State Budget Update #3

2020-21 May Revision

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Governor Newsom released the 2020-21 May Revision this afternoon. The May Revision is a drastically changed budget proposal from that introduced in January, reflecting the devastating public health and economic impact of the COVID-19 pandemic. While the overall revenue picture is grim and the May Revision budget proposal contains painful cuts to balance the budget, the Governor does preserve some critical safety net supports.

The following is a high-level summary of the key changes in May Revision based on the information we know today. We will continue to keep you apprised as budget discussions continue in the Legislature and with the Administration.

Overall Budget Picture

As a result of the COVID-19 pandemic, California's economy is experiencing a sudden and dramatic downturn. In eight short weeks, what was shaping up to be a $7 billion surplus in 2020-21 has turned into a $54.3 billion General Fund (GF) deficit as compared to the January budget proposal. That $54.3 billion deficit is comprised of GF revenue reductions of $41.2 billion relative to the January revenues assumptions, coupled with increased COVID-19 related caseload and response expenditures of $13.1 billion. The Administration is taking what amounts to a multi-year approach in addressing the shortfall, combining program cuts, reserve spending, and revenue enhancements with internal borrowing and deferrals as well as "trigger" cuts contingent on availability of additional federal funds. The 2020-21 budget solutions include the following:

- $6.1 billion in cancelled program expansions and spending increases that had been proposed in the January budget and elimination of one-time expenditures included in the 2019 Budget Act. These reductions include several in the human services area.
- $8.3 billion in reserve spending, including $7.8 billion from the Budget Stabilization Account

(a.k.a. the Proposition 2 Rainy Day Fund) and $450 million from the Safety Net Reserve.

- $4.1 billion in borrowing and transfers from state special funds.
- $4.5 billion in new revenues resulting from a temporary suspension of net operating losses for corporations and a temporary limit of $5 million on the amount of credits a taxpayer can use in any given tax year.
- $8.3 billion in federal CARES Act funding.
- $14 billion in trigger cuts that will be suspended (i.e., will not happen) if additional “sufficient” federal funds are provided. We do not yet know what the amount of federal funds would need to be to trigger off these cuts (i.e. if it is $14 billion or some other amount), nor do we know what priority there would be for restoring these programs or what the process would be for determining priorities should some additional federal funds be received, but not the amount targeted by the Administration.

Health and Human Services

1991 REALIGNMENT

1991 Realignment is funded through two sources: state sales taxes and Vehicle License Fees (VLF). The unprecedented economic decline resulting from the COVID-19 pandemic has led the Administration to significantly revise its 1991 Realignment revenue estimates. The 1991 Realignment total sales tax revenues in the May Revision for the current year (2019-20) are estimated to be short of the 2019-20 base amount by 13.7 percent, approximately $503 million. Total VLF revenues for the current year are estimated to be 11.8 percent, approximately $259 million, below the 2019-20 base amount. For the budget year (2020-21), the May Revision projects that both sales tax and VLF revenues will grow compared to the revised 2019-20 estimates. For sales tax, that growth is projected to be very small, only 0.13 percent (about $2.6 million). But for VLF, the growth is projected to be much greater, 8.7 percent (about $168.3 million) above the revised 2019-20 estimates. In short, the Administration is assuming that the 1991 Realignment revenue drop will bottom out in the current year, but start to recover by the end of the budget year, with VLF revenues bouncing back much faster than sales tax revenues.

Because the rates of revenue decline in the current year vary between sales tax and VLF revenues and because each of the 1991 Realignment subaccounts is comprised of different proportions of sales tax and VLF revenues, the impact of the overall current year revenue declines is going to vary by subaccount. Sales tax revenues comprise the majority of the revenues in the Social Services Subaccount (over 90 percent), whereas the Health, CalWORKS MOE, and Child Poverty and Family Supplemental Support subaccounts contain proportionally more in VLF revenues. Furthermore, the Mental Health Subaccount is only provided funding after the bases of the Social Services, Health, CalWORKs MOE, and Child Poverty and Supplemental Support subaccounts are reached. Because none of those subaccounts will reach base in 2019-20, the Mental Health Subaccount will lose all the $129.5 million in sales tax and VLF revenues in the subaccount as of the beginning of 2019-20. Although the Mental Health Subaccount will receive no funding in 2019-20, it helps to mitigate slightly the revenue reductions to the other subaccounts.

