

Pending Senate Version of the Budget 2020-21

Summary:

After spending months preparing for the challenge of this year's budget as the impacts of the COVID-19 virus ravaged the economy, the Senate Committee on Budget and Fiscal Review worked at break-neck speed and under surreal conditions to craft the Senate Version of the Budget.

The Senate Versions closes the \$54 billion budget shortfall and ends with total reserves of \$11.3 billion, including:

- \$2.0 billion in the Regular Reserve;
- \$900 million in the Safety Net Reserve; and
- \$8.35 billion in the Rainy Day Fund.

These figures are all based on the Department of Finance's revenue forecast, but does not reflect the LAO's caseload forecast for health and human services programs.

The Senate Version builds on the reasonable framework presented by the Governor and follows the guidelines set forth by the Budget Chair prior to the release of the May Revision:

- **Be Responsible.** The Senate Version:
 - Looks beyond just the upcoming budget year and preserves 55% of reserves for future years.
 - Relies on the sober forecast of the Department of Finance, which forecasts lower revenues than even the Legislative Analyst's most pessimistic scenario.
 - Avoids balancing the budget with solutions that may not happen. This includes building in trigger solutions should expected Federal Funds not materialize and not assuming savings from employee pay that need to go through the collective bargaining process.

- ***Do Not Become Part of the Problem.*** The Senate Version:
 - Protects core education programs rather than past actions that resulted in layoffs of tens of thousands of teachers. In fact, the Senate Version actually provides a slight increase to school funding over the current year, even if additional funds do not materialize and trigger solutions are required.
 - Makes use of the historic reserves – rather than draconian cuts – in the event federal funds do not materialize. The Legislature championed the Rainy Day Fund and the Safety Net Reserve precisely to avoid having to immediately resort to deep and harmful cuts that cause ongoing economic harm.
 - Avoids cuts to critical safety net programs that cause more long term harm than short term budget gain, including protecting job training programs for struggling Californians, aging programs that avoid costly nursing home costs, and access to health care that would otherwise require lower income seniors to pay a “senior penalty” of several hundred dollars each month.

By following these guidelines, the Senate Version provides a strong budget to keep the state on solid footing as the state enters challenging economic times.

Different Trigger Approach Between May Revision & Senate Version:

While both the May Revision and the Senate Version contain a Federal Funds / Trigger Solutions interaction, the two versions differ in the presumed starting point and other key details of trigger solutions.

- The Governor’s May Revision proposes \$14 billion in budget cuts that would take effect, but then be triggered off if Federal Funds materialize to replace the proposed cuts.
- The Senate Version flips the presumption, and instead budgets as though the Federal Funds will come in, but then triggers on the solutions should the Federal Funds not materialize.

- As discussed in more detail below, under the Senate Version the most draconian cuts – to schools and health and human services – are taken off the table and instead replaced with other solutions that have always been intended to be used prior to draconian cuts being implemented.
- The trigger solutions effective date is October 1, 2020, ensuring there is time for the federal government to act to provide more relief for state and local governments.
- While much attention has been given to the trigger cuts proposed in the May Revision, there is growing confidence that the federal government will act and the trigger solutions contained in the Senate Version will not be implemented.

Summary of Solutions:

The Senate Version of the budget follows the same categories of solutions as the Governor's May Revision, as follows:

Summary of Solutions	
(Preliminary Accounting / In billions)	
Category	Senate Version
Reserves	8.3
Borrowing/Transfers/Deferrals	9.3
Temporary Revenues	4.4
Existing Federal Funds	8.2
Cancellations & Other	6.3
HHS Caseload Savings	3.6
Anticipated Federal Funds	14.0
Totals	54.2
<i>Regular Reserve Under above solutions:</i>	<i>2.0</i>
<i>If Federal Funds Do Not Materialize:</i>	
Reduced Federal Funds	-14.0
Trigger Solutions	13.1
Totals	53.3
<i>Regular Reserve under Trigger Solutions</i>	<i>1.1</i>

Major Changes to the Governor’s Proposed Solutions:

- *Reserves:*
 - The Governor’s May Revision proposes to draw down \$450 million from the Safety Net Reserve.
 - The Senate Version preserves all \$900 million in the Safety Net Reserve to protect critical programs in future years.

