A topographic map of California, showing the state's outline and internal terrain features. The map is rendered in shades of green, brown, and tan, with a semi-transparent effect. It is positioned behind the text and horizontal lines.

LEGISLATIVE ANALYST'S OFFICE

---

KEY FISCAL AND POLICY ISSUES FACING  
**CALIFORNIA**

---

# LEGISLATIVE ANALYST'S OFFICE

www.lao.ca.gov | (916) 445-4656

## Legislative Analyst

Gabriel Petek

## Chief Deputy Legislative Analyst

Carolyn Chu

### K-12 Education

Edgar Cabral, Deputy  
Michael Alferes  
Jackie Barocio  
Sara Cortez  
Kenneth Kappahn

### Higher Education

Jennifer Pacella, Deputy  
Ian Klein  
Lisa Qing  
Paul Steenhausen

### Economy, Taxes, and Labor

Brian Uhler, Deputy  
Chas Alamo  
Ross Brown\*  
Seth Kerstein

### State Budget Condition

Ann Hollingshead

### Environment and Transportation

Rachel Ehlers, Deputy  
Sarah Cornett  
Frank Jimenez  
Helen Kerstein  
Luke Koushmaro  
Sonja Petek

### Public Safety and Business Regulation

Drew Soderborg, Deputy  
Anita Lee  
Caitlin O'Neil  
Orlando Sanchez Zavala  
Jared Sippel

### Health, Developmental Services, and Technology

Mark Newton, Deputy  
Jason Constantouros  
Karina Hendren  
Brian Metzker  
Ryan Miller  
Will Owens

### Human Services and Governance

Ginni Bella Navarre\*, Deputy  
Sonia Schragger Russo  
Nick Schroeder  
Angela Short  
Juwan Trotter

### Administration and Support

Kelley Sammarcelli, Administrative Officer  
Sarah Barkman  
Karla Belmonte  
Tamara Lockhart  
Anthony Lucero  
Sarah Scanlon

### Information Services

Michael Greer, Manager  
Vu Chu\*\*  
Linda Le  
Mohammed Mohammed Saeed

\*Coordinators of Key Issues.

\*\*Key Issues creative and design lead.

# TABLE OF CONTENTS

|  |           |
|--|-----------|
| <b>INTRODUCTION</b> .....  | <b>5</b>  |
| <b>Chapter 1: Economic Growth and Opportunity</b> .....          | <b>8</b>  |
| Economic Mobility and Inequality .....                           | 10        |
| Competitive Business Environment .....                           | 13        |
| Educational Access and Outcomes .....                            | 16        |
| Working in California .....                                      | 19        |
| State Infrastructure Needs .....                                 | 22        |
| Transportation Mobility .....                                    | 25        |
| <b>Chapter 2: Health, Safety, and Well-Being</b> .....           | <b>28</b> |
| Housing and Homelessness .....                                   | 30        |
| Poverty Alleviation and Prevention .....                         | 33        |
| Public Health .....  | 36        |
| Access to Quality Health Care .....                              | 38        |
| Criminal Justice System Outcomes .....                           | 41        |
| Climate Change .....   | 44        |
| Emergency Response and Preparedness .....                        | 47        |
| <b>Chapter 3: Fiscal Health, Governance, and Oversight</b> ..... | <b>50</b> |
| Structuring the Budget .....                                     | 52        |
| Intergovernmental Relations .....                                | 55        |
| The State’s Role in Technology .....                             | 58        |
| <b>Conclusion</b> .....  | <b>61</b> |



---

# INTRODUCTION

---

***The Role of the LAO.*** The LAO has provided nonpartisan fiscal and policy advice to the Legislature for over 80 years. The office serves as the “eyes and ears” for the Legislature to ensure that the executive branch and other program administrators are implementing legislative policy in an efficient, effective, and equitable manner. Some of our key functions include:

- Bringing important fiscal and policy issues to the attention of the Legislature, including analyzing the Governor’s budget proposals and making recommendations to the Legislature.
- Undertaking self-directed research projects analyzing these issues and making recommendations intended to help the Legislature address them.

***Development of This Document.*** To assist in our ongoing effort to serve the Legislature in this capacity, we undertook an officewide process to develop a list of the most important long-term fiscal and policy issues facing California. The list of issues was developed over time with input and feedback from across the office. As our work progressed, these topics were further defined, organized, and shared with members of the Joint Legislative Budget Committee—the committee that oversees our office—in an effort to seek additional feedback. Throughout this process, we thought about the key factors affecting the current and future well-being of Californians with an eye towards possible legislative actions. Importantly, although this list reflects our office’s attempt to identify the most important issues, it is not meant to be an exhaustive list of issues facing the state, nor does it necessarily reflect the priorities of the Legislature as a whole. That said, the Legislature has taken action in recent years to adopt policies that attempt to address many of the issues we raise in this report.

***How Can This Document Be Used?*** First, we hope this document can serve as a resource to the Legislature as it (1) determines where to focus its policy, budget, and oversight efforts and (2) evaluates various policy and budget options. Second, this document will serve as an internal guide when we select our self-directed research projects. By identifying these important longer-term issues, we are better positioned to connect our work towards the most critical and crosscutting policy issues facing the state.

***LAO Reports Will Continue to Provide More Detailed Analysis.*** Notably, this document does not include recommendations. For many aspects of the key issues identified here, our office has already issued reports with specific findings and recommendations. However, future LAO reports will attempt to expand on these past efforts and fill in gaps where additional analysis could help inform legislative decisions. When analyzing policies and developing reports, our office will continue to consider several different lenses. These include:

- ***Effectiveness.*** Does a policy result in the intended outcomes?
- ***Efficiency and Cost-Effectiveness.*** Do the benefits of a policy outweigh the costs? Are the policy goals achieved at the lowest possible cost?
- ***Equity.*** How does a policy or existing condition affect specific populations or groups differently?

**Key Issues Are Longer Term, Office Remains Nimble and Responsive.** This document is meant to focus on longer-term issues facing the state that do not typically change from year to year. However, the list of key issues should be considered to be dynamic and subject to periodic revision. As the policy challenges facing the state evolve, so too will the list of major issues identified on this list. Unanticipated events will arise that will require us to change our course and focus. These unanticipated events may not always fit neatly into this list of key fiscal and policy issues as it is constructed today. As an organization, we will continue to attempt to prioritize the most important issues and respond to the needs of the Legislature. Additionally, since this list will be updated periodically, to the extent these unanticipated events result in longer-term policy considerations, they could potentially be included in future iterations of our list of key fiscal and policy issues facing California.

**A Roadmap for This Document.** The rest of this document is organized into three chapters—each representing a major category of issues facing the state. The major categories are:

- Economic Growth and Opportunity.
- Health, Safety, and Well-Being.
- Fiscal Health, Governance, and Oversight.

Each major category includes several long-term policy issues facing the state. For each issue, we discuss (1) why it is important and (2) key legislative considerations. Although we identify and describe each issue separately in this document, in reality, there is a lot of overlap. For example, many aspects of health and safety can be important direct and indirect drivers of economic growth and opportunity, and vice versa. Similarly, effective governance and oversight are tools to ensure public policy supports economic growth and opportunity, as well as the overall well-being of Californians.





## CHAPTER 1 ECONOMIC GROWTH AND OPPORTUNITY

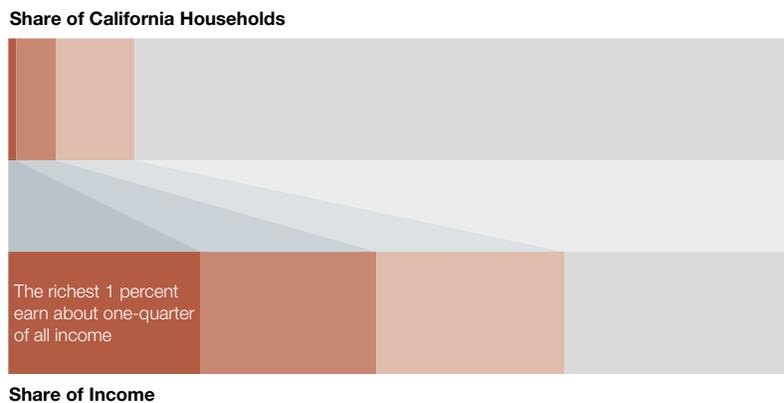
Economic growth is a major driver of improved living standards and creates opportunities for Californians to flourish. Importantly, however, not all households and workers benefit equally from economic growth, and many Californians still struggle to climb the economic ladder. The Legislature can play a role in supporting long-term statewide economic growth while also ensuring the gains from such growth are widespread. In this chapter, we discuss many of the key factors that are likely to drive long-term economic growth and opportunity, including an educated and productive workforce, a business environment where companies can innovate and compete in a global marketplace, and infrastructure that can support these activities.

# ECONOMIC MOBILITY AND INEQUALITY

Economic well-being varies dramatically among Californians. California is home to some of the richest people in the world, while at the same time over 10 percent of the state’s population lives in poverty. *Economic inequality* refers to how much economic well-being differs among members of a population. Relatedly, *economic mobility* refers to the ability of individuals or families to improve their economic status—their level of economic well-being compared to others—over time.

## Small Share of Households Earn Most of the Income

Taxable Income, 2021



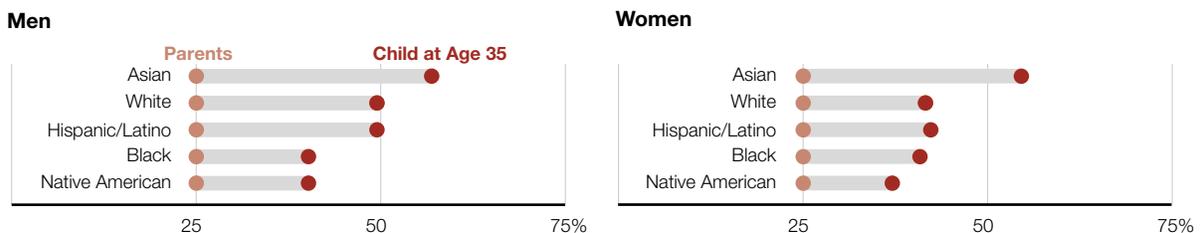
### WHY IS IT IMPORTANT?

**Economic Mobility Underlies a Functioning Economy.** The idea that an individual’s hard work, innovation, and talent will be rewarded with improved economic status is fundamental to the functioning of our market economy. Workers, businesses, investors, and entrepreneurs all operate under this assumption.

**Some Groups Face Greater Barriers to Mobility.** Ideally, no person or group would face greater barriers to economic mobility than others. Evidence suggests, however, that some groups—such as Black and Native American men—have faced and continue to face greater barriers to economic mobility.

## Economic Mobility Differs Across Groups

This chart shows where the incomes of people born in California to low-income parents between 1978 and 1983 rank in the national income distribution. All groups experienced upward mobility, but some less than others.

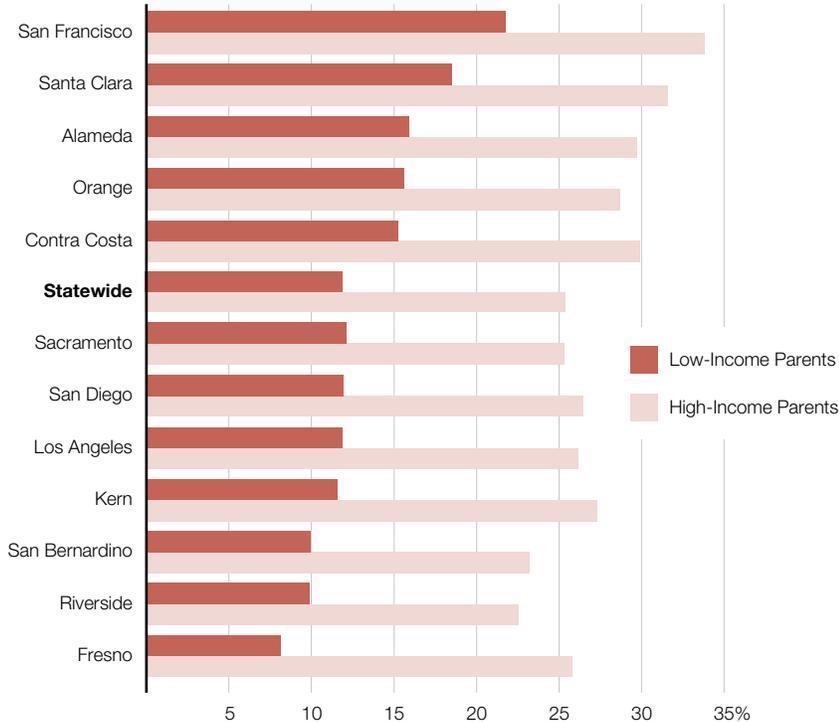


Source: Chetty et al. (2018).

**Lack of Mobility Can Give Rise to Inequality.** Some differences in economic outcomes across people are inevitable. Persistent and substantial economic inequality, however, can raise concerns. This is especially true if inequality arises from economically disadvantaged children having fewer opportunities for mobility.

### Children From High-Income Families Are Twice as Likely to Become High Income Themselves

Share of People Born in California Between 1978 and 1983 That Are High Income as Adults



Source: Chetty et al. (2018).

**State Has Many Efforts Aimed at Improving Mobility.** Many public programs aim to promote economic mobility. These include education and rehabilitation programs, as well as various types of assistance to working families. Similarly, the state also often seeks to promote mobility through laws and policies, such as labor standards, housing policies, and antidiscrimination laws.

## — WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

- ***What Factors Explain Differences in Mobility?*** The underlying causes of economic mobility are complex and uncertain. Existing research provides suggestive evidence that links certain factors to higher or lower economic mobility. Examples of factors that are linked to higher mobility are access to quality education, two-parent households, and social connections across economic classes. Examples of factors that are linked to lower mobility are poverty, racial segregation, and involvement with the criminal justice system.
- ***Which Factors Can Be Influenced by the State?*** Some factors associated with economic mobility are more readily influenced by state policy than others. In some cases, direct interventions may improve mobility. For example, cash assistance to families could promote mobility by keeping children from growing up in deep poverty, thereby improving their chances. In many cases, however, the connection is less direct. An example is a policy that facilitates home building in communities with low crime and high-performing schools. Considering these potential indirect effects is important because many factors are not amenable to direct intervention.
- ***What Role Do State Programs Play in Promoting Mobility?*** Carefully considering whether public programs are appropriately structured to promote mobility is a key avenue through which the state can pursue this objective. For example: does a program target the correct populations, do economically disadvantaged groups have sufficient access, and are the most appropriate and effective avenues of intervention being pursued?

