



## CALIFORNIA BUDGET BASICS

# Coronavirus Response



\*Updated on July 14, 2020

When 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—the state was anticipating a \$5.6 billion surplus. By the time the updated budget was released in mid-May, that surplus had turned into a \$54.3 billion deficit—a swing of nearly \$60 billion in a matter of months as a result of increased costs and 2020-21 revenues that were \$32.2 billion lower than estimated in January.

Fortunately, the state was in a relatively strong fiscal position with significant reserves, particularly compared to the Great Recession. Federal relief bills also directed federal funding to state and local governments that offset some of these higher costs and reduced the impact to the state's General Fund budget. However, the state will need an additional \$14 billion by October 15, 2020 in federal funding to avoid additional trigger cuts and deferrals. If the state receives less than \$14 billion, cuts and deferrals will be partially restored.

A more accurate and precise accounting of impacts to the state budget will be available after the July 15<sup>th</sup> tax filing extension deadline has passed. Based on the current revenue estimates, the Governor and Legislature passed a final budget deal with the following components:

1. **Draws down \$8.8 billion in reserves**, including \$7.8 billion from the Rainy Day Fund
2. **Triggers spending reductions and additional deferrals of \$11.1 billion** if at least \$14 billion in federal funds are not received by the state by October 15, 2020
  - ▶ Deferrals essentially act as IOUs from the state, and the vast majority are related K-14 education spending, enabling districts and colleges to maintain funding at the 2019 level and prevent layoffs
3. **Relies on \$10.1 billion in federal funds**, including the Coronavirus Relief Fund (detail below)
4. **Generates \$4.4 billion in new revenue** in 2020-21, primarily through limiting business tax credits and deductions for three years
5. **Borrows and transfers \$9.3 billion from special funds** (i.e. funds set aside for specific purposes)
6. **Cancels \$10.6 billion in planned program expansions and spending increases**; includes revised assumptions that revenue will be higher—and that health and human services caseload costs will be lower—than in the May forecast

With these broad trends and budget actions in mind, the following focuses on specific areas of state and federal action related to responding to the coronavirus pandemic and its economic impacts on the state of California. Most of the federal funding flows through traditional assistance channels and the [new Coronavirus Relief Fund](#).

### CORONAVIRUS RELIEF FUND

The CARES Act (H.R. 748) passed by Congress established a **Coronavirus Relief Fund (CRF)** that will provide \$150 billion to state, local, tribal, and territorial governments across the country. California has received approximately **\$15.3 billion** from this fund, split in the following way:

- ▶ **State funding:** \$9.5 billion
- ▶ **Local funding (for jurisdictions with >500,000 residents):** \$5.8 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 state's Legislative Analyst's Office (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.

H.R. 6201 made available about \$120 million in additional funding to California to help administer claims, and increased 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 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 large volume of claims, [California began borrowing money](#) beginning around April 22, 2020 as the UI Trust Fund became insolvent. The enacted 2020-21 budget expects that the state will receive \$52 billion from the federal government for unemployment benefits. The California Employment Development Department (EDD) responsible for processing unemployment claims released [data](#) showing that more than \$41.3 billion in benefits were paid out to 7.5 million Californians between March 14th and July 4th. The number of claims processed in California is larger than those processed by Texas and New York combined during the same time period.

## MEDICAID (MEDI-CAL)

H.R. 6201, signed into law on March 18th, 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 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.

H.R. 266 ([the Paycheck Protection Program and Health Care Enhancement Act](#)) was signed into law on April 24th and appropriated \$484 billion nationwide for various pandemic relief purposes, including funding for hospitals and other health providers, and COVID-19 testing. Funding was allocated based on population size and of the \$484 billion, \$499.2 million went to the state of California and \$289 million went to Los Angeles County for a total of \$788.2 million.

## K-12 & HIGHER EDUCATION

The CARES Act provided \$30.8 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 have resulted in a lower minimum funding guarantee for schools of more than \$10 billion compared to the 2019 funding level. The availability of these new federal funds for education has helped mitigate the adverse impact of state funding reductions to educational institutions.

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

- ▶ **\$1.7 billion** for higher education institutions
- ▶ **\$1.6 billion** for K-12 education, including \$112.2 million to continue serving meals to families
- ▶ **\$355 million** for educational institutions at any level

Altogether, the enacted 2020-21 budget allocates \$5.3 billion (\$4.8 billion federal funds) to mitigate learning loss and support the immediate needs of students and K-12 schools and community colleges. Within [higher education](#), the federal CARES Act 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.

## CHILDCARE & EARLY LEARNING

---

California received \$350.3 million through the federal **CARES Act** for COVID-19-related childcare activities. Of this amount, \$125 million is being made available for the stipends to providers of childcare for essential workers, and children who have special needs, are homeless, in foster care or at-risk for domestic violence and \$73 million to continue care for at-risk children and children of essential workers. If the state receives additional federal funding through the House-passed HEROES Act, language in the state budget allows for the quick deployment of an additional \$300 million in federal funds to extend access for families and to provide additional funding for providers dealing with higher costs as a result of the pandemic. This additional funding will be used to provide subsidized childcare for about 15,000 more children, and \$150 million would help childcare providers reopen and pay for additional supplies and staff.

