

ENCOURAGING RECOVERY

Until March, 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 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 continued to struggle to make ends meet.

COVID-19 ended the longest recovery period in the state's history. The recession that is following has caused massive job losses, precipitous drops in family and business income, and is exacerbating inequality. The May Revision forecasts 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 May Revision proposes 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.

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 are job creators, innovators, and are key to the fabric of the state's diverse communities.

Small businesses have suffered massive losses as a result of the COVID-19 Recession. 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 May Revision proposes increased funding to support the recovery of this sector in the near- and long-term.

MINIMUM FRANCHISE TAX

The May Revision maintains the Governor's Budget proposal to waive the \$800 minimum franchise tax for the first year of business creation. This proposal supports new business creation and innovation by limiting an often costly barrier to entry.

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 Small Business Loan Guarantee Program provides financial assistance and access to capital needed to small businesses. It works to leverage private lending to reduce the cost of capital for small businesses.

The May Revision proposes to increase funding for this program by \$50 million for a total increase of \$100 million to fill 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.

As part of the federal Payroll Protection Program, over 300,000 California small businesses have received a combination of grants and loans totaling over \$70 billion primarily to support continued payment of employees and to help overcome temporary loss of revenue. While these amounts are significant, the awards to date only benefit about 7.5 percent of California's 4 million small businesses.

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 May Revision maintains the Governor's Budget investment of \$758,000 ongoing General Fund for four positions to bring business and economic development to Inland and Northern California.

SUPPORTING JOB CREATION

During this time of unprecedented unemployment, the Administration will work in partnership with the Legislature to help get people back to work and support the creation of good-paying jobs. It will develop proposals and actions to support a robust and equitable recovery both in the near- and in the long-term. To this end, the Administration is considering options 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. Any investments and actions will focus on equity, shared prosperity and long-term growth.

The Governor has 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 Task Force, and other stakeholders to support a safe, swift and equitable economic recovery.

The Administration is also committed to working with colleges and universities to build on their experience with distance learning and develop a statewide educational program that will allow more students to access training and education through distance learning, allowing non-traditional students who are working and parenting, the opportunity to complete coursework at their own pace and after hours.

CALTRANS INVESTMENTS

In the immediate term, 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 drop by a total of \$1.8 billion through 2024-25, the May Revision maintains current planning and engineering staffing levels to continue developing and designing previously programmed projects. This will support preparedness for when stimulus funding becomes available.

HOUSING

The state has made significant investments to address a decades-in-the-making housing shortage that has resulted in skyrocketing housing costs, making home ownership an impossibility for many Californians.

Low-income Californians have been disproportionately impacted by the recession. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) allows property owners with a mortgage through a government-sponsored entity to request forbearance without fees or penalties for six to twelve months. If the property is not owner-occupied, the owner is required to pass on savings to tenants. However, the forbearance does not defer payments, it postpones them.

STATE SUPPORT FOR RENTERS AND HOMEOWNERS

The Governor took a series of actions to pause evictions statewide and to compel financial institutions to halt foreclosure proceedings. The Judicial Branch also temporarily halted default and eviction proceedings. These efforts have provided immediate relief for Californians.

The May Revision proposes to expend \$331 million in National Mortgage Settlement funds for housing counseling, mortgage assistance and renter legal aid services as follows: the California Housing Financing Agency will administer \$300 million for housing counseling and mortgage assistance, and the remaining \$31 million to the Judicial Council to provide grants to legal aid services organizations.

STATE FUNDING FOR HOUSING

The May Revision maintains the \$500 million in low-income housing state tax credits in the Governor's Budget. This program will continue to expedite housing development throughout the state by leveraging federal bonding capacity to create more opportunities for tax-exempt building of affordable housing. The state also continues ongoing investments including a real estate transaction fee (estimated at \$277 million for 2020-21) for affordable housing, ongoing revenue from cap and trade auction proceeds (estimated at \$452 million for 2020-21) for infill development that also reduces vehicle miles traveled and greenhouse gas emissions, and \$4 billion in Proposition 1 bonds for veterans and affordable housing programs. The Administration will work to expedite allocation of these bond funds.

The May Revision includes \$1.1 billion in available federal funds through the Community Development Block Grant Program for critical infrastructure and disaster relief related to the 2017 and 2018 wildfires.

Additionally, California is estimated to receive a total of \$532 million in federal funds for housing and homeless programs under the CARES Act. These funds will assist the state and local jurisdictions in acquiring housing for people experiencing homelessness, as well as securing low- and moderate-income housing in response to the COVID-19 pandemic. The state intends to utilize these funds to continue bolstering necessary housing production in the aftermath of the COVID-19 pandemic.

Given the increased federal funds and anticipated future actions to support jobs and infrastructure, as well as the effects of the COVID-19 Recession, the following funds are proposed for reversion:

- \$250 million in mixed-income development funds over the next three years.
- \$200 million in infill infrastructure grant funds.
- \$115 million in other housing program funds.

These funds have not been allocated or dedicated to specific projects.

IMPROVING STATE HOUSING PROCESSES AND PROCEDURES

The Administration continues its commitment to implement and identify process improvements to streamline housing programs to remove barriers to increase housing production.

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These include creation of a joint application for tax credits between the Tax Credit Allocation Committee and California Debt Limit Allocation Committee, the realignment of Housing and Community Development's program award schedules to expedite funding awards and have a greater impact on the ground, and working on improvements to revamp the state's housing planning process with input from key stakeholders and local governments. These efforts will facilitate better, more efficient, and more effective distribution of state resources and ultimately valuable housing production.

The May Revision proposes to leverage federal funds and existing state programs and properties to implement a comprehensive strategy to increase housing supply and to support preservation, protection, and production of housing. This includes:

- Preserving existing subsidized affordable housing stock by stabilizing existing deed-restricted affordable housing and guarding against private sector actors buying up distressed assets;
- Seeking strategies to stabilize tenants in existing units;
- Significantly streamlining, upzoning and producing new housing units, especially on excess and surplus lands, in transit-oriented infill areas and on public land; and
- Building a workforce development strategy to support a skilled and trained housing workforce pipeline with high-road wage rates, and promoting innovative alternative construction methods.

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 (PUA) 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.

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 100-percent 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.

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 Jobs and Business Recovery, the Administration will continue to work on actions to protect those facing the greatest hardships from COVID-19. 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 May Revision maintains these scheduled increases.

The 2019 Budget Act significantly expanded the Earned Income Tax Credit (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 under the age of 6. The May Revision continues the EITC at this expanded level.

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