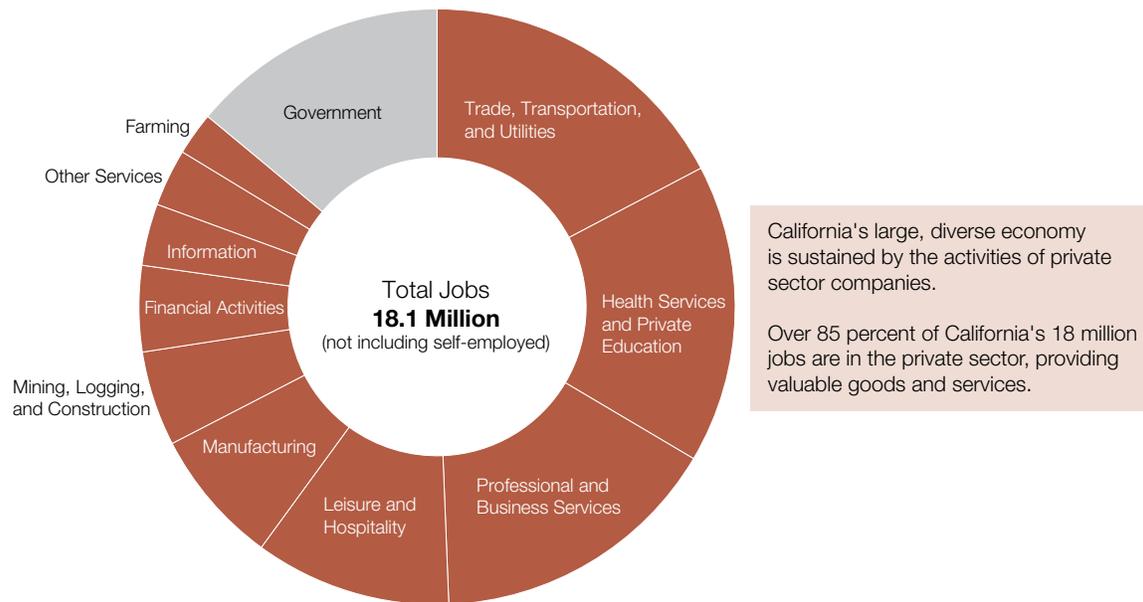
# COMPETITIVE BUSINESS ENVIRONMENT

Future economic growth depends, in part, on California’s ability to be an attractive place for businesses. Every year, some businesses move into California or expand their operations here, while others leave the state or shrink their operations. Businesses consider many factors when deciding where to invest and operate, and a wide variety of state policies can affect these decisions.

## WHY IS IT IMPORTANT?

### Private Businesses Provide Most of the Jobs in California

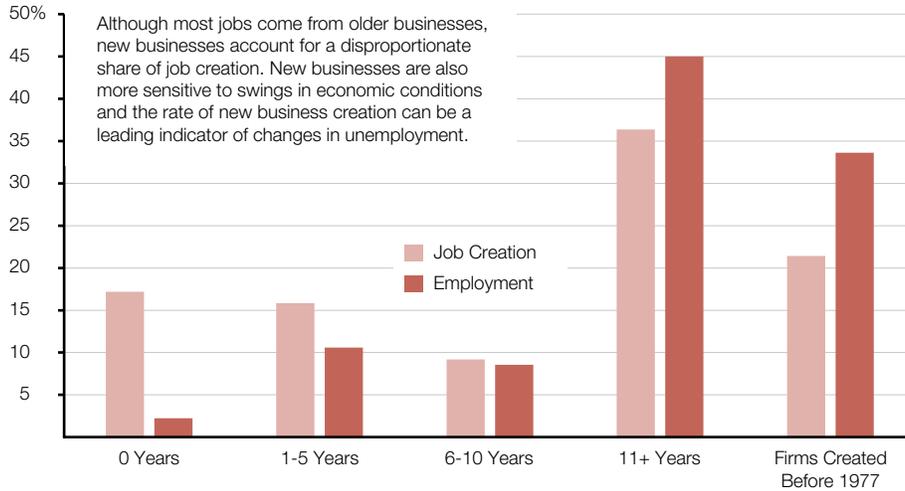
Employment by Industry, 2022



**California’s Business Environment Has Both Strengths and Challenges.** Various organizations publish rankings of states according to their business and tax policies. Many of these reports conclude that California has a poor business climate. However, measuring overall competitiveness is difficult and multifaceted. On some measures, such as venture capital funding and innovation, California ranks towards the top of country. On other measures, such as overall taxation and cost of doing business, California ranks near the bottom.

## Most Jobs Are at Older Businesses, But New Businesses Are an Important Driver of Job Creation

Percent of Total Employment and Gross Annual Job Creation by Firm Age, 2019



**State and Local Tax Base Relies on a Healthy Private Sector Economy.** Public spending on education, public safety, infrastructure, and other programs are funded by taxes on the state's diverse private sector economy.

## — WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

➔ **How Can State Policies Improve California's Competitiveness?** Commonly cited concerns about the state's business environment include high income taxes and overly burdensome regulations that affect business costs. The Legislature can make California a more attractive place for business investment by ensuring that the system of taxation and regulation is not unduly burdensome. In addition, California's high cost of living—driven primarily by housing costs—may affect firms' ability to hire and retain employees. Policies to reduce the costs of housing can enhance firms' ability to attract employees. Finally, policies to promote a reliable public infrastructure and a highly skilled workforce can also help ensure California is attractive to businesses.

➔ **How to Balance Policy Actions With Other Goals?** Sometimes actions the state can take to attract businesses are aligned with other state policy goals. For example, actions to address the high cost of living through increasing the supply of new housing also may help to reduce homelessness. Other times, however, the state must balance the goal of attracting businesses with competing objectives. For example, a broad-based tax cut to address concerns about high taxes also would necessitate reduced spending on public programs. Also, many existing regulations that increase the cost of doing business in California are intended to improve environmental quality or provide protections for workers. In such cases, the state must balance the goal of attracting businesses with these competing objectives.

→ ***How Effective Are Business Hiring or Investment Incentives?*** The Legislature has established various programs that address specific business climate concerns. For example, the state's motion picture production tax credit subsidizes the film and television industry and the California Competes grant and tax credit programs seek to retain or attract businesses to the state. Consistent evaluation of these programs could determine whether they are achieving their intended goals and help make them more effective, and the Legislature can apply lessons learned to new business incentive programs. Additionally, any potential benefits from business incentives must be balanced against the forgone revenue that could have been used for other public programs.

## EDUCATIONAL ACCESS AND OUTCOMES

California's education system consists of early education centers, K-12 schools, community colleges, the California State University (CSU), the University of California (UC), and various other public and private education institutions. The California Constitution gives individuals a right to access a public education system. Two major education issues facing the state are:

- **Promoting Access.** The state seeks to ensure students have access to an array of high-quality academic courses; career training programs; and other services, such as special education and counseling. At public colleges and universities, the state also regularly assesses enrollment levels and the availability of student financial aid.
- **Improving Outcomes.** Across all education segments, the state aims to provide education that is personally, socially, and economically valuable, while having students of all groups complete their intended academic pathways in a timely manner.

---

### WHY IS IT IMPORTANT?

---

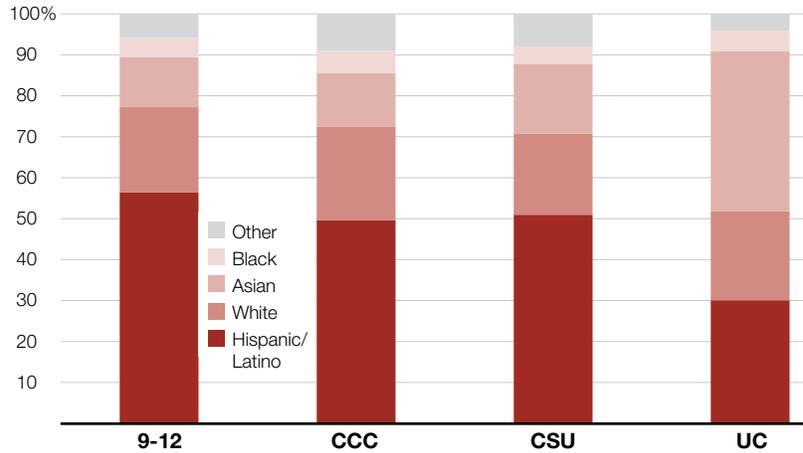
**Education Is Largest Component of State Budget.** Almost half of state General Fund spending is for education programs. More General Fund is spent on education programs collectively than any other area of the state budget.

**Education Provides Statewide and Individual Benefits.** Having an educated public can contribute to an informed citizenry and produce the skills needed for California's economy. Students with higher levels of educational attainment also tend to benefit individually through higher lifetime earnings, greater economic mobility, and other improved life outcomes.

**Some Student Groups Access UC at Lower Rates.** Hispanic/Latino students comprise 55 percent of the state’s high school population but 30 percent of the resident undergraduate population at UC (which is the state’s most selective public university system). Similar access issues exist for other student groups, including low-income students, which also have lower enrollment rates at UC compared to their share of the high school population.

### Latino Students Make Up Much Larger Share of Student Body at High Schools Than UC

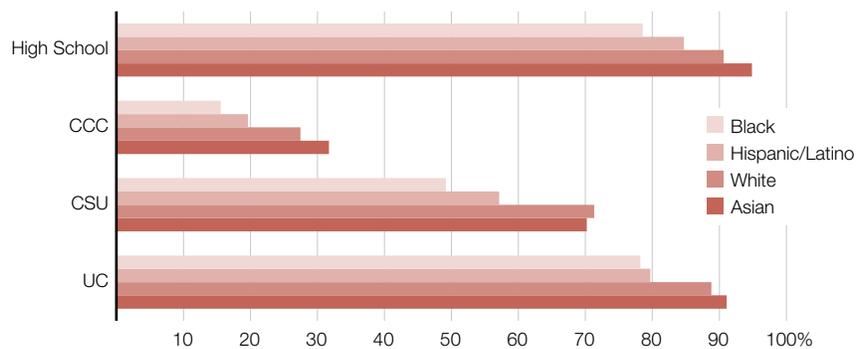
Fall 2022



Note: CSU and UC data reflect resident undergraduate students only.

**Outcomes Are Worse for Some Student Groups and at Some Segments.** Graduation rates tend to be lower for Hispanic/Latino and Black students than other student groups. Graduation rates also tend to be lower at some segments, particularly the community colleges, than at other segments. Gaps in graduation rates exist by socioeconomic status, gender, and various other student factors too.

### Some Student Groups Graduate at Notably Lower Rates



Note: Reflects four-year high school graduation rate, four-year CCC graduation or transfer rate, and six-year CSU and UC graduation rates for students entering as freshmen. Reflects most recent cohort data available (the high school cohort starting in 2018-19 and the higher education cohort starting in 2016-17).

## — WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

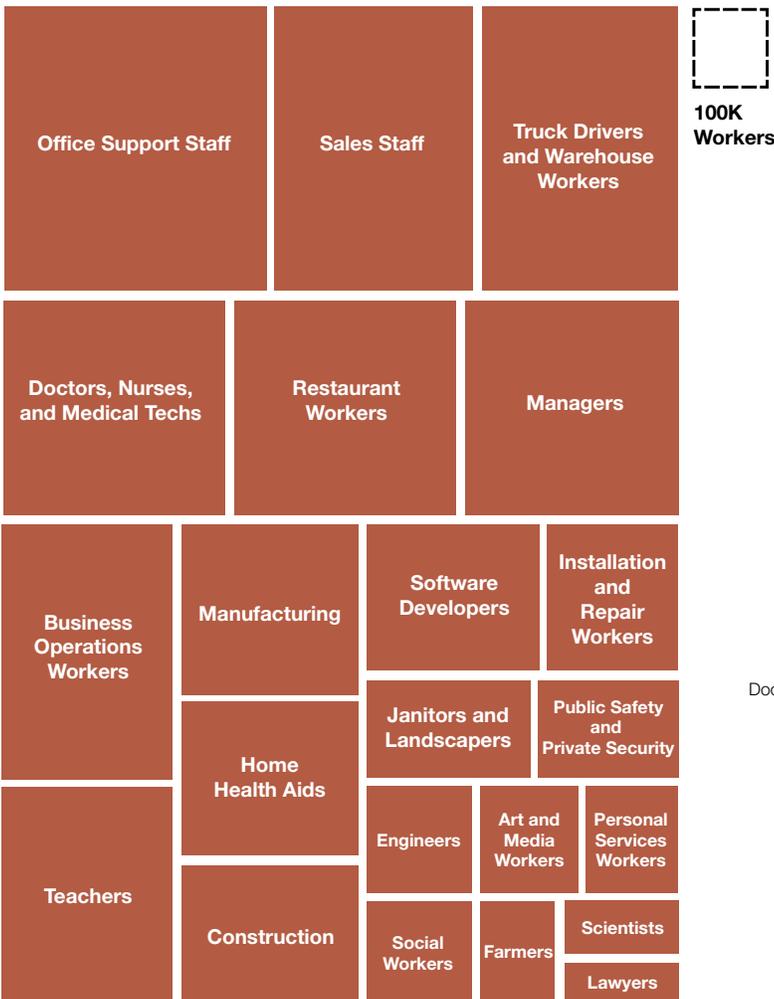
- ***How Will the Legislature Prioritize Among Its Educational Objectives?*** The Legislature will continue to face trade-offs between promoting greater access (such as funding more enrollment or more financial aid) and improving outcomes (such as enhancing student support programs). Moreover, some options will be costlier than others. For example, funding an additional enrollment slot at UC costs more than an additional slot at CSU.
- ***How Will the Legislature Align Its Fiscal and Policy Decisions With Its Educational Objectives?*** Each year, the Legislature makes important decisions about how to allocate education funding. In particular, as part of the annual budget process, the Legislature regularly considers how best to align its education funding formulas, categorical programs, staff recruitment and retention initiatives, higher education enrollment targets, and capital priorities with its access and outcome goals. The Legislature also regularly makes important policy decisions involving educational access and outcomes. In particular, it faces key decisions around eligibility for education programs and services, academic standards, educator qualifications, facility utilization, and program improvement.
- ***How Could the Legislature Improve the Ways It Measures Educational Access and Outcomes?*** The Legislature puts testing, data, and reporting requirements in place to track educational access and outcomes, with the overarching goal of conducting effective oversight and improving educational programs. The Legislature may want to continue looking for ways to make these assessment tools and data as reliable and meaningful as possible. The Legislature might also want to continue exploring ways to make longitudinal and cross-segment data more consistent and readily available.