In addition to the different rates of revenue change between sales tax and VLF revenues and the different proportions of sales tax and VLF that comprise each subaccount, the different statutory formulas by which sales tax and VLF growth revenues are distributed will also impact the recovery of each of the subaccounts differently. The Social Services Subaccount has first call on sales tax growth revenues to fund caseload growth. Any sales tax growth revenues remaining after all owed caseload growth is fully funded are distributed to the other subaccounts as general growth. All VLF growth revenues are also distributed to the other subaccounts as general growth (which the Social Services Subaccount does not receive).

The net effect of all of these factors on the Social Services Subaccount is that it is estimated to be short of its total base funding by 12.5 percent in the current year – this is based on the assumption that sales tax revenues in the subaccount will be down by 12.9 percent ($300.7 million) and VLF revenues will be down by 7.8 percent ($17.0 million) compared to the 2019-20 base amounts. For 2020-21, total revenues in the Social Services Subaccount are projected to increase by 0.12 percent, or $2.6 million, all of which is sales tax revenue growth. Because virtually all of the projected 1991 Realignment revenue growth for 2020-21 is VLF revenues, the Health, CalWORKs MOE, and Child Poverty and Supplemental Support subaccounts will all begin to recover much more quickly than the Social Services Subaccount, which does not receive any VLF growth revenues. Because of this structure, once the VLF revenue base within the Social Services Subaccount is eroded due to a downturn in the VLF revenue source, it will never grow back to its previous level.

It is also important to remember that revenue declines in the Family Support and Child Poverty and Supplemental Support subaccounts do not need to be backfilled by counties – the impact of those revenue declines is on the state General Fund (GF) as follows:

- Family Support Subaccount – This subaccount enables counties' indigent health care savings resulting from the Affordable Care Act (ACA) to be captured and redirected to pay for

CalWORKs state GF assistance costs, thereby freeing up GF that can be used to pay for the state's Medi-Cal expansion costs. The amount of counties' indigent health care savings is redirected from counties' 1991 Realignment Health Subaccounts and moved to the Family Support Subaccount at the state level. Funds are then allocated to counties from the Family Support Subaccount in lieu of GF for CalWORKs assistance payments and the Single Allocation. The distribution of the funds from the Family Support Subaccount to counties is based on counties' CalWORKs expenditures. To the extent that funds distributed to counties from this subaccount decrease (or increase) in any fiscal year, the amount of state GF provided for CalWORKs increases (or decreases) on a dollar-for-dollar basis.

- Child Poverty and Supplemental Support Subaccount – This subaccount is used to fund CalWORKs assistance grant increases, which total 11.43 percent from this subaccount since 2013-14, and the repeal of the Maximum Family Grant (MFG) rule, which took effect January 1, 2017. If the amount of revenues in the subaccount is not enough to fully fund the costs of all the CalWORKs assistance grant increases already provided and the MFG repeal, the GF makes up the difference. If there is more funding in the subaccount than is needed to fund all the CalWORKs assistance grant increases and the MFG repeal, then an additional grant increase is triggered that equals an increase that the available funding is estimated to support. In the January Budget, it was projected that there would be sufficient revenues in this subaccount to fund an additional 3.1 percent grant increase beginning October 2020. For the May Revision, however, revenues in the subaccount are estimated to be down by 9.1 percent ($36.4 million) in 2019-20 compared to the 2019-20 base and continue to fall short of full funding for the grant increases and the MFG repeal in 2020-21. The state GF will backfill the reduced revenues in the current year and the budget year shortfalls on a dollar-for-dollar basis.

2011 REALIGNMENT

The 2011 Realignment is funded through two sources: a state sales tax of 1.0625 percent (the portion that is used to fund the realigned social services and behavioral health programs) and 0.5 percent of VLF. As with 1991 Realignment, the Administration's 2011 Realignment revenue estimates have significantly changed from those assumed in the Governor's January budget. For 2019-20, the May Revision now estimates that 2011 Realignment sales tax revenues will be 13.4 percent (about $957 million) lower than the base amount. For 2020-21, the May Revision projects that 2011 Realignment sales tax revenues will grow by 1.4 percent (about $88.7 million), which would be available for 2011 Realignment base restoration.

