CALIFORNIA SENATE
REPUBLICANS

Highlights and Analysis of the 2020-21 Budget

Updated September 8, 2020

**SENATE REPUBLICAN
FISCAL OFFICE**

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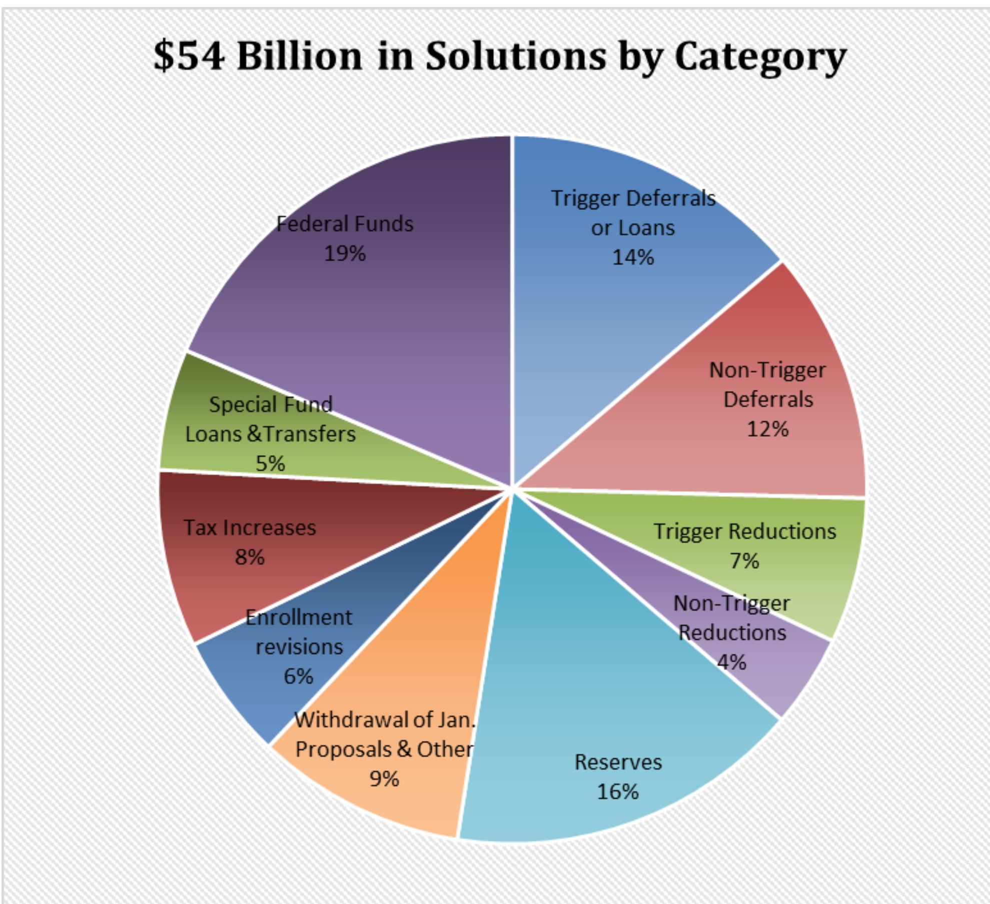
Executive Summary

Overview: An Unbalanced Budget, Leading to Years of Deficits. The enacted budget is balanced only in a narrow, legal sense of the word. Under a more common sense view, this budget is not balanced—it uses deficit spending and gimmicks to help pay the bills for the next year, followed by multibillion deficits for at least the next several years. Prior to this recession, the state had record-high revenues and reserves, but the state's recent spending spree left the budget in a precarious position, even before revenues began dropping. The forecast now shows multibillion dollar deficits for the foreseeable future, but the budget does far too little to restrain spending to a level that will create a financially sustainable path forward. The spending reductions or deferrals that are included primarily target schools, including elementary, high school, and colleges, rather than pulling back on doomed pet projects like High-Speed Rail or recent expansions to other state programs that are clearly unaffordable. Additionally, the budget takes actions that will prevent people from returning to work: it promises to crack down on independent contractors with nearly $22 million to enforce the harmful policies enacted in 2019 by Assembly Bill 5, and it imposes new mandates and more than $4 billion in new taxes on businesses that will make a jobs recovery all the more difficult.

Budget "Solutions" Rely Heavily on Federal Funds and Borrowing. The enacted budget includes the major categories shown in the chart below to address the $54 billion budget deficit. Notably, only $5.9 billion of all the solutions, or 11 percent, represent actual spending reductions.



Extraordinary Federal Assistance, but Governor Seeks More. Federal assistance will provide an astonishing $214 billion combined to either the state or directly to individuals and local governments in California. The state also would direct over $6 billion of its federal share to assist school districts, cities, and counties. Despite this extraordinary level of federal assistance, the Governor is asking for still more bail-out money from Washington, DC, all the while continuing to fund an onslaught of lawsuits against federal authorities.

Over $7 Billion in COVID Response Expected, with Little Accountability. The budget includes $716 million for contingency COVID spending, part of a total of $7.4 billion in total expected response costs, but the budget fails to include reporting or other measures to hold the Governor accountable.

Approves AB 5 Enforcement Funding Despite Deficit. Despite AB 5 handicapping the flexibility of workers statewide, especially during the COVID-19 crisis, the budget approves nearly $22 million for AB 5 enforcement as proposed in the January budget.

Millions for COVID-19 Labor "Education" But Little Relief for Struggling Businesses. The budget allocates $32.5 million to the Labor Agency to enforce the slew of new labor laws related to COVID-19 as well as provide employer and employee "education". At the same time, no funding was provided to specified businesses for the two weeks' paid COVID-19 leave that the new policy mandates.

Discriminatory School Growth Funding. The final budget denies students attending non-classroom based public charter schools the same funding that students attending traditional and classroom-based charter schools receive. The budget also limits enrollment growth funding to planned growth documented in either the 2020-21 district budget or 2019-20 spring enrollment report.

Defers K-12 Spending. Total funding in the budget for K-12 is approximately $99 billion ($48 billion General Fund and $ 51 billion all other funds). Proposition 98 is funded at $71 billion, which results in Proposition 98 per pupil spending of $10,654. The budget authorizes up to $11 billion dollars in deferrals, which means schools will get the funds in the future but must use reserves or borrowing now to maintain operations. While deferrals are preferred over cuts by schools, they create large future payment obligations for the state.

Reductions to Higher Education. The budget reduces higher education spending between the University of California and California State University by $558 million, which would be potentially restored if sufficient federal funds are received. The budget also increases deferrals to the California Community Colleges by an additional $791 million Proposition 98 General Fund over the Governor's May proposal, bringing the total deferral amount authorized to $1.4 billion. The additional deferral amount is rescinded if sufficient federal funds are received.

State Worker Pay Cut Offset by Other Concessions. The June budget package assumed $2.9 billion in employee compensation cuts. Short-term reductions made at the bargaining table nearly meet that goal in the short term, but salary reductions are partially offset by lower employee pension contributions and employee leave days. The short-term savings come at the expense of higher future costs.

State Funds to Backfill Lost County Revenue. The budget includes $750 million General Fund to backfill lost county "realignment" revenues for social services programs, but makes these funds contingent on counties' compliance with state health directives and guidance.

Shifts Supplemental Pension Payments to Supplant State Obligation. To create General Fund savings, at a price of not paying down debt, the budget shifts billions in previously approved supplemental pension payments to supplant what the state would normally pay towards pension obligations.

Eliminates $453 million in Funding for Housing. The 2020 budget reduces funding for housing programs across the state, taking back $453 million from the 2019 Budget Act for various mixed-income and infill infrastructure projects critical to support the state's long-term plan to increase the production of housing units.

Funds to Help Local Governments. The 2020-21 budget provides up to $2.7 billion to help local agencies combat homelessness and provide other health and safety services, as follows:

- ***Additional Funding to Combat Homelessness.*** The budget provides $300 million General Fund in 2020-21 to the Homeless Housing and Assistance Prevention program (HHAP), including $90 million to Continuums of Care, $130 million to each city with a population of 300,000 or more, and $80 million to counties.

- ***Project Homekey, CEQA Exemption Tied to Prevailing Wage.*** The budget provides $50 million to the Department of Housing and Community Development for Project Homekey, but would restrict the program to only those projects that include prevailing wage contracts.

- ***Federal CARES Act Funding.*** The budget provides $2.3 billion from the state's portion of federal CARES Act funding for public health, public safety, and homelessness programs. The budget restricts these funds, however, to those cities and counties strictly adhering to state and local public health directives, providing the Administration with the authority to withhold or redirect these critical funds.

New Taxes Could Hinder Employment and Extend Crisis. The budget includes several tax increases that take $4.4 billion away from California businesses in 2020-21. The changes include temporarily suspending net operating losses for medium and large companies and temporarily limiting to $5 million the amount of tax credits that can be used, including the research and development tax credit. The suspension and limitation would be in effect for the next three years, through 2023-24. These changes would generate $3.3 billion in 2021-22, and $1.5 billion in 2022-23.

Modest Support for Businesses Ineligible for Federal Relief. The budget includes $75 million to support the Small Business Loan Guarantee Program operated by the Small Business Finance Center at the California Infrastructure and Economic Development Bank (I-Bank). This would expand on the Governor's earlier emergency action to provide $50 million to the I-Bank.

Minor Small Business Tax Relief. The budget includes a first-year exemption from the $800 minimum tax paid by limited liability companies, limited partnerships, and limited liability partnerships, consistent with corporations in California. These changes would reduce state revenues by $100 million General Fund annually, and would be subject to annual authorization. The budget also provides $103 million General Fund to create the Small Business Hiring Credit Fund for the purpose of applying credits against qualified sales and use taxes.

Sales Tax Exemptions Extended. The budget extends, for 18 months, the sales tax exemptions for diapers and menstrual products that were included in the 2019 Budget Act. These exemptions are projected to reduce revenues by approximately $35 million annually. Local sales tax would also decrease, bringing total revenue losses to roughly $75 million annually.

Plan for Democrats' $25 billion Borrowing Scheme. The budget requires planning for the Democrats' scheme to essentially borrow $25 billion against future tax revenues in order to maintain their ever-growing thirst for state spending and new programs. If such a scheme were implemented, it would, practically speaking, create a new form of state borrowing, potentially without voter approval.

Earned Income Tax Credit Expansion to Undocumented Immigrants. The budget expands the state's Earned Income Tax Credit program to all undocumented immigrants that have an Individual Taxpayer Identification Number for tax filing purposes. The expansion is estimated to cost $130 million at the same time the state is borrowing billions from K-12 schools, cutting university funds, raising taxes, and neglecting communities such as the developmentally disabled.

Future Suspension of Tobacco Tax Funded Medi-Cal Provider Incentives. The budget uses all of Proposition 56 tobacco tax revenues for loan repayments and supplemental payments to Medi-Cal providers. Unfortunately, the budget also allows for a suspension of the Proposition 56 supplemental payments on July 1, 2021 in order to sweep the funds for general spending in future budget years, a clear violation of the voters' approval of Proposition 56.

Pause of Increases to Cannabis Taxes Contrasts with Other Tax Hikes. The budget temporarily prohibits the increase of both the mark-up rate on wholesale cannabis until July 1, 2021, and the increase of cultivation taxes for inflation until January 1, 2022. This treatment stands in contrast to the $4 billion in new taxes Democrats levied on other businesses through the budget.

Senate Republicans Help to Halt Closure of Barstow Veterans Home. Senate Republicans along with numerous veterans' organizations successfully stopped Governor Newsom from removing 175 elderly and disabled veterans from their residence in order to save a mere $400,000 in General Fund in 2020-21. Instead, the 2020 Budget Act requires the state Department of Veterans Affairs to research all future options for the home including expanding the number of skilled nursing beds to safely serve California's aging veteran population.

Gas and Diesel Taxes Increase Again. Already among the highest in the nation, California's gas and diesel taxes automatically increased again on July 1, 2020, taking about $517 million more from Californians in 2020-21. Despite Republican efforts, legislative Democrats and the Governor refused to provide Californians with a small amount of relief in this difficult economy by delaying this tax increase.

Despite Major Challenges, High-Speed Rail Presses On. The budget includes $2.9 billion to continue the high-speed rail project, despite more cost increases, uncertain funding, project delays, and a $54 billion state budget deficit. The deadline to adopt the 2020 High-Speed Rail Business Plan was also delayed through a budget trailer bill as the Administration appears to be hoping for a change in the White House.

Emergency Preparedness and Response Funding. The enacted budget approves many of the Governor's emergency preparedness and response proposals, including $50 million General Fund for community power resiliency, among other actions.

Funding to Increase Surge Capacity During Wildfire Season. The budget includes $86 million in General Fund spending this year and $135 million ongoing to the Department of Forestry and Fire Protection (CalFire) for a staffing relief package. This funding is for additional seasonal staff at the peak of the fire season, while also supporting a plan to phase in permanent, year-round positions.

Continues Wasteful Spending on Land Acquisitions. While the budget reflects a scaled back proposal opposed to the initial plan to spend $20 million on a New State Park, it still includes $5 million from the General Fund to secure a new, undisclosed property.

Future Expansion of Welfare. Beginning in 2022, the budget expands the time an adult can receive welfare aid from 48 months to 60 months, but does nothing to actually restore people to independence faster. The budget appropriates $1 million for automation to effectuate this change. The Department of Finance estimated this expansion would cost the state hundreds of millions General Fund annually.

Judicial Branch Trigger Reduction. In lieu of the $255 million trigger cut proposed by the Governor in May, the budget includes a $200 million General Fund baseline reduction for the Judicial Branch. $150 million could trigger off in 2020-21 if the state receives enough federal bailout funds, in which case the full amount would trigger off in 2021-22.

"Sea Change" in Public Safety Policy. That is how the California District Attorneys Association describes the collection of soft-on-crime changes included in the public safety budget trailer bills. Policy changes that were improperly jammed through the budget process make sweeping changes to sentence enhancements, parole, prosecution of misdemeanor crimes, and criminal history inquiries, and ban future sales of a new type of firearm by classifying it as an assault weapon.

Unworkable Juvenile Justice Realignment Forced on Counties. After initial attempts at juvenile realignment stalled in July, a trailer bill introduced just 72 hours before being passed on the last day of the regular session abandoned the agreement negotiated in good faith with counties and instead foisted a deeply flawed realignment plan on them. According to five statewide associations of county officials, the plan not only will not work for the realigned population, but it also threatens existing local efforts in the juvenile justice arena and purposely disadvantages counties least prepared to serve the new population.

Backfilling Federal Funds to House Undocumented Felons. California's sanctuary state status has made it ineligible for federal assistance through the State Criminal Alien Assistance Program. The budget includes a $68 million ongoing General Fund augmentation for the Department of Corrections and Rehabilitation to backfill this loss of federal funding.

Mortgage Relief Funds Finally Released. The 2020-21 Budget Act includes $331 million from the National Mortgage Settlement Fund to provide financial, counseling and legal assistance to distressed homeowners. The state Supreme Court recently upheld previous court rulings and directed the Newsom administration to spend $331 million in mortgage settlement funds to assist homeowners.

Regulatory Overreach with New California Consumer Financial Protection Law. A policy bill that Democrats jammed through the budget process renames the Department of Business Oversight (to the Department of Financial Protection and Innovation), creates a new California Consumer Financial Protection Law, and establishes a new regulatory bureaucracy for currently unlicensed entities, such as credit reporting agencies and merchant cash advance lenders.

Defers Cap-and-Trade Expenditure Plan. The enacted budget package does not include a discretionary expenditure plan. However, it does provide a $150 million re-appropriation for the heavy duty vehicles and off-road equipment investments program and $134 million to support state departments' administration of programs allocated from the Greenhouse Gas Reduction Fund in prior years.

Overall Revenues, Expenditures, and Deficits

Key Points

- **Budget "Solutions" Rely Heavily on Federal Funds and Borrowing.** The budget uses a range of mostly short-term solutions, including tax increases, reserves, federal funds, loans, and deferrals to close the short-term deficit.
- **Massive Deficits for Years.** With few real reductions to reign in the rampant spending increases of recent years, long-term deficits in the tens of billions of dollars remain in the forecast.
- **Expenditures Still Include Many Recent Expansions.** Despite the ongoing deficits, the budget rolls back few of the recent major program expansions that placed California on the verge of deficits even before the pandemic began.
- **COVID-19 Response Spending Lacks Accountability.** The budget includes $716 million for contingency spending, part of a total of $7.4 billion in expected response costs, but the budget fails to include measures to hold the Governor accountable.
- **Federal Funds Assist in Response and Budget Solutions.** Federal assistance will provide an astonishing $214 billion to the state or directly to individuals, and local governments.

General Fund Revenues Decline, but Federal Funds Increase Overall Budget. The pandemic would reduce General Fund revenues by 11 percent in 2020-21, compared to the enacted 2019 budget, as shown in the table below. However, the massive infusion of federal funds would drive the overall budget up by nearly 13 percent. Individual departments and programs may experience changes that differ substantially from the overall picture, though.

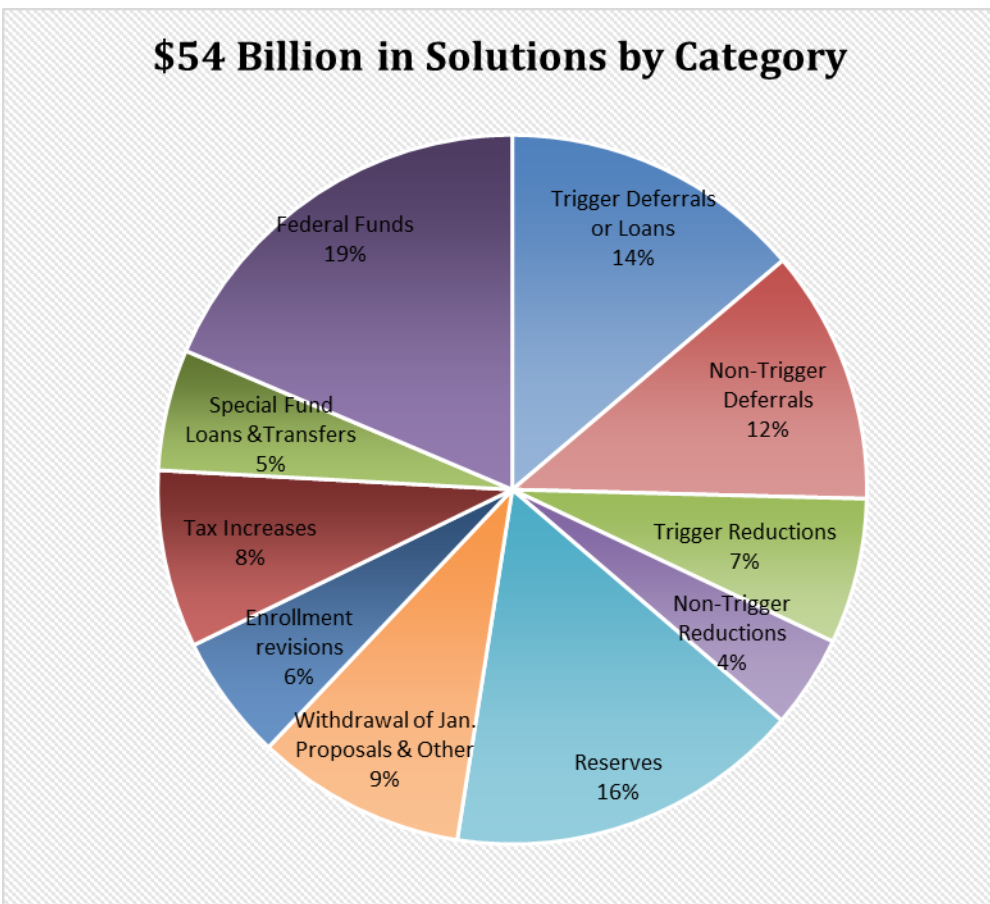
Revenues and Expenditures by Fund
Dollars in Billions

	Budget Act 2019-20		Revised 2019-20		Enacted 2020-21	
Revenues - General Fund	**$146**		**$140**		**$130**	
Change from 2019 Budget Act			-4.3%		-11.0%	
Expenditures		**% of Total**		**% of Total**		**% of Total**
General Fund	$148	46%	$147	44%	$134	37%
Special & Bond Funds	$67	21%	$65	19%	$68	19%
Total, State Funds	**$215**	**67%**	**$212**	**63%**	**$202**	**56%**
Change from 2019 Budget Act			-1.3%		-5.9%	
Federal Funds	$106	33%	$126	37%	$160	44%
Total, All Funds	**$321**	**100%**	**$338**	**100%**	**$362**	**100%**
Change from 2019 Budget Act			5.2%		12.7%	

Projected Deficit of $54 Billion. In May the Governor estimated a General Fund deficit of $54 billion by the end of 2020-21. This estimate is unconventional in that it included proposed spending increases from January 2020 that were never enacted. Nonetheless, the Governor and much of the press cite this as the budget problem to be solved. The initial estimate is the combined result of a $41 billion revenue decline by June 2021, higher spending of $7 billion for health and human services programs, and additional spending of $6 billion for COVID response.

Other Estimates Differed from Governor's. The nonpartisan Legislative Analyst's Office (LAO) estimated a net deficit ranging from $18 billion to $31 billion. Key differences between the LAO's and the Governor's estimates are that the LAO included a range of revenue declines that tend to be more optimistic than the Governor's projection. The LAO also excluded the Governor's January proposals, and already assumed some net savings from federal funds. Other economists also reported skepticism regarding the Governor's estimates. All of these forecasts are more uncertain than usual and highly dependent on the pace of reopening the economy, both in terms of government mandates and consumers' willingness to resume previous behavior. The Legislative Analyst's Office reported in late August that total General Fund revenues from April through July 2020 were about $4.3 billion above the projections used for the Budget Act.

Budget "Solutions" Rely Heavily on Federal Funds and Borrowing. The budget approves various major categories of actions to address the $54 billion deficit, each of which is summarized in the chart and described below.