At the state level, the 2020-21 enacted budget maintained childcare and preschool provider reimbursement rates at the 2019-20 levels. The number of childcare and state preschool slots are also kept at the current level, though a planned expansion of 10,000 preschool slots beginning in 2020 was eliminated. Low-income essential workers will be given priority for subsidized childcare alongside foster children, homeless children, and children with special needs if they meet the income requirements (85% of the state median income, or \$84,822 for a family of four). Childcare providers who receive subsidies for low-income children will be able to continue to receive those subsidies for another year—even if the children are absent because of COVID-19—as long as they are either open or providing distance learning.

## STATE PRISONS & CORRECTIONS

---

In order to mitigate the spread of COVID-19 among the California Department of Corrections and Rehabilitation (CDCR) staff and inmates, the department has made a number of operational changes. Actions have been taken to increase physical distancing in prisons by reconfiguring inmate housing, and initiating the release of inmates who were within 60 days of release at the beginning of April 2020 and not serving a current term for domestic violence, a violent felony, or required to register as a sex offender. As of June 17, 2020, the adult inmate population was 114,643—compared to 122,941 as of March 25, 2020—a reduction of 8,387 inmates. CDCR estimates that approx. 3,500 inmates will be held in county jails as a result of the suspension of intake for 60 days—once intake resumes, those inmates will be transferred to CDCR over a period of approximately 28 days. CDCR is also testing any incarcerated person before they are either released or transferred to another institution.

Statewide, [at least 31 inmates have died](#) from COVID-related illnesses and more than 2,300 have tested positive as of July 10th. In response, as many as 8,000 California prisoners may be released ahead of schedule in an effort to stop the spread of the virus, with more than half of the releases expected by the end of July. The initial releases would be those with 180 days or less left on their sentences, though no one serving time for a crime defined in state law as violent or involving domestic violence would be released. Those required to register as sex offenders—or who are assessed as being at high risk for violence—are also ineligible for early release. The second group of prisoners to potentially be released would be those with no more than one year left of their sentences. In all cases, priority will be given to those who are 30 or older. Currently, the state prison system has more than 17,000 inmates who are considered medically high risk.

## SMALL BUSINESSES & JOBS

The federal **CARES Act** provided \$377 billion for financial assistance to small businesses—generally those with fewer than 500 employees—and \$532 billion in financial assistance to airlines and other large businesses via the Paycheck Protection Program (PPP). This funding was quickly exhausted, so Congress passed H.R. 266 (the Paycheck Protection Program and Health Care Enhancement Act) providing an additional \$331 billion for those programs created by the CARES Act. PPP provides forgivable loans to small businesses to enable them to continue paying employees and other bills while their revenues are reduced as a result of the pandemic and closures. The businesses will not be required to repay these loans if the money is used to pay employee wages and benefits (businesses must provide documentation to that effect in order for the loan to be forgiven). As part of the federal PPP, over 750,000 California small businesses have received a combination of grants and loans totaling over \$85 billion primarily to support continued payment of employees and to help overcome their temporary loss of revenue. While these amounts are significant, the awards to date benefit less than 20% of California's 4 million small businesses.

California has also taken a number of actions at the state level through the 2020-21 enacted budget to support small businesses and economic recovery. To support new business creation, the state now waives the \$800 minimum franchise tax—often a costly barrier for new start-up businesses—for the first year of operation. There is also an additional \$50 million to provide a total of \$100 million General Fund for the state's Small Business Finance Center to address gaps in federal assistance and further support California businesses. The Governor has also convened a Task Force on Business and Jobs Recovery—including a diverse group of leaders from business, labor, and non-profits—to develop actionable recommendations and advise the state on how economic recovery can address the effects of wage disparity made even worse by the COVID-19 recession.

## PUBLIC HEALTH

The federal **CARES Act** and other federal legislation have directed billions to California in order to bolster public health and respond to the pandemic, including \$150.2 million to expand lab capacity and surge staffing. The state also anticipates receiving about \$5.3 billion in federal reimbursements for the currently estimated \$7 billion in direct state costs to respond to the pandemic (reflecting a 75% reimbursement rate). The precise amount of the reimbursement will ultimately depend on the actual state costs to respond to COVID-19. Cities and counties will also receive reimbursements from the federal government, though [LAO](#) does not have an estimate of the amount that will ultimately be provided as it will depend on local costs incurred.

At the state level, the 2020-21 enacted budget maintains and increases the Department of Public Health's ongoing disease surveillance and identification workforce. The budget includes \$5.9 million General Fund in 2020-21—and \$4.8 million General Fund ongoing—to support state laboratory staff and to purchase equipment and supplies. As of late June, California has been completing more than 80,000 COVID-19 tests per day, but more work is necessary to reduce the cost of testing, create more equitable access to testing, and improve disease surveillance. The budget allows for the allocation of more than \$600 million in federal funds to support testing and contact tracing. The Newsom administration also launched a program called California Connected—the state's effort to greatly expand county contact tracing programs that redirects state employees to begin tracing efforts. The program includes contracts with UC San Francisco and UC Los Angeles to launch an online training academy to develop a culturally competent and skilled contact tracing workforce.

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