

JANUARY 14, 2021

Overview of the *2021-22 Governor's Budget*

PRESENTED TO:

Senate Budget and Fiscal Review Committee
Hon. Nancy Skinner, Chair



LEGISLATIVE ANALYST'S OFFICE

The Governor's \$15.5 Billion Windfall

Comparing LAO to DOF Windfall Calculation

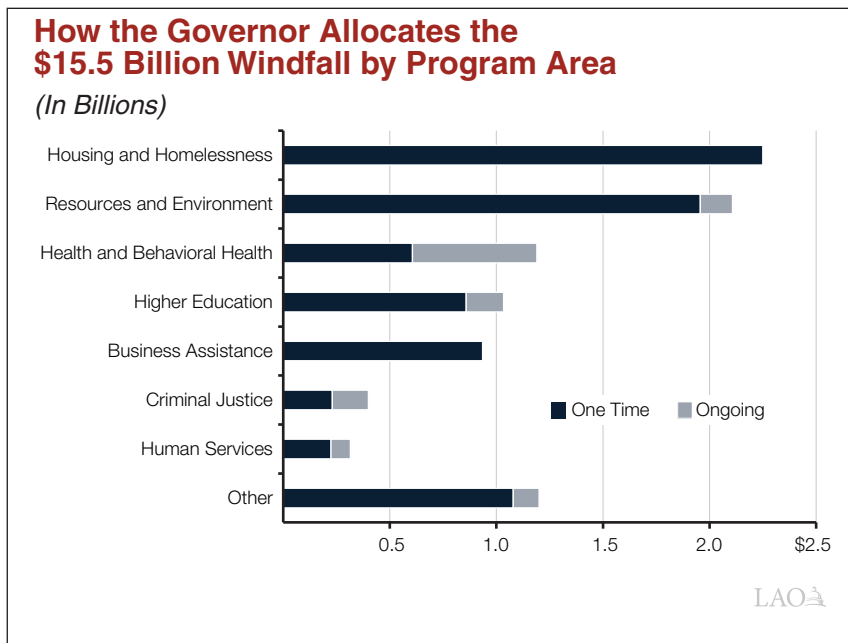
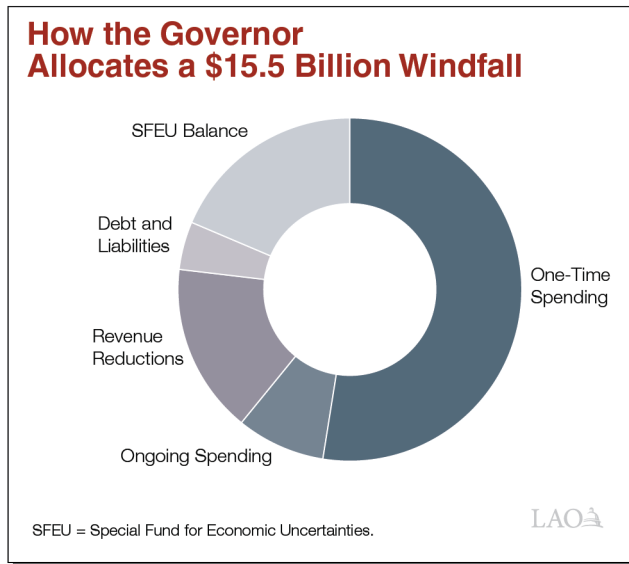
Our November *Fiscal Outlook* anticipated a windfall of \$26 billion. Major sources of differences are:

- Our office and DOF have very similar revenue estimates (DOF higher by only \$1.7 billion).
- Under Department of Finance (DOF) estimates, \$5.6 billion more in reserves and debt payments required under Proposition 2 (2014).
- DOF includes \$2.8 billion more in coronavirus disease 2019 expenditures, net of federal reimbursements.
- DOF's estimates of baseline spending on major Health and Human Services programs higher by about \$2 billion.



The Governor's \$15.5 Billion Windfall

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Proposition 98 Funding

More Than \$19 Billion in New Spending for Schools and Community Colleges. The Governor proposes to spend most of this amount on three main priorities:

- ***Paying Down Deferrals (\$8.4 Billion One Time).*** The budget pays down \$8.4 billion of the \$12.5 billion in payments deferred in the June 2020 budget plan.
- ***Providing In-Person Instruction and Expanding Academic Support (\$6.6 Billion One Time).*** The Governor proposes immediate action to provide \$2 billion in one-time grants to incentivize schools to offer in-person instruction for younger students and students with high needs, potentially as soon as February 16, 2021. The Governor also proposes early action to provide schools with \$4.6 billion in grants to offer additional academic support for disadvantaged students.
- ***Funding Cost-of-Living Adjustments (COLA) (\$2.2 Billion Ongoing).*** This includes a 3.84 percent COLA for the Local Control Funding Formula and a 1.5 percent COLA for other education programs.

LAO Comment: Reflects a Reasonable Mix of One-Time and Ongoing Spending. By having a substantial amount of one-time spending in 2021-22, the Governor's Proposition 98 package provides a cushion to protect ongoing programs from volatility in the minimum guarantee.