# WORKING IN CALIFORNIA

California’s roughly 20 million workers work in a variety of occupations, in different environments, and earn a range of wages. The state’s labor market is constantly evolving. The skills required of workers change over time, as does the nature of their work. Each month, about 500,000 workers switch jobs, often seeking higher pay, improved working conditions, or a better match to their skills.

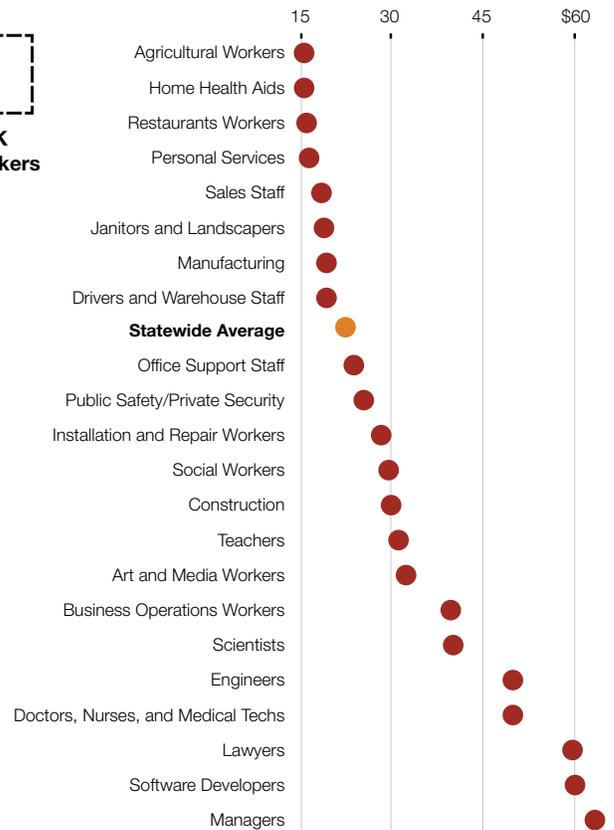
## What Do Californians Do for Work?

2022



## Californians Earn a Range of Wages

Median Hourly Wage 2022



Categories shown are from the U.S. Bureau of Labor Statistics' Occupational Employment and Wage Statistics program.

Some titles abbreviated for simplicity.

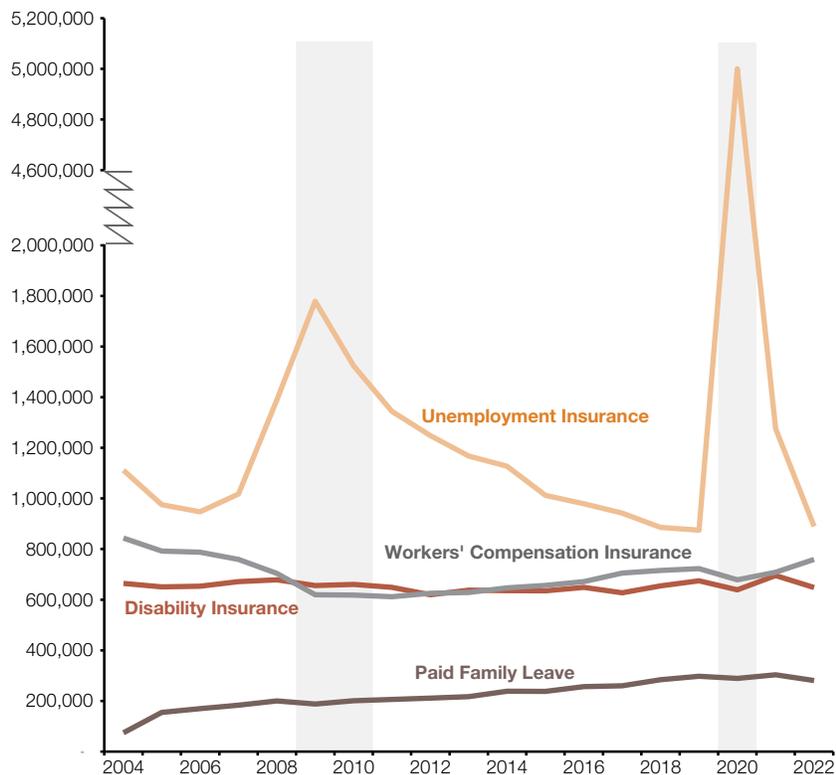
WHY IS IT IMPORTANT?

**Work Is Central to Well-Being of California’s 20 Million Workers.** California’s economy provides most workers with stable jobs that create economic security for themselves and their families. The Legislature oversees the state’s labor market with an eye toward balancing the needs of businesses and workers. For example, the state sets the minimum wage, rest break requirements, and workplace safety laws that employers must follow. Yet, for some workers—disproportionately women and workers of color—wages alone are insufficient to meet the high cost of living in California. Further, difficult working conditions—such as inconsistent scheduling or job insecurity—can lead to stress and fragile household budgets.

**State Programs Can Help Californians Acquire Job Skills.** The state oversees schools, community colleges and universities, and career technical education programs which, among other things, help Californians acquire workplace skills. Businesses and governments thrive when they can attract skilled and dependable workers. These workers deliver valued goods and services and help drive innovation, which is at the center of a growing economy.

**State Also Supports Workers in Transition.** The state runs work insurance programs to support workers during labor market transitions, injuries, and life changes. For instance, the state provides temporary benefits to workers who leave work to bond with a new child or care for an ill relative. Each year, about one in seven workers uses one of the state’s work insurance programs.

**Annual Claims for Major State Work Insurance Programs**



## — WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

- ***Is the State Running Its Work Insurance Programs Effectively?*** Some workers find the state’s longstanding work insurance programs are difficult to navigate and often delayed. The Legislature could consider what steps would improve the state’s work insurance programs and update the programs to match changes in the state’s labor market. For example, the Legislature could consider ways to streamline applications and ongoing paperwork so receiving benefits is easier and faster for workers.
- ***Does the Legislature Have Tools to Improve Job Quality?*** Many workers could benefit from more stable jobs, with higher wages, and improved working conditions. In what direct or indirect ways can the Legislature improve job quality for these workers? And how should the Legislature weigh the benefits of these changes against the potential costs to businesses?
- ***Can the Legislature Expand Access to Good Jobs for Workers Who Face Barriers?*** Some groups of workers—notably Black and Hispanic/Latino workers, as well as many immigrant workers—are less likely to work in high-wage, stable fields that provide economic security and an opportunity for wealth building. The underlying causes of these inequities are complex but can be tied to factors such as poverty, limited access to quality education, fewer networking connections, and involvement with the justice system. In what ways, and to what extent, can the Legislature orient programs and policies to expand access to good jobs for these workers?
- ***What Role Should the State Play in Supporting New Technologies and Preparing for Upcoming Changes?*** Many changes to the state’s economy and labor market are on the horizon—including climate change adaptation, the role that artificial intelligence will play across all sectors, and an increasingly digital labor marketplace. Even though some of these changes have the potential to increase overall productivity—such as the rapid development of artificial intelligence—they could still lead to significant shifts in the types of jobs available and worker skills needed. What role and capacity does the state have to help workers navigate these changes? Possibilities might include steps to retrain workers whose jobs are disrupted by new technology, funding local efforts to prepare for a changing climate, or charting career pipelines to emerging but uncertain labor fields.

# STATE INFRASTRUCTURE NEEDS

California has a vast array of infrastructure in sectors such as transportation, health services, education, criminal justice, water and other natural resources, broadband, and electric utilities. California’s infrastructure is owned, operated, and maintained by various levels of government and private entities. The state has a direct and primary role in ensuring the adequacy of the infrastructure it owns. In some cases, the state also provides regulatory oversight and financial support for infrastructure owned by other entities.

## WHY IS IT IMPORTANT?

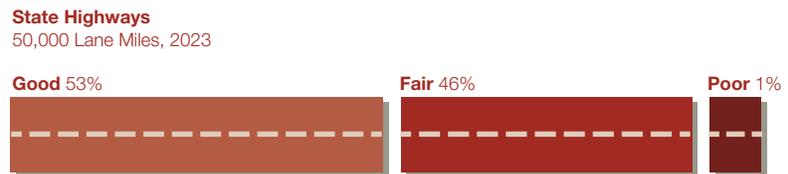
**Effective Infrastructure Is Integral to Economic Activity and Quality of Life.** Effective infrastructure—such as for electricity and transportation—can facilitate goods production and trade as well as improve productivity. In addition, infrastructure can facilitate the delivery of programs and services that impact the quality of life for residents, such as providing access to clean drinking water, education, and recreational spaces.

### Existing Infrastructure Is Aging and in Need of Repair or Replacement.

Many components of California’s infrastructure—such as much of its levee system, highway system, and electricity transmission and distribution infrastructure—were built decades ago and may require substantial upgrades to enable them to continue to provide safe, efficient, and reliable service. Additionally, aging infrastructure may require modifications to comply with newer construction standards related to earthquake safety, energy efficiency, or disability access.

### Infrastructure in California Is in Need of Maintenance and Repair

#### Roughly Half of State Highways Are in Poor or Fair Condition



#### More Than One-Third of Levee Areas Have Unacceptable Maintenance Ratings



Levee Areas = unique geographical areas maintained and operated by local public agencies.

Sources: California Department of Transportation (2023) and California Department of Water Resources (2022).

**Statewide Infrastructure Needs Are Changing Due to Various Factors.** These include:

- **Climate change impacts** (including rising temperatures, extreme weather events, and sea-level rise) may require new or modified infrastructure. For example, more frequent and intense droughts may necessitate development of more water storage and recycling facilities.
- **Advancements in technology** can drive changes in infrastructure needs, such as increased demand for electric vehicle infrastructure and broadband connectivity.
- **Policy changes** can also impact infrastructure needs. For example, changes to sentencing laws contributed to a decline in the prison population and, consequently, a reduced need for prison infrastructure.
- **Shifting demographics and lifestyles**—including the location and age of the population—can drive demand for infrastructure such as schools. In addition, changing work patterns and lifestyle preferences can affect infrastructure needs such as transportation facilities and office space.

## — WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

➔ **How Should the State Prioritize Across Various Infrastructure Needs?** Given the magnitude of statewide infrastructure needs across multiple jurisdictions, departments, and policy areas, the Legislature may need to consider how to target state funding. Factors the Legislature could consider in prioritizing infrastructure expenditures include whether projects are owned by the state or other entities, protect health and safety, fulfill legal requirements, prevent higher future state costs, address historic inequities in infrastructure investments and siting, or help achieve legislative goals and priorities.

➔ **How Should the State Pay for Its Infrastructure Priorities?** The Legislature also may need to consider how to fund its infrastructure priorities. This includes whether to pay for projects up front with cash or through borrowing, and which fund sources to use—such as the General Fund or special funds. The Legislature may want to consider how to support not only one-time construction costs but also ongoing costs to maintain and operate infrastructure.

➔ **How Should the Legislature Consider Infrastructure Impacts on Equity?** The Legislature may want to ensure its future infrastructure decisions both avoid exacerbating and help address existing disparities. For example, as a result of having adequate and well-maintained infrastructure, some communities have better access to clean, reliable water supplies. Additionally, the way infrastructure is sited can benefit some communities at the expense of others. For example, some of the state’s freeways currently disadvantage certain communities by bifurcating them and subjecting them to higher levels of pollution.

→ ***How Should the Legislature Balance Trade-Offs in Overseeing and Regulating Infrastructure?*** The Legislature faces important choices—often involving difficult trade-offs—related to how it oversees and regulates local, state, and private infrastructure. For example, the state has a strong interest in ensuring that infrastructure is built, maintained, and operated safely (which, in some cases, can be costly), while balancing other goals such as preserving the affordability of services. Similarly, the Legislature may want to make certain that entities appropriately evaluate and mitigate potential project impacts on the environment and local communities while also seeking to avoid lengthy and costly delays.

→ ***How Should the State Plan for and Address Changing Infrastructure Needs?*** Infrastructure projects typically are costly and require several years to plan, develop, fund, and implement. As such, the Legislature may want to anticipate and plan for how the state's infrastructure needs will change in the future. For example, while many of the most intense effects of sea-level rise may not be experienced for years or even decades, both state and local planning efforts must happen expeditiously in order to ensure projects can be strategically sequenced and put in place in time to be most impactful.

# TRANSPORTATION MOBILITY

California’s transportation system supports the movement of people and goods around the state. The system is made up of over 50,000 lane miles of highways and 300,000 lane miles of local streets and roads, as well as transit and rail systems that are operated by over 200 agencies across the state. A major goal of the state’s transportation system is to support mobility—the ability of people and goods to reach their desired destinations in a reliable and efficient manner.

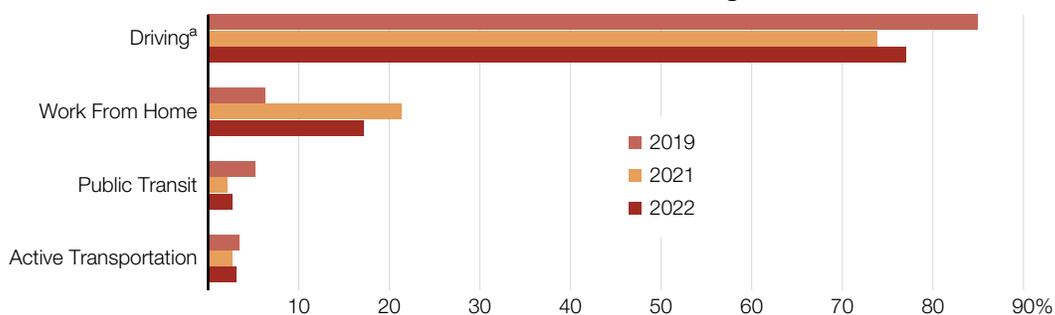
## WHY IS IT IMPORTANT?