Under 2011 Realignment, the Mental Health Account is guaranteed to receive sales tax revenues of

$1.12 billion each fiscal year, regardless of whether 2011 Realignment sales tax revenues are growing or declining. Therefore, notwithstanding the significant revenue reduction in the current year, full funding for the Mental Health Account will be provided, which will result in a greater reduction to the other accounts. For the Support Services Account, sales tax revenues will be 15.7 percent lower ($608.4 million) in 2019-20 than the base funding level. Of this reduced amount, $375.4 million is the estimated reduction to the Protective Services Subaccount and $233.0 million is the estimated reduction to the Behavioral Health Subaccount (although the dollar amounts differ, each subaccount is estimated to experience the same 15.7 percent reduction as the overall Support Services Subaccount.

The May Revision projects that for 2020-21 the Support Services Account will increase by 1.64 percent (or 53.7 million) as compared to the revised 2019-20 level. The Protective Services and Behavioral Health Subaccounts are also projected to increase by 1.64 percent, receiving sales tax growth revenues of $25.4 million and $28.3 million, respectively.

LOCAL GOVERNMENT FUNDING

The May Revision proposes to allocate a portion of the state's federal CARES Act funding to local governments—$450 million to cities and $1.3 billion to counties—to be used toward homelessness, public health, public safety, and other services to combat the COVID-19 pandemic. The $1.3 billion of the funding for counties is proposed to be distributed 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. This funding appears to be the extent of the state's efforts to backfill for the more than $1.7 billion in reduced base funding for 1991 and 2011 Realignment.

HOMELESSNESS

The May Revision reverses the $750 million GF investment proposed in January to establish the California Access to Housing Fund and instead proposes the use of $750 million in federal funding to purchase hotels and motels secured through Project Roomkey, to be owned and operated by local governments or non-profit providers.

MEDI-CAL AND HEALTH CARE SERVICES

The Medi-Cal caseload is projected to peak at 14.5 million in July 2020 due to the economic downturn. For 2020-21, the May Revision includes a total of $115.7 billion total funds ($23.7 billion General Fund) for DHCS programs and services. The proposal includes significant cuts to benefits including the elimination of nearly all optional benefits (note that this would not apply to children eligible for Early and Periodic Screening, Diagnosis and Treatment services); eliminating recently enacted and proposed eligibility expansions; making a number of reductions to managed care and provider rates; and eliminating or reducing a number of other initiatives across the department.

Additionally, the May Revision formally proposes to delay the CalAIM waiver renewal process, for a savings of $347.5m GF in the budget year.

Key issues that relate directly to county human services agencies include the following:

- County Eligibility Operations – The May Revision proposes to continue the $12.7 million GF augmentation allocated to counties in April 2020 in response to the COVID-19 epidemic. However, the $42.2 million total funds ($21.1 million GF) cost of doing business increase that was proposed in January is eliminated. The net effect is a $12.7 million increase from 2019-20 to 2020-21.
- Eliminate Eligibility Expansion Proposals – The May Revision eliminates the following proposals and associated funding:
    - ➢ Provide Full-Scope Medi-Cal Expansion to Undocumented Older Adults ($59.2 million GF savings)
    - ➢ Increase Aged, Blind and Disabled Federal Poverty Limit ($67.7 million GF savings)
    - ➢ Enact Aged, Blind and Disabled Medicare Part B Disregard ($0.3 million GF savings)
- Adverse Childhood Experiences (ACES) Trauma Screening and Provider Training – The May Revision reduces both provider reimbursement rates and planned spending to train providers on the new ACES screening required by AB 340 (Arambula, Statutes of 2017). Implementation of the screening requirement will continue and is not proposed to be eliminated.
- County Medical Services Program (CMSP) – The May Revision proposes to shift $50 million of the CMSP's accrued reserves in each of the next four fiscal years to offset GF CalWORKs costs. The proposal also restarts the Board's annual allocation beginning in 2021-22. The Board's annual allocation had been paused in 2019 until the accrued reserves dropped to reflect a level equal to two years' operating expenses, with the funds that had been going to CMSP redirected to offset GF expenditures in CalWORKs in the meantime.
- Reinstate Medi-Cal Estate Recovery – This proposal requires trailer bill language and is estimated to save $33.8 million total funds ($16.9 million GF).
- Eliminate MSSP and CBAS Programs – The May Revision proposes to eliminate the Community-