- *Borrowing/Transfers/Deferrals, Temporary Revenues, and Existing Federal Funds are fairly consistent between the May Revision and the Senate Version.*

➤ *Cancellations of Recent Actions and Other Reductions:*

- The Senate Version approves the vast majority of the Governor's proposals in this category.
- The Senate Version rejects proposed cancellations of Legislative priorities, including:
 - Rejects proposal to reinstate the Senior Penalty in Medi-Cal that would result in increased costs of healthcare for lower income seniors by hundreds of dollars per month.
 - Rejects cuts to critical affordable housing funds.
 - Rejects cuts to child care rate increases, which would further restrict access to child care for working families.
 - Protects one time investments for local homelessness programs, clean water programs, enforcing sexual assault laws, and other priorities.

➤ *Trigger Solutions:*

- The Senate Version rejects solutions subject to the trigger in the May Revision, and replaces them with alternative trigger solutions.
- The Senate Version trigger mechanism follows the trigger practice used in 2011 and 2012. Under this trigger mechanism, the federal funds are assumed to arrive and are deposited into the General Fund. But, if by September 1, 2020 the federal funds have not materialized, the trigger solutions take effect October 1, 2020.
- If the trigger solutions are implemented, the Senate Version's Regular Reserve will be \$1.1 billion. The trigger solutions are as followings:
 - \$1.8 billion by maximizing use of the Rainy Day Fund, the full 50% of the required deposits will still remain in the Rainy Day Fund (about \$6.7 billion).
 - \$900 million by maximizing the Safety Net Reserve, which will protect draconian cuts proposed in the May Revision.

- \$1.8 billion by reinstating deferral that were in place until the current year. It is unlikely they would have been turned off had the state known these challenging times would come so soon.
- \$1.1 billion in a Special Fund loan associated with the reinstating of the deferrals.
- \$5.3 billion in a Prop 98 deferral, which along with the \$2.7 billion funding increase will provide about \$8.1 billion in programmatic spending over what the May Revision contained in its trigger proposal.
- \$1 billion by adjusting the Managed Care Organizations charge, in lieu of any cut to Prop 56 funds.
- \$600 million reduction to the Legislative augmentation to county realignment funds.
- \$400 million reduction to University of California (\$200 million) and the California State University (\$200 million).
- \$100 million reduction to the Judiciary (Dependency counsel, self help, court interpreters, and Equal Access Fund are not subject to this cut).
- \$70 million reduction to Corrections to reflect savings in certain programs due to delays caused by COVID-19.
- Any Collectively bargained changes to state employee compensation will impact the savings total as well. This Senate does not presume a specific amount of impact while the collective bargaining is in progress.

Key Issues Associated with the Senate Version of the Budget:

- *Economic Recovery.*

- On May 12th, Senate Democrats unveiled two economic recovery proposals stemming from an internal caucus working group on economic recovery.
- The proposals do not necessarily need to be enacted with the budget on June 15, but will be pursued expeditiously to address major economic challenges facing Californians today. The proposals are:
 - Tenant/Landlord Stabilization. This proposal address the challenge of Californians struggling due to the COVID-19 crisis being unable to pay their rent and the economic stress it passes along to property owners.

Under this proposal, renters will be forgiven for past due rents and will be protected from eviction. Landlords will be provided transferable future tax credits equal to, or nearly equal to, the value of the missed rent payments. Renters that have the ability to do so, will reimburse the state for the costs of the tax credits over a ten year period beginning in 2024.

- \$25 Billion Economic Recovery Fund. This proposal generates \$25 billion over two years for economic stimulus investments to prevent the economy falling further and to assist the economic rebound.

Under this proposals, tax payers and others can prepay future taxes in exchange for future tax vouchers that have a higher face value to reflect inflation and to incentivize participation.

The accelerated revenues will be available for purposes that include but are not limited to, small business assistance, worker retraining, jump starting infrastructure projects, filling gaps in the education system and safety net, and addressing homelessness.

➤ **Generating Additional Resources.**

- The Senate Version acknowledges efforts to authorize and regulate sports wagering in California.