**Transportation Mobility Provides Economic and Social Benefits.** Mobility ensures that people in California can complete travel via a wide range of reliable and efficient transportation options that suit multiple needs and preferences. This provides widespread economic and social benefits to people and businesses. For instance, mobility allows people to access jobs, essential services, and social and recreational activities. Robust mobility also allows goods to reach their desired destinations more quickly.

**Certain Regions and Communities Are Disparately Impacted by Mobility Challenges.** Despite the state’s extensive transportation system, many regions and communities face issues that limit mobility. In the state’s urban areas, roadway congestion delays people and goods from reaching their desired destinations. Additionally, lower-income and rural communities often lack adequate access to multiple transportation options, which can make it difficult to reach economic opportunities and essential services.

**Statewide Mobility Needs Are Shifting.** Statewide mobility needs are shifting due to several factors that will influence the ways in which people and goods move. For instance, increased telecommuting and the high cost of housing have impacted where people choose to live, where and how often they travel, and what transportation modes they choose. Furthermore, changing consumer preferences, such as an increased use of online shopping, likely will continue to change how goods are transported across the state and within communities. In addition, innovations in the transportation sector could impact mobility in varying ways. For example, some developments (such as bike sharing and on-demand public transportation) could reduce congestion by encouraging people to reduce their use of private vehicles. In contrast, other innovations (such as zero-emission and autonomous vehicles) could increase congestion by incentivizing people to travel more miles in private vehicles, resulting in more cars on the road.

### Californians' Work Commutes Have Been Shifting Some in Recent Years



<sup>a</sup> Driving includes cars, trucks, vans, motorcycles, and taxis.

Note: 2020 data omitted due to the effects of the COVID-19 pandemic on data collection and quality.

— WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

→ **What Actions Should the State Take to Improve Mobility?** Improving mobility likely will require a mix of policies, such as both improving the efficiency of the state’s current transportation system and increasing access to transit and alternative modes of transportation. These efforts likely will need to be undertaken in coordination with local governments given that they own much of the state’s overall transportation system, such as transit systems and local roads. In addition, the Legislature might want to consider ways in which it can encourage and support local governments in implementing projects and policies that align with the goal of improving mobility—such as locating more housing and businesses near transit centers.

**Various Improvements to the State’s Transportation Systems Could Enhance Mobility**



**Transit**

Increase frequency and reliability, expand service, improve connectivity between systems, and prioritize transit such as by increasing prevalence of bus-only lanes.



**Driving**

Improve connectivity of roadways, reduce congestion and bottlenecks, and improve traffic flow management.



**Walking and Biking**

Increase availability and safety of walking and biking infrastructure, such as by establishing dedicated bike lanes and improving crosswalks.

→ **How Should the Legislature Balance Mobility Improvements With Its Other Goals?**

Because transportation mobility touches on so many aspects of life in California, the Legislature may want to consider how to make improvements in a way that aligns with its other goals. For instance, this means encouraging projects that improve mobility and advance legislative climate goals by decreasing—or, at a minimum, not significantly increasing—greenhouse gas emissions. In addition, coordinating housing policies (such as pursuing denser infill development) with transportation goals could help reduce the need for people to commute long distances—which would address both mobility and climate goals. Focusing on improving mobility for certain target groups can also meet multiple objectives, such as increasing access to economic opportunities and addressing existing inequities in transportation options. Notably, one of the strategies in the state’s Master Plan for Aging is to strengthen the ability of transportation networks to meet the needs of the state’s aging population and persons with disabilities.

→ ***How Should Mobility Improvements Be Funded Over the Long Run?*** Currently, a large portion of the state’s transportation funding comes from fuel taxes. As more drivers switch to zero-emission vehicles over the coming years, corresponding fuel tax revenues are expected to decline. In order to continue supporting improvements to statewide mobility, the Legislature may need to identify alternative funding sources to make up for these lost revenues. For instance, the Legislature could consider increasing existing transportation taxes and fees or shifting costs to other existing funding sources. The state could also implement alternative methods to charge beneficiaries of the state’s transportation system and generate revenue—such as a mileage-based road charge.



## CHAPTER 2 HEALTH, SAFETY, AND WELL-BEING

Quality of life is based on more than simply economic growth. A thriving California must have a healthy and safe environment, including adequate and affordable housing, access to quality health care, and an equitable and effective criminal justice system. In addition, limiting near-term and long-term risks from catastrophic events—including those amplified by climate change—is critical to ensuring long-term prosperity. In this chapter, we identify and discuss key long-term issues affecting the health, safety, and overall well-being of Californians.

# HOUSING AND HOMELESSNESS

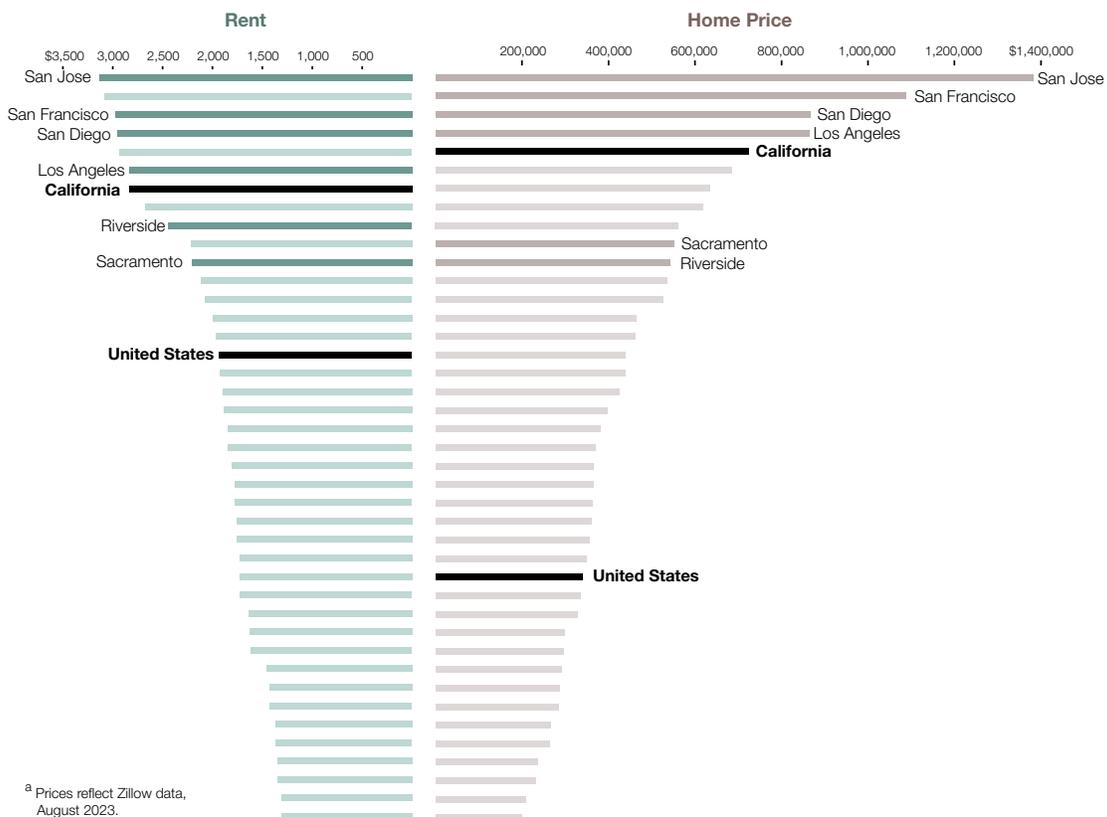
California’s cities and counties make most decisions about when, where, and to what extent housing will be built. Starting in 2017, the state has increased its role in addressing housing affordability and homelessness by providing significant, albeit one-time and temporary, funding towards housing infrastructure and flexible homelessness aid to local governments. Additionally, the state has enacted laws that aim to spur housing development.

## WHY IS IT IMPORTANT?

**Building Less Housing Than People Demand Drives High Housing Costs.** Housing in California has long been more expensive than most of the rest of the country. While many factors have a role in driving California’s high housing costs, the most important is the significant shortage of housing, particularly within urban coastal communities. A shortage of housing in these community means households wishing to live there compete for limited housing. This competition increases home prices and rents. Some people who find these communities unaffordable turn instead to other, generally inland, communities that may be relatively affordable, causing prices there to rise as well.

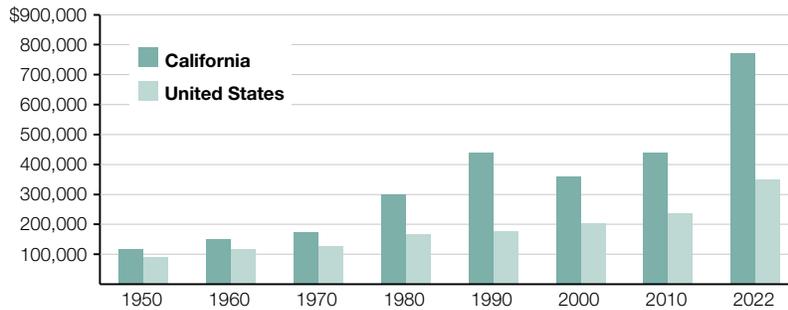
### Housing Is Very Expensive in California

Typical Housing Costs in 40 Largest U.S. Cities, 2023<sup>a</sup>



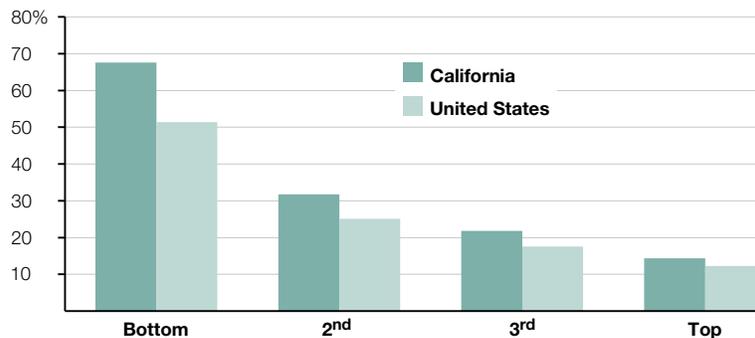
<sup>a</sup> Prices reflect Zillow data, August 2023.

### Inflation-Adjusted Median Home Prices in 2022 Dollars



**Many Households Have Difficulty Affording Housing in California.** Housing costs are the largest component of most household’s spending each month. The high cost of housing makes living in California particularly expensive. Today, an average California home costs 2.3 times the national average. California’s average monthly rent is about 50 percent higher than the rest of the country. In California, around 2.5 million low-income households are cost burdened (spend more than 30 percent of their incomes on housing). Over 1.5 million low-income renters face even more dire cost pressures—spending more than half of their income on housing.

### Median Share of Income Spent on Housing by Income Quartile 2021



#### **Housing Affordability Affects Homelessness.**

While homelessness is a complex problem with many causes, the high cost of housing is a significant contributor. Rising housing costs that have exceeded growth in wages, particularly for low-income households, put Californians at risk of housing instability and homelessness. As of January 2023, California had about 181,400 people experiencing homelessness, which represented about 28 percent of the total homeless population in the nation. (California’s overall population, however, is about 12 percent of the nation.) Additionally, nearly half of all people experiencing unsheltered homelessness reside in California.

**Addressing Housing and Homelessness Challenges Will Take Time and Require Continued State Engagement.** The housing and homelessness crises are a long time in the making, the culmination of decades of federal, state, and local policy choices that resulted in housing construction shortfalls and inequities in access to homeownership. This, in turn, limited opportunities to live in communities with quality schools, well-paying jobs, and other characteristic that improve quality of life. The scope of the problem is massive. Millions of Californians struggle to find housing that is both affordable and suits their needs. Addressing these issues is one of the most difficult challenges facing the state’s policy makers.

The enormity of California’s housing and homelessness challenges suggest that policy makers will need to engage on a variety of solutions for many years or decades. While the Legislature has taken important steps to address these issues in recent years by enacting laws that aim to spur housing development, subsidizing affordable housing development, and providing aid to prevent and address homelessness, opportunities remain for continued state engagement.

## — WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

- ➔ ***What Is the State’s Role in Addressing the Underlying Causes of the Housing and Homelessness Crisis Over the Long Term?*** Addressing housing affordability and homelessness in the long term will require addressing the underlying housing shortage. While recent laws aim to increase housing development, the Legislature may wish to monitor the effectiveness of those changes and whether further changes are warranted. In addition, the Legislature may wish to consider what role the state should have in supporting housing construction and addressing homelessness over the long term, including whether the state should have an ongoing fiscal role.
- ➔ ***How Can the State Exercise Strong Oversight and Assess Progress Towards Alleviating High Housing Costs and Homelessness?*** Even substantial investments in resources could quickly dissipate without demonstrating much progress if investments are made without a clear plan and ongoing oversight. Recently, the Legislature enacted an oversight framework to coordinate local governments’ efforts. Assessing the effectiveness of that framework and coordination will be an important step in ensuring efforts to address homelessness are effective.
- ➔ ***What Steps Can the State Take to Address the Immediate Needs of People Struggling With Housing Affordability and Experiencing Homelessness?*** Many people are experiencing homelessness and many more have unstable housing. For these people, job loss or an unexpected expense could result in homelessness. The Legislature may wish to consider what steps the state could take to identify effective short-term solutions to provide immediate relief and mitigate against more people becoming homeless.
- ➔ ***How Can the State Equitably Address the Housing Needs of Particular Populations?*** Some populations face greater challenges affording housing and remaining housed. For example, the lowest-income individuals and families, seniors and persons with disabilities on a fixed income, and people with severe behavioral health needs could have particular challenges affording housing and navigating out of homelessness. Assessing the particular needs of key populations could help target state actions.