Notably, out of all the solutions, only $5.9 billion (11 percent), including a portion of the trigger actions, represents actual spending reductions to programs.

- ***Trigger Deferrals and Loans (14 Percent).*** $7.5 billion in trigger deferrals or loans are authorized but would be reversed if the federal government provides up to $14 billion in additional bailout funds to California. Significant adjustments include the following:

- $5.8 billion through a 10 percent reduction to K-12 schools' Local Control Funding Formula.
- $791 million deferral to community colleges.
- $936 million to reduce special fund employee compensation and loan the funds to the General Fund.

➢ ***Trigger Reductions* (7 percent).** $3.6 billion in trigger reductions include:

- $1.9 billion in reductions to state worker compensation.
- $970 million in reductions to the University of California and the California State University.
- $248 million to revert previously approved housing funds.
- $150 million to reduce Judicial Branch operations.

➢ ***Non-Trigger Reductions (4 percent).*** $2.3 billion in reductions would come from eliminating about $2 billion in 2019-20 spending and about $240 million in 2020-21 spending.

➢ ***Reserves (16 Percent).*** $8.8 billion by drawing down various state reserves, including:

- $7.8 billion from the Rainy Day Fund (Budget Savings Account) in 2020-21. The remainder would be drawn down over two subsequent years.
- $524 million from the Public School Safety Account, the entirety of the account.
- $450 million from the Safety Net Reserve Fund, which is half the fund balance. The remainder would be withdrawn in 2021-22.

➢ ***Withdrawal of January Proposals and Other (15 Percent).*** $5.2 billion by withdrawing January proposals or foregoing program expansions, such as $250 million for a Climate Catalyst Fund.

➢ ***Tax Increases (8 Percent).*** $4.4 billion from tax increases, including the suspension of net operating losses for businesses and limiting business tax credits. These are described in more detail in the *Taxes* section.

➢ ***Non-Trigger Deferrals (12 Percent).*** $6.3 billion in Proposition 98 payment deferrals that would not be subject to the trigger. These must be repaid to schools in future years.

➢ ***State Special Fund Loans and Transfers (6 Percent)*** $3.0 billion in loans and transfers from state special funds to the General Fund, including $3.0 billion in loans and $0.9 billion in revenue transfers.

➢ ***Federal Funds (18 Percent).*** $10.1 billion in federal funds that have already been authorized, including $5.3 billion in higher federal payments for Medi-Cal and $2.8 billion from the federal Coronavirus Relief Fund.

Previous Expenditure Growth Created Imbalance Prior to Pandemic. Clearly the pandemic is largely responsible for the current deficit outlook. However, even prior to the pandemic, the state already faced deficits in the near future, despite record-high revenues. Both the Governor's June 2019 budget forecast and his January 2020 forecast assumed roughly $1.8 billion in trigger cuts would have been necessary within three years to keep the state from incurring operating deficits. This office wrote in our May Revision 2019 report:

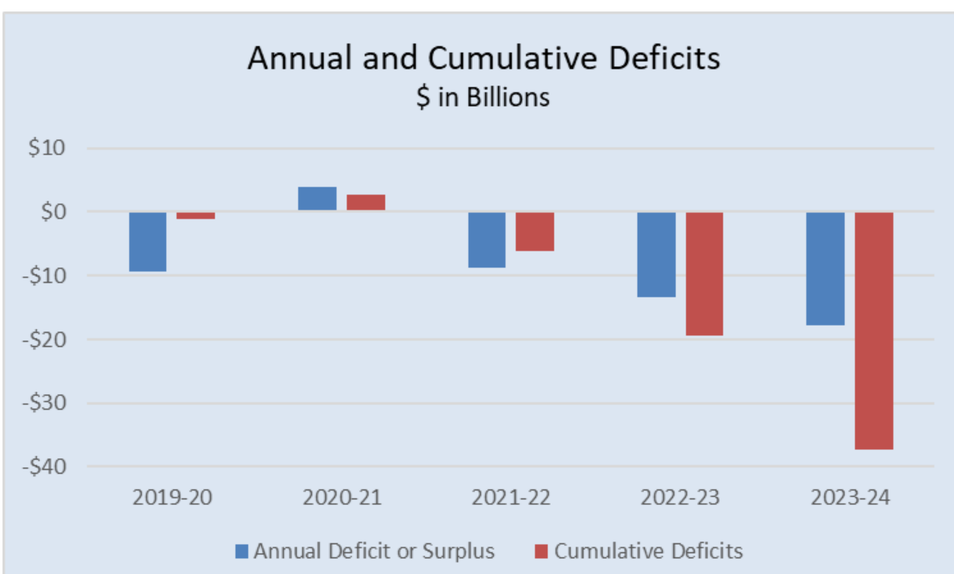
> [As] revenue growth slows and expenditures continue to rise steadily, the [2019] May Revision forecasts operating surpluses of only 0.5 percent, 0.4 percent, and 0.1 percent in the three years following 2019-20. This outlook… displays the precariousness of the state's current strong fiscal position. If the programs proposed to sunset in fact continue, the forecast would include operating deficits potentially beginning in 2021-22.

Unfortunately, that precarious fiscal situation, combined with the major economic shock of COVID-19, has now created deficits for California's foreseeable future under the Democrats' budget. The budget now assumes that those previous trigger reductions will be made in 2022.

Budget Maintains Many Recent Expansions. Despite the forecast of persistent deficits and the Governor's claim that federal funds are needed to bail out California, the budget does little to unwind the many expansions in redistribution or "resistance" programs made by Sacramento Democrats in recent years. For example, the statewide minimum wage law (Senate Bill 3, Leno, 2016), which pretends that the Central Valley and Silicon Valley have the same cost of living, is projected to cost the state over $2 billion General Fund in 2020-21. California's policies against cooperating with federal authorities, even in cases of undocumented individuals with criminal convictions, is now projected to cost $68 million General Fund to make up for lost federal funds. The budget also adds more than 1,100 new positions in non-essential programs (excluding fire response and unemployment benefit processing, for example) at a cost of more than $100 million General Fund. In other words, Governor Newsom and legislative Democrats seem intent on maintaining their progressive goal of a growing welfare state, with large groups of people dependent on state hand-outs, micromanaged by a massive government, even though the cost of that goal is now shown to be unaffordable.

Deficits Continue Throughout Forecast. Apart from $5.9 billion in spending reductions, most of the solutions approved in the budget are limited-term in nature and do not provide ongoing reductions in program levels. Since the budget does not roll back most recent spending increases, approves new spending increases (such as expanding the Earned Income Tax Credit to undocumented individuals), and relies mostly on short-term solutions, the forecast reflects deficits each year after 2020-21, as shown in the chart on the next page. (Note that the chart does not reflect new spending approved in last-minute August legislation.)

Annual revenues never catch up with General Fund spending in the Governor's forecast. With no plan to balance the budget past one year, the Governor and legislative Democrats appear to be hoping for a miracle revenue recovery or preparing to argue for still more tax increases, such as the Proposition 15 split-roll initiative appearing on the November 2020 ballot.



Governor's Authority for COVID-19 Expenditures. As of August 2020, the Department of Finance estimates COVID-19-related spending of $7.4 billion over 2019-20 and 2020-21, with $1.7 billion borne by the General Fund and the rest by federal funds. This is a reduction in overall expected costs from the $8.6 billion presumed as of the Budget Act's enactment in June, and the Governor has shifted significant components of the expected spending compared to the previous estimate.

As part of the total, the budget authorizes the Governor to spend $716 million on undetermined contingency actions, though this is less than the Governor originally proposed. The funds would be spent through the existing process for the Deficit Reduction-Emergency Operations Account (DREOA), which does not specify a notice period to the Legislature.

The Governor used the DREOA process for some previous spending actions, including part of the initial $1 billion protective equipment contract with Build Your Dreams (BYD) in the spring. However, circumstances have changed since the March emergency spending bill. Additionally, the Governor used part of the previous SB 89 authority for spending that was not related to emergency health response. Finally, the Governor signed multiple contracts without sharing key information with the Legislature, which often was left to learn details from reporters who filed public records requests.

Due to concerns about the Governor unilaterally making COVID response spending plans, and then switching them with little notice, the budget's delegation of additional authority to the Administration is not prudent. Both the nonpartisan LAO and the State Auditor recently raised concerns about the Governor's emergency spending, but legislative Democrats neglected to hold the Governor accountable through better reporting or notice requirements in the budget package.

Federal Funds Assist in Response and Budget Solutions. Federal assistance will provide an astonishing $214 billion to the state, individuals, and local governments. (Only a portion of this is reflected in the state budget, since some flows directly to individuals or local governments.) In addition to funds that California is using to address its budget deficit, federal funds are paying for COVID-19 response actions, assisting local governments, providing unemployment insurance payments to Californians, and loaning money to small businesses. The table below summarizes currently authorized federal assistance. A welcome part of the budget is to use a portion of the state's $9.5 billion share of the Coronavirus Relief Fund to provide additional aid to local school districts ($4.5 billion), counties ($1.3 billion), and cities ($500 million). Individual components of federal assistance are described in the *Local Government* section of this report.

Summary of Federal Stimulus Funds

(Dollars in Thousands)

Federal Vehicle	To/Thru State	Direct Stimulus	Total
Preparedness and Response (HR 6074)	$63,754	$1,535,765	$1,599,519
Families First (HR 6201)	11,460,393	2,726,574	14,186,967
CARES Act (HR 748)	60,197,032	81,702,154	141,899,186
Payroll Protection/Health Care (HR 266)	499,203	56,117,934	56,617,137
Total	**$72,220,382**	**$142,082,427**	**$214,302,809**

Source: Department of Finance

Despite the extraordinary level of existing federal support, the Governor seeks still more federal support to bail out California's budget, as indicated by the $11 billion in trigger cuts and deferrals built into the budget. The irony of this request is striking. The Governor has frequently boasted that California is a "nation state" modeling a progressive alternative to the backward policies of Washington, DC.

Additionally, the enacted budget continues to include at least $7 million to sustain the onslaught of "resistance" lawsuits that California files against the federal government, which as of August 28 reached 100 lawsuits in total during the Trump administration. Despite the boasts, Governor Newsom and legislative Democrats need the federal government to pay for their progressive dream. However, as of this report's publishing date, it appears highly unlikely the federal government will provide still more bailout funds for California's profligate budget.

Taxes

Key Points

- **Tax Increases Will Slow Down Recovery.** New tax increases will take $4.4 billion away from California businesses in 2020-21.
- **Earned Income Tax Credit Expansion.** Expands the state's Earned Income Tax Credit, including a $1,000 supplemental child tax credit, to undocumented immigrants.
- **Minimum Franchise Tax Exemption for All Businesses.** Exempts all businesses, not just corporations, from the minimum franchise tax, providing modest tax savings for businesses of $100 million General Fund annually.
- **Sales Tax Exemption.** Extends the current sales tax exemption for diapers and personal products by 18 months, through 2022-23.
- **Used Car Sales Tax Remittance Expedited.** Requires used car dealers to remit sales tax from used car sales at the same time as registration fees.
- **Small Business Hiring Tax Credit.** Creates a new hiring tax credit for small businesses.
- **Planning Democrats' $25 Billion Borrowing Scheme.** Creates planning process for the Democrats' tax voucher scheme that would borrow massively against future tax revenues.

New Taxes Will Slow Job Recovery. The budget includes new taxes that will increase state General Fund revenue by $4.4 billion in 2020-21, $3.3 billion in 2021-22, and $1.5 billion in 2022-23 (more than $9 billion over three years). The budget will temporarily suspend net operating losses (NOL) for medium and large businesses (those with income below $1 million are exempt) as well as temporarily limit business incentive tax credits (including research and development) from offsetting more than $5 million of tax liability, both for three years (tax years 2020, 2021, 2022).

Both corporations as well as personal income taxpayers with business income claim NOLs. The Administration estimates more than 3,200 entities would be impacted by the new tax changes. Following the significant spending sprees over the past several years of economic growth, hard choices are necessary due to the lack of fiscal prudence by Sacramento Democrats. Unfortunately, the budget attempts to solve the crisis and close the revenue gap on the backs of California businesses, many of which are already struggling to stay afloat. This will make it harder for businesses to rehire workers.

Year after Year, Californians Hit with New Taxes. The new $4.4 billion tax increases included in the 2020-21 budget are part of more than $15 billion in tax increases approved by the Legislature in the past four years. In 2019, the Governor and Democrats claimed that $1.5 billion in tax increases was merely "conforming" to federal tax law, but several of the provisions did not truly conform, and the choice of which taxes to modify was driven by the desire to increase revenue. Including just the new business tax changes implemented in both 2019 and 2020, Sacramento Democrats will have increased taxes on businesses by $5.9 billion in 2020-21 during a time of severe economic challenge. Democrats have shown they will raise taxes both in times of surplus and in times of deficit; apparently there is no bad year to raise taxes in their view.

Earned Income Tax Credit Expansion to Undocumented Immigrants. The budget expands the state's Earned Income Tax Credit program to undocumented immigrants that have an Individual Taxpayer Identification Number (ITIN) for tax filing purposes. The budget expands the current $1 billion tax credit program (the fifth expansion since the program's inception in 2015) to undocumented immigrants at an annual cost of approximately $130 million at the same time the budget borrows billions from K-12 education, cuts universities, and enacts billions in new taxes. This action also prioritizes undocumented immigrants over other groups in need, including the developmentally disabled community, whose services are still shortchanged by $1 billion per year according to a 2019 study published by the Newsom Administration.

Minimal Tax Relief for Some Small Businesses. The budget includes a first-year exemption from the $800 minimum tax paid by limited liability companies, limited partnerships, and limited liability partnerships, consistent with corporations in California. These changes would reduce state tax revenues by $100 million General Fund annually, assuming about 125,000 new eligible entities claim the exemption each year. The one-time tax exemption provides a relatively limited amount of financial assistance to new businesses relative to the overall cost of starting a new business.

Used Car Sales Tax Remittance Increases Revenue. The budget requires used car dealers to remit sales tax along with the Report of Sale and registration fees to the Department of Motor Vehicles (DMV) within 30 days from the date of sale. The DMV has authority to impose a penalty on a used car dealer for failure to timely remit sales tax. The 2020-21 budget reflects a tax increase of $24 million General Fund in additional state sales tax from this change.

Diapers and Personal Hygiene Tax Exemptions Continue. The budget extends the sales tax exemption for diapers and menstrual products from January 1, 2022 to July 1, 2023. The exemption results in a tax revenue loss of $76 million annually, including the impact to both the state and local governments.

Advanced Strategic Aircraft Tax Credit. The budget exempts the advanced strategic aircraft tax credit from the alternative minimum tax, treating the credit similarly to other major tax credit programs, such as Cal Competes, solar, and low-income housing, and allows unused credits to rollover to future years. The exemption would apply to Northrop Grumman, enabling the company to support the economy with its continued growth in California jobs and manufacturing space.

Small Business Hiring Credit. The budget creates the Small Business Hiring Credit Fund, which is contingent on the enactment of SB 1447 (Bradford), which passed the Legislature on August 31, 2020 and awaits the Governor’s signature as of this report’s publishing. The Fund is for the purpose of applying credits allowed by the bill against qualified sales and use taxes and would require any unused money remaining in the fund to be transferred to the General Fund by June 1, 2026. The budget provides $100 million General Fund for the Small Business Hiring Credit and also provides $3 million General Fund within the Franchise Tax Board and the California Department of Tax and Fee Administration for administration of the program.

Planning for Democrats’ $25 billion Borrowing Scheme. An August trailer bill establishes a requirement for the Franchise Tax Board, the State Treasurer’s Office, and the Department of Finance to develop a comprehensive implementation plan for the Democrats $25 billion tax voucher borrowing scheme. The budget requires the plan be submitted to the Legislature for consideration by March 1, 2021, setting the stage for a plan intended to front-load tax revenues, generating $25 billion in the first two years, in order for the Democrat’s to maintain their ever-growing thirst for state spending and new programs. If such a scheme were implemented, it would essentially create a new form of state borrowing, potentially without approval by the voters, who normally must approve general obligation borrowing.

Wildfire Prevention, Response, and Recovery

Key Points

- **Resources for Oversight of Electrical Utilities.** The budget continues and expands resources to provide increased oversight of electrical utilities' wildfire mitigation efforts.
- **Establishes the Good Neighbor Authority Fund.** The budget creates the new fund to support activities related to Good Neighbor Authority Agreements, which allow the USDA Forest Service to enter into agreements with state forestry agencies to perform critical forest management work to keep forests healthy and productive.
- **Enhances CalFire's Fire Protection and Response Abilities.** The budget contains $90 million General Fund to support additional tools and resources for CalFire's fire protection capabilities.

Oversight of Electrical Utilities. In previous years, various pieces of legislation addressed mitigation of utility-caused wildfires by increasing the oversight of electrical utility wildfire mitigation efforts. The Wildfire Safety Division and the California Wildfire Safety Advisory Board were created within the California Public Utilities Commission (CPUC). These bills outlined responsibilities and set measurable and enforceable standards for electrical corporations. A one-time appropriation of $50 million in ratepayer funds was provided by legislation to support these efforts.

As part of the enhanced oversight required by CPUC's approval of PG&E's bankruptcy plan earlier this year, the 2020-21 budget includes $5 million for the Office of Emergency Services to contract with an independent observer to monitor PG&E activities in preparing for fire season and public safety power shutoffs (PSPS). The observer will conduct field visits, interviews, and inspections.

The budget includes $32 million in ratepayer funds to support 118 positions at the CPUC to continue these efforts. Of these positions, 32 make up the Wildfire Safety Division, which will transfer to a stand-alone department under the Natural Resources Agency next July. The remaining 86 positions are for various other divisions at the CPUC, including the Safety Policy Division, Safety and Enforcement Division, Legal Division, Energy Division, Public Advocate's Office, and Administrative Law Judge Division.

Hopefully, these resources will create a robust structure to provide oversight and enforcement of the wildfire mitigation measures. Examples of tasks include development of performance metrics for evaluating wildfire mitigation plans, enforcement of wildfire mitigation plans and assessment of penalties for non-compliance, review of electrical infrastructure safety requirements, development and incorporation of safety policy in the regulation of utilities, addressing various policy issues including safety culture and Public Safety Power Shutoffs, investigations, and participation in proceedings.

Until now, the CPUC's oversight of safety has been largely nonexistent, instead focusing on setting rates and implementing various climate-related energy policies. To the extent these resources are successful at reducing utility caused wildfires, human tragedies as well as costs related to emergency response, insurance claims, utility liabilities, and property losses will all decrease.

Overtime for Firefighters. $4.8 million is included in the budget for CalFire and would fund the costs for a settlement related to an employee compensation issue regarding overtime pay calculations. A recent court decision ruled that "cash-in-lieu of benefits" pay-outs should be included in base salary amounts that are used to calculate employees' overtime compensation.

Good Neighbor Authority Fund. The budget establishes the Good Neighbor Authority Fund (GNA) Fund. The GNA Fund will support activities related to GNA Agreements which allow the USDA Forest Service to facilitate partnerships with state forestry agencies. These partnerships allow state forestry agencies to perform critical forest management work to keep forests healthy and productive. GNA Agreements also authorize state forestry agencies to sell timber harvested during these activities to offset project costs and support the implementation of new GNA projects. The GNA Fund creates a place to deposit the timber sale revenues and allow these revenues to be reinvested for the use of future forest management activities on federal lands.

Enhancing Fire Protection and Forecasting. As a part of enhancing the firefighting capabilities, the budget includes funding to support additional response and prediction capabilities.

- **Preparing to Respond.** To enhance response abilities, $85.6 million General Fund ($135.1 million ongoing) is included to support CalFire with relief staffing and additional surge capacity throughout the current peak fire season and those to come. Specifically, the budget provides CalFire with 172 additional staff for operational flexibility as dictated by wildfire forecasting. This year, CalFire will utilize $44 million in 2020-21 for seasonal firefighters and surge capacity resources, while beginning to phase in permanent staff.

- **Investing in Prediction.** To enhance prediction capabilities, the budget also includes $4.4 million General Fund for CalFire to implement the newly acquired wildfire prediction and modeling technology procured through the Innovation Procurement Sprint process initiated last year. The new technology will provide CalFire with access to a software program that generates predictions and wildfire forecasts for areas throughout the state. The data from this software program will inform fire pre-positioning and suppression tactical operations, with the intent to more readily control and contain wildfires.

Multi-Agency Collaborative Effort to Predict Wildfires. The budget includes $2 million General Fund to establish the Wildfire Forecast and Threat Intelligence Integration Center (Integration Center) pursuant to SB 209 (Dodd, 2019). This is a reduction of $6.8 million since the initial proposal at the January budget. Funding will support the initial efforts of the Integration Center, which will serve as the state's central organizing hub for wildfire forecasting, weather information, and threat intelligence. The Integration Center will be responsible for developing a statewide wildfire forecast and threat intelligence strategy to enhance wildfire preparedness. It is unclear whether the efforts of the Integration Center will mesh with CalFire's new wildfire modeling and forecasting efforts, or whether the two are intended to stand on their own. If the latter, some of these resources and efforts could prove to be redundant.

Housing and Homelessness

Key Points

- **Infrastructure and Mixed-Income Housing Not Prioritized.** Reverts $458 million previously provided to spur infill infrastructure and mixed-income housing projects.
- **Continues State Tax Credit Program, but Misses Other Opportunities.** Provides $500 million to continue the State Housing Tax Credit Program, but again fails to make other reforms.
- **One-Time Money for Current Homelessness Efforts.** Provides $300 million General Fund to support current homelessness programs, ensuring local governments have resources needed to maintain community collaboration and investments.
- **Homekey, CEQA Exemption Tied to Prevailing Wage.** Provides $50 million General Fund and a CEQA exemption for Homekey projects, but ties CEQA exemption for the projects to prevailing wage requirement.
- **Local Land Swap For Excess State Property.** Includes broad authority to "swap" state properties for local government property suitable for affordable housing development.
- **After Years of Delay, Homeowner Assistance Provided.** Includes $331 million from the National Mortgage Settlement of 2012 to provide relief to struggling homeowners, following delays by both the current and previous governor.
- **Infill Infrastructure Grant Funding Accelerated.** An August amendment added $103 million in accelerated bond funds for infill development projects.

