



June 3<sup>rd</sup>, 2020

RE: The Legislature's Response to Governor Newsom's May Revision

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.

#### Comparing the Governor's Proposed Solutions and the Legislature's:

- *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:*
  - The Legislature's Version approves the vast majority of the Governor's proposals in this category.
  - 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:*

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

### Actions Relevant to Workforce Development:

- Rejects the proposed cut to the Expanded Subsidized Employment program. This program would no longer be subject to the trigger cuts.
- Rejects cuts to the Strong Workforce Program
- Restores all May Revision reductions to K-12 categorical programs to fully fund Career Tech, after school, and Adult Education programs.
- Rejects the May Revision proposal to reduce support for adult education, keeping the program at the 2019-20 spending level.
- Eliminates Calbright College. Requires Calbright Board of Trustees to develop a closure plan by December 2020. And re-directs dollars to community colleges
- Provides \$15 million one-time General Fund to support emergency financial aid for undocumented students at UC, CSU and the community colleges. These students were denied federal emergency aid.
- Approves a total of \$100 million to supports the IBank's loan guarantee program that provides financial assistance to small businesses.
- Approves \$10 million General Fund one-time to fund the Social Entrepreneurs for Economic Development (SEED) Initiative to provide micro-grants and entrepreneurial training to immigrants.
- Provides \$20 million one-time Proposition 98 General Fund to support costs associated with apprenticeship instructional hours.
- Maintains \$37 million General Fund for the Adult Reentry Grant