Based Adult Services (CBAS) and Multipurpose Senior Services Program (MSSP), "no sooner than July 1, 2020." Both programs serve older adults; as a reminder, CBAS is the program that replaced the Adult Day Health Care program in 2012. Eliminating CBAS is estimated to save $106.8 million GF in 2020-21 and $255.8 million GF in 2021-22 and thereafter.

- Eliminate Health Navigator Year Two Funding – The current year budget put into place a two-year program to fund health navigators to assist individuals with enrolling and retaining coverage. The May Revise eliminates the second year of funding for the program, for a savings of $15 million GF.

IN-HOME SUPPORTIVE SERVICES

The May Revision includes the following proposals in IHSS:

- Imposes a 7 percent reduction in the number of hours provided to IHSS beneficiaries effective January 1, 2021. The savings from this cut are estimated at $205 million GF in 2020-21 This is one of the trigger cuts that would be restored if sufficient additional federal funds are provided.
- Freezes IHSS county administration funding at the 2019-20 level, resulting in savings of $12.2 million GF in 2020-21. This is one of the trigger cuts that would be restored if sufficient additional federal funds are provided.
- Proposes to automate the termination process for IHSS Residual cases. The IHSS Residual Program is for those cases that are not eligible for full-scope Medi-Cal. The federal share for this population is picked up by the state and county. Currently, the process for determining when a Residual case should be terminated is manual. By automating this process, the state estimates it would save $72.6 million GF in 2020-21.
- Proposes that many of the IHSS payroll functions will move to a contract between the Department of Social Services and the CMIPS vendor, which would result in a savings of $9.2 million GF in 2020-21. A few payroll activities would remain in the counties. CDSS will provide more detail shortly on which functions are staying in the counties. This would go into effect in October of this year.

The May Revision does not propose any reductions to the county IHSS MOE to reflect the lower 1991 Realignment revenues or the additional federal funds resulting from the FMAP increase provided through federal relief act language.

CALWORKS

The key May Revision changes in CalWORKs include the following:

- A significant funding increase to the Single Allocation in 2020-21. Based on CWDA's preliminary allocation estimates, the Single Allocation is estimated to increase by about $412 million in 2020-21 over the 2019-20 allocation. This increase is comprised of a $53 million increase for Eligibility, a $366 million increase for Employment Services, a $13 million reduction to Stage One Childcare (reflecting the proposed reduction to the RMR described below), and a $6 million increase to CalLearn.
- Suspends all funding for the Expanded Subsidized Employment Program, resulting in GF savings of $134.1 million in 2020-21. This is one of the trigger cuts that would be restored if sufficient additional federal funds are provided.
- Reduces CalWORKs Home Visiting by $30 million GF in 2020-21. This is one of the trigger cuts that would be restored if sufficient additional federal funds are provided.
- Eliminates all funding for CalOAR, , resulting in savings of $21 million GF in 2020-21. Note that counties would be given the option to implement CalOAR if they wished to do so. This is one of the trigger cuts that would be restored if sufficient additional federal funds are provided.

CHILD CARE AND EARLY EDUCATION

The January Budget proposed the development of a new state department, the Department of Early Childhood Development. The May Revision proposes to modify this proposal by instead transferring all child care programs to CDSS, rather than to establish an entirely new state department. The May Revision maintains $2 million GF in 2020-21 to support this transition.

The May Revision also proposes the following reductions that impact the CalWORKs child care programs. These are trigger cuts that would be restored if sufficient additional federal funds are provided:

- A 10 percent decrease in the Standard Reimbursement Rate and the Regional Market Rate for GF savings of $223.8 million.
- Lower caseload assumptions in CalWORKs Stage 2 and Stage 3 child care, resulting in $35.9 million GF savings.