Reduces Funds for Housing Projects. The 2019-20 Budget Act provided $1 billion for the Infill Infrastructure Grant program and the Mixed-Income Loan program intended to spur production of housing across the state. Just one year later, the 2020-21 budget pulls back nearly half those funds, reverting $453 million back to the General Fund in order for Sacramento Democrats to fund other priorities, such as providing tax credits to undocumented immigrants. A portion of the reverted funds, $248 million, is included as part of the budget's trigger reductions. If sufficient federal funds are received in the future, these mixed-income and infill infrastructure grant funds would be allocated once again to those programs.

Meanwhile, California needs to build at least 200,000 new units of housing a year for the next ten years simply to keep pace with demand, yet, according to the Construction Industry Research Board, recent permits continue to decline. Preliminary 2019 permits are on pace to reach only 110,218, a 6.2 percent reduction from 2018 permits levels.

Low Income Housing Tax Credit. The budget provides an additional $500 million to continue the expansion of the State Housing Tax Credit program, which works in conjunction with two federal tax credit programs to reduce a housing development's funding gap. The 2019-20 Budget Act also included $500 million for the program, which provides support for new construction projects as well as targeting developments for households with both lower and middle incomes.

Although the low-income housing tax credit may increase housing production, the budget fails to include broader policy changes that deal with the underlying cause of expensive housing. These include restrictive environmental reviews, extensive and cost-prohibitive zoning restrictions, and a host of excessive fees, which have raised the costs of building and slowed down the production of housing units. When contemplating the state's housing crisis, Benjamin Franklin's definition of insanity comes to mind: doing the same thing over and over again, yet expecting a different result. Until the state makes housing reform a priority, lowering the cost and expediting the time to build, housing production will remain at inadequate levels, resulting in the same concerns about the lack of housing over and over again.

Local Early Action Planning Grants. The budget extends the deadline by one year for a jurisdiction to request an allocation of funds for the Local Early Action Planning Grants, and extends the timeframe for expenditure of the Building Homes and Jobs Trust Fund allocations. The budget also makes minor changes to the definition of what constitutes a “unit” for purposes of meeting local building requirements, allowing more flexibility for regional housing goals to be met by local governments.

Housing Navigator Program and Suspension. The budget subjects ongoing funding ($4 million General Fund for 2021-22) for the Housing Navigator program to a trigger cut if certain projections are not met for the General Fund next year.

Housing Funds from Existing Programs. The 2020 Budget Act includes $1.3 billion from recent housing legislation that provides an ongoing source of funding for affordable housing and emergency shelter construction, as follows:

- $630 million for the Veterans and Affordable Housing Bond Act of 2018 (SB 3, Proposition 1), which requires programs funded with bonds to give preference to projects where all construction workers will be paid at least the general prevailing wage.
- $400 million for the No Place Like Home program, approved in November 2018, which dedicates $2 billion in bond funds to provide supportive multifamily housing for individuals experiencing mental illness who are homeless or at risk of homelessness.
- $277 million from SB 2 (Atkins), the Building Homes and Jobs Act, which established a $75 tax on real estate transaction documents to help pay for affordable housing.

Authority for Local/State Excess Property Swap. The budget provides the Department of General Services (DGS) with broad authority to "swap" state properties for another property belonging to a local government if the property is suitable for affordable housing development. The local government would also need to agree to the exchange. Although the budget includes notification requirements to the Joint Legislative Budget Committee and the members representing the district or area, the budget conveys broad latitude and authority upon DGS to make the determination that the exchange of property is in the "best interests of the state."

Mortgage Relief Funds Finally Released. The 2020-21 Budget Act includes $331 million from the National Mortgage Settlement Fund to provide financial, counseling and legal assistance to distressed homeowners. The state Supreme Court recently upheld previous court rulings and directed the Newsom administration to spend $331 million in mortgage settlement funds to assist homeowners. These funds originated from a settlement agreement for a 2012 lawsuit over unfair lending practices. Sacramento Democrats, including the previous governor, tried to divert the funds for purposes outside the settlement agreement, prompting housing advocates to bring a lawsuit against California.

The budget allocates $300 million to the California Housing Finance Agency to provide housing counseling services to homeowners, former homeowners, or renters, and to provide mortgage assistance to households. The budget also allocates $31 million to the Judicial Council for qualified legal services projects and support centers to provide eviction defense or other tenant defense assistance.

Affordable Housing Programs and Funding. The chart below provides information on all state programs and funding available to support affordable housing development in 2020-21:

2020-21 Affordable Housing Funding

(Dollars in Millions)

Department	Program	Amount
Department of Housing and Community Development	Federal Funded Programs for Housing	$1,276.0 [1/]
	Veterans and Affordable Housing Bond Act Programs (Prop 1)	$630.0
	No Place Like Home Program	$400.0
	Building Homes and Jobs Fund Programs (SB 2)	$277.0
	Veterans Housing and Homelessness Prevention	$75.0
	Various	$43.0 [2/]
California Housing Finance Agency[3/]	Single Family First Mortgage Lending	$2,500.0
	Multifamily Conduit Lending	$600.0
	National Mortgage Settlement (Mortgage Counseling and Assistance)	$300.0
	Multifamily Permanent Lending	$140.0
	Mixed-Income Loan Program	$90.0 [4/]
	Single Family Down Payment Assistance (SB 3)	$85.0
	Special Needs Housing Program	$25.0 [5/]
Tax Credit Allocation Committee	Low Income Housing Tax Credits (Federal)	$436.0 [6/]
	Low Income Housing Tax Credits (State)	$602.0
	Farmworker Housing Assistance Tax Credits	$4.0
Strategic Growth Council	Affordable Housing and Sustainable Communities	$452.0 [7/]
Department of Veterans Affairs	CalVet Farm and Home Loan Program (SB 3)	$170.0
Office of Emergency Services	Domestic Violence Housing First Program	$23.0
	Transitional Housing Program	$18.0
	Specialized Emergency Housing	$10.0
	Domestic Violence Assistance, Equality in Prevention and Services, Human Trafficking Victim Assistance, North American Domestic Violence and Sexual Assault	- [8/]
Judicial Council	National Mortgage Settlement (Renter and Homeowner Legal Assistance)	$31.0
California Department of Corrections and Rehabilitation	Specialized Treatment of Optimized Programming, Parolee Service Center, Day Reporting Center, Female Offender Treatment and Employment Program, Proposition 47 Grant Program	- [8/]
Department of Social Services	CalWORKS Family Stabilization, Housing Component	$4.9 [9/]
	CalWORKS Housing Support Program	$95.0
Department of Public Health	HIV Care Program	- [8/]
	Housing Opportunities for Persons with AIDS (HOPWA)	$5.0
	Housing Plus Program	$1.0
Total		**$8,292.9**

1/ This amount reflects programs that receive federal funds, such as the Community Development Block Grant program. Unawarded COVID-19 related relief funds (e.g., CARES Act) are not reflected.

2/ The 2020 Budget Act reverted a remaining $203 million General Fund appropiated for the Infill Infsatructure Grant Program of 2019 in 2019-20. This amount may be restored with federal funds, should they become available.

3/ Amount is based on lending activities from 2018/19.

4/ An additional $250 million ($45 million in 2020-21) may become available in federal funds for this program.

5/ Amount represents voluntary allocations of local Proposition 63 funds from 16 participating counties.

6/ This represents the estimated 9 percent tax credits to be allocated in 2020, including an increase for disaster credits provided by the federal government, and the estimated amount of 4 percent credits to be awarded in 2020 based on current data and remaining bond cap.

7/ The Affordable Housing and Sustainable Communities program amount reflects 20 percent of the projected Cap and Trade revenues. The Transformative Climate Communities (TCC) program ($44.6 million in carryover available for 2020-21) funds various activities, including affordable housing.

8/ The State provides a number of wrap-around supportive services through these programs including housing, which cannot be separated from the program's overall budget.

9/ Of the $46.9 million available for CalWORKs Family Stabilization in 2020-21, $4.9 million is estimated to be spent on housing.

Housing Infill Infrastructure Grant Program. An August amendment includes $103.3 million in bond fund authority for the Infill Infrastructure Grant program. These funds are an acceleration of future year funding and can be used for the construction, rehabilitation, demolition, relocation, preservation, and acquisition of infrastructure. Providing funding for infill infrastructure such as water, sewer, and roads allows local governments to move forward with project ready parcels for housing.

Homelessness

The 2020-21 budget provides up to $2.7 billion to help local agencies combat homelessness across the state, as described below.

- **Additional Funding to Local Governments to Combat Homelessness.** The budget provides $300 million General Fund in 2020-21 to the Homeless Housing and Assistance Prevention program (HHAP), including $90 million to Continuums of Care, $130 million to each city with a population of 300,000 or more, and $80 million to counties. The state has provided nearly $2 billion over the past three years to support local government efforts to build both temporary shelter beds and transitional housing, as well as expanding homeless prevention activities.

- **Homekey CEQA Exemption Tied to Prevailing Wage.** The budget provides $50 million to the Department of Housing and Community Development for homelessness programs that could include the purchase, conversion, and/or rehabilitation of properties to provide shelter and services to the state's homeless population. The budget restricts the funds for Homekey to only those projects that include prevailing wage contracts, thus increasing project costs and limiting the number of projects that can receive financial support. Additionally, the budget provides for an exemption from the California Environmental Quality Act (CEQA) for any Homekey project, if local entities have submitted the initial application by April 30, 2021.

- **Federal CARES Act Funding for Homelessness.** The budget provides $2.3 billion from the state's portion of federal CARES Act funding for homelessness. For additional information on these funds, see the *Local Government* section.

The table on the next page summarizes Homelessness program funding in 2020-21.

2020-21 Homelessness Funding
(Dollars in Millions)

Department	*Program*	*Amount*
State/Local Governments	CARES Act - Coronavirus Relief Fund: Project Homekey	$550.0
Homeless Coordinating and Financing Council	Local Aid for Homelessness	$300.0
Department of Housing and Community Development	Federal Funded Programs for Homelessness	$45.0 1/
	Project Homekey Operating Subsidies	$50.0
	Various	$6.0
Office of Emergency Services	Various Homeless Youth Programs	$6.0
	Youth Emergency Telephone Network	$0.6
Department of Social Services	CalWORKS Homeless Assistance Program	$154.3 2/
	Housing and Disability Advocacy Program	$25.0
Department of Health Care Services	Project for Assistance in the Transition from Homelessness	$8.8
University of California	Basic Needs Funding - Student Hunger and Homelessness Programs	$15.0 3/
	Rapid Rehousing	$3.5
California Community Colleges	Rapid Rehousing	$9.0
California State University	Rapid Rehousing	$6.5
Total		**$1,179.7**

1/ This amount reflects programs that receive federal funds, such as the Emergency Solutions Grant program. Unawarded COVID-19 related relief funds (e.g., CARES Act) are not reflected.

2/ Amount is dependent on caseload and utilization.

3/ This program supports basic needs partnerships for low-income students facing housing or food insecurity.

Health

Key Points

- **Future Tobacco Tax Funds to be Raided for Democrat Spending.** Democrats choose to stop critical Medi-Cal provider payments in future budget years to fuel their spending priorities.
- **Future Medi-Cal Expansion to Undocumented Seniors.** Elevates Medi-Cal spending on undocumented seniors as the Democrats' top priority for any new future state revenues.
- **Skilled Nursing Facilities Tax Extended.** Continues a $500 million per year tax on skilled nursing facilities.
- **No Cuts to Medi-Cal Senior Programs.** Rejects the Governor's proposed cuts to seniors.

Future Raid of Funds for Medi-Cal Provider Supplemental Payments. The 2020-21 budget funds Proposition 56 tobacco tax supplemental payments to Medi-Cal providers including physicians ($389 million), dentists ($183.8 million), developmental screenings ($20.8 million), intermediate care facilities for the developmental disabled ($12.4 million), and non-emergency medical transportation ($2.7 million). However, the Democrats chose to suspend these supplemental payments on July 1, 2021 unless there is an estimated General Fund surplus for the 2021-22 and 2022-23 fiscal years. This action allows the Democrats to supplant 2021-22 General Fund spending in Medi-Cal with the Proposition 56 funds, rather than fulfill the voters' desire to use the $2 per cigarette pack tax to improve Medi-Cal access through increased provider incentives.

California has about 35.6 percent of its population (about 14.2 million) enrolled in Medi-Cal in 2020-21, the highest in the nation. In order for Medi-Cal to serve all vulnerable Californians, Senate Republicans have repeated called for increases in provider rates and for targeted incentives to lure willing providers to rural and underserved portions of the state. With this looming Proposition 56 funds suspension, the Democrats continue to overpromise and under-deliver to Medi-Cal beneficiaries, while focusing on their other spending priorities. One such priority is Planned Parenthood and other abortion providers, who would be exempt from any payment reduction and would continue to receive $54.6 million in annual supplemental payments.

Medi-Cal for Undocumented Under Age 26 Preserved, New Priority for Future Undocumented Senior Expansion. This budget includes $296 million in General Fund for the continued expansion of full scope Medi-Cal coverage to an estimated 105,000 income-eligible undocumented young adults ages 19 through 25, and roughly $300 million General Fund for Medi-Cal coverage to up to 250,000 undocumented children. It would also prioritize another expansion to undocumented seniors starting in 2021-22 or a later fiscal year if the Department of Finance projects an operating surplus in 2021-22 or later fiscal year if the Department of Finance does not project and operating surplus in 2021-22 and the subsequent three fiscal years. The administration estimates that this would add 27,000 undocumented seniors at an annual General Fund cost of $250 million. Once again the Democrats choose expansions to those here illegally instead of ensuring real access to health care for needy Californians.

Skilled Nursing Facility (SNF) Tax Extended. This budget extends from July 31, 2020 to December 31, 2022, the so-called Quality Assurance Fee, which raises roughly $505 million in revenue annually from SNFs and other facilities that provide long-term care. These revenues will draw down more than $500 million in federal matching funds in order to increase rates paid for long-term care services. Like the managed care organization (MCO) tax approved in 2019, this funding mechanism will negatively affect some Medi-Cal providers and perpetuates the "myth of free federal money" by seeking to increase federal funding for Medi-Cal services in California.

Rejects Governor’s Cuts to Crucial Senior-Focused Health Programs. The 2020 Budget Act continues to fund various Medi-Cal senior programs proposed for elimination by the Governor, including the family caregiver resource centers assistance ($10 million), the Community-Based Adult Services (CBAS) program ($95.2 million) and the multipurpose senior services program (MSSP) program ($13.7 million). This budget also rejects the Governor’s proposals to reinstate the Medi-Cal “senior penalty” and the imposition of estate recovery collections on families of Medi-Cal seniors.

Provides Supplemental Payments to Health Clinics Enrolled in the Federal 340B Drug Discount Program. This budget expends $26.3 million in General Fund in order to partially backfill non-hospital community clinics enrolled in the federal 340B drug discount program for losses in drug discount savings caused by Governor Newsom's Medi-Cal pharmacy benefit transition from managed care to fee-for-service. Without these supplemental payments, many clinics harmed by the loss of 340B drug discount savings would never recover and could possibly close their doors.

Funding for Health Care Workforce Programs. The 2020 Budget Act includes $33.3 million in ongoing General Fund for the Song Brown Healthcare Workforce Training Program, which funds primary care residency slots for physicians, nurse practitioners, and other health professionals. The budget also provides $297.8 million in Proposition 56 tobacco tax funds to the loan repayment program for providers willing to devote nearly a third of their practice to serving Medi-Cal patients. California is facing a health care workforce shortage, particularly in rural counties, and these funds help close that gap.

Restoration of Medi-Cal Optional Medi-Cal Benefits Preserved. The 2020 Budget Act provides $54.3 million in General Fund for the recently restored optional Medi-Cal benefits such as adult dental, optometry, optician/optical lab, audiology, pharmacist-delivered services, podiatry, nurse anesthetists, occupational therapy, and physical therapy. These benefits had been eliminated during the Great Recession, and 2019-20 marked the first full year that all of the optional benefits were restored. This funding rejects the Governor’s May Revision proposal to eliminate these benefits yet again.

Imposes Medi-Cal Managed Care Rate Adjustments. The budget scores a decrease in the Medi-Cal managed care capitation payments of $243 million General Fund to reflect lower- than-anticipated costs and utilization related to the pandemic and for future managed care efficiencies. In order to capture this savings, the enacted budget imposes a downward rate adjustment of up to 1.5 percent on the rates previously agreed to by the state and Medi-Cal managed care plans for the period of July 1, 2019 to December 31, 2020.

Human Services

Key Points

- **Future CalWORKs Expansion.** The 2020-21 budget commits to expanding the time an adult can be on aid from 48 months to 60 months and increases participant flexibility, beginning in 2022.

- **Rejects Proposed Trigger Cuts.** The 2020-21 budget rejects the Governor's proposed trigger cuts to almost all human services areas.

- **Decreases CalWORKs Effectiveness.** The budget's policy changes decrease the chances that families receiving aid will move toward independence and truly improve their lives.

- **Provides County "Realignment" Revenue With Conditions.** To support county-run social services programs, the budget authorizes $750 million General Fund to backfill lost local revenue, contingent upon a county's compliance with public health directives. If the state receives federal funds, counties would receive an additional $250 million, also contingent upon compliance with public health directives.

Budget Balancing

Trigger Cuts to Human Services. The final budget rejects almost all trigger cuts to human services programs. At May Revision, the Governor proposed trigger cuts to almost every human services and developmental services program, including cutting foster care rates, developmental disability service provider rates, and programs that serve the elderly. The final budget maintains $46 million in cuts to Local Child Support Agencies (LCSAs) if federal funding does not materialize and a one-time $30 million cut to the Home Visiting Initiative.

Backfilling Lost County Realignment Funding With Conditions. The final budget authorizes $750 million General Fund to backfill lost county realignment funding for social services programs and an additional $250 million if the state receives federal funding. Funding for individual counties is contingent upon a county's adherence to federal guidance, the state's stay-at-home requirements and other health requirements as directed by Executive Order N-33-20, and any future executive orders, and all public health order, directives and guidance in response to COVID-19. August trailer bill language (AB 1867) clarified that in order to be out of compliance with these directives, counties would need to pass a specific ordinance or regulation contrary to state public health guidance. Counties are required to complete a monthly form certifying compliance with the Department of Finance. AB 1867 sped up the allocation from once every two months to almost immediate transfer of the entire allocation. If a county passes an ordinance out of compliance with state public health guidelines, their 1991 realignment funds would be redirected. While counties will undoubtedly appreciate the quick transfer of additional funds, tying the money to a potentially one-size-fits-all set of health directives runs counter to the Governor's past statements that he believes in a regional approach to reopening.

CalWORKs

Expanding Time on Aid. Beginning May 1, 2022, the budget expands the amount of time an adult can remain on CalWORKs aid from 48 months to 60 months. In addition to this change, the budget also makes changes to the required work activities in order to receive aid. Since 2012, the state has allowed CalWORKs participants to engage in flexible activities for the first 24 months on aid and then has required stricter welfare-to-work activities for the remaining 24 months on aid. This budget would get rid of the distinction between the two 24-month "time clocks" and permit participants to engage in flexible activities for the entire time on aid. Currently only 27 percent of the CalWORKs enrollment is engaged in the Welfare-to-Work program and is subject to work requirements. Of that 27 percent, only 32 percent is earning income (Department of Social Services, 2019 CalWORKs Annual Report). **Stage 1 Child Care.** The budget clarifies that a sanctioned CalWORKs participant can receive child care services if they have the intent to engage in welfare-to-work activities and have signed a welfare to work plan.

CalWORKs Outcomes, Accountability and Review (Cal-OAR). The budget suspends the Cal-OAR program, for a total fund savings of $21 million. Cal-OAR is an effort to define, quantify, and measure success in the CalWORKs program and, in contrast to simply throwing money at the problem, is a key initiative in determining what changes are necessary to effectuate real success in the CalWORKs program.

CalWORKs Enrollment. The final budget estimates average monthly caseload for CalWORKS will be 589,000 in 2020-21, an increase of 43 percent compared to 2019-20, but significantly lower than what the Governor proposed at the May Revision. Although economic activity for 2020-21 is hard to predict due to COVID-19, this estimate appears to be reasonable. During the economy's recent expansion, as CalWORKs enrollment fell to record lows, the Legislature passed policies that significantly increased the payments per enrollee. With enrollment now growing again, CalWORKs will be a larger part of the overall budget.

CalWORKs Administration and Subsidized Employment. The final budget funds the "Single Allocation" for counties at $2.4 billion, roughly the amount budgeted in 2019-20.Counties use these flexible funds to pay for CalWORKs eligibility activities, employment services, Cal-Learn, and Stage 1 childcare. The budget delays the permanent removal of Stage 1 child care from the single allocation until 2021-22. For subsidized employment, the budget rejects the May Revision trigger cuts and fully funds the program for a cost of $134.1 million General Fund.

Spending More While Reducing Accountability. It is concerning that the budget makes wide-reaching changes to the CalWORKs program, such as expanding the time clock, while at the same time postponing valuable programs like CalOAR. Additionally, since the CalOAR program is in the initial stages of development, data is not yet available on what changes should be made to CalWORKs. Despite the lack of data, this budget makes many programmatic changes to work requirements. CalWORKs provides a valuable safety net for parents and kids, particularly during the pandemic, but the program should focus on helping families move to independence. This budget increases the chances that families will remain dependent on the state longer, rather than seeing long-term improvements in their lives.

CalWORKs Budgeting Error. After the budget was signed, the Department of Finance notified staff that a major budget error had occurred relating to the CalWORKs local assistance item. The General Fund portion was underfunded by $750 million and the federal fund portion was overfunded proportionately. Therefore, the General Fund could have a significant deficiency in 2020-21. The Department's plan is to update caseload for the January 2021-22 Governor's Budget and reexamine potential deficiencies then. Given the high level of uncertainty, this course forward is reasonable, but there is a potential need for a current year deficiency appropriations bill in 2021.