While this will not have a direct near term budget impact, tax revenues from bringing sports wagering activities into legal status will have future

budget benefits and help provide resources to combat negative impacts of gaming that we know exist today.

Major Differences with May Revision, by Subcommittee:

Subcommittee 1 on Education Finance

Major changes to the Governor's May Revision:

- Rejects \$8.1 billion of proposed cuts to Proposition 98 funding that were contained in the Governor's May Revision trigger proposal, this includes rejecting cuts to:
 - K-12 Local Control Funding Formula;
 - K-12 Categorical programs, including the After School Education Safety Program and Career Technical Education Programs;
 - State Preschool and Child Care reimbursement rates; and
 - Community Colleges, including career technical education.
- Includes no Proposition 98 cuts in the Senate Version trigger solution plan, instead if federal funds do not materialize \$5.3 billion of school and community college funding will be converted to a deferral, which preserves programmatic funding.
- Provides an Average Daily Attendance hold harmless for Local Educational Agencies in the 2020-21 fiscal year and requires distance learning in the event of school closures.
- Amends the Governor's Special Education proposal to provide \$545 million to increase base rates and \$100 million for the low incidence disabilities cost pool.
- Reduces the nearly \$800 million of proposed cuts to the University of California (\$376 million) and the California State University (\$398 million) that were contained in the Governor's May Revision trigger proposal to \$200 million for each the UC and CSU in the Senate Version trigger solution plan.
- Rejects the \$27.5 million proposed cut to the UC Merced-UCSF Fresno Partnership Branch Medical School and the UC Riverside School of Medicine.

Subcommittee 2 on Resources, Environmental Protection, and Transportation

Major changes to the Governor's May Revision:

- ❑ Requires the California Air Resources Board to conduct a rulemaking to consider improvements to the Cap-and-Trade Program.
- ❑ Rejects the Governor's proposal to roll back the sunset on funding to the Habitat Conservation Fund, which will preserve funding for conservation efforts.
- ❑ Rejects a proposed transfer from the State Highway Account and provides an additional \$130 million for transportation projects
- ❑ Provides statutory relief to transit agencies dealing with the fallout of COVID-19 on ridership and revenues

Subcommittee 3 on Health and Human Services

Major Health program changes to the Governor's May Revision:

- Rejects proposal to reinstate the "senior penalty" and preserves the Medicare Part B disregard adopted in the 2019 Budget Act, preserving health coverage for low-income seniors.
- Rejects cuts to previously approved programs, such as the medical interpreters pilot project in Medi-Cal, funding for behavioral health counselors in emergency departments, caregiver resource centers, and the black infant health program.
- Rejects implementation of a maximum inpatient fee schedule in Medi-Cal managed care, which would have resulted in significant cuts in reimbursement for both public and private hospitals.
- Maintains Governor's January proposal to expand Medi-Cal to all seniors 65 and over, regardless of immigration status, but delays the start date to January 1, 2022. The action includes authority for the Governor to further delay implementation based on ability of budget to afford the cost.
- Rejects all proposed "trigger" reductions to health programs proposed by the Administration. For example, the Senate version of the budget:

- Rejects elimination of Medi-Cal optional benefits, including dental, optometry, optician/optical lab, audiology, incontinence creams/washes, pharmacist-delivered services, speech therapy, podiatry, acupuncture, nurse anesthetists, occupational therapy, physical therapy, and the diabetes prevention program.
 - Rejects elimination of Proposition 56 supplemental payments for Medi-Cal providers including physicians, dentists, women's health, family planning, developmental screenings, trauma screenings, community-based adult services, non-emergency medical transportation, and hospital-based pediatric physicians.
 - Rejects cancellation of the Proposition 56 Physician and Dentist Loan Repayment Program, which provides loan repayments for providers willing to devote nearly a third of their practice to serving Medi-Cal patients.
 - Rejects elimination of the multipurpose senior services program (MSSP) benefit and community-based adult services (CBAS).
 - Rejects renewed estate recovery provisions from deceased Medi-Cal beneficiaries
 - Rejects elimination of rate carve-outs for community clinics (FQHCs and RHCs).
 - Rejects elimination of General Fund support for the Song-Brown Healthcare Workforce Training Program.
- Includes in the Senate Version trigger solution plan an adjustment to the Managed Care Organization charge to generate \$1 billion budget benefit should the anticipated funds not materialize. This proposal replaces the proposed cut to Proposition 56 included in the May Revision trigger.