LAO Comments

Recent Federal Action Should Inform State Actions. We recommend the Legislature: (1) determine how to best target state funds to those not benefiting from the federal assistance, and (2) strive to complement, rather than duplicate, the federal activities.

Assessment of Governor's Immediate Action Proposals. The Governor's budget includes \$5 billion in actions he proposes the Legislature adopt within the next few weeks:

- **School Reopening Proposal (\$2 Billion):** We are concerned this proposal might set unfeasible time lines.
- **Tax Refunds for Low-Income Californians (\$2.4 Billion):** We think this proposal could be more targeted.
- **Small Business and Nonprofit Assistance (\$575 Million):** This proposal is worth considering.
- **Fee Waivers (\$71 Million):** This proposal is reasonable.

Framework for Considering \$7.8 Billion in Early Action Proposals. We recommend the Legislature ask the following questions about each early action proposal. (1) Does the administration provide sufficient evidence of a problem? (2) Is the proposal time sensitive? (3) Is the entire funding amount time sensitive? (4) Is there sufficient detail in the plan to assess its potential success?

Restoring Budget Resilience. We agree the state should remain focused on the crisis at hand, but restoring most or all of the budget's resilience is important to address the state's multiyear budget problem and help California weather the next unexpected downturn.



Major Provisions of Recent Federal Relief Legislation

(In Billions)

Type of Assistance	Estimated Funding to California	Summary
Individuals and Families		
Expanded unemployment benefits	\$20 - \$30	<ul style="list-style-type: none"> Extends the increase in traditional unemployment benefits, providing an additional \$300 per week. Extends and phases out Pandemic Unemployment Assistance (PUA) through April 5, 2021.
Direct payments	\$20	<ul style="list-style-type: none"> Provides direct payments of \$600 for individuals making up to \$75,000 per year and an extra \$600 for dependent children under 17. (Payments phase out after \$75,000 for an individual and \$150,000 for a couple.)
Food assistance	\$3.2	<ul style="list-style-type: none"> Provides one-time nutrition benefits to 3.8 million students eligible for Free and Reduced-Priced Meals who have been affected by school closures. Increases monthly CalFresh benefits by 15 percent through June 30, 2021. Increases funding for congregate and home delivered meals for older adults.
Businesses		
Loans and grants	\$50 - \$60	<ul style="list-style-type: none"> Provides additional funding for forgivable Paycheck Protection Program (PPP) loans. Small businesses can receive a second PPP loan under certain conditions. Businesses can take tax deductions for the expenses covered by PPP loans. New grants for businesses in low-income communities.
Employer tax credits	\$2 - \$3	<ul style="list-style-type: none"> Extends and expands CARES Act employee retention credit.
Agriculture	\$0.60	<ul style="list-style-type: none"> Provides payments to specified types of agricultural producers, including through the Coronavirus Food Assistance Program.
Broadband	\$0.40	<ul style="list-style-type: none"> Provides discounted emergency broadband service and subsidized devices to eligible households.
Tax deferrals	\$0.20 - \$0.30	<ul style="list-style-type: none"> Extends payroll tax deferral to December 31, 2021. Extends paid leave credits for sick and family leave through March 31, 2021.
Provider relief payments	\$0.16	<ul style="list-style-type: none"> Covers providers' financial losses and changes in operating expenses.

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Major Provisions of Recent Federal Relief Legislation

(Continued)

Type of Assistance	Estimated Funding to California	Summary
State and Local Governments		
Transportation	\$3.2	<ul style="list-style-type: none"> Provides Grants-in-Aid for airports. Provides funding for Federal-Aid highways, including Surface Transportation Block Grant. Provides funding for operating expenses and revenue losses for transit agencies.
Housing	\$2.6	<ul style="list-style-type: none"> Extends eviction moratorium until January 31, 2021 and provides funding for rental assistance. Provides funding for emergency rental assistance. Increases the low-income housing tax credit in states that experienced disasters in 2020.
Testing and contact tracing	\$1.7	<ul style="list-style-type: none"> Supports testing, contact tracing, surveillance, containment, and mitigation.
Child care	\$1	<ul style="list-style-type: none"> Provides funding for a broad array of activities to support the stability of the child care sector.
Addiction and mental health	At least \$0.45	<ul style="list-style-type: none"> Provides funding for Substance Abuse and Mental Health Services Administration programs.
Vaccination efforts	\$0.36	<ul style="list-style-type: none"> Provides funding to distribute, administer, monitor, and track coronavirus vaccinations.
Federal funding flexibility	—	<ul style="list-style-type: none"> Extends the date by which the state and local governments must expend the CRF monies to December 31, 2021.
Education		
K-12	\$6.7	<ul style="list-style-type: none"> Provides additional funding to K-12 schools for various purposes, including those related to COVID-19.
Higher education	\$2.9	<ul style="list-style-type: none"> Provides higher education institutions grants for emergency student financial aid and institutional relief.
Other	\$0.16	<ul style="list-style-type: none"> Provides funding to address statewide needs related in K-12 and higher education.

CARES = Coronavirus Aid, Relief, Economic Security; CRF = Coronavirus Relief Fund; and COVID-19 = coronavirus disease 2019.

