

The Legislature's Version of the 2020-21 State Budget

Summary

Unprecedented for this stage of the budget process, the Assembly and Senate are in agreement on the State Budget for 2020-21.

The agreement responsibly closes the \$54 billion budget shortfall by following the same reasonable framework set forth in the Governor's May Revision, with a mix of spending reductions, temporary new revenues, borrowing/transfers/deferrals, existing federal funds, reserves, and anticipated additional federal funds/trigger solutions. Closing the differences between the Legislative Version and the May Revision proposal should be relatively easier compared with typical years.

The Legislature's Versions contains total reserves of \$11.8 billion, including:

- \$2.6 billion in the Regular Reserve, including a \$700 million COVID-19 Set-aside;
- \$900 million in the Safety Net Reserve; and
- \$8.35 billion in the Rainy Day Fund.

The Legislature's Version anticipates \$14 billion of additional federal support. If the federal support does not materialize, then trigger solutions take effect. These solutions are listed later in this summary.

If the anticipated federal funds do not arrive, and the trigger solutions take effect, the total reserves are \$7.5 billion, including:

- \$1 billion in the Regular Reserve, including a \$700 million COVID-19 Set-aside;
and
- \$6.5 billion in the Rainy Day Fund.

In addition, the Legislature's Version anticipates the reserves could grow due to adjustments to the MCO program being approved by the Legislature and budget savings from compensation reduction agreements reached through the collective bargaining process.

Different Trigger Approach Between May Revision & Legislature's Version:

While both the May Revision and the Legislature's 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 Legislature's Version flips the presumption, and instead includes the anticipated federal funds in the budget, but then establishes trigger solutions that take effect should the federal funds not materialize.
 - As discussed in more detail below, under the Legislature's 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 Legislature's Version will not be implemented.

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 Legislature's 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 Legislature's Version.*

- *Cancellations of Recent Actions and Other Reductions:*
 - o The Legislature's Version approves the vast majority of the Governor's proposals in this category.

 - o The Legislature's 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.

 - Rejects cuts to California State University and the University of California.

 - Protects one time investments for local homelessness programs, clean water programs, enforcing sexual assault laws, and other priorities.

- *Trigger Solutions:*
 - o The Legislature's Version rejects solutions subject to the trigger in the May Revision, and replaces them with alternative trigger solutions.

 - o The Legislature's 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.

 - o If the trigger solutions are implemented, the Legislature's Version's Regular Reserve will be \$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 \$6.5 billion).
- \$900 million by maximizing the Safety Net Reserve, which will protect draconian cuts proposed in the May Revision.
- \$1.3 billion by reinstating a PERS payment deferral that was in place until the current year.
- \$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.
- \$600 million reduction to the Legislative augmentation to county realignment funds (\$400 million will remain).
- \$770 million undoing the Legislative augmentation provided from the University of California (\$370 million) and the California State University (\$400 million).
- \$100 million reduction to the Judiciary (Dependency counsel, self help, court interpreters, and Equal Access Fund are not subject to this cut).
- In addition, if next January's updated forecast does not include a combination of baseline expenditures being lower and baseline revenues being higher by \$1.6 billion, then the June Payroll deferral that was in place until the current year will be triggered back into effect.

Major Differences with May Revision, by Area:

Education

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:

- o K-12 Local Control Funding Formula;
 - o K-12 Categorical programs, including the After School Education Safety Program and Career Technical Education Programs;
 - o State Preschool and Child Care reimbursement rates; and
 - o Community Colleges, including career technical education.
- Includes no Proposition 98 cuts in the Legislature’s 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.
 - Rejects a total of \$770 million of proposed cuts to the University of California (\$370 million) and the California State University (\$400 million), however these reductions will take effect under the trigger 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.

Resources, Environmental Protection, and Transportation

Major changes to the Governor’s May Revision:

- Provides \$50 million for AB 617 projects.
- 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.

- Requires the California Air Resources Board to conduct a rulemaking to consider improvements to the Cap-and-Trade Program.
- Provides statutory relief to transit agencies dealing with the fallout of COVID-19 on ridership and revenues.

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.
- 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 Legislature's 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.

- o Rejects elimination of the multipurpose senior services program (MSSP) benefit and community-based adult services (CBAS).
 - o Rejects renewed estate recovery provisions from deceased Medi-Cal beneficiaries.
 - o Rejects elimination of rate carve-outs for community clinics (FQHCs and RHCs).
 - o Rejects elimination of General Fund support for the Song-Brown Healthcare Workforce Training Program.
- Anticipates Legislature may enact changes to the Managed Care Organization charge to generate \$1 billion budget benefit that will strengthen the fiscal condition of the state and help avoid future cuts to health care.

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

- Provides \$1 billion for counties to backfill lost 1991 realignment revenues, with the expectation these funds will assist child welfare services costs. (\$600 million of this augmentation is subject to being triggered off under the 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 to the 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 programs that the May Revision includes in their "trigger category." This includes:
 - o \$300 million cut to Developmental Services;

- o 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;
- o Cut to the federal SSI/SSP COLA; and
- o Cut to IHSS service hours by seven percent.

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 \$350 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 Legislature's Version's final reserve.

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 potential 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.