

MAY 28, 2020

Overview of the Senate 2020-21 Budget Package

PRESENTED TO:

Senate Budget and Fiscal Review Committee
Hon. Holly J. Mitchell, Chair



LEGISLATIVE ANALYST'S OFFICE

Key Assumptions

Revenues

- Senate package uses largely the same revenue assumptions as the Governor's May Revision, including the major revenue proposals.

Baseline Spending

- Senate package uses LAO estimates of caseload in Medi-Cal and California Work Opportunity and Responsibility to Kids, saving an estimated \$3.6 billion relative to the May Revision assumptions.

Federal Funding

- Both the Senate package and May Revision include provisions if additional federal funding is forthcoming.
- Governor's May Revision does not assume more federal funding will be available. Under the May Revision, \$15 billion in spending-related reductions would take effect on July 1, 2020, but those reductions would be restored if sufficient federal funds were received.
- Senate package assumes new federal funding will be available to offset baseline General Fund costs. Senate package includes "trigger reductions" if federal funds do not materialize, which would take effect on October 1, 2020.



Federal Funding Assumptions

Additional Federal Funding Is Received

The Senate package and May Revision are broadly similar, but with some key differences if the state were to receive additional federal assistance.

Key differences are:

- Senate package would end with slightly more (\$500 million) in reserves compared to the May Revision.
- Programmatic funding for schools and community colleges would be similar, but mix of funds would differ.
- The Senate package would reject some May Revision proposals and include some augmentations not in the May Revision. These include:
 - \$600 million in county realignment assistance (this augmentation would be withdrawn if no additional federal funds were received).
 - \$250 million for local homelessness programs.
 - \$42 million Earned Income Tax Credit expansion.

Additional Federal Funding Is Not Received

- If no additional federal funds are received, the Senate package differs substantially from the May Revision in how it solves the budget problem.



Comparing Packages Without Federal Assistance

Revenues

- **May Revision.** The May Revision does not propose any revenue increases that would be contingent on federal assistance.
- **Senate Budget: Managed Care Organization (MCO) Tax Changes.** If no additional federal funding is received, Senate package would make adjustments to the state's current MCO tax proposal, resulting in an estimated \$1 billion in General Fund savings.



Comparing Packages Without Federal Assistance

(Continued)

Reserves

- Withdrawals from the Budget Stabilization Account (BSA) can only be made if the Governor declares a budget emergency in response to either: (1) a disaster or (2) a fiscal emergency.
- Up to half of the constitutional balance of the BSA can be withdrawn in the first year.

Reserves at End of 2020-21 in May Revision and Senate Package

(In Billions, Assumes No Additional Federal Funding)

	Governor	Senate	Difference
BSA	\$8.4	\$6.6	-\$1.8
Safety Net	0.5	—	-0.5
SFEU	2.0	1.0	-0.9
Totals	\$10.8	\$7.6	-\$3.2

BSA = Budget Stabilization Account and SFEU = Special Fund for Economic Uncertainties.



Comparing Packages Without Federal Assistance

(Continued)

Cost Shifts

Cost Shifts in May Revision and Senate Package			
<i>(In Billions, Assumes No Additional Federal Funding)</i>			
	Governor	Senate	Difference
Special fund loans and transfers	\$2.4	\$3.5	\$1.1
Reinstate deferrals ^a	—	1.8	1.8
Pension shifts and others	2.4	2.4	—
Totals	\$4.8	\$7.7	\$2.9

^aExcludes those related to Proposition 98 (1988).



Comparing Packages Without Federal Assistance

(Continued)

Spending on Schools and Community Colleges

Funding for K-14 Education in 2020-21 in May Revision and Senate Package			
<i>(In Billions, Assumes No Additional Federal Funding)</i>			
	Governor	Senate	Difference
Proposition 98 (1988) funds	\$70.5	\$73.2	\$2.7
Deferred payments	3.7	9.0	5.3
One-time federal relief	5.8	5.8	—
Totals	\$80.1	\$88.1	\$8.0



Comparing Packages Without Federal Assistance

Other Spending

Key Spending Reductions in Senate Package and May Revision (General Fund, Assumes No Additional Federal Funding)		
	Governor	Senate
Employee Compensation	\$1.7 Billion. Assumes collective bargaining processes results in 10 percent reduction to state employee pay.	Does not assume a specific amount of savings, which would result from the collective bargaining process.
Payment and Rate Reductions	\$1.2 Billion (Medi-Cal). Uses Proposition 56 (2016) to fund Medi-Cal growth instead of provider payments.	Rejects Governor's proposal.
	\$300 Million (DDS). Reduces provider rates.	Rejects Governor's proposal.
	\$297 Million (Child Care). Reduces rates for state preschool program and child care programs.	Rejects Governor's proposal.
	\$274 Million (Medi-Cal). Reduces managed care capitation payments in Medi-Cal.	Rejects Governor's proposal.
In-Home Supportive Services	\$205 Million. Reduces recipients' service hours by 7 percent.	Rejects Governor's proposal.
Housing and Homelessness	\$203 Million. Governor proposes eliminating the infill infrastructure program enacted in 2019-20.	Rejects Governor's proposal.

DDS = department of developmental services.

