



CORONAVIRUS IMPACTS

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Governor Newsom released his proposed budget for fiscal year 2020-21 on January 10, 2020—several weeks in advance of the height of the COVID-19 pandemic and the statewide shelter-in-place order. Given the recent shift in priorities for the state, California can expect to see a much different budget scenario by the time the fiscal year starts on July 1, 2020. While the amount of expected revenue is likely to be billions of dollars lower than forecasted in January, along with higher direct and indirect costs as a result of responding to the pandemic, the state is in a relatively strong fiscal position with significant reserves. Recent federal relief bills are also directing federal funding to state and local governments that will help offset some of these higher costs and reduce the impact to the state's General Fund budget. The cost of the initial response is estimated to be **\$7 billion** in California, though 75% of those costs will likely be reimbursed by the federal government as a result of FEMA's disaster declaration. The funding initially allocated by the state government is coming from the current 2019-20 fiscal year, while the current budget deliberations are for the 2020-21 fiscal year that begins July 1, 2020.

While the Governor will release a revised budget in mid-May, a more accurate and precise accounting of impacts to the state budget may not be available until later this summer, after the July 15th tax filing extension deadline has passed. However, the state can anticipate three broad sets of impacts that the pandemic will have on the state's economy and budget:

1. Higher direct costs to respond to the public health emergency

- ▶ The state has already made available **\$1.1 billion** in emergency funding through the 2019-20 budget to mitigate the impacts of the virus, such as expanding hospital and laboratory capacity
- ▶ Higher costs to provide testing and treatment to COVID-19 patients are also likely

2. Higher indirect costs as a result of changes in the economy

- ▶ As unemployment rises and incomes fall, more people will qualify for means-tested social safety net programs such as food assistance (CalFresh), Medi-Cal, and CalWORKs

3. Lower revenues as a result of changes in the economy

- ▶ This is likely to have the largest budgetary impact, and the severity of revenue losses will be driven by the length and severity of the public health emergency
- ▶ State officials estimate that **only 39% of projected tax revenues** are now expected to actually be paid between April and June 30, 2020—the end of the current fiscal year—after the deadline to file income taxes was delayed to July 15, 2020 as a result of the public health emergency

With those three trends in mind, recently passed federal legislation will help California address the first two impacts in key response areas. Most of the federal funding will flow through traditional assistance channels, while a **new fund** (California detail below) was created to provide additional help to both state and local governments.

CORONAVIRUS RELIEF FUND

The CARES Act (H.R. 748) passed by Congress establishes a **Coronavirus Relief Fund (CRF)** that will provide \$150 billion to state, local, tribal, and territorial governments across the country. The LAO **estimates** that California will receive approximately **\$15.4 billion** from this fund, split in the following way:

- ▶ State funding: \$8.5 billion
- ▶ Local funding (for jurisdictions with >500,000 residents): \$6.9 billion

NUTRITION ASSISTANCE

Prior to the public health crisis, about 4 million low-income Californians received more than \$6 billion annually in federally-funded monthly food assistance through CalFresh, the state's version of the Supplemental Nutrition Assistance Program (SNAP). About 3.7 million California students are eligible for free or reduce-priced meals, and about 900,000 Californian pregnant women, new mothers, and young children get more than \$700 million in federally-funded nutrition assistance through the Women, Infants, and Children (WIC) Program. On March 20, 2020, Governor Newsom [mobilized](#) the National Guard to provide logistical support to the state's food banks.

The second and third federal relief bills (H.R. 6201 and the CARES Act, respectively) increased funding for nutrition programs nationwide:

- ▶ **\$500 million** for the WIC Program
- ▶ **\$850 million** for the Emergency Food Access Program (EFAP), which provides food to low-income households through a statewide network of food banks
- ▶ **\$750 million** for senior nutrition programs through the Older Americans Act (OAA)

SNAP funding increases automatically as more people become eligible, so while the federal relief bills don't explicitly increase SNAP funding, the LAO [anticipates](#) that California will receive increased SNAP funding as the economy contracts and the caseload increases. For comparison, the SNAP caseload increased by roughly 40% during the Great Recession. California's share of additional funding through these expanded programs is likely to reach \$1 billion.

UNEMPLOYMENT INSURANCE

[Unemployment insurance](#) (UI) benefits are mostly funded through a payroll tax that employers pay on the first \$7,000 of employee wages. In 2019, California collected \$5.9 billion in UI taxes from employers (which go into the UI Trust Fund) and issued \$5.5 billion in total UI benefits. In 2019, unemployed workers in California on average received about \$330 per week for 17 weeks (benefits available up to 26 weeks under normal circumstances).