Social Services COVID-10 Outreach. The Budget Bill Jr. (SB 115) appropriates $30 million to the Department of Social Services for a COVID-19 campaign aimed at communities that have been disproportionately affected by the virus. The budget also states that the Department may ask for additional funds by February 2021, if necessary. While a campaign may seem harmless, free resources and information on COVID-19 is plentiful. These funds could be much better used to help struggling businesses stay afloat—which offers tangible support in the way of continued employment to the same target populations.

In-Home Supportive Services (IHSS)

Rejects 7 percent Trigger Cut. The final budget rejects the May Revision proposed 7 percent reduction in hours for IHSS providers. The funding would be reduced in the next budget year as of December 31, 2021, unless the Department of Finance determines there is sufficient General Fund revenue at that time to continue providing these hours. These cuts are included in the forecast for the 2021-22 and 2022-23 fiscal years, which begs the question whether the budget really represents a truly balanced budget.

Sick Days for Waiver Personal Care Services. The budget requires 3 days of sick leave for Waiver Personal Care Service workers, for an estimated cost of $112,000. This is likely an underestimate and will be a more significant General Fund cost pressure in the future.

COVID-19 Flexibilities. The budget provides for a limited-time specified flexibilities in administering the IHSS program such as giving more time for social workers to do annual redetermination assessments and allowing those assessments to take place on the telephone or through videoconferencing.

Mandatory Training. The budget requires county social workers and managers to take an IHSS training course within 6 months of being hired. For existing social workers, the budget requires a one-day refresher course. Given the steady year-over-year growth of the IHSS program and the inconsistencies in assessed hours county to county, this training is essential to ensure program integrity.

IHSS Administration Funding. The budget proposes to freeze administration funding at the 2019-20 levels, due to the budget crisis but allows counties to delay certain administrative functions such as quality assurance activities.

Foster Care

Family Urgent Response System (FURS). The budget rejects the May Revision trigger cut to FURS and approves language that would authorize the expedited completion of the statewide crisis hotline. Expediting the statewide hotline makes sense given the pandemic and the changes to the foster care program. Senate Republicans supported this proposal in 2019-20.

COVID-19 Flexibilities. The budget extends several flexibilities granted during the COVID-19 public health emergency, such as extending eligibility for services provided in the Transitional Housing Program, expanding the allowable uses of teleconferencing and video conferencing, and changes the requirement for the review and updating of family resource homes to be biennially instead of annually.

Child Support Services

"Pass Through". The budget increases the amount of funds that can be passed through to a family receiving child support that is also receiving CalWORKs aid from $50 to $100 if the family has one child and from $100 to $200 if there is more than one child. This increase is the maximum amount the federal government will participate in a share of cost. While this proposal represents loss revenue, it means more child support funds will go to families in need.

Developmental Services

Key Points

- **No Trigger Cuts, But Rates Still Insufficient.** The budget protects community services from the drastic cuts proposed by the Governor at May Revision, but these services are still underfunded by approximately $1 billion General Fund.

- **Empty Fairview Developmental Center Costs Millions.** Despite the 2020-21 budget projecting a population of zero residents for the Fairview Developmental Center (DC), the budget authorizes approximately $12 million and 54 positions for “warm shutdown” costs.

Caseload Continues Growth. The budget estimates 2020-21 community caseload to be 366,353, approximately 5.2 percent higher than the 2019-20 population. Developmental Center caseload for 2020-21 is estimated to be 322, about a 6.6 percent increase over 2019-20 population, due to the budget’s approval of additional capacity at Porterville DC Secure Treatment.

Developmental Centers Continue to Cost Millions. Despite a caseload of only 322, the total budget for the developmental centers is $334 million General Fund, approximately $1 million per resident annually. Furthermore, the Fairview Developmental Center is currently without any residents and is still costing the state $12 million annually because of supposed “warm shutdown” costs. There has been no plan presented for the sale or transition of the Fairview property, other than its potential use as surge capacity site for COVID-19 cases.

Budget Rejects Trigger Cuts, but Does Nothing To Address Underfunding. The budget rejects various trigger cuts the Governor proposed in May, including $300 million to cut service provider payments. However, service provider rates are still drastically underfunded by approximately $1 billion, according to the Administration’s own 2019 study. Despite having tens of billions in deficits, the budget still includes planned expansions in other state programs, such as CalWORKs, Medi-Cal for undocumented immigrants, and tax credits for undocumented immigrants. If any funds exist to expand programs, an underfunded system that serves the disabled, who are the most vulnerable and helpless among us, should be the priority.

Most January Proposals Not in Final Budget. The budget does not include numerous January budget proposals such as the $60 million General Fund Enhanced Performance Incentive Program and enhanced caseload ratios for young children. However, the budget does include the January proposal for the Systemic, Therapeutic, Assessment, Resources, and Treatment (START) program for services to individuals with co-occurring developmental and mental health needs. The budget delays the implementation date of this program to 2021-22.

Incompetent to Stand Trial (IST) Capacity and Diversion Program. The budget approves $16.4 million and 71.7 positions to increase capacity at Porterville Secure Treatment for IST treatment and makes changes to the diversion practices statewide for those that are receiving competency training in the community.

K-12 Education

Key Points

- **Overall Funding for Schools Declines Less than 1 Percent From Prior Year.** Total school funding would drop year-over-year by $88 million, or less than 1 percent, from the revised 2019-20 Budget Act levels and $6.4 billion, or approximately 8 percent, from the 2020-21 proposed January Budget**.**
- **Limited Growth Funding.** Provides limited enrollment funding for traditional schools and classroom-based public charters schools but not non-classroom based charter schools. These funds are limited to previously planned growth only or to 2019-20 average daily attendance.
- **Restricts Layoffs.** Restricts the ability of school districts and county offices of education from utilizing employee layoffs to balance budgets.

Slight Proposition 98 Fund Decline from Prior Year. The budget provides total Proposition 98 funding at $70.9 billion in 2020-21, as shown in the table below. This update reflects a decrease of approximately $13 billion from the proposed January Budget and $6.8 billion from the revised 2019-20 Budget Act as well as results in Proposition 98 spending per pupil at $10,632.

However, overall school funding would drop year-over-year by only $88 million from the revised 2019-20 Budget Act and by $6.4 billion from the proposed Governor's Budget. The budget maintains additional school funding to assist in mitigating the rapid decline in state revenue, including $4.4 billion in federal funds and $2.3 billion in revised pension contributions that will offset current schools costs.

Proposition 98 funding
Dollars in Millions

	2019-20 Budget Act Revised	2020-21 Governors Budget	2020-21 Final Budget	Change from 2019		Change from 2020 GB	
				Amount	Percent	Amount	Percent
P98 General Fund	$52,656	$57,573	$45,066	-$7,590	-17%	-$12,507	-28%
P98 Local property tax	25,022	26,475	25,824	802	3%	-651	-3%
P98 Subtotal	**$77,678**	**$84,048**	**$70,890**	-$6,788	-10%	-$13,158	-19%
Federal Funds	-	-	$4,400	$4,400	-	$4,400	-
Pension Shift	-	-	2,300	2,300	-	2,300	-
Total			**$77,590**	-$88	0%	-$6,458	-8%

Limited Growth Funding. The August trailer bill language partially addresses the June budget's disparate growth funding formula. Specifically, it provides limited growth funding for traditional schools and classroom-based charter schools to planned growth. This growth must be documented in either a spring financial report or approved 2020-21 budget submission. Additionally, non-classroom based charter schools are ineligible to receive any growth funding.

The Administration continues to pursue discriminatory funding policies, picking winners and losers among public schools and students. It also suggests that the state doesn't value family choice when determining what is best for students. Funding should follow the student, but it is clear that education funding this year is not about the students, it's about politics.

Restricts Layoffs. The budget includes a provision to restrict the ability of school districts and county offices of education from utilizing employee layoffs to balance their budgets. Specifically, the budget prevents school districts from terminating certified employees from July 1, 2020, to July 1, 2021, with the exception of those employees in positions that require administrative or supervisory credentials.

The budget further prevents governing boards of school districts, community college districts, and county offices of education from terminating classified employees in the positions of nutrition, transportation, or custodial services.

The prohibition of layoffs severely restricts districts in their ability to balance their individual budgets. Every LEA finds itself in different situations given their enrollment conditions, reserve levels, and management of further budget restrictions. To that end, LEAs need many tools to determine how to redirect dollars to reopen schools safely. LEAs use the layoff process when programs are no longer supported with federal funds, decreases in child nutrition programs occur, grant funding expires, or enrollment decreases. These steps can be necessary to align expenditures with expected revenues.

Defers $11 billion in Payments to K12. For 2019-20, the budget defers $1.9 billion in K-12 Local Control Funding Formula (LCFF) payments. Beginning in 2020, an ongoing total of $3.4 billion in LCFF is deferred to the following budget year. Absent additional federal funds, the budget authorizes another $5.7 billion deferral for a total of $11 billion in LCFF deferrals to schools. While schools would prefer deferrals to programmatic cuts, deferrals create a significant ongoing out-year obligation for the state, similar to debt. This out-year cost pressure will persist until the state "doubles-up" funding to retire the deferral while also providing schools with that year's funds.

The budget also includes a hardship fund for LEAs unable to afford deferrals in 2019-20 and 2020-21, at an amount of up to $300 million. Specifically, the budget authorizes up to $100 million in February, March, April, May, and June of 2020-21 as state aid to LEAs that have met specified hardship exemption requirements.

Cushioning School Budget Decline. To help offset the decline in Proposition 98 funding for schools, the budget authorizes the following:

- ***Multiyear Payment Obligation.*** A $12.4 billion multiyear payment obligation to supplement Proposition 98 funding. This is achieved by providing a supplemental payment in an amount equal to 1.5 percent of General Fund revenues per year, up to the cumulative total of $12.4 billion. The amount reflects the approximate Proposition 98 allocation schools and community colleges would have received if funding had grown at the same pace as per capita personal income in 2019-20 and 2020-21.
- ***Learning Loss Mitigation.*** The budget reflects a total of $5.3 billion in one-time federal and state funding to address learning loss related to COVID-19. This amount includes $4.4 billion in federal Coronavirus Relief Funds, $355 million in federal Governor's Emergency Education Relief Funds, and $540 million in Proposition 98 General Funds. These funds will be distributed on an equity basis, with an emphasis on ensuring the most considerable resources are available to LEAs serving students with the greatest needs. Specifically, funds will be distributed in the following manner:
  - $2.9 billion based on the LCFF supplemental and concentration grant allocation.
  - $1.5 billion based on the number of students with exceptional needs.
  - $980 million based on total LCFF.

  August trailer bill amendments extend the deadline for General Fund allocations related to Learning Loss Mitigation from December 30, 2020 to June 30, 2021. The extension aligns with the state's request to the federal government for an additional six months beyond the December 30 deadline that Congress set for spending the Coronavirus Aid, Relief and Economic Security (CARES) Act funding it passed in March.
- ***Redirects Pension Contributions.*** The budget provides $2.3 billion to save K-14 schools money by reducing their employer pension contribution rates in 2020-21 and 2021-22. Funding would

come from repurposing the $2.3 billion in supplemental pension liability payments that were provided in the 2019-20 budget.

Special Education Formula. The budget adopts a new Special Education Funding Formula, which freezes existing special education funding calculations for payments except low-incidence pool funding. The budget further approves an equalization adjustment for Special Education Local Plan Area (SELPA) base funding, at $625 per ADA, or the SELPA's 2019-20 ADA rate, whichever is greater.

The budget also provides $15 million federal Individuals with Disabilities Education Act (IDEA) funds for the Golden State Teacher Scholarship Program, $8.6 million federal IDEA funds for LEAs to develop regional alternative dispute resolution/mediation services, and $1.1 million federal IDEA funds to support a study of the current special education governance and accountability structure

Distance Learning Requirements. The budget provides and defines requirements for distance learning to ensure that when in-person instruction is not feasible, students continue to receive access to a quality education via distance learning. It also provides $750,000 one-time Proposition 98 General Fund for the Sacramento County Office of Education to develop a distance learning curriculum and instructional guidance for math and English courses. The components would be subject to adoption by the State Board of Education (SBE) by May 31, 2021. Specifically, the budget includes:

- Allows for a combination of in-person and distance learning instructions to satisfy instructional day requirements. Permits minimum-day instructional minute requirements and exempts LEAs from minimum instructional minute requirements for physical education.
- Requirements for distance learning services, including the provision of devices and connectivity and supports for students with exceptional needs, English language learner students, youth in foster care, and youth experiencing homelessness, as well as students in need of mental health supports.
- Defines fiscal penalties for LEAs that do not meet instructional day requirements or the related attendance requirements.
- Continues a 2019-20 policy providing a material revision exemption for site-based charter schools offering distance learning.

August trailer bill language specifies that LEAs are allowed to adopt synchronous or asynchronous learning, to include video and/or audio for distance learning without requiring prior consent from teachers or principals. It also clarifies that except as required under a Distance Learning program, individuals may not record an online course without teacher and principal consent. Earlier in the year, the California Teachers Association (CTA) argued that school districts lack the authority to force teachers to do live online instruction or to record lessons for later use. Several school districts accepted this argument and left it to teachers to decide whether to do live instruction in the fall.

Learning Continuity and Attendance Plan. The budget requires that, in place of the Local Control Accountability Plan previously required on December 15, 2020, under Executive Order N-56-20, an LEA is required to adopt a Learning Continuity and Attendance Plan by September 30, 2020. The purpose of the Learning Continuity and Attendance Plan (LCAP 2020-21) is to ensure transparency around the expenditures of new federal funds provided to LEAs for COVID-19 relief, and in alignment with new flexibilities related to distance learning. The Superintendent of Public Instruction, in consultation with the executive director of the SBE, is also required to develop the template for the LCAP 2020-21 by August 1, 2020.

Early Learning and Care. $2.3 million General Fund is provided in the budget to transition the existing child care and child development programs from the Department of Education to the Department of Social Services. This transition aligns all child care programs within a single department in state government. The budget also preserves funding for child care programs supporting access for families and providing stable funding for early learning and care program providers. Specifically, the budget:

- Maintains early learning and care providers reimbursement rates at 2019-20 levels.
- Eliminates negative statutory growth adjustments to early learning and care programs.
- Provides a hold harmless for direct contract providers.
- Provides reimbursement at a child's maximum certified level of need for all providers accepting vouchers.
- Provides federal Child Care and Development Block Grant (CCDBG) for Alternative Payment Programs.
- Provides CARES Act one-time federal CCDBG funding for Alternative Payment Programs, backfill for COVID-19 expenditures related to the Governor's March 4, 2020 proclamation of a state of emergency (SB 89, 2019), and child care provider stipends.

The budget also adopts a "Child Care Trigger" for an anticipated $300 million in new federal CCBG aid. Specifically, this future federal COVID-19 relief is identified as providing (1) $150 million to fund additional child care access (2) $25 million in reopening grants for centers and family child care homes and (3) $125 million for limited-term stipends for state-subsidized child care providers.

August trailer bill amendments extend the waiver of family fees for child care services to all families through August 31, 2020. The trailer bill also waives family fees for the 2020-21 fiscal year for any enrolled family not receiving care services, either due to site closure, Distance Learning, or a family's need to shelter-in-place. If federal funding is received by the state, up to $30 million will be appropriated for family fee waiver costs.

Higher Education

<u>Key Points</u>

- **Reduction to Higher Education.** Includes a combined reduction of $558 million to the University of California (UC) and California State University (CSU) unless additional federal funds are received. The budget also includes language that clearly states the expectation that the UC and CSU are to implement the cuts in ways that do not disproportionately affect disadvantaged students.
- **Billion-Dollar Deferral to Community Colleges**. Authorizes $1.4 billion in deferrals to the California Community College (CCC) system. The budget also provides a hardship waiver allowing colleges with cash-flow issues to avoid the deferral and receive additional funds.
- **Restricts Contracts**. Prohibits the UC from receiving state funds for capital expenditures after January 1, 2021, unless UC employees perform all related work such as cleaning, maintenance, grounds keeping, and food service.

California Community Colleges. The budget approves the May Revision proposals to assist the CCCs in their recovery from the impacts of the COVID-19 Recession. Specific statutory changes include:

- Extending the Student-Centered Funding Formula "hold harmless" provisions for an additional two years.
- Reflect the revised 2019-20 Student-Centered Funding Formula rates.
- Exempt direct COVID-19 related expenses incurred by districts from the 50 percent law, which requires CCC districts to spend no less than 50 percent of its general fund expenditures on instructor compensation.
- Encourages community college districts to expedite the development of short-term workforce training programs.

The budget also increases CCC Proposition 98 deferrals from $662 million in the Governor's May Revision proposal to $1.4 billion in the budget year. Deferral payments are specified as follows:

- Defers $330 million Proposition 98 General Fund payments from 2019 to 2020.
- Defers $662 million Proposition 98 General Fund payments from 2020 to 2021.
- An additional deferral of $791 million Proposition 98 General Fund payments to community colleges is authorized from 2020 to 2021, absent additional federal funds.

Deferrals delay payment to the CCCs, without reducing programmatic funding. This allows the state to transfer programmatic costs to the CCC in the first year of implementation, generating savings only in that year. Deferrals also create a sizeable ongoing out-year obligation for the state, similar to debt. This out-year cost pressure will persist until the state "doubles-up" funding to retire the deferral while also providing CCCs with that year's funds.

Reduction to Calbright Community College. The budget reduces Calbright Community College funding by $45 million in a mix of one-time and ongoing General Fund. Calbright is the all-online community college "campus" authorized in the 2018-19 budget process. These savings are redirected to offset other community college costs.

University of California. The budget reflects a net reduction of $258 million General Fund to the UC unless additional federal funds are received. Specific budget reduction adjustments are as follows:

- Reduction of $428 million for UC operational costs.
- Reduction of $43 million in combined base reductions for the UC Office of the President, UC PATH, and the UC Division of Agriculture and Natural Resources.

Other significant adjustments include an increase of $213 million General Fund, of which $678,000 is one-time. These adjustments provide the following:

- $169 million in base adjustments to the UC.
- $25 million for UC Riverside School of Medicine operational costs.
- $15 million for the UC Merced-UCSF Fresno Partnership for a Branch Medical School Campus.
- $3.7 million to offset the decline in Proposition 56 revenue in support of the Graduate Medical Residency grant program.

The budget states that it expects the UC to uphold the Administration's equity principles, minimize the potential impact of these reductions on disadvantaged students, and implement the budget adjustments associated with the reductions in ways that do not disproportionately affect disadvantaged students.

August trailer bill amendments prohibit the UC, beginning January 1, 2021, from using state funds for capital expenditures without certification from the Department of Finance that all cleaning, maintenance, grounds keeping, food services, or other work are performed by UC employees. The trailer bill also provides that beginning with the 2021-22 fiscal year, the Department of Finance will only approve capital expenditures if the UC has demonstrated compliance with the above provision. There is no policy reason for the state to limit UC's ability to manage its costs. Higher UC costs are likely to flow into higher costs for students, when the price of a UC education is already a challenge for many students.

California State University. The budget reflects a net reduction of $299 million General Fund to CSU operational costs unless additional federal funds are received. An increase of approximately $199 million to base funding is included to mitigate the impact of the above General Fund reduction, should federal funds not materialize.

The budget further states its expectation that the CSU will uphold the same principles that apply to the UC. The CSU is also expected to use its unrestricted reserves to mitigate the impact of these reductions from one year to the next.

California Student Aid Commission. The budget approves the May Revision proposals to swap the Temporary Assistance for Needy Families program by $600 million federal funds with $600 million General Fund, reduce the Child Savings Account Grant Programs by $15 million General Fund each, and fund the Student Loan Debt Service workgroup at $250,000 one-time General Fund.

Other significant adjustments include redirecting $15 million from the Cal Grant B Service Incentive Grant to fund emergency financial aid for undocumented students. Finally, absent additional federal funds, the budget will decrease the Golden State Teacher Grant program by $88 million one-time General Fund.

Public Safety and Judiciary

Key Points

- **Harmful Criminal Policy Changes Belatedly Move Forward.** Bipartisan concerns delayed passage of several "trailer bills" that sought to sneak potentially harmful policies, including sentencing and parole changes, through a shortened budget review. However, the majority party subsequently enacted virtually all of those policies at the eleventh hour.
- **Juvenile Justice Realignment Foists Unworkable System on Local Partners.** Majority party and Governor disregard local concerns and force juvenile justice "realignment" through at the last minute, saddling counties with more responsibility while denying them flexibility.
- **Sanctuary State Laws Cost Taxpayers.** Majority party's prioritization of law breakers over taxpaying citizens and legal residents results in loss of federal funds and real, ongoing state cost increases.
- **Trigger Cut to State Court System Harms Californians.** Deal negotiated between legislative Democrats and Governor approves Judicial Branch cut that, amplified by pandemic response, makes it harder for needy Californians to resolve legal issues through the courts.
- **Many Local Fines and Fees Eliminated.** The budget provides $239 million to replace various fines and fees in 2020-21, and beginning next year will eliminate many local fines and fees for various offenses and provide $65 million to replace the local revenues.

Soft-on-Crime "Reforms" Move Forward, Though Some Delayed to January 1. Legislative Democrats once again abused the majority-vote trailer bill process to sneak major non-budget criminal justice policies through a shortened budget process. Although concerns about these policies were raised in June by Senate Republicans and both Democrats and Republicans in the Assembly, legislative Democrats unilaterally enacted virtually all of these policy changes at the end of the legislative session, including the following:

Parole Changes Jeopardize Public Safety. The budget assumes General Fund savings of $23 million in 2020-21, increasing to $65 million ongoing by 2023-24, as a result of language in the public safety budget trailer bill (SB 118, Committee on Budget and Fiscal Review), that reduces maximum parole terms to two years or less for most serious and violent offenders (excluding only violent sex offenders and those at high-risk to reoffend). Nearly a third of recidivism by California parolees occurs after the first two years of supervision, which means this new policy will leave a significant number of offenders unsupervised during a time in which they are still prone to commit new crimes.[1]

SB 118 also expands eligibility for compassionate release, which previously included terminally ill inmates with six months or less to live, to include inmates who are terminally ill with 12 months or less to live, and eliminates a requirement for the Board of Parole Hearings to be involved in the process of identifying eligible inmates (leaving the entire recommendation process up to the Secretary of CDCR). The California District Attorneys Association describes these alterations to parole (as well as the expansion of elderly parole described below) as "wholesale changes in longstanding public safety policy" that "should not be enacted as part of trailer bills without extensive debate and consideration."