# POVERTY ALLEVIATION AND PREVENTION

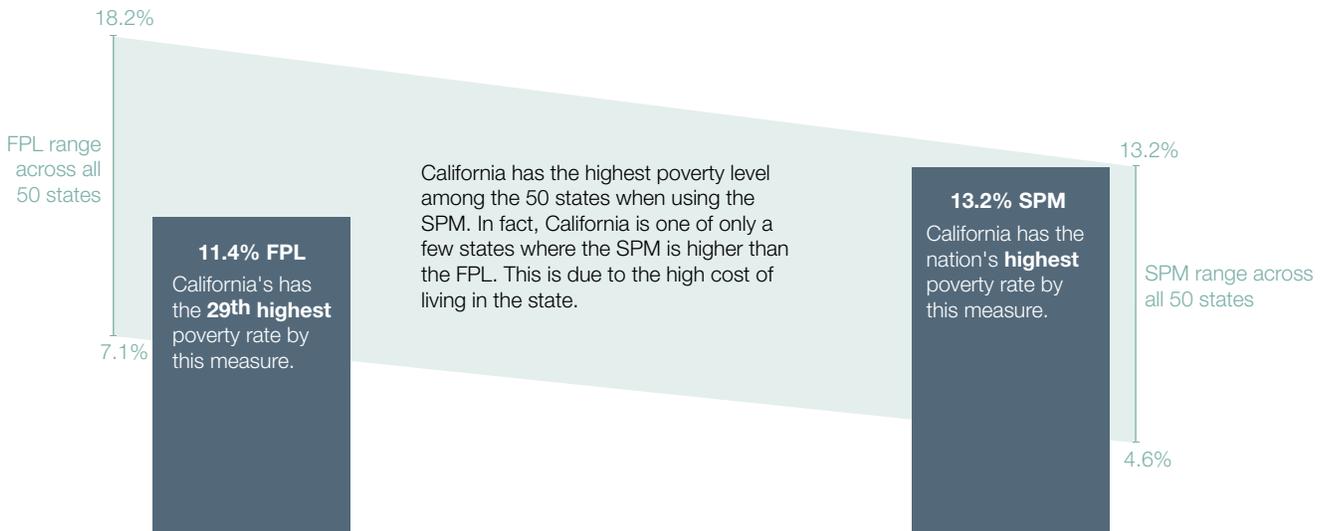
People living in poverty have incomes too low to afford basic needs. The state operates programs intended to address poverty by providing eligible individuals and families with income supports and other benefits.

## WHY IS IT IMPORTANT?

**Poverty Has Both Individual and Social Costs.** Research finds individuals living in poverty experience worse health outcomes (including mental health outcomes) and lower life expectancy than individuals with more economic resources. Living in poverty also is associated with disabilities or chronic health issues, rendering some affected individuals unable to work. In children, poverty is linked to lower levels of learning.

### California Poverty Rate, by Two Different Measures (2022)

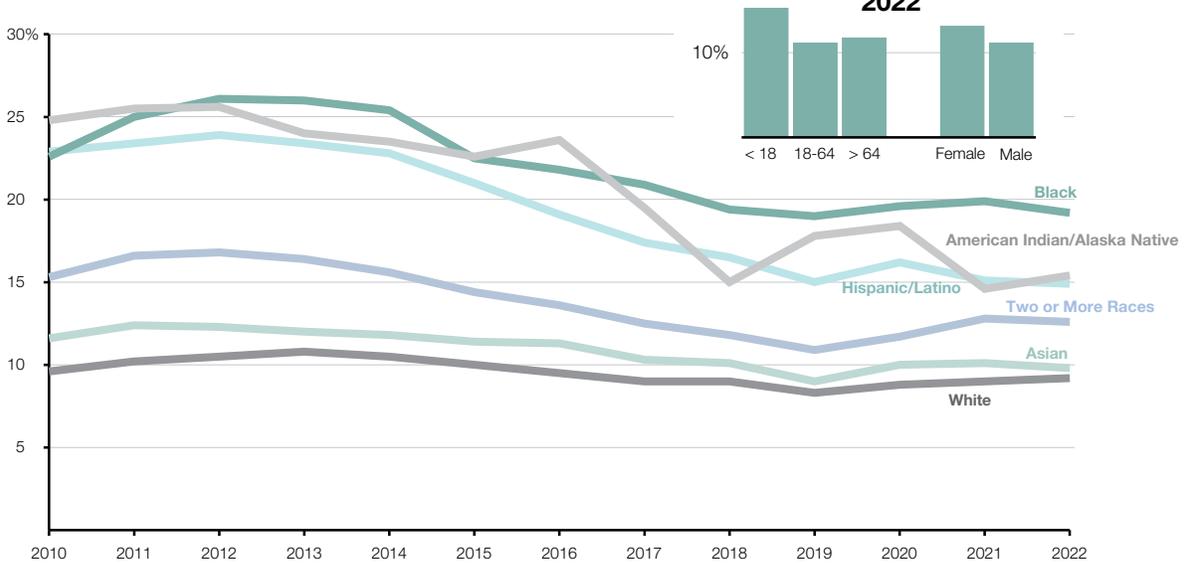
The federal poverty level (FPL) measures the number of people living below a specified level of income based on their family size. The supplemental poverty measure (SPM) measures the poverty level based on the cost of living and social safety net benefits.



**Poverty Disproportionately Affects Different Groups of Californians.** Some demographic groups experience poverty at notably higher rates, disparities which to some extent can be linked to historical laws and policies with long-lasting, disproportionate impacts, particularly in terms of wealth accumulation. Poverty rates vary across regions of the state, with Californians in both rural and urban areas experiencing varying degrees of poverty. Roughly half of families in poverty have at least one family member who works some portion of the year.

**Poverty Rates in California Vary Across Groups**

Share of Californians Living Below the Federal Poverty Level



Notes: Data from American Community Survey.  
 Due to how data are categorized, some individuals are counted in more than one group.  
 Smaller sample size for American Indian/Alaska Native results in year-to-year changes that may appear larger than for other groups.

**State Plays Significant Role in Poverty Mitigation.** State and federal safety net programs aim to help individuals and families mitigate poverty and address barriers to economic mobility. These benefits improve the economic well-being of recipients. Although California has the highest poverty rate under the supplemental poverty measure, absent these programs, the rate would be nearly double. Reflecting the significant role the state plays in poverty mitigation, over one-third of the state General Fund is allocated to these programs.

## — WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

- ***How Should Assistance Be Targeted?*** Safety net programs primarily assist individuals already living under or near the federal poverty level. Safety net programs vary from those with relatively broad eligibility criteria—such as Medi-Cal and the Earned Income Tax Credit—to those that are much more targeted—like aging programs for low-income seniors. A key trade-off the Legislature faces is whether to target poverty mitigation programs to specific populations—potentially making a larger impact on a smaller group—or to provide broad-based assistance.
- ***What Are the Different Approaches That Various Safety Net Programs Take?*** While the state’s array of safety net programs all broadly aim to help mitigate poverty, programs’ specific goals differ. For example, some programs directly seek to raise individuals’ incomes or provide cash-like benefits—like nutrition assistance—while other programs provide services to vulnerable populations to help improve safety and quality of life—like in-home support for aging and disabled individuals. Regularly assessing whether these programs are achieving their specific goals can help the Legislature determine what changes might need to be made or how to better target assistance.
- ***How Does Participation Vary Across Programs and Groups?*** Participation by eligible Californians varies across programs. For example, around 95 percent of Medi-Cal-eligible individuals are enrolled in the program, whereas we estimate only about 60 percent of eligible families enroll in the state’s cash assistance program for families, the California Work Opportunity and Responsibility to Kids (CalWORKs) program. Moreover, in some programs, certain populations participate at lower rates or receive lower average benefits. Identifying what barriers Californians may face to participating in these programs could help the Legislature understand the efficacy of the state’s various safety net programs and develop policies to increase participation, access, and benefits where desired.
- ***How Can the State Improve Coordination Across Safety Net Programs?*** There is significant overlap in the populations that are eligible for various safety net programs. For example, families that are eligible for CalWORKs typically are eligible for food assistance and Medi-Cal. Considering policies to coordinate application, eligibility determination, and administration of these programs could improve overall take up and provide better access to services for eligible families.
- ***How Can the State’s Programs Complement Federal Efforts?*** A large portion of state spending on safety net programs reflects the state’s required funding share for federal programs. In some cases, however, the state spends above federal match requirements for certain programs. In those cases, considering how state-only programs can complement federal efforts—for instance by providing services to individuals ineligible for federal assistance—can help address potential gaps in the state’s safety net.

# PUBLIC HEALTH

Public health generally refers to the health of a population, rather than the health (or health care) of an individual person. While the provision of health care to individuals impacts public health, a number of factors outside of direct health care—sometimes referred to as the social determinants of health (SDOH)—influence and affect public health overall.

**Major Public Health Issues...**

|                      |                     |
|----------------------|---------------------|
| Chronic Diseases     | Infectious Diseases |
| Climate Change       | Mental Health       |
| Environmental Health | Substance Misuse    |

**...Disproportionately Impact Californians Based on SDOH**

|                       |                   |
|-----------------------|-------------------|
| Employment            | Housing           |
| Environmental Quality | Quality Education |
| Healthy Food          | Transportation    |

SDOH = Social Determinants of Health.

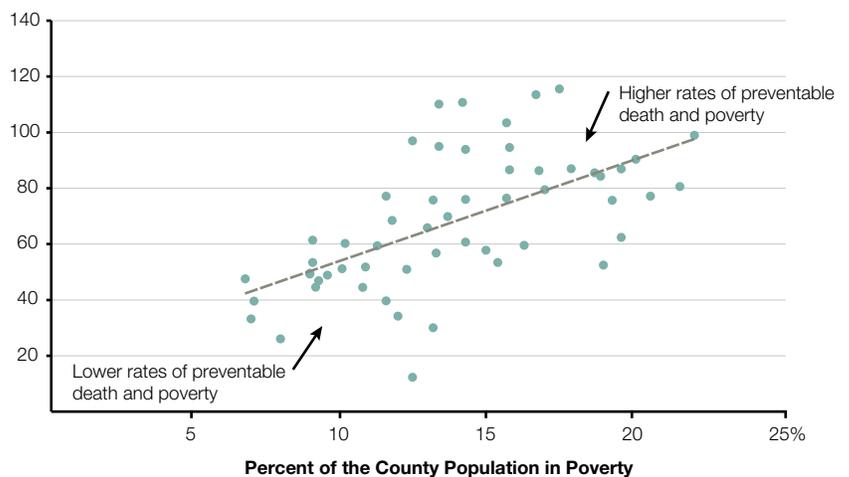
## WHY IS IT IMPORTANT?

**The Overall Health of a Population Has Consequences Beyond Individual Health.** Public health can affect the economy and productivity in a variety of ways. For example, better overall health can reduce health care costs and utilization, improve educational outcomes, and lead to more productivity in the workplace. And just as good health can have benefits in health care delivery systems, economic output, and quality of life, poor health can create costs in those domains.

**Public Health Systems Play a Vital Role in Protecting the Public, Promoting Healthy Behaviors, and Addressing Health Disparities.** State and local public health departments aim to prevent the spread of communicable diseases through statewide testing and monitoring programs. They also help address environmental hazards, coordinate the public health response to disasters, support research and epidemiology to better understand the causes of disease and health outcome disparities, and promote healthy behaviors.

### Preventable Deaths Generally Increase With Poverty

Age-Adjusted Death Rate, Per 100,000 People



Note: For the purposes of this figure, preventable deaths include deaths from communicable diseases, childbirth, and nutritional deficiencies.

Source: California Department of Public Health (2023).

***Disparate Public Health Outcomes Exacerbated by SDOH.*** Negative public health outcomes often are concentrated in historically disadvantaged areas and populations. For example, areas that historically were subject to “redlining”—discriminatory practices related to housing and lending—are linked with greater levels of air pollution. These types of environmental health conditions can have negative consequences for public health. Differing experiences related to SDOH can be a major contributor to health disparities within and across population groups.

## — WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

### → ***Is the State Public Health System Structured to Address Emerging Issues?***

The Legislature may wish to consider whether the state’s public health system is structured sufficiently to address emerging issues. For example, is the state sufficiently preparing for the impacts of climate change on Californians’ health? What requirements are there for local public health entities in this regard? Assessing the state versus local role in preparing and responding to new challenges is an important consideration in assessing the preparedness of the state’s public health system.

### → ***How Can the State Ensure Sufficient Capacity in the Public Health System?***

Based upon the evaluation of the public health system’s structure, the Legislature next may wish to examine the system’s capacity. Historically, most public health funding has been provided by the federal government, with smaller, issue-specific state programs. After COVID-19, the state expanded its support to state and local health entities in order to build greater capacity. The Legislature may wish to monitor whether those resources are yielding the intended improvements to the public health system and overall health. Moreover, the Legislature may wish to assess whether the state’s public health laboratories and information technology systems need to be enhanced or reimagined to provide a more holistic approach to public health.

### → ***What Are the Public Health Tools That Are Most Effective in Addressing Disparities Influenced by SDOH?***

Addressing SDOH requires coordinating efforts across state and local programs and departments. While the public health system has specific responsibilities related to SDOH, the Legislature may wish to consider how to identify effective interventions that span multiple areas of state and local government in order to address SDOH impacting disparities in public health more comprehensively.

# ACCESS TO QUALITY HEALTH CARE

Health care includes traditional medical and dental care, behavioral health services, and long-term services and supports. State policy generally focuses on two key areas of health care:

- **Access.** State policies and programs, such as Medi-Cal and Covered California, aim to make health care coverage and timely services accessible and affordable for individuals, regardless of their income, employment, or location.
- **Quality.** State policies and programs, such as regulation of health insurance plans and health care providers, aim to ensure that Californians receive consistent delivery of care that is likely to improve their physical or mental well-being.

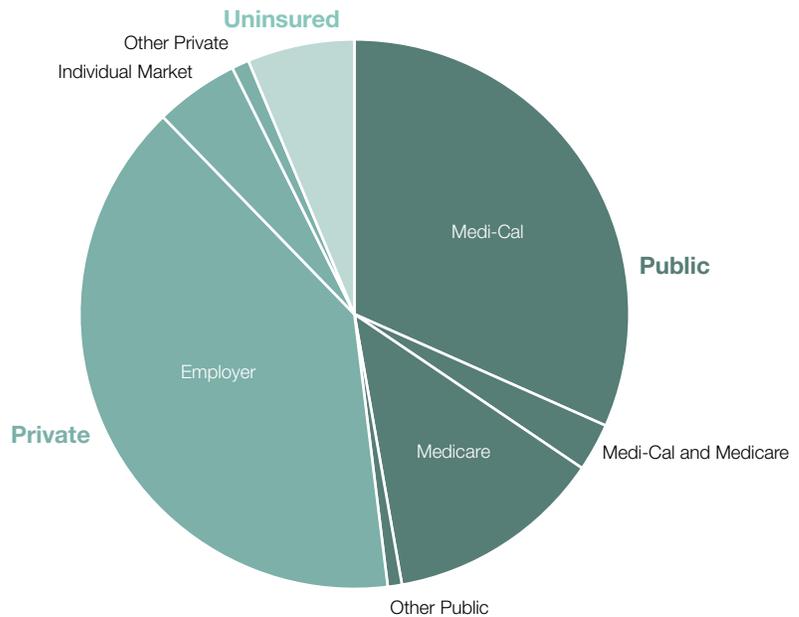
## WHY IS IT IMPORTANT?