H.R. 6201 makes available about \$120 million in additional funding to California to help administer claims, and increases the amount of time that a worker can claim benefits from 26 weeks to 39 weeks—with the additional 13 weeks fully funded by the federal government. H.R. 748, the CARES Act, increased the weekly benefit that UI recipients will receive by \$600 per week until July 31, 2020, and expanded eligibility to workers that are excluded from regular UI benefits—including those that are self-employed, gig workers, and workers who have not worked long enough to qualify for regular UI benefits. The expanded eligibility is also fully funded by the federal government through December 31, 2020.

Normally, if required benefit payments exceed payroll tax collections, the federal government loans states enough money to allow for continued payments. Given the amount of claims, the UI Trust Fund will likely become insolvent (*update April 22, 2020*: [California to borrow federal money to cover soaring jobless claims](#)). As of April 22, 2020, more than 2.7 million Californians have applied for unemployment during the prior month, with the state paying out nearly \$4 billion in benefits as of April 24, 2020. During the Great Recession, the state's UI loan balance (amount the state borrowed) peaked at \$10.3 billion at the end of 2012, and the state General Fund paid about \$300 million annually in interest on these loans until they were paid off in 2018. H.R. 6201 suspends the accrual of interest on federal loans through the end of 2020, which will reduce the impact to the state General Fund given that California now needs to borrow money in order to continue paying out UI benefits.

MEDICAID (MEDI-CAL)

H.R. 6201 also enhanced federal funding for Medicaid (called Medi-Cal in California). Based on assumptions from the Governor's budget, total Medi-Cal funding will be roughly \$113 billion in 2019-20—\$66 billion federal funds, \$30 billion State General Fund, \$8 billion other state funds, and \$9 billion local funds. Based on LAO's preliminary [estimates](#) that incorporate changes in caseload and costs as a result of COVID-19, the enhanced federal funding could potentially reach between \$400 to \$500 million per month (while the enhancement remains in effect)—which reflects around 5% of total monthly Medi-Cal spending of nearly \$10 billion. Most of the additional \$400 to \$500 million per month would directly offset General Fund costs for Medi-Cal and other safety net programs that rely on Medicaid funding. Assuming, for example, that the enhancement ran through the end of 2021, LAO's estimated range of monthly enhanced federal funding would translate to General Fund savings of almost \$2 billion in 2019-20, around \$4 billion in 2020-21, and around \$2 billion in 2021-22.

Through the CARES Act, Congress also approved a temporary 6.2% increase in the federal government's share of costs for state Medicaid programs. For several types of Medicaid beneficiaries, the federal government pays 50% of costs. Under the change, beginning January 1, 2020 and ending the first quarter in which there is no longer a public health emergency, the federal share of cost for these services will increase to 56.2%. The additional funding will also help offset state costs for increased Medi-Cal utilization as the caseload is likely to increase as a result of the economic downturn.

EDUCATION

The CARES Act provides \$31 billion for a newly created [Education Stabilization Fund](#) for states and educational entities at all levels (kindergarten through university), and institutions have some flexibility in how they use these funds. Higher education institutions must use at least half of their funds to provide emergency financial aid grants to students affected by the disruption of campus services. In California where state funding for K-14 (K-12 and community colleges) is determined by a General Fund formula under Prop. 98, lower state revenues will result in a lower minimum funding guarantee for schools. The availability of these new federal funds for education will help mitigate the adverse impact of state funding reductions to educational institutions..

LAO [estimates](#) that California will receive approximately **\$3.7 billion** of the \$31 billion:

- ▶ **\$1.7 billion** for higher education institutions
- ▶ **\$1.6 billion** for K-12 education
- ▶ **\$355 million** for educational institutions at any level

Within [higher education](#), the aid's formula favors large public institutions where students attend full-time and a large share are low-income and eligible for the Pell Grant. As a result, the California State University (CSU) system will receive \$1,065 per student, University of California (UC) \$925 per student, and the California Community Colleges (CCCs) \$393 per student. For-profit schools receive \$1,289 per student, while private nonprofit institutions receive \$547 per student. However, there is no funding to account for undocumented students, as they are ineligible for Pell Grants, and therefore are not counted. It is estimated that more than 50,000 undocumented students are enrolled in CCCs, and more than 80,000 across California's institutions.

Learn more about what the California state government is doing to address the COVID-19 crisis and provide assistance [here](#).