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[1] Parolee recidivism figure derived from CDCR's *Recidivism Report for Offenders Released from the California Department of Corrections and Rehabilitation in Fiscal Year 2014-15*. https://www.cdcr.ca.gov/research/wp-content/uploads/sites/174/2020/01/Recidivism-Report-for-Offenders-Released-in-Fiscal-Year-2014-15.pdf

The aforementioned expansion of the elderly parole program, as well as a court-initiated misdemeanor diversion program (described below) were initially included in the July public safety trailer bill. However, as mentioned above, bipartisan concerns resulted in those policies being amended out of the trailer bill. Unfortunately, both were then amended into AB 3234 (Ting, 2020), which subsequently passed the Senate on a party-line vote the last day of the regular legislative session.

Court-Initiated Diversion Raises Serious Concerns. AB 3234 authorizes a statewide program of court-initiated misdemeanor diversion that may be offered by a judge to any misdemeanor defendant ***over the objection of the prosecution***. This sets up some potentially alarming situations. For example, a defendant charged with misdemeanor sexual battery (i.e., groping) could complete the diversion program, have his arrest expunged, and then apply for a job working as a fitness instructor. A defendant charged with possession of child pornography who is offered diversion and successfully completes the requirements could apply to work at an elementary school. In neither case would the person be required to disclose the arrest or the charge to the prospective employer. This is the type of half-baked policy that results from closed-door negotiations with limited public input. Because this diversion program and the expansion of the elderly parole program were passed in a regular policy bill, not a budget trailer bill, they do not take effect until January 1, 2021.

"Ban-the-Box" Prohibition on Pre-Admission Criminal History Inquiries. SB 118 prohibits all post-secondary institutions in the state from inquiring about a prospective student's criminal history at any time during the admissions process. This is a significant policy change that should have warranted a full discussion in legislative policy committee hearings with testimony by affected groups. Instead, despite having no budget effects whatsoever, it was jammed into a budget trailer bill with severely limited opportunity for public input.

Department of Corrections and Rehabilitation (CDCR)

The 2020-21 budget includes total funding of $13.4 billion ($13.1 billion General Fund) for CDCR. This represents an increase of approximately $552 million above spending levels approved in the Budget Act of 2019, which is mostly attributable to increases in employee compensation, retirement, and other employee benefits.

Prison Closures Move Forward, Despite Indicators Pointing the Other Direction. SB 118 requires CDCR to identify two state prison facilities as candidates for closure. The first must be identified by January 10, 2021 and the second by January 10, 2022. While the language does not require CDCR to actually close the facilities, it paves the way for that to happen in the near future. This is the wrong approach at the wrong time. Following a decade of soft-on-crime reforms, crime rates are beginning to trend upward. At the same time, existing prison facilities are crumbling due to age and decades of neglect and abuse. Maintaining and operating existing bed capacity is becoming increasingly expensive due to deterioration and obsolescence. Taken together, these trends suggest that construction of new prison beds may be needed in the future, rather than shutting down existing capacity.

Furthermore, the COVID-19 crisis has demonstrated that having extra bed capacity within the system is critical to the state's ability to prevent early releases during times of emergency that require social distancing or significant prisoner quarantining or isolation. Beginning in March 2020, in response to COVID-19, the Newsom Administration halted intake to the state's prison system and began a series of early release measures to enhance physical distancing in prison facilities. Between March 12 and September 1, these measures reduced the prison population by 19,083 inmates.[2] Many of these

[2] Source: CDCR's COVID-19 Preparedness web page, https://www.cdcr.ca.gov/covid19/, accessed September 3, 2020.

individuals were released before paying their full debts to society, leaving justice for their victims lacking. Worse yet, many are not fully rehabilitated and therefore pose a significant ongoing threat to public safety in the form of new crimes and new victims. These measures are temporary, however. Once the COVID situation has stabilized, CDCR will resume intake, and within a few years, the prisons will be back to their pre-COVID levels, approaching the federal court-ordered population cap.

Rather than looking for prisons to close, the administration should be looking for opportunities to repair or replace existing facilities that are expensive to run. Otherwise, the state will soon find itself in the untenable position of once again having more prison commitments than available beds. Even without significant increases in crime rates, population growth within the state could soon erode any excess prison capacity we currently have.

Unworkable Realignment of Division of Juvenile Justice (DJJ) Forced on Counties. The enacted budget reflects the withdrawal of the Governor's January proposal to continue his 2019 plan of relocating DJJ within the Health and Human Services Agency. In its place, the Governor and legislative Democrats negotiated a plan to prospectively realign responsibility for remaining state-level juvenile offenders to the counties. This plan, enacted in SB 823 near the end of the final day of the legislative session, halts intake to DJJ on July 1, 2021. DJJ will be closed by attrition after that date, and each juvenile offender that would otherwise be eligible for commitment to DJJ will be housed and provided programming and services by the prosecuting county. Although counties will be responsible for managing this population, SB 823 sets up a new state agency within the Health and Human Services agency, dubbed the "Office of Youth and Community Restoration", to administer grant funds and oversee counties' plans for rehabilitating these juvenile offenders.

Despite the counties having participated for months in good faith as stakeholders in the negotiations leading up to this juvenile justice realignment, the Legislature and the Governor abandoned many of the tenets of the agreement for which the counties fought. According to the California State Association of Counties, Urban Counties of California, Rural County Representatives of California, Chief Probation Officers of California, and the County Behavioral Health Directors Association, all of whom united in opposing SB 823:

> "The proposal risks disrupting the most foundational juvenile funding streams and programs, where counties have shown success with our current local juvenile justice population…"
>
> "The funding formula purposely disadvantages counties least prepared to serve the new population."
>
> "SB 823…[is] unworkable, [doesn't] give counties tools to succeed, and won't result in better outcomes for kids."[3]

Given the fact that wards (juvenile inmates) committed to DJJ have committed some of the most heinous crimes imaginable, and the fact that many counties lack the resources to manage this population on their own, the state should be looking to foster trust with the counties upon which it will depend to implement the realignment. Instead, legislative Democrats and the Governor abandoned their local partners at the eleventh hour in favor of an unworkable plan that might sound nice to social justice groups but is unlikely to improve public safety or better rehabilitate juveniles.

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[3] August 31, 2020 Floor Alert from the California State Association of Counties, Urban Counties of California, Rural County Representatives of California, Chief Probation Officers of California, and the County Behavioral Health Directors Association.

Fire Camp Closures Will Impact Local Communities and State's Wildfire Posture. The budget includes a $7.4 million General Fund reduction, reflecting closure of eight of the state's 43 conservation (fire) camps. These minimum-security facilities provide opportunities for inmates to learn how to prevent and combat wildfires, earn sentence credits at twice the normal rate, maintain local parks and roadways, and perform other conservation services for the state and the communities in which the camps are located. The Department of Forestry and Fire Protection relies on inmate fire crews to work alongside its in-house firefighting workforce during fire season. Following recent criminal justice reforms, including the 2011 Public Safety Realignment, Proposition 47 (2014), and Proposition 57 (2016), the non-serious, non-violent, non-sex-offender population has dwindled. These are the inmates who are eligible to be housed in minimum-security fire camps, leaving CDCR in a continual quest to keep camps full. These are also the same inmates who are eligible for other work assignments that keep prisons operating and costs down, so there is an ongoing struggle to place them where they are needed most. The administration has not yet identified which camps will be closed. Nonetheless, the closures will have a real impact on the communities they serve, as well as the state's efforts to combat wildfires.

Taxpayers Face Real Costs of Sanctuary State Laws. At a time when every General Fund dollar is needed just to maintain essential programs, the budget allocates an additional $68 million General Fund to CDCR to cover the anticipated loss of federal funding through the State Criminal Alien Assistance Program (SCAAP). The SCAAP covers a portion of states' costs to house undocumented criminal aliens. The US Department of Justice recently implemented a new SCAAP application process requiring a state's Attorney General to attest to certain facts regarding information about the inmates for which the state is seeking reimbursement. California's sanctuary state laws (i.e., SB 54 of 2017, et al) preclude the Attorney General from being able to make those certifications. When SB 54 was being deliberated, Senate Republicans warned it would jeopardize these federal funds. But legislative Democrats chose to prioritize the demands of those who entered and remain in the U.S. illegally over the financial wellbeing of citizen-taxpayers and tax-paying legal residents. As a result, taxpayers will pay $68 million more every year for the privilege of supporting some who continue to defy the law. Other states should thank us: 68 million more federal dollars are now available for them.

<u>Department of Justice (DOJ)</u>

Funding Included for Erskine Fire Victims. The 2016 Erskine Fire burned over 46,000 acres in Kern County, destroyed 287 homes, damaged 12 more, damaged or destroyed many other structures and vehicles, and took two lives. Those who lost property and loved ones should be compensated. The fire started on land leased by the California Department of Fish and Wildlife (CDFW) from the US Bureau of Land Management (BLM). It appears that CDFW was negligent in its oversight of a local archery club that had an agreement to use the property. Through mediation, CDFW agreed to compensate the victims, rather than risk potentially much greater costs from litigation. The 2019 Attorney General claims bill (SB 418, Portantino) appropriated $25.7 million General Fund for a first round of Erskine Fire claims. Remaining claims are in varying stages of mediation. The budget allocates $12 million General Fund to pay a second round of claims for which mediation is complete.

New Type of Firearm Predictably Results in Leap to Ban…uh…Whatever It Is. The budget includes $990,000 from the Dealers' Record of Sale Special Account for DOJ to regulate a new category of firearm, which is legally neither a pistol, nor a rifle, nor a shotgun (dubbed a 'pifle' by some). SB 118 includes this new type of firearm in the existing definition of an "assault weapon", thereby banning future sales of these guns or ownership of one by anyone who did not already legally own it before the effective date of the bill. SB 118 also necessitates a registration period to allow individuals who already lawfully purchased one of these guns to legally keep it. During discussion of the policies included in SB 118 (then AB 88) at the Senate Committee on Budget and Fiscal Review's hearing of the budget trailer bills on June 24, 2020, administration representatives supporting the ban were unable to describe what this new firearm actually is or how it differs from firearms that are not banned.

Office of Emergency Services (OES)

Emergency Preparedness and Response Funding. The enacted budget approves many of the Governor's emergency preparedness and response proposals, including:

- $50 million General Fund for community power resiliency. This funding will be allocated to state and local agencies to help maintain the continuity of critical services that remain vulnerable to power outages and public safety power shutoffs, including schools, county election offices, and food storage facilities.
- $17 million loan from the School Land Bank Fund for the Earthquake Early Warning System (in lieu of the $17 million General Fund loan originally proposed). This loan to the California Earthquake Safety Fund will buy time for OES to continue to evaluate and pursue ongoing revenue options. The funds will support system operations and program management, an education and outreach campaign, and research and development to expand mitigation uses for the California Earthquake Early Warning System.
- $38 million General Fund increase for ongoing disaster recovery efforts covered by the California Disaster Assistance Act.
- $2 million to establish the Wildfire Forecast and Threat Intelligence Integration Center. Please refer to the *Wildfire Prevention, Response, and Recovery* section for details.
- $11 million General Fund for various departments ($7.6 million for OES) to provide a permanent state funding source for an existing multi-agency cybersecurity effort to protect and harden the state's critical networks. The previous federal funding model was inadequate to address the evolving landscape of cybersecurity, and left the state's information networks vulnerable to changes in federal funding priorities.

Benefits of Seismic Safety Commission (SSC) Transfer Unclear. The enacted budget includes a $503,000 General Fund augmentation associated with transferring the Seismic Safety Commission (SSC) to OES. OES is primarily responsible for activities preparing for, responding to, recovering from, and mitigating disasters, including earthquakes. Inclusion of the SSC within OES could lead to greater consistency in earthquake safety policies and enhanced seismic safety. While it appears there could be some synergistic benefit to combining the two entities, the SSC was established as an independent entity of state government for a reason. It is not clear whether the potential gains from combining it with OES outweigh the benefits of the SSC's former independence, which included incorporation of private sector subject matter experts into the Commission's governance. Also, as an independent entity, the SSC was well positioned to advise the Governor, the Legislature, and state and local governments alike on ways to reduce earthquake risk without becoming politically entangled. Time will tell whether this transfer will lead to better earthquake policy, or whether making the SSC part of a larger bureaucracy will simply drive ever-increasing costs and unnecessarily politicize the work of the Commission with little or no measurable benefit.

Judicial Branch

The Budget includes total funding of $4.0 billion ($2.2 billion General Fund) in 2020-21 for the Judicial Branch, including $2.7 billion to support the trial courts. Relative to the Budget Act of 2019, 2020-21 spending levels are about $200 million lower, which is consistent with the $200 million trigger cut to the Branch discussed below.

Judicial Branch Trigger Reduction. As part of the package of budget-balancing solutions negotiated between legislative Democrats and the Democratic Governor, the budget includes a $200 million General Fund baseline trigger reduction for the Judicial Branch (in lieu of the $255 million trigger cut proposed by the Governor in May). Of this reduction, $177 million is allocated to the trial courts and the other $23 million is allocated across the rest of the state judiciary. If the state receives at least $14 billion in federal bailout funds by October 15, 2020, then the $23 million state judiciary cut and $127 million of the trial courts' cut (totaling $150 million) would trigger off in 2020-21 and the entire $200 million cut would trigger off in 2021-22. The courts are just beginning to return to something resembling normal following the detrimental impact of the Great Recession ten years ago. As of 2017-18 (the last year for which data is available), 18 percent of all new civil filings were taking more than a year to resolve and over 6 percent were taking more than two years. These new cuts will worsen existing backlogs.

General Fund Support for COVID-19 Case Backlog. The budget includes a one-time $50 million General Fund augmentation in 2020-21 to help the trial courts work through the backlog of cases that has resulted from actions taken by the Judicial Council to slow the spread of COVID-19.

Declines Continue for Fine and Fee Revenues. For the past decade, revenues from fines and fees on criminal convictions (mostly traffic violations) have been decreasing steadily. As a result, the various criminal justice programs supported by these revenues frequently face budget shortfalls. The trial courts, via the Trial Court Trust Fund, receive a significant portion of their annual revenues from this source. The 2020-21 budget includes $239 million General Fund to backfill declining revenues to the Trial Court Trust Fund. Of the $239 million, $91 million is for a higher-than-anticipated 2019-20 shortfall and $148 million is for the projected shortfall in 2020-21. Beginning in 2021-22, the budget also provides $65 million annually to backfill a reduction in local revenues that will result from AB 1869 (Committee on Budget, 2020), a last-minute August bill that eliminates many fees and penalties paid by defendants at various points of contact with the criminal justice system.

Transportation

Key Points

- **Gas and Diesel Taxes Increase Again.** Already among the highest in the nation, California's gas and diesel taxes increased again on July 1, 2020.
- **Transportation Revenues Take a Pandemic Hit.** Gas and diesel tax revenues fall by nearly 7 percent as fuel demand dropped during shelter-in-place orders.
- **COVID-19 Impacts.** Gas consumption, tax revenues, and local allocation data reflect significant decreases resulting from the COVID-19 shutdown. Projects may be impacted in future years.
- **Department of Motor Vehicles.** The budget includes a 213 percent General Fund increase to add new positions to California's automated voter registration program.
- **Despite Major Challenges, High-Speed Rail Presses On.** The budget includes $2.9 billion to continue the high-speed rail project, despite more cost increases, uncertain funding, project delays, and a $54 billion state budget deficit.

Gas and Diesel Taxes Increase Again. Pursuant to SB 1, the 2017 gas and car tax bill, the tax on gasoline increased by another 3.2 cents per gallon on July 1, 2020. Similarly, the diesel excise tax increased by 2.5 cents per gallon. These inflationary adjustments will continue to increase gas and diesel taxes each year on July 1st. These increases are projected to generate about $517 million in 2020-21. ***Despite Republican efforts, legislative Democrats and the Governor refused to provide Californians with a small amount of relief in this difficult economy by delaying this tax increase.***

Transportation Revenues Take a Pandemic Hit. As shelter-in-place orders were announced to reduce the spread of COVID-19, Californians significantly reduced vehicle travel. The subsequent drop in demand for fuel resulted in less gas and diesel tax revenue. Revenue estimates dropped by nearly 7 percent in the 2019-20 fiscal year and 7.6 percent in the 2020-21 year, as compared to January projections. Despite this loss of about $1.2 billion over the two years, total revenues over the same period are estimated to be nearly $16 billion.

As the economy begins to recover, losses are projected to diminish significantly, with total losses through 2024-25 estimated at $1.8 billion or about 3 percent. On the other hand, the California Department of Transportation (Caltrans) is accelerating projects to achieve cost savings. This savings will help offset revenue losses; however, the magnitude of savings is unknown at this time.

While the impact to roads is relatively minor, local transit agency revenues across the state have taken a much bigger hit, with some estimating a 25 percent revenue reduction. Ridership, which was already declining, fell 75 to 95 percent on buses, light rail, and commuter rail as telework became prevalent and the need to social distance made transit vehicles impractical. While fare revenue is a small piece of the transit funding pie, nearly half of the revenues come from local sales taxes, which have also dramatically declined. The remaining funding is from state and federal taxes on gas and diesel, which, as previously mentioned, have also declined. The federal CARES Act included funding for California transit entities of about $3.6 billion to keep transit afloat. Additionally, AB 90, the transportation budget trailer bill, modified existing transit funding formulas and requirements to hold transit entities harmless for the impact of COVID-19, allowing transit agencies to continue to receive hundreds of millions of dollars annually for operations and capital expenses. Time will tell if transit can adjust and again become an option for travel or if this is the end for an already heavily subsidized industry.

COVID-19 Impact on Gasoline Consumption. As a result of shelter-in-place orders, taxable gasoline consumption as reported by the California Department of Tax and Fee Administration (CDTFA) fell significantly in March, April, and May as compared to the same months in 2019. Consumption in April 2020 decreased by about 44 percent but there was a bit of a recovery in May, which was down by about 29 percent. The table below reflects these changes.

Taxable Gasoline Consumption (Millions of Gallons)					
	January	February	March	April	May
2019	1,231	1,147	1,291	1,277	1,295
2020	1,222	1,196	1,018	714	924
Change	-9	49	-273	-563	-371
% Change	-0.73%	4.27%	-21.15%	-44.09%	-28.65%

COVID-19 Impact on Gas Tax Revenue. The decreased gasoline consumption reflected above translates into decreased gas tax revenues. The chart below reflects the year-over-year change in gas tax revenues by month though, for technical reasons, each month actually reflects delayed data from the prior three months. Since the March figures reflect revenues for prior months, the data do not yet show an impact from COVID-19, and the increase of 13.8 percent aligns with 13.4 percent gas tax increase, from 41.7 cents per gallon (cpg) to 47.3 cpg. The largest decrease is in June at 46.6 percent as compared to 2019. However, when considering the 13.4 percent increase in the tax rate, the impact is actually a 60 percent decrease from anticipated revenues.

Gasoline Excise Tax Revenue Received (Millions of Dollars)						
	March	April	May	June	July	August
2019	$578	$477	$507	$609	$533	$561
2020	$658	$472	$402	$325	$512	$535
Change	$80	-$5	-$105	-$284	-$21	-$26
% Change	13.80%	-1.00%	-20.70%	-46.63%	-3.94%	-3.94%

Impact to Road Projects. No impact is expected to any project in the queue for 2020-21 or 2021-22 in the two main ***state*** programs for road projects, the State Highway Operation and Protection Program (SHOPP) and the State Transportation Improvement Program (STIP). The current four-year SHOPP (2020-21 through 2023-24) plans to fund $17.4 billion in projects, and the five-year STIP (through 2024-25) plans to fund $2.6 billion in projects. There are various reasons that no immediate impact would occur. First, there are a couple of stable funding sources like federal funds and the Transportation Improvement Fee paid by vehicle owners when registering a vehicle. Second, project bids are generally lower during a recession and there is an effort to expedite road projects during this time of decreased traffic; both of these factors would result in lower project costs. Finally, the State Highway Account began this fiscal year with a reserve of about $2.1 billion, largely due to needing time to ramp up projects to utilize the influx of revenues from the SB 1 tax increases. It is anticipated about $1.1 billion of this reserve will be used this year.

Any impact to state programs from decreased gas tax revenue is not expected until at least 2022-23 or later. At this time, no projects are expected to be cancelled, though some could be delayed. Notably, there are often shifts of projects for many reasons in the out-years of a program, so impacts are anticipated to be minimal.

Conversely, ***local*** transportation projects are likely to be affected more immediately because cities and counties receive state gas tax revenues throughout the year, and reductions in those revenues are already apparent. It is also unlikely local governments have significant reserves to offset these reductions. There are some reports of delays to planned projects that have not yet begun construction. Much of the funding for a project is secured before a project begins, but if there is a shortfall, future projects can be delayed and funds shifted to current projects. Since control of these funds and projects resides with each local government, any changes to projects are made at the local government level.

Below is a chart showing year-over-year gas taxes to local governments for the months of March through August.