**Health Care Impacts Individual and Economic Well-Being.** Having access to quality physical and behavioral health care is a key determinant of an individual’s overall health and well-being. Overall health, in turn, is associated with other key life outcomes, such as educational and career attainment.

**While Most Californians Have Health Coverage and Generally Are in Good Health...** Most Californians—over 90 percent—receive health coverage through public programs or private insurance. Past federal and state actions, such as the federal Patient Protection and Affordable Care Act and California’s expansion of Medi-Cal eligibility for undocumented residents, have increased this share. Californians also generally experience equal or better health outcomes when compared to residents in other states.

### Most Californians Have Health Coverage, From Many Sources

Projected Health Coverage in 2024



Note: LAO projection uses information from the California Health Interview Survey, the Department of Health Care Services, Covered California, and the UC Berkeley Labor Center.

**...Gaps in Access and Quality Remain.** For example, California for many years has experienced a shortage of certain health care providers—such as primary care and behavioral health providers—and facilities statewide and within certain regions. These shortages can impact access to timely care, even for residents with health care coverage. Disparities in health outcomes also exist by race, ethnicity, socioeconomic status, and other factors, likely reflecting, in part, differences in access and quality of health care for certain groups.

### Legislature Has Four Key Levers to Potentially Improve Health Outcomes and Reduce Disparities



**Financing**  
Expand funding and change the way payments to providers are made.



**Coordination**  
Reduce fragmentation and simplify processes and rules.



**Delivery**  
Encourage new delivery models and reduce legal barriers to accessing and providing care.



**Oversight**  
Increase access to data and set and enforce performance expectations.

## — WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

➔ **How Can the State Address Rising Health Care Costs?** Price and utilization growth has led to higher health care costs over time in California, with inflation-adjusted, per-capita spending on health care services nearly doubling between 1991 and 2020. High health care costs can drive Californians to defer needed medical care or even forgo health coverage altogether. In recent years, the state has enacted programs and initiatives in response to rising health care costs, such as by establishing the Office of Health Care Affordability. The Legislature may want to evaluate the impact of these initiatives in the coming years, as well as explore what other policy options exist to ensure health care is affordable for most Californians.

➔ **How Can the State Address the Health Needs of an Aging and Diversifying Population?** Over the next decade, the state’s overall population is expected to become older and more racially/ethnically diverse. These demographic changes will tend to increase demand for specialized and costly health care services (such as long-term care), as well as outreach to help navigate the complex health care system. In recent years, the state has enacted several policy changes intended to improve services to these populations, such as by consolidating most long-term care into one Medi-Cal delivery system. Moving forward, the Legislature likely will continue to face budgetary and policy pressures in preparing the state’s health care system to respond to the state’s demographic changes.

- ➔ ***What Is the Health Care System's Role in Addressing SDOH?*** Health outcomes are affected by more than health care; they are also influenced significantly by SDOH—such as education, income, and environment. Accordingly, changes in other policy areas impact Californians' health outcomes. In recent years, policymakers have expanded the role of the state's health care system to address SDOH, such as by allowing funding for housing-related services through Medi-Cal. What non-health-related services are best delivered by the state's health care system, rather than by other areas, will be a key question going forward.
- ➔ ***How Can the State Improve the Delivery of Behavioral Health Services?*** California's behavioral health system is fragmented and administered separately from the rest of the health care delivery system, creating complexity for patients to seek care and providers to receive payment. Statewide shortages of providers have compounded these challenges, hindering patients' ability to access timely care. In response to these issues, the state recently enacted several initiatives aimed at reducing fragmentation, expanding coverage of services, and developing the state's infrastructure and provider workforce. The effectiveness of these recent changes warrants evaluation. In addition, the Legislature may wish to consider what additional opportunities exist to improve access and quality for behavioral health services.

# CRIMINAL JUSTICE SYSTEM OUTCOMES

California's criminal justice system consists of state, local, and nongovernmental agencies who are responsible for patrolling communities; carrying out judicial proceedings; and housing, supervising, and providing services to people who are accused or convicted of crimes. Lawmakers and the public seek various outcomes from the system, including (1) preventing and punishing crime; (2) upholding the rights of victims, the accused, and convicted; and (3) reintegrating the convicted back into the community.

## Examples of Criminal Justice System Outcomes and Indicators

### System Outcomes

### Indicators of Outcomes



Preventing and Punishing Crime

Crime rates  
Law enforcement interactions  
Portion of crimes solved



Upholding Rights of Victims, Accused, and Convicted

Court process metrics  
Victim and accused views on fairness of process  
Conditions of incarceration



Reintegrating the Convicted Back Into the Community

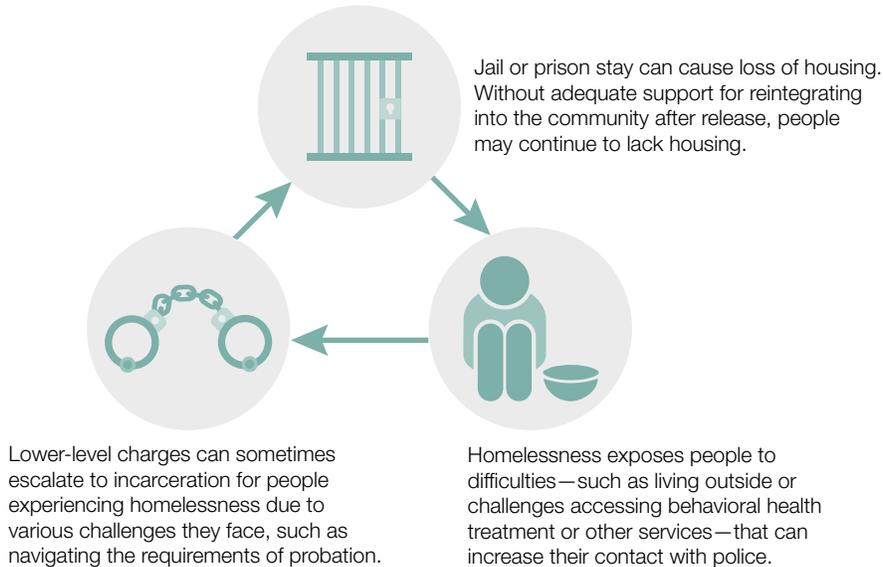
Recidivism (such as committing a new crime)  
Housing  
Employment  
Behavioral health

## WHY IS IT IMPORTANT?

**Criminal Justice System Outcomes Are High Stakes in Nature.** The prevention of and response to crime is necessary for communities to flourish, while the failure to do so can result in significant harm to victims, such as the loss of life and property. In addition, the system's outcomes have high stakes for people accused and convicted of crimes. This is because significant harm (such as loss of freedom or death) can result when the system fails to uphold their rights. When these outcomes are disproportionate for different groups of people, it raises equity concerns, further increasing the stakes.

**Outcomes Can Interact With Other Policy Areas.** Criminal justice system outcomes impact and are impacted by other policy areas. For example, people who commit crimes and are not reintegrated successfully into the community are more likely to experience homelessness. In addition, people who are experiencing homelessness can be more likely to come into contact with law enforcement and become involved in the criminal justice system.

### Interactions Between Homelessness and Criminal Justice System Involvement



**System Requires Significant Resources.** The state spends roughly \$20 billion annually on the judicial and criminal justice system. Cities and counties spend roughly \$30 billion annually. The Legislature’s role in defining crimes and what penalties they carry can significantly affect the cost of the system.

## — WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

➔ **What Outcomes Should Be Prioritized?** Sometimes there can be tension between the different criminal justice system outcomes that are desired. For example, upholding the rights of people accused of crimes can sometimes make it more difficult to convict, and therefore punish, those who commit crime. Accordingly, it is important for the Legislature to identify its preferred balance.

- ***Who Should Be Responsible for Achieving Outcomes?*** Responsibility for criminal justice system outcomes is divided between many entities and choices made by one can affect others. For example, choices made by city police about how strictly to enforce laws impact the populations of county jails and state prisons. This makes it important to appropriately divide responsibilities between the criminal justice system and other systems (such as behavioral health), governmental and nongovernmental entities, as well as the state and local governments.
- ***How Can Outcomes Be Achieved Cost-Effectively and Equitably?*** It is critical to ensure the state uses effective and equitable methods of achieving desired outcomes and to incentivize local government and nongovernmental entities to do so, particularly given the significant amount of resources required by the criminal justice system and its high stakes. For example, funding programs found by research to cost-effectively reduce recidivism can both reduce costs and improve outcomes. In addition, ensuring those programs are accessible to different groups—such as people living in rural areas or people who do not speak English—can help improve outcomes in an equitable manner.
- ***What Oversight Is Necessary?*** Oversight is critical as it helps determine how effectively and equitably outcomes are achieved. However, there are relatively unique challenges to criminal justice oversight. For example, the system is often not accessible to public view and is split between many different actors who often have significant discretion in carrying out their responsibilities, making it hard to collect consistent data and assign responsibility for outcomes and oversight.

# CLIMATE CHANGE

Climate change is the variation in global or regional climate patterns—including temperature and precipitation—from human activities that increase greenhouse gases (GHGs) in the atmosphere. The state’s current policy responses to climate change fall into two broad categories:

- **Mitigation.** Efforts to reduce GHG emissions, which primarily come from the combustion of fossil fuels such as gasoline, diesel, and natural gas.
- **Adaptation.** Efforts to reduce the damages and risks associated with climate change impacts, such as thinning forests to reduce the severity of wildfires, ensuring adequate water supplies during droughts, and protecting people from extreme heat events.

## WHY IS IT IMPORTANT?

**Climate Change Is Having a Wide Variety of Adverse Effects on California.** The warming planet is a global problem, but California will face risks and damages from a changing climate in the coming decades regardless of whether or not the world—and state—are able to reduce GHGs. Efforts to prepare for and respond to these impacts will be widespread and costly.

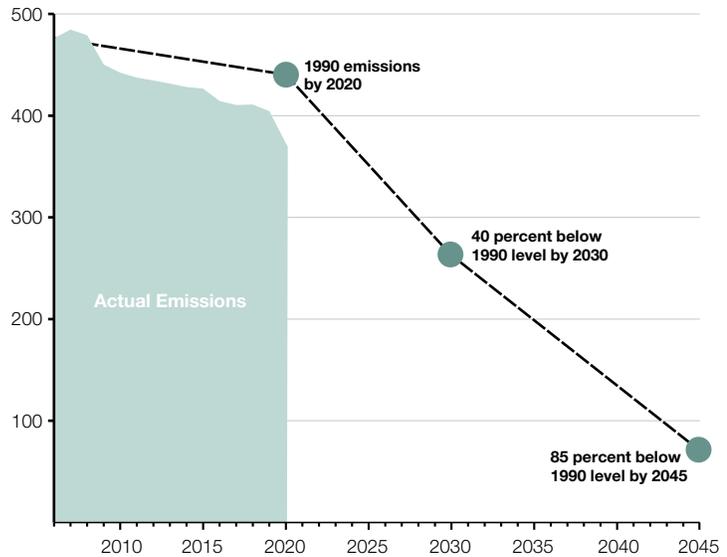
### Impacts of Climate Change on Californians



**California Can Be a Global Leader in Efforts to Reduce GHG Emissions, but Meeting Its Ambitious Goals Will Take Concerted Efforts.** While California contributes only a small portion of global GHG emissions, it can play an important role as a model for other states and countries to help to stimulate innovation and more widespread policy changes. For example, over the past couple of decades, the state has adopted vehicle emissions restrictions which other states subsequently mirrored. State law has established aggressive GHG reduction goals—amounting to a roughly 85 percent reduction from 2020 to 2045—which will require significant efforts and funding across multiple sectors to achieve.

**California Has Adopted Aggressive Greenhouse Gas Reduction Goals**

Millions of Metric Tons of Carbon Dioxide Equivalent



**Certain Populations Are Particularly Vulnerable to Climate Change Impacts.**

Climate change impacts will not affect all Californians equally. Certain residents will be more vulnerable based on their underlying health conditions, where they live, their jobs, and the level of economic resources upon which they can draw. For example, some of the most significant climate impacts—such as heat and wildfire smoke—disproportionately affect certain medically vulnerable groups, including children and the elderly, as well as populations that spend a lot of time outdoors (such as unhoused populations and outdoor workers). Many communities facing disproportionate levels of risk from climate impacts such as heat, flood, and drought-induced water shortages also align with those that experienced historical housing discrimination policies.

— WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

➔ **What Is the Appropriate Role of the State in Preventing, Preparing for, and Responding to Climate Change?** Effectively reducing and responding to the anticipated adverse effects of climate change will require a wide range of actions to be taken not only by the state but also by other actors including households, businesses, local governments, and the federal government. The Legislature may need to weigh what role state programs and policies can and should play, as compared to actions by other entities. For example, the Legislature could consider steps such as (1) adopting statewide guidance and standards, (2) assessing and addressing data gaps, (3) providing support and coordination, and (4) providing targeted fiscal support.

→ ***How Should the State Prioritize Among Potential Climate Mitigation and Adaptation Efforts?*** Given the magnitude of climate change goals and challenges, the Legislature may need to identify the activities upon which to focus state dollars. Prioritization factors could include (1) demonstrated cost-effectiveness, (2) the urgency of needed action, (3) the degree to which the state is the primary responsible party (such as for state-owned lands and infrastructure), (4) the number of Californians that could be affected, (5) how widespread potential fiscal and economic implications might be, (6) the threat posed to public safety, and (7) the ability—or inability—of certain communities to adapt without state assistance. The Legislature also could consider prioritizing efforts in which providing seed money could help spur development of new climate mitigation technologies or regional-scale adaptation efforts that might be harder to implement without financial incentives.

→ ***How Can the State Help Protect the Most Vulnerable Californians?*** The Legislature might want to consider which populations, workers, industries, and regions will be disproportionately affected by climate change and how the state might want to help address those challenges. This includes weighing the potential distributional considerations for policies the state adopts (such as which households can and cannot afford to purchase zero-emission vehicles), as well as focusing state assistance on those who might be least able to prepare and adapt absent that help (such as communities with lower property tax revenues). In order to avoid exacerbating existing disparities, the Legislature may want to ensure that actions prioritize protecting vulnerable and economically disadvantaged communities.