Major Human Services changes to the Governor's May Revision:

- Provides \$600 million for counties to backfill lost 1991 realignment revenues, with the expectation these funds will assist child welfare services costs. (This augmentation is subject to being triggered off under the Senate trigger solution plan.)

- Returns the CalWORKs time clock to the historic 60-month time period beginning in 2022, improving access to critical services for struggling Californians working to get back on track.
- Rejects proposed cuts In-Home Supportive Services (IHSS) program that would have caused some recipients to lose services and allowed the contracting out of services currently provided by county staff.
- Rejects proposed cuts to supplemental provider rate adjustments for providers that serve individuals with developmental disabilities. These include infant development programs, independent living programs, and early start specialized therapeutic services.
- Rejects all proposed cuts to human services program that the May Revision includes in their “trigger category.” This includes:
 - \$300 million cut to Developmental Services;
 - Various cuts targeting seniors, such as funding cuts to senior nutrition programs and programs that help keep seniors at home and out of nursing homes;
 - Cut to the federal SSI/SSP COLA; and
 - Cut to IHSS service hours by seven percent.

Subcommittee 4 on General Government

Major changes to the Governor’s May Revision:

- Adds tax filers with Individual Taxpayer Identification Numbers with at least one child six years of age or younger to the Earned Income Tax Credit and the Young Child tax Credit.
- Defers the proposed, additional, \$1 per 20 mg nicotine-based tax on E-cigarette or vaping products.
- Defers the expansion of Department of Business Oversight into the new Department of Financial Protection and Innovation.

- Includes \$35 million in additional funds to support the November 2020 general elections.
- Preserves nearly \$250 million for affordable housing development in 2020-21.
- Provides \$13 million for transitional housing and housing navigators for foster youth.
- Provides \$250 million in state funds for homelessness programs for local governments.
- Rejects reductions subject to the May Revision proposed trigger, including the proposed closure of the Barstow Veterans Home. Instead requires the California Department of Veteran Affairs to work with the community stakeholders and submit a closure plan to the Legislature.
- Excludes proposed savings related to reduction of employee pay and suspending employee pay increases subject to the May Revision proposed trigger. Any savings achieved through the collective bargaining process will increase the Senate Version's final reserve.

Subcommittee 5 on Public Safety

Major changes to the Governor's May Revision:

- Approves \$146 million in cuts to California Department of Corrections and Rehabilitation that were not proposed in the Governor's May Revision.
- Rejects several proposed cuts to courts and public safety that the May Revision includes in their trigger category, including:
 - \$166 million in cuts for the state-level judiciary, the trial courts, and other Judicial Branch local assistance programs, including indigent defense, Dependency Counsel, Court Interpreters, Court Appointed Special Advocate Program, Model Self-Help Program, Equal Access Fund; Family Law Information Centers, and Civil Case Coordination.
 - \$37 million in cuts to grants that continue to support the warm hand-off and reentry of offenders transitioning from state prison to communities;

- \$1.8 million in cuts that limit expansion of state prison oversight.
- Includes in the Senate Version trigger solution:
 - \$100 million reduction to the Judiciary, but the reduction cannot impact Dependency Counsel, Court Interpreters, Court Appointed Special Advocate Program, Model Self-Help Program, Equal Access Fund; Family Law Information Centers, and Civil Case Coordination.
 - \$70 million, one-year reduction to the Integrated Substance Use Disorder Program due to likely delays tied to COVID-19.

Major policy included in the Governor's May Revision:

- Announces the intention to close one state prison beginning in 2021-22 and a second state prison beginning in 2022-23.
 - The closures are estimated to result in savings of \$100 million in 2021-22, \$300 million in 2022-23 and \$400 million ongoing.
- Includes statutory changes that support thoughtful and responsible achievement of Administration's long term budget reduction proposals.
- Permanently stops intake into the state Division of Juvenile Justice on January 1, 2021, and transfers responsibility for all youth commitments to counties.