SCO Apportioned Gasoline Excise Tax to Local Governments
(Millions of Dollars)

	March	April	May	June	July	August
2019	$244	$206	$242	$268	$217	$283
2020	$280	$196	$171	$120	$234	$234
Change	$36	-$11	-$71	-$149	$16	-$49
% Change	14.78%	-5.19%	-29.30%	-55.35%	7.50%	-17.31%

Department of Motor Vehicles

Department of Motor Vehicles (DMV) Motor Voter. The budget contains $9.4 million (General Fund), including a $6.4 million increase, and 38 new positions for DMV's automatic voter registration program, Motor Voter. According to the DMV, staff has been redirected to the Motor Voter program since spring of 2018 to deal with system errors, continue some manual processes, and audit system-generated information. The new positions take over these functions, allowing redirected staff to return to their previous positions, but doing little to actually fix the system.

Since launching in April of 2018, over 100,000 registration errors have occurred. Senate Republicans have called for audits, modifications, and suspension of the Motor Voter program. Despite the many known problems, and a $54 billion budget deficit, the Administration and legislative Democrats continue to prioritize the failed Motor Voter program, compromising the integrity of California's elections.

California High-Speed Rail Authority

Despite Major Challenges High-Speed Rail Presses On. The budget includes $2.9 billion ($2.4 billion from cap and trade revenues, $500 million bond funds) to continue construction and administration of High-Seed Rail. The draft 2020 Business Plan released by the High-Speed Rail Authority (Authority) detailed another cost increase of $1.3 billion from the prior year estimate, largely a result of project delays. The 171-mile Merced-Fresno-Bakersfield segment is expected to be operational at the end of 2029. The draft 2020 Business Plan also assumes Phase I, Anaheim to San Francisco, will cost $80.3 billion and begin operations in 2033. However, the Phase I costs and completion date can only be realized if more money is sent to the project faster. ***With the current flow of money to the project, cost escalation outpaces the project and there will never be enough money to actually build it.*** Even existing state funding from California's cap and trade program remains unstable. The Authority's revenue share from the auction on May 20, 2020 dropped from an expected $125 million to $6 million during the COVID-19 pandemic.

Adoption of 2020 Business Plan Strategically Delayed. AB 90, the transportation budget trailer bill, extends the adoption of the final 2020 High-Speed Rail Business Plan from May 1, 2020 to December 15, 2020. Legislative Democrats argue this extension provides more time for the Legislature to weigh-in on the existing draft plan. However, it seems the delay may be more political, hoping for a change of federal leadership, or perhaps a bailout, prior to finalizing the business plan. President Trump has been very clear that the federal government will not continue to fund California's rail fail. Currently, $929 million in federal grant money is tied up in litigation, and the federal government is looking to claw back another $2.5 billion in federal dollars already spent on the project. Without this federal money, there is insufficient funding to complete even the Merced-Fresno-Bakersfield segment. Forget about connecting to San Francisco or Los Angeles.

A Critical Juncture. The high-speed rail project is at a critical juncture. The Authority is planning to enter into massive contracts with 30-year maintenance agreements for track and electrification systems and trainsets. The Authority is also planning to purchase land outside the active construction footprint. These contracts and purchases do not require any legislative approval at this time, and could be initiated and finalized before the business plan is adopted in December. These moves will further commit California to this rail fail and cost Californians tens of billions of dollars.

Missed Opportunity. With no viable funding plan and no private investment, it is time to end the high-speed rail project. There is $2.4 billion from cap and trade sitting in an account waiting to be spent on this project. This money would be better spent funding Cal Fire for a year, providing $1.6 billion in relief to the General Fund. The state could shift the ongoing cap and trade revenues to other purposes that actually reduce GHG emissions now, and ask the voters to either re-purpose the bond money to more practical infrastructure projects or cancel the remaining bond authority and save Californians billions in future debt service. Such a move would require settling up with the federal government on the $2.5 billion in federal funding already spent on the project, but given the broad recognition outside California of High-Speed Rail's impracticality, it is worth exploring options with federal authorities.

Resources & Environmental Protection

Key Points

- **Expands Administrative Authority Across Multiple Departments.** Contains $6.6 billion in various funds and significant policy proposals that increase the authority of administering agencies, curtailing the Legislature's role in developing sound policies.
- **General Fund Loans and Backfills.** Depends on nearly $730 million in loans from special funds to support the General Fund, includes $150 million to backfill state parks budgets. Additionally provides a $130 million loan (special funds) to the Safe and Affordable Drinking Water Fund while expenditure plans for the Cap-and-Trade Program are pending.
- **Adds Positions and Acquires More Property.** Includes over 300 additional positions across multiple departments and nearly $27 million in new property and facility acquisitions, including $5 million for a new state park, despite the massive deficit.
- **Water, Parks, and Infrastructure Spending.** Supplies over $300 million (General Fund and special funds) for water and park programs, infrastructure, and deferred maintenance throughout the state.
- **Accelerates Bond Funds to Speed Up Projects.** Allocates over $240 million in various unappropriated bond funds throughout multiple departments to support competitive grant programs for a plethora of existing and future resources projects.
- **Re-appropriations Reflect Some Questionable Priorities.** The final budget provides nearly $180 million ($28.7 million General Fund and $150 million special funds) in re-appropriations to various departments to continue program operations, grant programs, and support for local projects.
- **Cap and Trade Spending.** Defers action on the $965 million Cap and Trade Expenditure plan proposed in the January budget as auction revenues remain uncertain. Provides $134 million for ongoing state operations of Cap and Trade Programs.

Expanded Administrative Authority

Natural Resources Agency (CNRA)

Multibillion-Dollar Budget to Support 26 State Entities. The budget includes $6.6 billion ($3.6 billion General Fund, $1.6 billion special funds, and $1.4 billion bonds funds) to support various departments, boards, commissions, and conservancies that implement administrative priorities related to the state's natural resources.

State Water Resources Control Board (State Water Board)

Significant Policy Change to Existing Authority. The budget includes a major policy change that authorizes the State Water Board to issue a "Section 401" water quality certification before completion of an environmental review. The change allows the State Water Board to reopen and revise Section 401 water quality certifications, which could further delay and raise the cost of energy infrastructure projects.

The budget also augments the State Water Board's authority by specifying that a project subject to certification under the jurisdiction of the Board will comply with applicable requirements of that federal law or "any other appropriate requirements of state law." Yet, the language is unclear regarding which requirements or standards under state law a proposed project would be subject. Uncertainty unnecessarily increases risk, which could be a key factor in whether to pursue an otherwise worthwhile project.

Expands Existing Fee Authority. The budget amends AB 658 (Arambula, 2019), to require the State Water Board to consult with the Department of Fish and Wildlife (DFW) when setting the fee schedule authorized under that bill. AB 658 authorized groundwater sustainability agencies (GSAs) or local agencies to apply to the State Water Board for a conditional temporary permit or change order for diversion of surface water to underground storage. The budget requires that the fees set for the temporary permits or change orders are in an amount necessary to cover both the costs incurred by the State Water Board and DFW. This fee authority is open-ended, and allows the State Water Board and DFW significant decision-making authority over whether or not small operators will qualify for these permits or change orders based on what they can afford.

Department of Food and Agriculture (CDFA)

New Fee Authority. The budget includes new fee authority for CDFA and requires the department to adopt fees to cover new implementation and enforcement activities related to the confinement of animals under Proposition 12 (Prop. 12). In 2018, Prop. 12 was approved by voters and established new minimum requirements on farmers to provide more space for egg-laying hens, breeding pigs, and calves raised for veal. While the initiative received widespread support, the new fee authority poses concerns related to existing programs and the duplication of existing fees.

The egg industry already pays a mill fee assessment under the Egg Safety and Quality Management (ESQM) Program. Prop. 12 enforcement requirements will force the egg industry to pay a disproportional amount since the new fee lumps together pork, veal, and eggs. Further, the pork and veal industries have no identified method to collect fees from these entities or a plan for enforcement of the pork and veal provisions. Finally, the new fee authority subjects the egg industry to two fees from separate regulations with similar goals, as this industry currently self-regulates in partnership with CDFA.

Loans to the General Fund and Backfills

Special Funds Prop Up the General Fund. The budget includes nearly $730 million in special funds loans to the General Fund. The bulk of these loans would come from the Underground Storage Tank Cleanup Fund, the Air Pollution Control Fund, and the Electronic Waste Recovery and Recycling Account. Unless these funds develop a need for the money, the payback period for most of the loans depends on whenever the General Fund doesn't need to supplement lost revenues with loans from other funds.

Backfill for Department of Parks and Recreation. The budget includes $150 million General Fund to backfill the State Parks and Recreation Fund because of reduced fee and concession revenues as a result of park closures implemented in response to the COVID-19 pandemic. This amount includes $50 million in 2019-20 and $100 million in 2020-21.

Loan for Small Drinking Water Systems. The final budget provides a $130 million loan from the Underground Storage Tank Cleanup Fund to the Safe and Affordable Drinking Water Fund to support projects, technical assistance, planning and emergency supplies for eligible small water systems. This loan would be repaid by revenues from the Cap-and-Trade Program once an expenditure plan is agreed upon by the legislature. This is continuing the effort started under SB 200 (Monning, 2018) to address longstanding water quality problems faced by some small water agencies.

Adds Positions and Acquires More Property

Adds Over 350 Positions Across Multiple Departments. The budget continues to increase positions and provides 355 new positions funded by the General Fund and special funds, despite the massive deficit. While a few of these additions are for high-priority activities such as fire prevention, others are questionable given the deficit. Notable augmentations include:

- 172 positions for the Department of Forestry and Fire Protection (CalFire) at $85.6 million and $135.1 ongoing for surge capacity and staffing relief.
- 37 positions to DWR for the Sustainable Groundwater Management Program at $9.6 million (General Fund or special funds).
- 25 positions to the California Geologic Energy Management Division (CalGEM) at $7.2 million first year and $4.5 million ongoing.
- 21 ongoing positions for CDFA to implement Prop. 12 at $2.8 million annually.
- Six positions at CFDA to provide baseline and expansion support to the Office of Farm to Fork's California Farm to School Network. Costs include $10 million General Fund in 2020-21, and $1.5 million General Fund in 2021-22 and ongoing.
- Increases position authority across some departments including 48 positions for the State Water Board to implement the Safe and Affordable Drinking Water program. It is not yet clear how the positions would be funded.

Property and Facility Acquisition and Replacements. The budget contains $26.7 million (General Fund and special funds) in new property and facility acquisitions. Facilities and land acquisitions include:

- $15 million for a museum collection storage facility.
- $5 million for a new, undisclosed state park.
- $4.8 million to relocate the Natural Resources Agency.
- $4.6 million acquire inholding properties that expand existing state parks.
- $1.8 million for a new CDFA lab in Anaheim.

Given the deficits reaching the tens of billions General Fund for the foreseeable future, there is no reason to use General Fund for new property purchases now.

The budget also includes nearly $140 million ($4.3 million General Fund and $135 million special funds) for CalFire and the Conservation Corps to replace various facilities, and for the Department of Parks and Recreation to modernize sewer and utilities at the Torrey Pines State Natural Reserve.

Economic Stimulus Effort

Administration's Economic Stimulus Effort**.** An August budget amendment allocates over $240 million (various unappropriated bond funds) throughout multiple departments to support competitive grant programs for a plethora of existing and future resources projects. The goal of this allocation is to award contracts during this fiscal year to support jobs and economic stimulus for projects that support flood control, climate and coastal resiliency, habitat restoration, and urban forestry. The below list highlights notable appropriations.

- $90 million (various proposition funds) to State Water Resources Control Board to support grants for water quality and pollution control projects.
- $55 million (various proposition funds) to support the Delta Levee Program and the Delta Habitat Restoration Program. Allocates $7 million (special funds) to support two flood and ecosystem infrastructure projects including: Tisdale Weir rehabilitation and fish passage project ($2 million) and the Lower Elkhorn Levee Setback project ($5 million).
- $24 million (various proposition and special funds) to the California Natural Resources Agency to support climate resilience grants for coastal, marine, and multi-benefit projects.
- $15 million to the Department of Fish and Wildlife from various proposition funds to support deferred maintenance on state-owned properties, restoration, and water quality grant programs.
- $1.6 million from Proposition 12 (2018) to the Department of Forestry and Fire Protection to support the Urban and Community Forestry Program.
- $1.155 million Proposition 68 (2018) to support an existing program that addresses open space access improvements and other projects through a competitive grant process in a specified region that fall within the conservancy, which includes eastern Los Angeles County and western Orange County.

Water, Parks, and Infrastructure Spending

Hundreds of Millions in Water & Parks Funding. The budget provides $302 million in funding (General Fund and bond funds) to the Department of Water Resources (DWR) and the Department of Parks and Recreation (Parks) for a variety of infrastructure investments, water and parks programs, and deferred maintenance projects. Of the highlighted areas of spending discussed below, $70.2 million comes from the 2018 voter-approved Proposition 68 bond (Prop 68). Prop 68 authorized $4 billion in new general obligation bond debt to fund parks, safe drinking water, groundwater management, coastal, climate, and multi-benefit flood control projects. The budget also uses $227.2 million from the General Fund and $4.6 million (special funds) to support a variety of programs and projects.

Significant areas of spending include:

- American River Common Features Flood Control Project: The budget provides $46 million one-time General Fund for the 2020-21 cost associated with a Sacramento region flood control project that leverages $1.5 billion in federal funding.
- New River Improvement Project: The budget includes a one-time $28 million ($10 million Prop 68, and $18 million General Fund) support the New River Improvement Project. Funding will support activities to address solid waste and pollution exposure challenges in the City of Calexico.
- Local Assistance for Sustainable Groundwater Management Act (SGMA) Implementation: Requires DWR to allocate $26 million (Prop 68) to local agencies in critically overdrafted basins for costs of implementing projects under SGMA.
- Outdoor Equity Grants: The budget includes $20 million General Fund to establish the Outdoor Equity Grants Program under AB 209 (2019) to enable underserved and at-risk populations to participate in outdoor environmental education experiences at state parks.
- Salton Sea Management Plan: The budget allocates $19.3 million Prop 68 bond funds to address the air quality and habitat restoration objectives at the Salton Sea through the implementation of the North Lake Pilot Project.

- SGMA Program Development and Assistance. The budget also provides DWR with $9.6 million (General Fund or special funds) and 37 positions to continue to develop DWR's Sustainable Groundwater Management Program and provide assistance to local agencies.

Misplaced Priorities. While some bond and General Fund spending for the state's natural resources are appropriate, such as $44 million General Fund for deferred maintenance projects throughout the parks system, others are not. For example, establishing a new grant program and spending $8.8 million (Prop 68) to expand "technological and physical access" to parks does not make sense at a time when the state is backfilling the parks system due to revenue losses. These funds could be utilized in a more efficient way to provide long lasting benefits, such as investing more bond funds in water and flood infrastructure projects. Instead, the budget prioritizes projects and programs that invest in feel-good programs for parks that will not be reopening any time soon due to the COVID-19 pandemic.

Questionable Re-appropriations

Some Re-appropriations Make Sense, Others Don't. While some re-appropriations make sense, like the $4.8 million (General Fund) for CalFire to address cash-in-lieu of benefits overtime settlement, others do not. Despite the deficit, the budget continues to spend money awarded in prior years on local projects. It is questionable that the budget prioritizes General Fund monies to support $17 million in grants for fish screens and up to $3.9 million for a butterfly garden at a time when the state faces billions of dollars in deficits over multiple years. The below list highlights the specific projects and operation supported by the re-appropriations.

- **Air Resource Board (ARB).** Re-appropriates $150 million from the Greenhouse Gas Reduction Fund (GGRF) for the heavy duty vehicles and off-road equipment investments program.
- **Department of Fish and Wildlife (DFW).** Re-appropriates $17 million (General Fund) for a grant for fish screens for the water conveyance tunnel between Lake Nacimiento and Lake San Antonio in San Luis Obispo County. The bill also re-appropriates $5 million (General Fund) for the California Waterfowl Habitat Program to include working agricultural rice fields.
- **Department of Forestry and Fire Protection (CalFire).** Re-appropriates $4.8 million (General Fund) for CalFire to address cash-in-lieu of benefits overtime settlement with Bargaining Unit 8. To date, CalFire has not encumbered any portion of the $4.8 million.
- **State Coastal Conservancy (SCC).** Re-appropriates $3.9 million (General Fund) for the Ellwood Mesa Butterfly Preserve in the City of Goleta to address concerns with meeting the timeline requirements for a dead and dying tree removal project due to the impacts of COVID-19.

Cap and Trade

Deliberations to Continue for the Cap and Trade Program. Aside from providing $133.7 million for ongoing state operations of Cap and Trade Programs, the Cap and Trade spending plan is omitted from the budget. Instead, the budget reflects a deferral of any action on the $965 million Cap and Trade Expenditure plan proposed in the January budget. Meanwhile, the total estimated Greenhouse Gas Reduction Fund revenue from the May 2020 auction is $25 million, which is much less than recent auctions. Further, based on the May auction results, the total 2019-20 revenue will be about $2.1 billion—or $300 million less than assumed in the budget.

Cannabis

Key Points

- **Resources for Licensing Entities.** The budget includes resources for existing departments to continue regulatory functions.
- **Pause Cannabis Tax Increases.** An August budget trailer bill temporarily pauses increases to certain cannabis taxes.
- **Funding for Proposition 64 Programs.** The budget includes $296.9 million in cannabis tax revenues for Proposition 64 programs.

Resources for Licensing Entities. The budget includes resources for existing departments to continue regulatory functions, as displayed in the chart below. The resources are similar to the prior year budgeted amounts, with a slight increase to the Bureau of Cannabis Control (Bureau), reflecting the transfer of sworn investigators from the Department of Consumer Affairs to the Bureau.

Cannabis Licensing Resources

Department	2019-20 Budget		2020-21 Budget	
	Dollars (in millions)	Positions	Dollars (in millions)	Positions
Bureau of Cannabis Control	$64.4	236	$68.9	285
Department of Food and Agriculture	$44.9	163	$42.4	165
Department of Public Health	$29.0	121	$20.8	87

Temporary Pause of Increases to Cannabis Taxes. An August budget trailer bill, AB 1872 (Committee on Budget, 2020) temporarily pauses certain statutorily required cannabis tax increases or adjustments. AB 1872 prohibits the increase of both the mark-up rate on wholesale cannabis until July 1, 2021, and the increase of cultivation taxes for inflation until January 1, 2022. The mark-up rate is directly related to the collection of the 15 percent excise tax, and skipping an adjustment results in an under collection of that tax. In addition to skipping a year of inflationary adjustment to the cultivation taxes, the 2020 rates must be used as the base for the 2022 adjustment, resulting in a subsequent loss of tax revenues each year.

The revenue reduction resulting from the prohibition on cannabis tax increases is estimated at about $3.3 million in year one of implementation and $1.1 million annually thereafter. This reduced revenue will impact various youth substance prevention and treatment programs, environmental programs aimed at restoration of lands and waterways negatively impacted by cannabis cultivation, and funding for public health and safety programs, including law enforcement driving under the influence detection and prevention programs.

It is baffling that of all the industries and consumers who could benefit from financial relief in the form of prohibiting tax increases, Legislative Democrats chose the cannabis industry to receive such a benefit. Nearly all California businesses have been negatively impacted by the economic shutdown in response to COVID-19. Many have permanently shuttered or moved to other states. In fact, rather than provide widespread relief for businesses, Legislative Democrats increased taxes by more than $9 billion over three years, beginning in the current fiscal year. This action to pause cannabis tax increases continues to reflect Democrat priorities by providing a tax break only to the cannabis industry.

Senate Republicans opposed those business tax increases and instead advocated for ways to reduce costs on businesses and consumers, such as temporarily freezing the excise tax on gasoline (which was increased on July 1, 2020). A pause on gas tax increases would have benefited every person relying on a gasoline vehicle for travel, a necessity for nearly every Californian.

Funding for Proposition 64 Programs. The budget includes $296.9 million for 2020-21 to fund the required programs under Proposition 64 (2016, Adult Use of Marijuana Act). After funding specified prioritized activities such as regulatory administration, local equity programs, and research, the remaining funds are allocated between youth education, prevention, and treatment programs (60 percent), environmental remediation of illegal grows (20 percent), and public safety (20 percent). The funding proposed in the budget includes:

- Education, prevention, and treatment of youth substance use disorders and school retention:
    - $124.6 million to the Department of Education to subsidize child care for school-aged children of income-eligible families.
    - $33.2 million to the Department of Health Care Services for competitive grants to develop and implement new youth substance prevention and treatment programs.
    - $8.3 million to the California Natural Resources Agency for grants to fund youth access to natural or cultural resources, with a focus on low-income and disadvantaged communities.
    - $12 million to the Department of Public Health for cannabis surveillance and education.
- Clean-up, remediation, and enforcement of environmental impacts of illegal cannabis grows:
    - $35.6 million to the Department of Fish and Wildlife for clean-up, remediation, and restoration of watersheds and enforcement activities on public lands.
    - $23.8 million to the Department of Parks and Recreation to identify illegal cannabis grows, remediate and restore illegal grow sites on state park land, and to make road and trails accessible for peace officer patrol.
- Public safety-related activities:
    - $39.7 million to the Board of State and Community Corrections to fund a grant program for local health and safety programs in localities that have not imposed cannabis bans.
    - $19.6 million to the California Highway Patrol's (CHP's) impaired driving and traffic safety grant program and for training, research, and policy development related to impaired driving.

Proposition 64 Spending Bypasses Legislature. Proposition 64 states that cannabis tax revenues are continuously appropriated, meaning the funds are spent without any further action by the Legislature. The general categories for spending are spelled out in Proposition 64, but the Governor's Department of Finance asserts that it can select the specific activities to fund within those categories and enact them unilaterally. Any changes to Proposition 64's general spending categories prior to July 1, 2028 would need voter approval.