## EMERGENCY RESPONSE AND PREPAREDNESS

Various types of emergencies, such as wildfires, floods, earthquakes, and pandemics, can threaten Californians’ lives and property. Activities related to emergencies generally fall into three categories:

- **Preparedness.** Prevention and mitigation activities that can reduce the likelihood or severity of emergencies before they occur, such as reducing fuel loads in forests, seismically retrofitting buildings, prepositioning emergency equipment, and stockpiling supplies.
- **Response.** Activities that occur during an emergency to save lives and property, such as wildfire suppression, evacuation efforts, and distribution of vaccines.
- **Recovery.** Activities that take place following an emergency, such as debris removal and rebuilding damaged infrastructure.

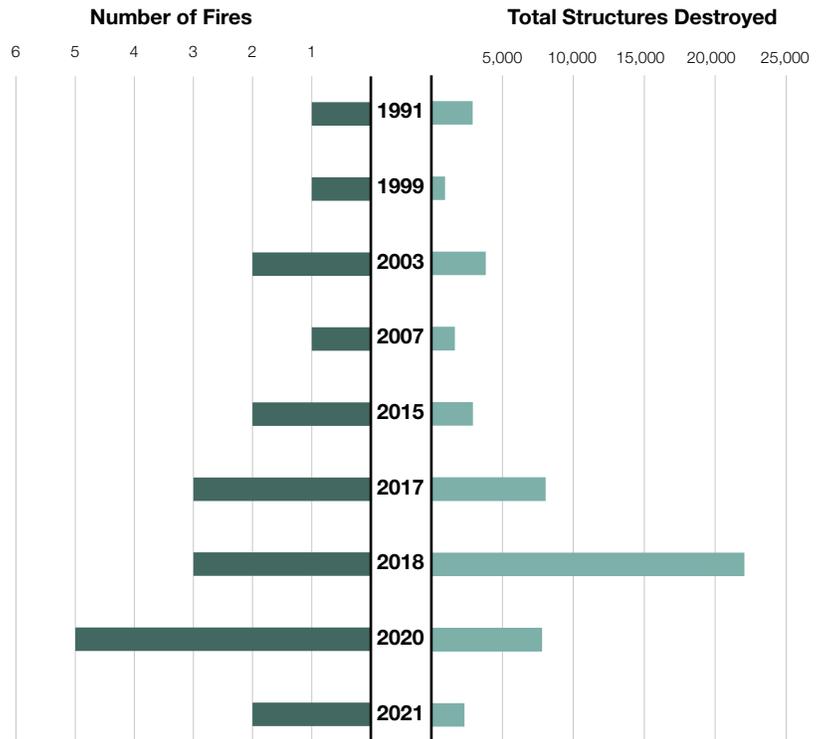
### WHY IS IT IMPORTANT?

**Emergencies Have Major Impacts on Communities.** During emergencies, communities can sustain business disruptions, health impacts, damage to property and natural resources, as well as the loss of lives.

Moreover, emergencies can disproportionately harm certain communities, such as coastal communities vulnerable to sea-level rise and Central Valley communities vulnerable to drought.

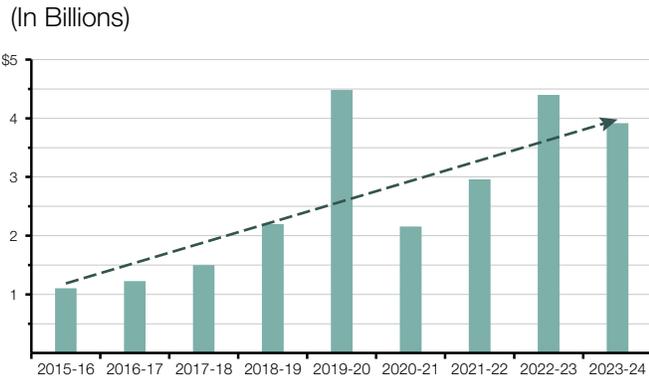
**Emergencies Have Become More Prevalent.** This trend is likely to continue with the state experiencing more emergencies in the future—including natural disasters and infectious diseases—as a result of climate change and other factors, such as increased building in wildfire-prone areas and the long-run increase in global air travel.

**Most of the State’s 20 Most Destructive Fires Occurred in Past Two Decades**



**Emergency-Related Costs Have Been Significant and Increasing in Recent Years.** Local, state, and federal governments bear costs associated with preparing for, responding to, and recovering from emergencies. For example, the Office of Emergency Services—the state entity responsible for overseeing the state’s response to emergencies—spends funds on emergency coordination, logistics, and communications. In addition, property losses in disasters are often borne by victims and their insurance. Many of these costs have grown over time as large-scale emergencies have become more prevalent.

**Office of Emergency Services Budget Has Grown Over Time**



— WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

- ➔ **What Is the Appropriate Role of the State?** Various levels of government, as well as private entities and individuals, have a role in emergency preparedness, response, and recovery. This includes state and local agencies planning for and responding to emergencies, local agencies determining land use zoning, and private individuals making decisions about prevention and mitigation efforts for their properties or businesses. Given the involvement of so many different entities, the Legislature might want to continuously consider the state’s role and whether the remaining entities’ incentives are appropriately aligned to ensure emergency planning and programs are effective.
- ➔ **What Is the Legislature’s Role in Oversight of the Governor’s Existing Authorities?** Under current law, the Governor has expansive authorities to respond to emergencies, such as by suspending state laws, implementing new policies or programs, and redirecting staff and funds to emergency response without legislative approval and with only minimal reporting. For example, during the COVID-19 pandemic, the Governor shifted funds budgeted for prison operations to various pandemic-related activities to reduce the spread of the virus in state prisons. It is important for the Legislature to continuously consider the appropriateness of the Governor’s broad authorities and the extent to which additional oversight is needed to ensure emergency response activities are cost-effective, consistent with other legislative priorities, and achieving desired outcomes.
- ➔ **Should the State Have a More Strategic Approach to Emergencies?** While the state has various emergency plans, it often lacks a coordinated strategic approach for setting goals; assessing capacity; and funding the optimal mix of emergency preparedness, response, and recovery activities. For example, despite the increased frequency of wildfires, the state lacks thorough and strategic assessments of its wildfire response capabilities and an assessment of which combination of prevention, mitigation, and response activities are the most cost-effective.

→ ***Are Resources Being Deployed Equitably?*** Certain communities—whether because of their economic size or the magnitude of emergencies in their geographic area—might not have sufficient resources for preparedness, response, and recovery activities. Additionally, there can be challenges to delivering emergency services to certain communities, such as language or cultural barriers. It is critical to ensure that the federal, state, and local governments are providing emergency resources and services in an equitable manner that accounts for communities' unique needs.



## CHAPTER 3

# FISCAL HEALTH, GOVERNANCE, AND OVERSIGHT

As shown in Chapters 1 and 2, California faces a range of important issues that deserve sustained attention from policymakers. However, state government must have the capacity to address these key issues effectively, efficiently, and equitably. Specifically, in this chapter, we highlight the importance of ensuring the state is on sound fiscal footing , maintaining effective intergovernmental relationships, and overseeing the implementation of new technologies—all of which help improve the quality of public services and promote a more responsive government.

# STRUCTURING THE BUDGET

Through the state budget, the Legislature distributes state resources to deliver services to Californians. Through the annual budget process, the Legislature must make choices about how to structure the state budget. These choices revolve around how much revenue to collect and from what sources, as well as how much to spend and on what purposes.

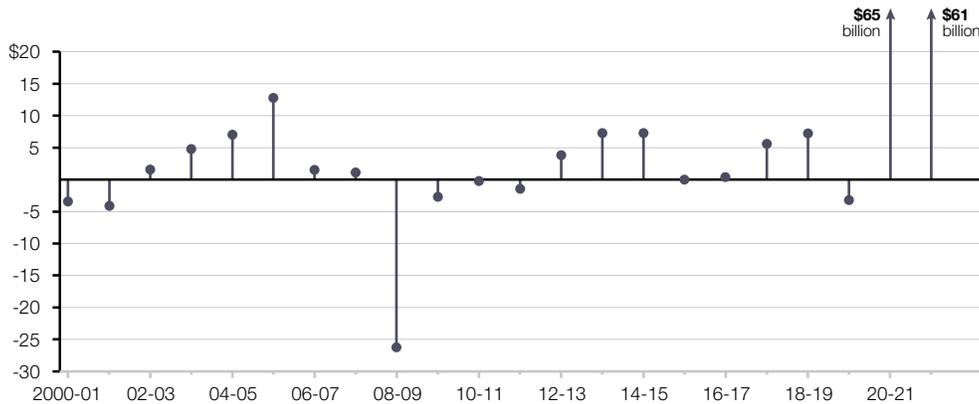
## WHY IS IT IMPORTANT?

**Legislature Must Pass a Balanced Budget.** Unlike the federal government, the state is constitutionally required to pass a balanced budget and prohibited from issuing bonds to cover deficits. In addition, the constitution includes spending requirements for certain programs, like schools and community colleges.

**Budget Condition Can Change Rapidly.** State revenues can vary by tens of billions of dollars from year to year. Given this volatility, revenue projections are inevitably either too high or too low. This uncertainty can also result in rapid changes to the state’s budget condition—swinging from large surpluses to significant deficits.

### Revenues Projections Are Usually Off by Billions— Sometimes Tens of Billions—of Dollars Each Year

Actuals Relative to Budget Act Projections (In Billions)



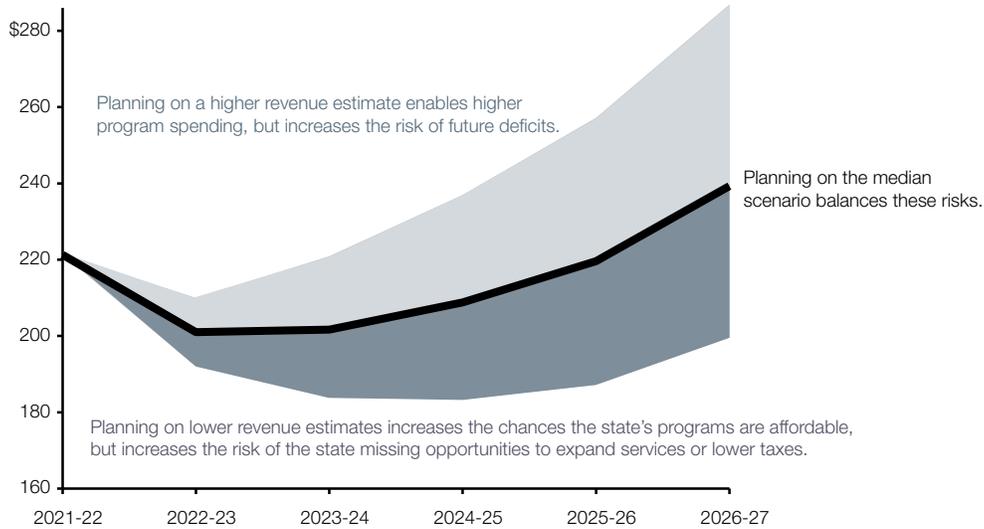
**Budget Condition Impacts the Legislature’s Ability to Maintain Core Services.** Rapid changes in the budget’s condition can create challenges for the Legislature to maintain core spending. We define core spending as the service levels the Legislature has committed to on an ongoing basis—for example, health care, provided through Medi-Cal, and school funding, provided through the Local Control Funding Formula. By developing a resilient budget structure, the Legislature can maintain core services when revenues decline. Moreover, with sufficient planning, the state could expand support in safety net programs even during economic contractions, when demand typically increases (at the same time as revenues are declining).

— WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

➔ **What Revenue Estimate Should the State Use?** We always suggest the Legislature adopt a budget premised on the median scenario of revenue estimates. This approach strikes a balance between avoiding deficits and missing opportunities.

**Selecting a Revenue Estimate**

Figure Shows an Illustrative Range of Potential Revenue Outcomes (In Billions)



➔ **Are the State’s Existing Commitments Affordable?** We often use a breakeven analysis to assess whether or not the state’s existing commitments are affordable. A breakeven analysis communicates the chances that the state’s finances will be balanced—that is, that the state will have neither deficits nor surpluses in the future. If the level of revenue required for the state to breakeven is significantly higher than the median revenue scenario, the state’s existing commitments likely are not affordable.

➔ **How Prepared Is the State for a Downturn?** In general, our breakeven analyses do not assume the state will face a recession. In a recession, budget resilience is necessary to maintain core services. There are a variety of components—or tools—of budget resilience, for example: budget reserves, opportunities for cost shifts, and internal borrowing capacity. In addition, to the extent large prior surpluses have been allocated to one-time or temporary purposes, the option to scale back such commitments is a form of budget resilience. A key first step of the annual budget process for the Legislature is to assess whether there are sufficient available budget tools given the level of core services.

**State Has Various Tools for Recessions:**

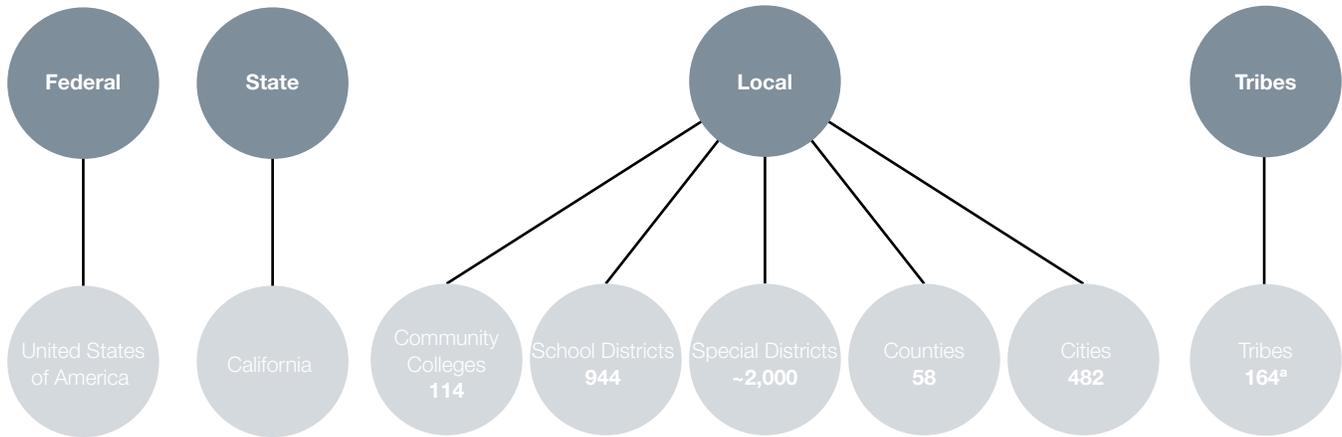
| Tools to Prepare   | Tools to Respond                   |
|--------------------|------------------------------------|
| Save Reserves      | Raise Revenues                     |
| Pay Down Debts     | Lower Spending                     |
| Multiyear Planning | Shift Costs                        |
|                    | Use Reserves (if Saved in Advance) |

→ ***What New Commitments—if Any—Could Be Afforded?*** In some cases, the Legislature might determine that its existing commitments are affordable and the state has sufficient budget resilience, meaning that new commitments can also be afforded. The Legislature has many choices about how to allocate those new commitments, including between: one-time versus ongoing purposes, spending increases versus revenue reductions, new programs versus paying down debt and liabilities associated with existing programs, and using cash for infrastructure versus other program augmentations.

