporting requirements are also included.

Other Significant Adjustments

- **Mixed-Income Program**—The 2019 Budget Act included a one-time \$500 million General Fund investment to the California Housing Finance Agency (CalHFA) over four years for mixed-income development loans (between 30 and 120 percent of the Area Median Income) at a lower subsidy level than traditional state programs. This investment served to help a target population that had not been assisted by other state housing programs. The Budget reverts \$45 million planned for expenditure in 2020-21, that will be restored, should federal funds become available by October 15, 2020. In addition, there also remains a dedicated annual revenue provided by real estate transaction fees (estimated at \$40 million in 2020-21) and up to \$200 million in state low-income housing tax credits to help develop moderate income housing.
- **Infill Infrastructure Grants**—The 2019 Budget Act also provided \$500 million General Fund in grants for necessary infill infrastructure improvements that will stimulate and facilitate residential or mixed-use development. The Budget reverts \$203 million of this one-time investment. To the extent the federal government provides sufficient federal funds by October 15, 2020, this funding will be restored. The Department of Housing and Community Development also has \$300 million in Proposition 1 bond funds for infill infrastructure grants.

NATIONAL MORTGAGE SETTLEMENT RELIEF

As California homeowners and renters struggle to make payments during this time, the Budget provides \$331 million in National Mortgage Settlement funds to help prevent avoidable foreclosures and evictions. Of this amount, \$300 million will be available for

housing counseling as well as mortgage assistance through CalHFA. Specifically, CalHFA will partner with U.S. Department of Housing and Urban Development certified counselors to help homeowners, former homeowners, and renters take advantage of rights and resources available to them. Additionally, CalHFA will provide mortgage assistance to help qualified residential mortgage borrowers avoid defaults on their payments and maintain ownership of their homes and buildings. The remaining \$31 million will provide legal assistance and counseling for renters and homeowners through Judicial Branch grants to local legal service organizations throughout the state.

Housing production and affordability remains a priority for the Administration. With strategic funding to maintain fiscal sustainability while making impactful long-term investments, the 2020 Budget includes \$8.3 billion across multiple departments and programs to address housing throughout the state.

2020-21 Affordable Housing Funding
(Dollars in Millions)

<i>Department</i>	<i>Program</i>	<i>Amount</i>
Department of Housing and Community Development	Federal Funded Programs for Housing	\$1,276.0 ^{1/}
	Veterans and Affordable Housing Bond Act Programs (Prop 1)	\$630.0
	No Place Like Home Program	\$400.0
	Building Homes and Jobs Fund Programs (SB 2)	\$277.0
	Veterans Housing and Homelessness Prevention	\$75.0
	Various	\$43.0
California Housing Finance Agency ^{2/}	Single Family First Mortgage Lending	\$2,500.0
	Multifamily Conduit Lending	\$600.0
	National Mortgage Settlement (Mortgage Counseling and Assistance)	\$300.0
	Multifamily Permanent Lending	\$140.0
	Mixed-Income Loan Program	\$90.0 ^{3/}
	Single Family Down Payment Assistance (SB 3)	\$85.0
	Special Needs Housing Program	\$25.0 ^{4/}
Tax Credit Allocation Committee	Low Income Housing Tax Credits (Federal)	\$436.0 ^{5/}
	Low Income Housing Tax Credits (State)	\$602.0
	Farmworker Housing Assistance Tax Credits	\$4.0
Strategic Growth Council	Affordable Housing and Sustainable Communities	\$452.0 ^{6/}
Department of Veterans Affairs	CalVet Farm and Home Loan Program (SB 3)	\$170.0
Office of Emergency Services	Domestic Violence Housing First Program	\$23.0
	Transitional Housing Program	\$18.0
	Specialized Emergency Housing	\$10.0
	Domestic Violence Assistance, Equality in Prevention and Services, Human Trafficking Victim Assistance, North American Domestic Violence and Sexual Assault	- ^{7/}
Judicial Council	National Mortgage Settlement (Renter and Homeowner Legal Assistance)	\$31.0
California Department of Corrections and Rehabilitation	Specialized Treatment of Optimized Programming, Parolee Service Center, Day Reporting Center, Female Offender Treatment and Employment Program, Proposition 47 Grant Program	- ^{7/}
Department of Social Services	CalWORKS Family Stabilization, Housing Component	\$4.9 ^{8/}
	CalWORKS Housing Support Program	\$95.0
Department of Public Health	HIV Care Program	- ^{7/}
	Housing Opportunities for Persons with AIDS (HOPWA)	\$5.0
	Housing Plus Program	\$1.0
Total		\$8,292.9

1/ This amount reflects programs that receive federal funds, such as the Community Development Block Grant program. Unawarded COVID-19 related relief funds (e.g., CARES Act) are not reflected.