General Government

Key Points

- **Maintains Funding for AB 5 Enforcement.** Provides $22 million and 103.5 positions to implement and enforce the provisions of AB 5, which reclassified many independent contractors as employees.
- **Allocates Millions for COVID-19 Labor Law "Education."** Last-minute amendments authorize the Labor Agency to "educate" businesses and employees, as well as enforce, the avalanche of new labor laws relating to COVID-19, but waive normal contracting transparency for the funds.
- **Mandates Paid COVID-19 Leave for Large Businesses.** Last-minute legislation will force large businesses to provide paid leave to employees with a COVID-19 related need, at least through December 2020.
- **Barstow Veterans Home Closure Stopped.** Rejects Governor Newsom's cruel plan to displace 175 veterans residing at the Barstow Veterans home.
- **Small Business Relief.** Provides $75 million to support small businesses that may not be eligible for federal loan program.
- **Authority to Allocate Future Federal Funds.** Provides authority for the Administration to allocate future federal funds to offset state emergency spending.
- **Social Entrepreneurs for Economic Development (SEED).** Allocates $10 million to create the SEED initiative to distribute micro-grants and provide training targeted at undocumented immigrants.
- **Regulatory Overreach with New Consumer Financial Protection Law**. Creates a new California Consumer Financial Protection Law and establishes a new regulatory bureaucracy.

Maintains Funding to Implement AB 5. Despite many questions about AB 5 and how it applies to independent contractors, the budget authorizes $22 million, first proposed in the Governor's January 2020 budget, to implement and enforce the law. $18 million and 103 positions will go to the Department of Industrial Relations to adjudicate additional worker's compensation claims and to enforce the provisions of the bill, $3.4 million to the Employment Development Department to reclassify employees under the new law, and $749,000 to the Department of Justice for an estimated increase in AB 5 legal cases. With the changes in the economy due to COVID-19 and the existing uncertainties about the law—including a bill from AB 5's author to clarify certain portions of the law, it makes no sense to include funding in this fiscal year.

Mandates Paid COVID-19 Leave for all Large California Businesses. Despite the closure of over 16,000 businesses just in San Francisco and Los Angeles (plus an unknown number in the rest of the state), with over 7,600 of the closures permanent, a last-minute August bill mandates that large businesses with over 500 employees provide up to two weeks of paid leave for COVID-19 related purposes. Unlike the federal paid leave, the state is not reimbursing businesses through tax credits, meaning businesses[4] must absorb the costs at the same time their ability to keep operating is under enormous strain. While everyone is concerned about COVID-affected workers, this last-minute policy did not receive the necessary policy discussion and could make matters worse overall if businesses are unable to continue.

Allocates Millions For "Labor Education." Adding salt to the wound of piling on further mandates on businesses, a last-minute August amendment allocates $32.5 million for a "labor education" campaign for employers and employees. These funds could have been used to pay for the new paid COVID-19

[4] Business closure data reported August 8, 2020, by the San Francisco Chronicle using Yelp data.

leave mandate forced upon large businesses, but instead the majority party prioritizes it for bureaucrats to "educate" employers and enforce the slew of new labor laws passed this session. This last-minute budget change also waives the normal contracting transparency requirements for sending these funds out, arguably so the Administration can spend the money quickly, but then inexplicably adds extra time, beyond normal budget limits, for the money to be spent. In reality, waiving normal contract review makes it more likely that the Administration will send the funds to political allies in the nonprofit sector. Rather than provide "education," these funds could simply end up promoting frivolous lawsuits as businesses try to survive an unprecedented shut-down.

Senate Republicans Halt Closure of Barstow Veterans Home. Senate Republicans along with numerous veterans' organizations successfully stopped Governor Newsom from removing 175 elderly and disabled veterans from their residence in order to save a mere $400,000 in General Fund in 2020-21. In May 2020, Governor Newsom proposed to close the California Veterans Home in the city of Barstow, displacing the resident veterans and more than 200 health care professionals in the middle of a pandemic. Instead, the 2020 Budget Act rejects this closure and requires the state Department of Veterans Affairs to research all future options for the home, including expanding the number of skilled nursing beds to safely serve California's aging veteran population.

Support for Businesses Ineligible for Federal Relief. The budget provides $75 million General Fund to support the Small Business Loan Guarantee Program operated by the California Infrastructure and Economic Development Bank (I-Bank). The funding supplements prior emergency funds ($50 million) authorized earlier this year, for a total of $125 million General Fund to guarantee loans to small businesses made by Financial Development Corporations and Community Development Financial Institutions. The intent for these funds is to assist small businesses that do not qualify for the newly authorized federal programs, possibly due to low credit scores or the immigration status of the business owners.

Authority to Allocate Future Federal Funds. The budget gives the Department of Finance the authority to allocate funds authorized by federal legislation for the purpose of offsetting state expenditures incurred during the COVID-19 health emergency. The budget grants broad authority to Governor Newsom to adjust expenditure authority in 2020-21, and while the budget does include a notification requirement, the process is not collaborative with the Legislature. Instead, it is merely informational, restricting the Legislature's ability to prioritize any funds that may become available. Given the autocratic manner in which Governor Newsom has operated under his COVID-19 emergency order, granting more authority to spend without legislative approval is not prudent.

Extends Beverage Server Fee Requirement. The budget extends the implementation date of the Department of Alcoholic Beverage Control's Business Modernization IT project and Responsible Beverage Service program from the current date of July 1, 2021 until July 1, 2022.

Funds Provided for Adverse Childhood Experiences. The budget reverts $18 million General Fund from the Office of Planning and Research's Precision Medicine program back to the General Fund, and redirects the remaining $9.8 million from Precision Medicine towards the Adverse Childhood Experiences program. The 2019-20 budget included $30 million for the Precision Medicine program. The 2020-21 budget effectively rescinds this funding for precision medicine with the reversion and the redirection of the almost all of the $30 million.

State Office Building Projects, Capitol Annex. The budget reverts $722 million from the Public Buildings Construction Fund for the design-build phase of three state office renovation projects: Gregory Bateson ($184 million), Jesse Unruh ($117 million), and Natural Resources ($421 million). These projects will be paused until a statewide evaluation of office space needs has been completed. Additionally, the budget includes the transfer of $754 million from the State Project Infrastructure Fund to the General Fund. These funds were previously earmarked for the design and construction of a series of projects necessary for the renovation of the Capitol Annex. Funding remains available for pre-construction activities for the projects, and the costs associated with the design and construction phases will be shifted to lease-revenue bond financing.

California Arts Council. The budget reverts a one-time increase of $11 million General Fund provided in 2019-20 for California Arts Council activities back to the General Fund in 2020-21.

Social Entrepreneurs for Economic Development (SEED) Initiative. The budget appropriates $10 million to create the SEED Initiative aimed at assisting undocumented immigrants and those with limited English proficiency in starting businesses. The initiative will provide micro-grants and training opportunities to undocumented immigrants.

Regulatory Overreach with New Consumer Financial Protection Law. A policy bill jammed through the budget process at the last minute made statutory changes that rename the Department of Business Oversight (to the Department of Financial Protection and Innovation), create a new California Consumer Financial Protection Law, and establish a new regulatory bureaucracy for currently unlicensed entities, such as credit reporting agencies and merchant cash advance lenders. Policy changes as complicated as these should undergo the more lengthy policy committee review process, rather than be rushed through the budget process. The changes seek to codify unfair deceptive, and abusive practices (UDAAP) authority but may result in significant unintended consequences that could cause more confusion and increased costs for business already struggling with current economic conditions.

Local Government

Key Points

- **Budget Helps Local Governments, but Funds Could Be Withheld or Redirected.** The budget provides billions in state and federal funds to local governments, but the Administration could withhold or redirect funds unless cities and counties follow strict state public health directives.
- **Federal CARES Act Funds for Homelessness Efforts.** Provides $550 million in federal CARES Act funding to cities and counties for homelessness programs that could include the purchase, conversion, and/or rehabilitation of properties (such as hotels and motels).
- **Funds to Replace Local Revenues.** The budget provides $750 million to local governments for "realignment" programs, subject to conditions.
- **Federal CARES Act Funds to Local Cities and Counties.** Provides $1.8 billion from the state's portion of the federal CARES Act to cities and counties to support homelessness, public safety, and public health activities during the COVID-19 crisis.
- **Support for Election Activities.** Provides $35 million General Fund and redirects other monies intended to replace voting equipment to support costs for local election activities.
- **Extends Timeframe for Property Tax Assessment Appeals**. Provides authority for local governments to extend deadline to render a final determination for property tax assessment appeal decisions.

Budget Helps Local Governments, but Funds Could Be Withheld or Redirected. The budget provides more than $3 billion in funds for local cities and counties, as described in the following paragraphs. These funds would help address local needs as a result of the COVID-19 pandemic. Unfortunately, funding for individual counties and cities is contingent upon adherence to federal guidance, the state's stay-at-home requirements and other health requirements as directed by the Governor's Executive Order N-33-20, and any future executive orders, and all public health orders, directives and guidance in response to COVID-19.

If local governments do not spend the funds by September 1, 2020, the budget authorizes the Department of Finance to redirect funds elsewhere with a 10-day notice to the Legislature. Finance management indicated informally that its goal is for local governments to spend the funds by October 30, 2020, and that extensions would be possible to spend by December 31, 2020. If local governments meet those targets, it appears likely that no reallocation would be necessary.

While local jurisdictions will undoubtedly appreciate the additional funds, tying the money to a potentially one-size-fits-all set of health directives runs counter to the Governor's past statements that he believes in a regional approach to reopening. This approach could restrict local governments' efforts to manage their individual community needs.

Federal CARES Act Funding for Homelessness. The budget provides $550 million from the state's portion of federal CARES Act funding for homelessness programs that could include the purchase, conversion, and/or rehabilitation of properties (such as hotels and motels) to provide shelter and services to the state's homeless population at risk of contracting COVID-19. The budget restricts these funds, however, to those cities and counties strictly adhering to state and local public health directives, as noted above.

Funds to Backfill Lost Local Revenue With Conditions. The budget authorizes $750 million General Fund to backfill lost county realignment funding for social services and public safety programs. This amount would be increased by up to $250 million if the state receives sufficient federal funding, but the funds are contingent on the criteria described above.

CARES Act Distribution for Local Governments. The budget allocates a portion of the state's $9.5 billion CARES Act funding to local governments, including $500 million to cities for homelessness and public safety and $1.3 billion to counties for public health, behavioral health, and other health and human services. These funds are subject to the conditions described above. They include the following:

- **Cities -** Six California cities received a direct CARES Act allocation from the federal government as a result of their size, for a total of $1.5 billion. The budget supplements this by providing $500 million to all cities that did not receive a direct allocation. Of these recipients, cities with populations above 300,000 will receive a state allocation while all other cities will be provided funding through their counties.

- **Counties -** The budget allocates $1.3 billion of CARES Act funding directly to counties based on population size to address the public health, behavioral health, and other health and human services needs that have arisen as a result of the COVID-19 pandemic.

Funding Withheld From Two Cities. On July 23, 2020, the Administration notified the Legislature that two cities were excluded from the initial distribution of funds: the city of Atwater and the city of Coalinga, based on actions taken that the Administration believes are counter to state public health orders. The City of **Atwater** (Merced County) has been identified as currently ineligible for $387,428 in state assistance Coronavirus Relief Fund (CRF). The first CRF allocation ($64,571) will be withheld until the city rescinds its resolution and complies with state public health orders. The City of **Coalinga** (Fresno County) has been identified as currently ineligible for $212,358 in state assistance from the CRF. The first allocation ($35,393) will be withheld until the city rescinds its resolution and complies with state public health orders.

The county allocations (and several selected cities) are listed in the table on the next page.

Coronavirus Relief Fund Allocations
Total by County and Selected Cities
(Dollars in Thousands)

Cities and Counties	Direct Allocations [1/]	State Allocations [1/]	Total Allocations	Cities and Counties	Direct Allocations [1/]	State Allocations [1/]	Total Allocations
Alameda County	$291,634	$38,577	$330,211	Placer County	-	$40,768	$40,768
Alpine County	-	116	116	Plumas County	-	1,925	1,925
Amador County	-	4,069	4,069	Riverside County	431,091	57,024	488,115
Butte County	-	22,433	22,433	Sacramento County	181,199	25,210	206,409
Calaveras County	-	4,698	4,698	City of Sacramento	89,623	-	89,623
Colusa County	-	2,205	2,205	San Benito County	-	6,428	6,428
Contra Costa County	201,281	26,625	227,906	San Bernardino County	380,408	50,320	430,728
Del Norte County	-	2,847	2,847	San Diego County	334,062	54,224	388,286
El Dorado County	-	19,737	19,737	City of San Diego	248,451	-	248,451
Fresno County	81,580	16,228	97,808	City/County San Francisco	153,824	20,347	174,171
City of Fresno	92,756	-	92,756	San Joaquin County	132,989	17,592	150,581
Glenn County	-	2,906	2,906	San Luis Obispo County	-	28,976	28,976
Humboldt County	-	13,874	13,874	San Mateo County	133,761	17,694	151,455
Imperial County	-	18,547	18,547	Santa Barbara County	-	45,698	45,698
Inyo County	-	1,846	1,846	Santa Clara County	158,100	31,314	189,414
Kern County	157,078	20,778	177,856	City of San Jose	178,295	-	178,295
Kings County	-	15,653	15,653	Santa Cruz County	-	27,963	27,963
Lake County	-	6,590	6,590	Shasta County	-	18,431	18,431
Lassen County	-	3,129	3,129	Sierra County	-	308	308
Los Angeles County	1,057,341	163,064	1,220,405	Siskiyou County	-	4,456	4,456
City of Los Angeles	694,405	-	694,405	Solano County	-	45,815	45,815
Madera County	-	16,102	16,102	Sonoma County	-	50,594	50,594
Marin County	-	26,490	26,490	Stanislaus County	96,086	12,710	108,796
Mariposa County	-	1,761	1,761	Sutter County	-	9,925	9,925
Mendocino County	-	8,879	8,879	Tehama County	-	6,661	6,661
Merced County	-	28,420	28,420	Trinity County	-	1,257	1,257
Modoc County	-	905	905	Tulare County	-	47,714	47,714
Mono County	-	1,478	1,478	Tuolumne County	-	5,576	5,576
Monterey County	-	44,425	44,425	Ventura County	147,622	19,527	167,149
Napa County	-	14,098	14,098	Yolo County	-	22,568	22,568
Nevada County	-	10,210	10,210	Yuba County	-	8,052	8,052
Orange County	554,134	73,300	627,434	**Total**	**$5,795,720**	**$1,289,065**	**$7,084,785**

[1/] Numbers may not tie due to rounding.

Reimbursement Costs for Local Election Activities. The budget provides more than $35 million General Fund as reimbursement to counties for costs reasonably related to the administration of an election during the COVID-19 pandemic, such as costs for acquiring PPE, security, supplies, equipment, and outreach, among others. Although the funds will provide financial relief to counties managing election activities during a pandemic, a portion of the reimbursement funding comes at the expense of monies provided over the past two years for replacing aged voting equipment.

Extends Timeframe for Property Tax Assessment Appeals. An August trailer bill provides authority for local governments to extend the two-year deadline by which a county board must render a final determination for property tax assessment appeal decisions until March 31, 2021 (a one-year extension). The bill also provides authority for remote hearings (still required to comply with all rules) in order for local governments to clear a COVID-19-related hearing backlog. Although remote hearings could help expedite appeal decisions, the delay in the deadline for local governments to finalize property tax assessment appeals could postpone much needed financial support for Californians that have appealed tax assessments.

Employee Compensation & Retirement

Key Points

- **Assumes $2.9 billion in Employee Compensation Savings.** To address the budget deficit caused by COVID-19, the budget assumes $2.9 billion in savings as a result of reductions made to employee compensation.
- **Suspends Employee Contributions to Retiree Health.** To partially offset pay reductions, the budget suspends employee contributions to retiree health, increasing long-term debts.
- **Prioritizes Immediate General Fund Savings over Long-Term Debt Reduction.** The budget redirects supplemental pension payments to supplant the state's contribution towards pensions in 2020-21.

Budget Assumes State Employee Compensation Cuts. The budget assumes $2.9 billion in reductions to state employee compensation, about half General Fund and half Special funds, not to exceed 10 percent of pay and to take place through the collective bargaining process. The budget also holds payroll flat for most state employees. However, if sufficient federal funds are received, the state would give back up to $1.9 billion of these savings. The budget includes language that if reductions do not occur through the bargaining process, the state has the authority to impose two furlough days on employees in order to meet the required reductions.

…But California Has the Highest Paid State Workers in the Nation. Data shows that California has the highest salaries on average for state and local workers, at $7,270 per month, or $87,000 per year (*2019 Annual Survey of Public Employment and Payroll, U.S. Census)*. California also offers generous health, dental, and retirement benefits. Additionally, in recent years the state awarded pay increases of up to 15 percent for some employees in one year. The state also awarded pay raises in some cases recently despite the lack of data required to evaluate the appropriate pay levels, as pointed out by the nonpartisan Legislative Analyst's Office. If the state is going to get serious about addressing its multibillion-dollar long-term deficits, cuts to the bloated salaries of state bureaucrats and increases in employee retirement contributions are necessary.

Employee Compensation

New Bargaining Contracts Make Employee Compensation Cuts... The budget reflects fourteen new contracts with multiple bargaining units, including various employees represented by the Service Employees International Union (SEIU), correctional officers, engineers, psychiatric technicians, highway patrol, firefighters, law enforcement officers, administrative law judges and attorneys, professional scientists, county and municipal employees, operating engineers, and physicians and dentists. These contracts last from one to two years in duration and include cuts equivalent to two furlough days. The only bargaining unit not to submit a successor MOU, addendum, or side letter outlining cuts was Bargaining Unit 13 (stationary engineers). Budget language authorizes the Administration to put employees on furlough days if their bargaining unit does not come to an agreement

…But Increase Long-Term State Costs. To soften the blow of pay reductions, most bargaining contracts ~~all~~ suspend employee contributions to retiree health care. As of the January 2020 Governor's Budget, the unfunded liability for retiree health care was estimated to be $86 billion. Suspending employee contributions will increase the unfunded liability and generate greater state costs in the future. An additional employee benefit included in the bargaining contracts is increased leave hours, dubbed "Personal Leave Program 2020 (PLP 2020)". Employees will receive 9-16 hours of PLP 2020, depending on the bargaining unit, in exchange for taking reductions in pay. SEIU Local 1000 members may cash out these hours upon separation from the state, thus increasing costs for the state in the future. Other bargaining units may cash them out upon separation from the state with conditions.

As of July 20, 2020, the Administration estimates approximately 2.7 billion in savings
1.4 billion General Fund) from the contracts submitted, approaching the goal of $2.9 billion in savings assumed by the budget. Details for each bargaining unit are outlined below:

Bargaining Unit 2—California Attorneys, Administrative Law Judges, and Hearing Officers in State Employment

- 2 year agreement
- Savings of $80.6 million ($22.6 million General Fund) in 2020-21.
- 9.23 percent pay reduction
- 16 hours of PLP 2020
- Suspension of employees' contributions to other postemployment benefits (OPEB) (2%)
- Continuation of $260 monthly health care contribution
- 2.5 percent General Salary Increase (GSI) effective July 1, 2022 or July 1, 2023
- Reduction of employee retirement contribution rates for miscellaneous members from 9.0 percent to 8.5 percent.

Bargaining Unit 5—California Highway Patrol

- 2 year term
- Savings of $128.6 million (special funds) in 2020-21.
- 4.62 percent pay reductions
- 9 hours of PLP 2020
- Suspension of $920 annual uniform allowance
- Suspension of the $25 monthly uniform maintenance and cleaning allowance
- Suspension of the employer and the employees' contribution for prefunding OPEB (state pays both 3.4 percent on behalf of employee and employer). When OPEB contributions resume, the 3.4 percent will be paid for by employees, not the state.
- Suspension of retirement rate increases until OPEB prefunding resumes.

Bargaining Unit 6—California Correctional Peace Officers Association

- Two year contract
- Reduces state costs by $380.9 million General Fund
- 4.62 percent pay reduction
- 12 hours of PLP 2020 per month
- Suspension of the 4 percent employee contribution to prefund retiree health benefits.
- Deferred 3% salary increase to July 1, 2022 if sufficient revenues exist. If not, further defer increase to July 1, 2023.
- Suspends holiday pay and night/weekend shift differentials
- Reduces personal development days from two to one per year. These do not accrue.

Bargaining Unit 7—California Statewide Law Enforcement Association

- Two year agreement
- Savings of $68.9 million ($22.5 million General Fund) in 2020-21, costs of $9.9 million ($4.3 million GF) in 2021-22.
- 9.23 percent pay reduction
- 16 hours of PLP 2020
- Suspension of employees' OPEB contributions (4%)
- 2.5 percent GSI suspended and deferred until July 1, 2022 and July 1, 2023.
- 5.74 percent SSA for Licensing Registration Examiners
- Provision that no Unit 7 employee should make less than $15/hour
- Increase monthly bilingual pay differential of $800 for a peace officer employed by DDS and Sate Hospitals
- October 1, 2020, increase Longevity Pay by 1% for officers with 19 years of service or more.

Bargaining Unit 8—CAL Fire Local 2881

- One year agreement
- Savings of $52.2 million ($33.7 million General Fund).
- 7.5 percent pay reduction
- 16 hours of PLP 2020 for fire protection employees and 14 PLP 2020 for specialty class employees
- 2 percent and 2.5 percent SSAs effective July 1, 2020 are suspended and deferred until July 1, 2021.
- Suspension of OPEB prefunding contributions (4.4 percent)
- Provide "fire mission pay" every month through June 30, 2021, a 5% pay increase for about 130 fire fighters, for "fire season"

Bargaining Unit 9—Professional Engineers in California Government

- Two year contract
- Reduces state costs by $197 million ($11.5 million General Fund)
- 9.23 percent pay reduction
- 16 hours of PLP 2020
- Suspension of the 2 percent employee contribution to prefund retiree health benefits.
- General Salary Increase on July 1, 2022 if sufficient revenues exist, otherwise the increase will be delayed to July 1, 2023.
- Voluntary PLP 2020. Employees can further reduce their pay voluntarily in exchange for time off.