# INTERGOVERNMENTAL RELATIONS

The state interacts with multiple layers of government. These governments have different responsibilities and obligations to their constituents and different visions and capacities for meeting those responsibilities.

## Governments Serving Californians



<sup>a</sup> Includes both federally recognized tribes and non-federally recognized tribes.

## WHY IS IT IMPORTANT?

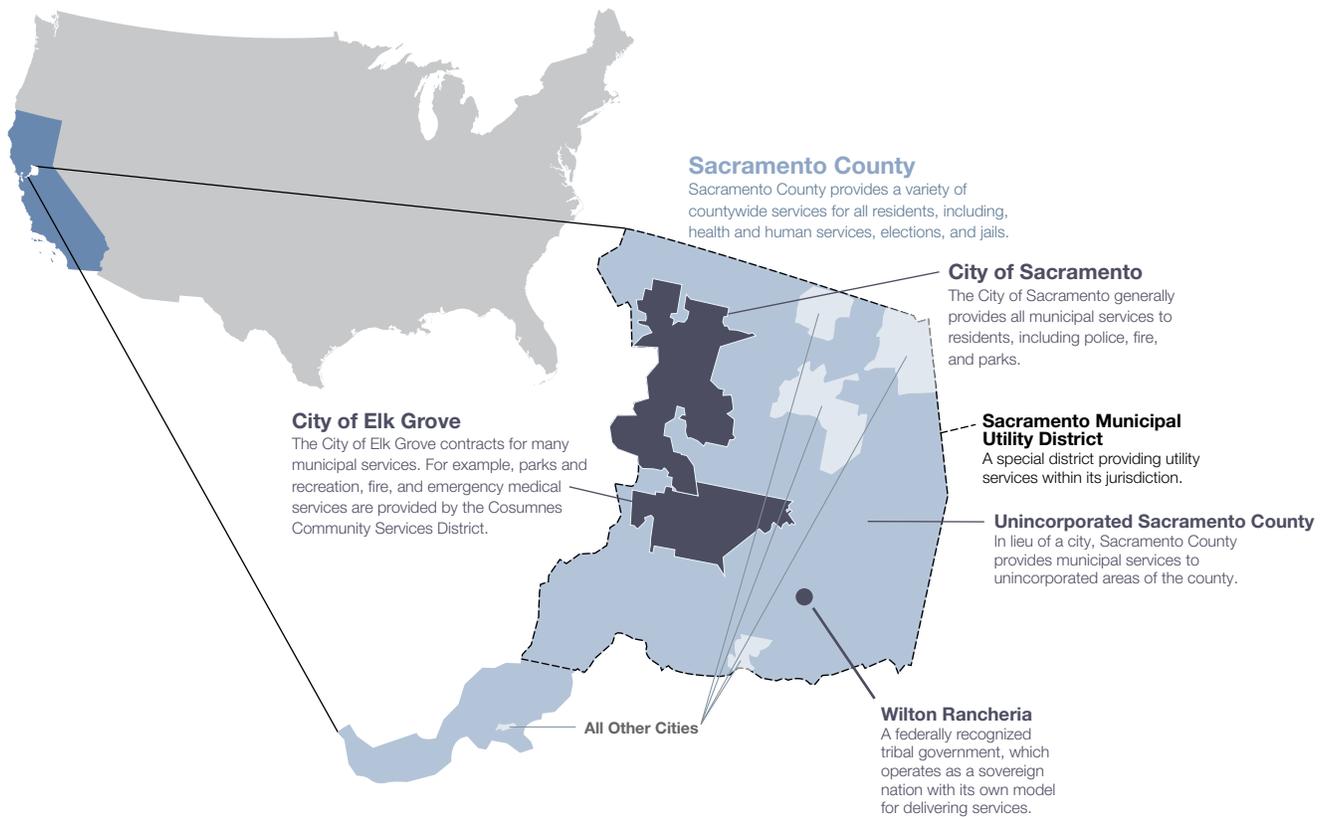
**Governments Have Distinct and Overlapping Responsibilities.** Government have specific and distinct responsibilities to sometimes overlapping constituencies. This layered and overlapping structure creates opportunities and challenges. In addition, the federal and state constitutions impose limits on what different levels of governments can do. Nevertheless, governments must work together to provide public services.

**State Plays Different Roles With Different Types of Governments.** The state funds and sets policies for some local programs directly. In these cases, the state also provides oversight. In other cases, local governments can exercise significant local control and the state’s role is more limited. For example, cities can exercise significant control over municipal affairs.

**Most Complex Issues Facing the State Will Require Effective Collaboration Across Governments.** California faces a number of complex issues including climate change, wildfires, housing and homelessness, infrastructure, and health care. Effective collaboration between governments can help address these challenges effectively, efficiently, and equitably. In recent years, the state has exercised greater policy direction in matters of statewide concern that historically were left to local determination, for example, setting housing policies that aim to spur housing development.

## Service Delivery Across California

Sacramento as an Example



### — WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

➔ ***In What Policy Areas Is Expanding the State Role Warranted?*** Some programs can be more effectively administered by the state, for example, when statewide uniformity is important. Other programs—like those where flexibility to meet diverse needs is necessary—can be more effectively controlled by local governments. When determining how responsibilities should be divided between state and local governments, the Legislature could consider whether and to what extent to limit local control. For instance, the Legislature can limit local control in matters of statewide interest. The Legislature also may wish to limit local control in order to promote equitable access and outcomes in service delivery.

➔ ***What Is the Fiscal Capacity of Local Governments?*** Local governments have limited authority to raise revenues relative to the state and federal governments. Given that limitation, when creating new local requirements, the Legislature may want to consider the fiscal capacity of local governments to deliver services. While the State Constitution requires state funding for mandated public programs, some laws impose requirements on local governments that do not require state funding. In order to promote collaboration among governments, the Legislature may wish to consider the fiscal constraints local governments may face.

→ ***How Can the State Foster and Oversee Effective Collaboration to Address Major Crosscutting Issues?*** Successfully addressing the most complex issues facing the state will require effective collaboration across many levels of government. The Legislature may want to consider when the state should take the lead in collaborating across governments versus when regional coordination is warranted (potentially with state-level oversight).

# THE STATE'S ROLE IN TECHNOLOGY

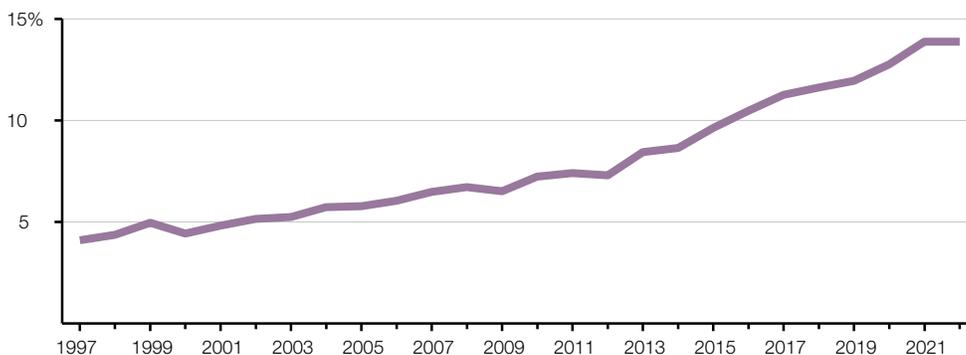
New technological innovations and inventions continue to be developed and deployed across a wide range of industries and sectors. As technology evolves and iterates over time, it transforms the state's economy, government, and society.

## WHY IS IT IMPORTANT?

**Technology Drives Major Changes in State's Economy and Society.** Real gross domestic product (GDP) data reflect substantial growth in the state's technology-driven information industry over the past few decades, now adding the highest value of any industry to the state's GDP. Technological innovation is also transforming other industries, such as clean energy and life sciences, benefiting state efforts to adapt to and mitigate climate change and improve the health of its residents. Technological change also shapes the expectations and preferences of a society. State residents increasingly expect goods and services across different industries to be convenient, flexible, and responsive to their needs. These preferences extend to state government operations, programs, and services, and inform state efforts to make government more effective and efficient.

### Increase in Information Industry's Contribution to State's GDP<sup>a</sup>

Percentage of California Gross Domestic Product



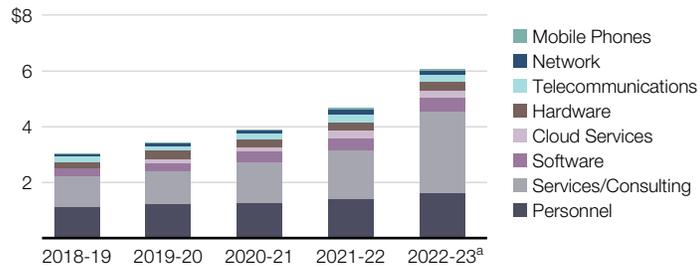
<sup>a</sup> Information industry data does not include all technology-related industries (for example, computer and electronics product manufacturing), and is used for illustrative purposes only.

**Effective and Efficient State Government Operations Require Technology.** State government information technology (IT) systems and other technology are critical to the successful implementation of its laws, policies, and procedures. Often, essential government program and service functions cannot be executed without performant, secure, and stable technology. As technology becomes more central to many state government operations, state departments also spend more on technology. State IT expenditure data show appreciable growth in technology spending over the last five years. A number of challenges remain,

however, for state government to effectively develop and maintain its many IT systems and other technology. These challenges include recruiting, hiring, and retaining IT staff; modernizing decades-old technology without any significant disruptions to critical programs and services; and securing technology to avoid increasingly prevalent cyberattacks and data breaches.

### Growth in State IT Expenditures

(In Billions)



<sup>a</sup> 2022-23 expenditures are estimated, not actual expenditures.

IT = information technology.

#### Technology Can Also Cause

**Harm and Increase Risk Absent Regulation.** Emerging technologies, such as artificial intelligence, and developed technologies, such as social media, can grow the state’s economy but they also can heighten information security risks and threaten the privacy of state resident data and information. State government can pass and implement laws, policies, and regulations to impact the trajectory of new technologies, including to mitigate potential harms and risks—as well as possible disparities and inequities—that result from their advancement.

## — WHAT ARE KEY LEGISLATIVE CONSIDERATIONS? —

#### → How Can the State Advance Technological Innovation While Addressing Disparities?

Technology continues to drive economic growth in the state. How the state chooses to foster this advancement and innovation in technology, therefore, is an important consideration for the Legislature. Equitable growth and opportunity from technology may require the Legislature to invest in and prioritize infrastructure projects, for example, such as the recent investments in broadband infrastructure across unserved and underserved areas of the state.

#### → How Can the State Effectively Modernize and Stabilize State Government

**Technology?** IT systems and other technology are becoming more central to state government operations. How the state plans, develops, and implements technology (with the performance, security, and stability that meets state residents’ needs) is a key area for legislative oversight. Achieving the goal of an effective and efficient government that integrates modern technology into its operations may require the Legislature to evaluate state processes for planning and procuring its technology, for example, and/or simplify state laws, policies, and regulations that inform system requirements and technology needs.

→ ***How Can the State Mitigate Harms and Risks of Technological Change?*** Technological change can advance growth and improve society, but also can lead to potential harms and risks. How the state can mitigate these potential harms and risks through, for example, new policy and regulation warrants legislative consideration. Deciding on the appropriate safeguards around certain technologies may require the Legislature to fund research on harms and risks of new technologies, for example, such as artificial intelligence.

---

# CONCLUSION

---

**California Faces Many Complex, Overlapping Key Issues.** As demonstrated by this report, the key fiscal and policy issues facing California are overlapping and complex. In addition, each issue is unique and raises a variety of different policy considerations for the Legislature as it continues its work to address them. As a result, efforts to address them will need to be done thoughtfully, strategically, and with a focus on long-term outcomes. Policy changes and budget actions will likely range in size from more modest, incremental adjustments to more significant reforms.

**Some Common Considerations Across Multiple Policy Areas.** In compiling this report, we identified several important legislative considerations that are common across many of these complex issues. Some of the common considerations include:

- **What Is the State's Role?** The Legislature may want to identify what, if any, role the state should play in addressing the problem. The state's role is often distinct from the role of federal or local government, or the private sector. What is the most effective mechanism for state intervention?
- **What Are the Policy Trade-Offs?** The Legislature will often have to weigh critical trade-offs when determining the scope of potential solutions and the strategy for addressing these issues. In some cases, policies to address one of these issues could exacerbate other problems.
- **How Will the Legislature Conduct Oversight?** The Legislature likely will want to continue efforts to ensure its policy actions are meeting their intended goals. This often requires strong and effective oversight. How will the Legislature determine success and how will it oversee the administration's implementation of these policies?





## **LAO PUBLICATIONS**

This report was an office-wide effort with input from many different analysts. The report was coordinated by Ginni Bella Navarre and Ross Brown, and reviewed by Carolyn Chu. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

To request publications call (916) 445-4656. This report and others, as well as an e-mail subscription service, are available on the LAO's website at [www.lao.ca.gov](http://www.lao.ca.gov). The LAO is located at 925 L Street, Suite 1000, Sacramento, California 95814.