2/ Amount is based on lending activities from 2018/19.

3/ An additional \$45 million may become available in federal funds for this program.

4/ Amount represents voluntary allocations of local Proposition 63 funds from 16 participating counties.

5/ This represents the estimated 9 percent tax credits to be allocated in 2020, including an increase for disaster credits provided by the federal government, and the estimated amount of 4 percent credits to be awarded in 2020 based on current data and remaining bond cap.

6/ The Affordable Housing and Sustainable Communities program amount reflects 20 percent of the projected Cap and Trade revenues. The Transformative Climate Communities (TCC) program (\$44.6 million in carryover available for 2020-21) funds various activities, including affordable housing.

7/ The State provides a number of wrap-around supportive services through these programs including housing, which cannot be separated from the program's overall budget.

8/ Of the \$46.9 million available for CalWORKs Family Stabilization in 2020-21, \$4.9 million is estimated to be spent on housing.

SUPPORTING THE RECOVERY

The CARES Act provides temporary program enhancements and expanded unemployment insurance benefits to millions of workers no longer employed due to the COVID-19 Recession. Most notably, the CARES Act included a federally funded temporary emergency benefit increase of \$600 per week through July 31, 2020 and a federally funded Pandemic Unemployment Assistance program to provide up to 39 weeks of unemployment insurance benefits to individuals who do not qualify for traditional unemployment compensation, including business owners, the self-employed, independent contractors, individuals with limited work history, and other individuals not usually eligible for regular state unemployment insurance benefits who are unemployed as a direct result of the COVID-19 Recession. From March until mid-June, over \$37 billion has been paid out through these expanded unemployment insurance programs.

The Short-Term Compensation program included in the CARES Act is another benefit that helps employers retain workers at reduced time and wages—ready to restart operations once stay-at-home orders are eased. Unlike regular unemployment insurance, these benefits are fully funded for up to 26 weeks by the federal government through the end of 2020. It is intended to support businesses in retaining their workers as the economy reopens and customers come back. The Administration is working to address the cumbersome process that has delayed enrollment to increase the number of businesses participating in this program.

Finally, \$27.9 billion in direct economic impact payments from the U.S. Treasury has been allocated to nearly 16.9 million California families who have filed a federal tax return in 2018 or 2019, as well as individuals who receive Social Security retirement, SSDI, Railroad Retirement benefits, SSI and Veterans Affairs beneficiaries who have not filed a tax return in the last two years.

A STRONGER, MORE INCLUSIVE ECONOMY

While average per capita income had increased almost 25 percent in real terms from 2007 to 2018, median household income was flat over the same period. Most of the jobs added since the Great Recession were in lower-wage sectors. Job growth was also uneven across regions. Income inequality persisted, and prosperity was not shared by all regions of the state.

The COVID-19 Recession is disproportionately impacting low-wage workers and communities of color, and worsening inequality and opportunity. Informed by the Future of Work Commission, and advised by the Task Force on Business and Jobs

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Recovery and the Governor's Council of Economic Advisers, the Administration will continue to work on actions to protect those facing the greatest hardships from the COVID-19 Recession. It will also work on tangible actions to broaden opportunity, better prepare the state's workforce, and modernize worker safety net protections.

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. These increases will affect roughly 60 percent of Californians. Annual increases of \$1 per hour are scheduled to continue until the statewide minimum wage reaches \$15 per hour for everyone, with indexing for inflation after that. The Budget maintains these scheduled increases.

The 2019 Budget Act significantly expanded the EITC beginning in tax year 2019, by more than doubling the existing credit from \$400 million to \$1 billion. The expanded program extends 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 age 5 and under. The Budget continues the EITC at this expanded level and extends the EITC to more Californian taxpayers including those who file using ITIN and have at least one child age 5 or younger. This expansion allows more families with young children to receive additional help to address the costs of food, rent, and other basic necessities.

The Budget also maintains increased resources to protect employees and address the misclassification of employees.