Bargaining Unit 10—California Association of Professional Scientists

- Two year agreement
- Savings of $41.1 million ($10.1 million General Fund) in 2020-21
- 9.23 percent pay reduction
- 16 hours PLP 20202
- 5 percent GSI suspended and deferred until July 1, 2022 or 2023
- Suspension of employees' contribution for prefunding OPEB (2.8 percent)

Bargaining Unit 12—International Union of Operating Engineers

- One year contract Savings of $95.9 million ($34.6 million General Fund in 2020-21), and $4.2 million ($1.5 million General Fund) in costs.
- 9.23 percent pay reduction
- 16 hours credited monthly for PLP 2020
- Suspension of employees' OPEB contributions (3.5%)
- Health benefit plan increases pursuant to 80/80 formula on Jan 1, 2021.

Bargaining Unit 16—Union of American Physicians and Dentists

- Two year successor MOU
- Savings of $59.6 million ($55.9 million General Fund) in 2020-21.
- 9.23 percent pay reduction
- 16 hours PLP 2020
- Suspension of OPEB contributions (1.4 percent)
- Increasing annual continuing medical education reimbursement from $1,000 to $2,500.
- Increase monthly Bilingual Pay Differential from $100 to $200.
- Increase the monthly commuter program reimbursement by $35.
- 2.5 percent GSI effective July 1, 2022 or 2023.

Bargaining Unit 18—California Association of Psychiatric Technicians

- Two year agreement
- Savings of $53.9 million ($51.7 million General Fund)
- 9.23 percent pay reduction
- 16 hours PLP 2020
- Suspension of OPEB contributions (4 percent)
- 2.75 percent GSI on July 1, 2020 and 2.75 percent on July 1, 2021 are suspended and deferred until July 1, 2022 and July 1, 2023
- No Unit 18 employees shall make less than $15 per hour as a result of PLP 2020.

Bargaining Unit 19 (AFSCME)

- Two year agreement
- Savings of $67.9 million ($56.6 million General Fund)
- 9.23 percent pay reduction
- 16 hours PLP 20202
- Suspension of OPEB contributions (3 percent)

SEIU Local 1000 Side Letter (Bargaining Units 1, 3, 4, 11, 14, 15, 17, 20 + 21)

- Two year agreement
- Reduces state costs by $782.2 million ($352.9 million General Fund)
- 9.23 percent pay reduction
- 16 hours of PLP 2020
- Suspension of the 2.3 percent employee contribution to prefund retiree health benefits.
- Deferred salary increase scheduled for July 1, 2020 to July 1, 2022.

- Pay increases to ensure every SEIU employee makes at least $15 per hour
- Retains the $260 per month payment to offset employee health contributions.
- Forms a task force to identify savings in order to fully pay for the salary increase scheduled for July 1, 2021. If parties cannot agree to cost savings, the increase would be deferred to June 30, 2022.
- Contract language specifies that the state cannot seek employee compensation reductions until 2023.

Pensions

Swaps Long-Term Pension Savings for Short-Term General Fund Savings. The budget provides short-term savings by redirecting a $2.5 billion General Fund payment, previously approved to reduce debt, to make a supplanting payment to CalPERS. The budget also reverses $500 million in previously authorized CalPERS debt reduction payments and redirects $2.3 billion General Fund CalPERS and CalSTRS school supplemental debt payments to supplant school contributions to retirement. Finally, the budget commits $243 million Proposition 2 funds for a CalPERS supplemental payment for the highway patrol.

While these budget actions help the state address its multibillion dollar deficit by making use of billions that were previously intended for debt reduction, these actions reverse previous progress made in reducing pension debts. The budget chooses to unwind debt repayments, which would otherwise improve the state's financial condition, rather than reverse other recent expansions in state spending that are clearly unaffordable.

Statewide Debts and Liabilities

Key Points

- **Local Governments to Receive Minor Mandate Relief.** Provides $41 million General Fund to repay local agencies for mandates, but state still has $564 million in mandate debt.
- **Overall State Debt Increases Through Loans, Deferrals.** New loans and deferrals of potentially more than $15 billion result in an overall increase in state debt, though the budget makes $9.3 billion in mandatory bond and debt payments.
- **Prioritizes Short-Term General Fund Savings over Long-Term Debt Reduction.** The budget redirects supplemental pension payments to supplant the state's required pension costs in 2020-21.

Local Governments Get Minor Overdue Relief for Mandates. The budget includes $41 million General Fund to repay local agencies for a combination of funded and suspended mandates. Utilizing a small portion of the state's limited General Fund resources is a positive step towards providing fiscal relief to local governments. However, the state still owes $564 million in suspended mandate debts to local governments, leaving those governments with less funding for critical programs and services. It is unfortunate that in the past several years of rapid spending growth, the state did not use a portion of its surpluses to pay local governments back for these long-overdue debts that deprive local governments of resources.

State Debts Increase Through Loans and Deferrals. The budget includes potentially more than $15 billion in loans and deferrals as part of its deficit actions, including over $3 billion in special fund or cash loans and $12 billion in K-12 and community college deferrals. The amounts may be reduced under the trigger provisions if the state receives additional federal bailout funds. The education deferrals must be repaid under Proposition 98 and so function somewhat similarly to debt in creating unavoidable demands on future state revenues. These actions drive state debts to nearly $286 billion (not counting UC and local school debts), as shown in the table on the following page.

Bond and Proposition 2 Debt Payments. The Budget Act includes $9.3 billion to pay down the state's current debts and liabilities, as required by the state constitution and bond covenants. Debt payments include the following components:

- $8.2 billion to pay debt service costs for the state's outstanding and planned general obligation and lease-revenue bonds in 2020-21, as required by the California Constitution and debt issuance documents. According to the State Treasurer, the state currently has outstanding general obligation bonds totaling $71.7 billion and has authorization to issue $32.7 billion more. Outstanding lease-revenue bonds total $8.6 billion, and the state has authorization to issue $7.2 billion more.
- $1.1 billion to pay a variety of debts and liabilities as mandated by Proposition 2, including payments for state employee pension and retiree health liabilities, as well as the state's share of teacher pension liabilities.

State and Other Public Debts and Liabilities						
(Dollars in Millions)	At Start of 2020-21	Estimated Payments 2020-21	2021-22	2022-23	2023-24	Remaining Liabilities
Loans						
Non-Trigger Loans	$2,068	-	-	-	-	$2,068
Trigger Loans**	$936	-	-	-	-	$936
Subtotal	**$3,004**	**$0**	**$0**	**$0**	**$0**	**$3,004**
Education Deferrals						
Non-Trigger Deferrals						
K-12	$5,278	-	-	-	-	$5,278
Community Colleges	$662	-	-	-	-	$662
Trigger Deferrals **						
K-12	$5,763	-	-	-	-	$5,763
Community Colleges	$791	-	-	-	-	$791
Subtotal	**$12,494**	**$0**	**$0**	**$0**	**$0**	**$12,494**
State Retirement Liabilities						
State Retiree Health	$85,595	$340	$350	$365	$375	$84,165
State Employee Pensions	$61,409	$243	-	-	-	$61,166
Teachers' Pensions (state portion)	$33,064	$297	$351	$544	$623	$31,249
Judges' Pensions	$3,183	-	-	-	-	$3,183
SB 84 Loan from SMIF	$5,041	$221	$228	$56	$14	$4,522
Deferred payments to CalPERS	-	-	-	-	-	-
Subtotal	**$188,292**	**$1,101**	**$929**	**$965**	**$1,012**	**$184,285**
Other State Debts						
Long-Term Bonds - General Obligation & Lease-Revenue	$80,300	$8,230	8,382	8,247	8,534	$46,907
Suspended Local Mandates	565	-	-	-	-	$565
Education Mandates	1,118	-	-	-	-	$1,118
Subtotal	**$81,983**	**$8,230**	**8,382**	**8,247**	**8,534**	**$48,590**
State Total Debt	**$285,773**	**$9,331**	**$9,311**	**$9,212**	**$9,546**	**$248,373**
<u>Other Public Debts</u>						
Teachers' Pensions (Local Districts)	**$69,572**	-	-	-	-	N/A
University of California Liabilities*						
UC Employee Pensions	18,118	-	-	-	-	N/A
UC Retiree Health	19,862	-	-	-	-	N/A
UC Subtotal	**$37,980**	**-**	**-**	**-**	**-**	
Total, State and Other Public	**$393,325**	**$9,331**	**$9,311**	**$9,212**	**$9,546**	

*UC liabilities technically belong to the UC system alone, not the State of California, due to UC's constitutional autonomy, but these liabilities are nonetheless included as eligible for repayment under Proposition 2.

** Loans and education deferrals will be made and withheld, respectively, at start of budget year and will be repaid using federal funds if those funds become available.

Unfunded Pension Obligations

Public Employee Pension Costs Continue to Rise. The budget provides almost $7 billion ($4.1 billion General Fund) in employer contributions to CalPERS for state employees' retirement costs, including $732 million for California State University employees. This is a 5 percent General Fund increase from the amount budgeted in 2019-20.

Teacher Pension Costs Continue to Rise. The budget provides $3.6 billion General Fund to pay for the state's share of State Teacher Retirement System (STRS) costs. This is a 9 percent increase above 2019-20 spending.

Retiree Health Care Benefits. The budget includes $2.4 billion General Fund for health care benefits for state retirees, California State University retirees, and dependents, a 9 percent increase over the amount budgeted in 2019-20. Retiree health care benefits continue to be paid out mostly on a "pay-as-you-go" approach, which has led to the creation of an $86 billion unfunded liability. Pre-funding contributions from the state will provide $703 million in the budget year.

Swaps Long-Term Pension Savings for Short-Term General Fund Savings. The budget provides short-term savings by redirecting a $2.5 billion General Fund payment, previously approved to reduce debt, to make a supplanting payment to CalPERS. The budget reverses $500 million in previously authorized CalPERS debt reduction payments and redirects $2.3 billion General Fund CalPERS and CalSTRS school supplemental debt payments to supplant school contributions to retirement. Finally, the budget commits $243 million Proposition 2 funds for a CalPERS supplemental payment for the California Highway Patrol.

While these actions help the state address its multibillion dollar budget deficit by making use of billions that were previously intended for debt reduction, this budget reverses previous progress made in reducing pension debts. The budget chooses to unwind debt repayments rather than unaffordable expansions in other state programs enacted in recent years.

Employee Contracts Increase Retiree Health Liabilities. The budget ratifies three collective bargaining contracts that suspend employee contributions to prefund retiree health, as described in the *Employee Compensation* section. Currently, the retiree health unfunded liability is $86 billion. The state passed the Public Employee Medical and Hospital Care Act in 2014 to address these liabilities, and set a goal of fully funding the benefit by 2046. By suspending these employee contributions in the newly revised contracts, the state is jeopardizing its long-term fiscal health and further extending when the benefit will be fully funded.

List of Budget and Trailer Bills

Budget and Related Bills	
Bill	**Subject (Date Enrolled or Chaptered)**
SB 74	**Main Budget Bill (Chaptered 6/29/2020)** This bill, passed to technically meet the June 15 deadline, reflected only the two-party agreement among Assembly and Senate Democrats.
SB 98	**K-12 Education (Chaptered 6/29/2020)** This is the Education Omnibus trailer bill. It implements all the appropriations and actions of the K-12 Proposition 98 package including adopting the multi-year payment obligation and increasing Proposition 98 deferrals. Additionally, it provides federal aid to address impacts of COVID-19, creates the School Finance, Instruction and Accountability Act of 2020-21 and provides for the transition of child development programs to the Department of Social Services.
SB 115	**Budget Bill Junior #2 (Enrolled 9/2/2020)** This bill makes changes to the previous budget bills--SB 74 (see above), as amended by AB 89 (see below)--to increase spending for various programs in the budget.
SB 116	**Higher Education (Chaptered 6/29/2020)** This is the Higher Education Omnibus trailer bill. It implements several actions related to higher education including deferrals for the California Community College System, allows for the exemption of direct costs related to COVID-19 from calculating the expenses for the 50 percent law, and extends Student Centered Funding Formula hold harmless provision by an additional two years.
SB 118	**Public Safety (Chaptered 8/6/2020)** Among other things, this bill limits sentence enhancements, shortens maximum parole terms for serious and violent offenders, adds a new category of firearm to the banned assault weapons list, prohibits colleges and universities from asking about a prospective student's criminal history during admissions, and requires CDCR to identify two prisons for closure by January 1, 2022.
SB 119	**Memoranda of Understanding (Chaptered 8/6/2020)** This bill ratifies the Memorandums of Understanding (MOU) Addenda for Bargaining Units 12 and 13 (both Operating Engineers) and to make conforming changes to statute to reflect the previous agreements for ten other bargaining units, including SEIU and Highway Patrol.
SB 820	**Education (Enrolled 9/3/2020)** This is the Education Clean Up trailer bill related to Pre-K, K-12 and Higher Education Finance. It makes a variety of changes and appropriations to current law for implementation of the 2020-21 Budget Act. The bill provides limited growth funding for school districts and classroom-based charter schools while explicitly excluding non-classroom-based charters, restricts contracted services at the University of California and allows LEAs to adopt synchronous or asynchronous video/audio for distance learning without requiring prior consent from teachers and principals.

SB 823	**Juvenile Justice Realignment (Enrolled 9/4/2020)** Halts intake to DJJ on July 1, 2021, with limited exceptions. Transfers responsibility for juveniles adjudicated after that date to counties. Establishes a grant program to support custody, care, and supervision of realigned youth. Establishes a new office within the Health and Human Services Agency to administer the grants and oversee county management of the realigned population.
AB 75	**Supplemental Appropriations Bill (Chaptered 6/29/20)** This bill provides $120 million in additional funds for expenses incurred in 2019-20 (also known as a supplemental appropriations bill). This bill includes funding for fairs to support employee compensation during the layoff process, support/reimbursements to various state and local agencies for 2019 wildfires and public safety power shutoffs, and reimbursements to two state agencies for costs incurred during the recent civil unrest.
AB 78	**Economic Development (Chaptered 6/29/2020)** This bill combines the bond cap for both public facilities (currently set at $5 billion) and rate reduction bonds (currently set at $10 billion) to $15 billion for both, establishes the Climate Catalyst Revolving Loan Fund within the State Treasury, to be administered by the I-Bank, and provides additional authority for small business programs.
AB 79	**Human Services (Chaptered 6/29/2020)** This bill is the human services omnibus trailer bill containing almost 100 provisions relating to human services, notably extending the CalWORKs time clock to 60 months, increasing the child support "pass-through" by up to $100 per family, and mandating training for In-Home Supportive Services social workers.
AB 80	**Health (Chaptered 6/29/2020)** This bill makes numerous health policy changes such as providing supplemental payments to 340B health clinics, a 2021-22 suspension of almost all Medi-Cal provider supplemental payments funded by Proposition 56 tobacco tax revenues, and a priority for a future Medi-Cal eligibility expansion to undocumented seniors in 2021-22 or in later fiscal years.
AB 81	**Skilled Nursing Facilities Tax (Chaptered 6/29/2020)** This bill extends the Quality Assurance Fee imposed by the Department of Health Care Services on skilled nursing facilities from July 31, 2020 to December 31, 2022. It also provides counties with short-term flexibilities in their use of Mental Health Services Act funds due to COVID-19.
AB 82	**General Government I (Chaptered 6/29/2020)** This bill authorizes sworn investigators at the Bureau of Cannabis Control, modifies the California Advanced Services Fund program to expand broadband access in rural areas, and sets up the Social Entrepreneurs for Economic Development Initiative.

AB 83	**Housing & Homelessness (Chaptered 6/29/2020)** This bill authorizes an allocation structure for $331 million from the National Mortgage Settlement Fund, provides parameters for allocation of homelessness funding to local governments, extends expenditure period for local planning grants, ties a CEQA exemption to prevailing wages requirements for Project Roomkey projects, provides DGS authority to "swap" excess state properties for a local government property for affordable housing projects.
AB 84	**Pensions (Chaptered 6/29/2020)** This bill redirects state and teacher pension payments to generate savings, authorizes personal leave and furlough days for state workers, and authorizes reductions to Highway Patrol compensation, among other actions.
AB 85	**Tax Increases (Chaptered 6/29/2020)** This bill increases state revenue by $4.4 billion in 2020-21, $3.25 billion in 2021-22, and $1.5 billion in 2022-23. The bill exempts new non-corporate businesses from the $800 minimum franchise tax, provides relief from the state's tax credit cap for advanced military aircraft, provides an 18 month extension of the sales and use tax exemption for diapers and personal hygiene products, includes a three year, $5 million cap on the use of numerous tax credits, including those for research and development, and includes a three year suspension of the net operating loss deduction. Also includes an expedited submission of sales tax in a used vehicle sales transaction.
AB 89	**Budget Bill Junior #1 (Chaptered 6/29/2020)** This bill makes changes to SB 74, the main budget bill, to incorporate the final agreement with the Governor.
AB 90	**Transportation (Chaptered 6/29/2020)** This bill holds harmless transit agencies affected by COVID-19, extends the deadline for adoption of the 2020 High-Speed Rail Business Plan, and appropriates funds for an interface between the Department of Motor Vehicles and the California Air Resources Board.
AB 92	**Resources (Chaptered 6/29/2020)** This is the omnibus Resources trailer bill for 2020-21, which expands fee authority across multiple departments to implement voter-approved initiatives and recently enacted legislation. The bill also includes a significant policy proposal that would expand the State Water Resources Control Board's authority to curtail recent federal regulations related to Section 401 of the Clean Water Act.
AB 93	**Tax Credits - Undocumented Expansion #1 (Chaptered 6/29/2020)** This bill expands the state's Earned Income Tax Credit program to undocumented immigrants that have an Individual Taxpayer Identification Number (ITIN) for tax filing purposes and at least one child under 6 years of age.

AB 100	**Elections/Seismic Safety (Chaptered 6/29/2020)** This bill provides reimbursement authority for eligible election activities, utilizing funding previously provided for voting system replacements, and moves the existing Alfred E. Alquist Seismic Safety Commission within the Governor's Office of Emergency Services.
AB 102	**CalSavers (Chaptered 6/29/2020)** This bill changes the administering department for assessing penalties on employers that are noncompliant with the requirements of the CalSavers program from the Employment Development Department (EDD) to the Franchise Tax Board (FTB).
AB 103	**Unemployment Insurance (Chaptered 6/29/2020)** This bill prohibits employers from being penalized through higher unemployment insurance taxes for laying off employees during the COVID-19 economic recession and authorizes the state to utilize an unemployment measure that would authorize 7 additional weeks of federally-funded unemployment insurance emergency benefits.
AB 107	**General Government II (Enrolled 9/4/2020)** This bill includes authority to develop a plan to implement a $25 billion Economic Recovery Fund, provides data sharing between the Department of Social Services, the Employment Development Department, and the Franchise Tax Board, and authorizes state transportation agencies to conduct federal environmental reviews of rail and public transportation projects, among other things.
AB 119	**Memoranda of Understanding (Chaptered 6/29/2020)** This bill ratifies the Memorandums of Understanding (MOU) and Addenda for Bargaining Units 1, 3, 4, 6, 9, 11, 14, 15, 17, 18, 20, 21 which are represented by SEIU 1000, California Correctional Peace Officers Association (CCPOA), Professional Engineers in California Government (PECG), and California Association of Psychiatric Technicians (CAPT). These bargaining agreements were signed June 19, 2020, June 11, 2020, June 18, 2020, and December 13, 2019 respectively, and require legislative approval for the expenditure of funds and for savings measures that contribute to meeting the budgeted reductions as specified by the Budget Act of 2020.
AB 1864	**Dept. of Financial Protection & Innovation (Enrolled 9/4/2020)** This bill renames the Department of Business Oversight (to the Department of Financial Protection and Innovation), creates a new California Consumer Financial Protection Law, and establishes a new regulatory bureaucracy for currently unlicensed entities, such as credit reporting agencies and merchant cash advance lenders. ***Note:*** *While this bill is included here for reference, the bill technically is not a budget trailer bill.*

AB 1867	**Worker Leave (Enrolled 9/4/2020)** This bill does the following: 1) Creates a small employer family paid leave mediation pilot program, 2) Requires a food sector worker to be allowed to wash their hands every 30 minutes, 3) Codifies an Executive Order that requires food sector employers with over 500 employees to provide up to two weeks of paid leave for COVID-19 related purposes, 4) Expands this leave to workers employed by an employer with 500 or more employees and to emergency responders and health care providers.
AB 1869	**Criminal Fees (Enrolled 9/4/2020)** Effective July 1, 2021, eliminates approximately two dozen fees and other costs that are currently imposed on offenders and arrestees at various points of contact with the criminal justice system.
AB 1872	**Cannabis Taxes (Enrolled 9/4/2020)** This bill temporarily suspends statutorily required increases or adjustments to taxes on cannabis, cannabis products, and cultivation. This bill also modifies local government grant eligibility for public safety programs related to the legalization of cannabis and changes qualifying criteria for members of the Cannabis Control Appeals Panel.
AB 1876	**Tax Credits - Undocumented Expansion #2 (Enrolled 9/4/2020)** This bill expands the state's Earned Income Tax Credit program and the Young Child Credit to undocumented immigrants that have an Individual Taxpayer Identification Number (ITIN) for tax filing purposes.
AB 3234	**Public Safety - Parole and Diversion (Enrolled 9/4/2020)** Expands early prison release through the “Elderly Parole Program” by reducing the age of eligibility from 60 years to 50 years and by reducing the minimum amount of time required to be continuously served from 25 years to 20 years. Permits a judge to offer, over the prosecutor's objections, diversion for any misdemeanor with the exception of domestic violence, stalking, or a registerable sexual offense. ***Note:*** *Technically, AB 3234 was not a trailer bill, but it included provisions that were amended out of SB 118, for which the budget assumes savings.*
AB 3330	**Dept. of Consumer Affairs - Fee Increases (Enrolled 9/4/2020)** This bill increased various fees charged by the Department of Consumer Affairs (DCA) and Boards under the DCA, including, fees for the Controlled Substance Utilization Review and Evaluation System, and license fees for podiatrists, acupuncturists, marriage and family therapists, educational psychologists, clinical social workers, and clinical counselors. ***Note:*** *Technically, AB 3330 was not a trailer bill but was similar to AB 109, which was a trailer bill containing a drafting error.*

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