CALFRESH

The May Revision proposes the following investments and adjustments:

- Cal Fresh Administration – The May Revision includes an additional $80.1 million GF for CalFresh Administration, reflecting the significant projected increase in caseload resulting from the COVID-19 pandemic. This includes administrative funding for the expansion of CalFresh eligibility for SSI/SSP recipients. Work on updates to the CalFresh Administration budget methodology was suspended in the spring due to the COVID-19 emergency; so this augmentation is based on the previous budget methodology.

- Supplemental and Transitional Nutrition Benefit Programs – The May Revision reflects actual data for the Supplemental Nutrition Benefit (SNB) and Transitional Nutrition Benefit (TNB) programs, which provide a benefit to households that experienced a benefit decrease or loss of CalFresh eligibility due to CalFresh SSI/SSP Eligibility Expansion. The costs reflect a significant decrease in actual and projected SNB households and a slight increase in TNB households (SNB caseloads decreased from 71,000 to 45,000 as of full implementation). The May Revision includes $62.0 million GF in 2019-20 and $59.4 million GF in 2020-21 (a decrease of approximately $22.1 million in FY 2019-20 and $43.5 million in 2020-21 from the 2020-21 Governor's Budget).

- Able-Bodied Adults without Dependents (ABAWDs) – The California statewide federal waiver of the ABAWD time limit expired on August 31, 2018. Federally mandated participation requirements of 20 hours per week are currently in effect for a total of six counties and were scheduled to expand to an additional 34 counties (approximately 350,000 ABAWDs) on April 1, 2020 under a new federal rule. An injunction was issued to block the implementation of that new rule; however, it is unknown how long this injunction will remain in force. For the time being, the work rules are suspended nationwide while there is a public health emergency. Additionally, the current economic situation may allow additional counties to continue under a waiver of the work rules. The May Revision includes $4.2 million GF in 2019-20 and $1.1 million GF in 2020-21, which is an increase of $3.1 million GF in FY 2019-20 and no change in 2020-21 from the 2020-21 Governor's Budget.

- Food Distribution Programs and Support – CDSS provides funding for administration or commodity purchases and for food bank infrastructure to support eligible non-governmental organizations combating hunger in California. To mitigate increases in food needs due to federal program changes, the Governor's Budget proposed $20.0 million GF in 2020-21 for Food Bank Support. Due to the COVID-19 crisis, that funding has been provided in 2019-20 through the provisions of Section 36, Chapter 2, Statutes of 2020. The May Revision proposes an additional $50.0 million GF in 2020-21 for these purposes.

- Emergency Food Assistance Program – Additional federal funding has been provided to states through COVID-19 response acts recently passed by Congress. California's allocations are expected to total $102.5 million, of which $25.8 million will be disbursed for administration of food distribution and is reflected in 2019-20. The remaining $76.7 million will be used for food purchases and is reflected in 2020-21.

CHILD WELFARE / FOSTER CARE / ADOPTION ASSISTANCE

The May Revision would eliminate investments recently adopted or proposed, including the following. Note that none of these funding reductions are trigger cuts that would be restored if sufficient additional federal funds are provided; rather these cuts are proposed to be made regardless of federal funding increases.

- Elimination of the Family Urgent Response System (FURS), co-sponsored by CWDA, which would have established a state-level hotline and county mobile response teams to support resource families and foster children/youth. This would result in a cut of $15 million in the current year and $30 million in the budget year. The current-year funding has not yet been provided to counties.
- Elimination of the Foster Family Agency (FFA) 4.15 percent rate increase for social work staff, for a savings of $4.7 million GF. This would result in a $52 per month reduction to the overall per-child FFA rate.
- Elimination of funding for the CWS-Public Health Nurse Pilot Program in Los Angeles County, for a savings of $8.25 million GF.
- Withdrawal of proposed investment in the Child Welfare Training System, for a savings of $5.7 million GF.

The May Revision also proposes other new reductions to the following child welfare items:

- Foster Care Rates – Proposes a 5 percent cut to the rates paid to Short Term Residential Treatment Programs (STRTPs) and elimination of Level of Care (LOC) rates 2-4 for new foster care, AAP and Kin-GAP cases, effective July 1, 2020. The STRTP rate reduction would results in a $13.3 million GF savings and the home-based rate cuts would result in $15.5 million GF savings, for a total savings of $28.8 million. This is one of the trigger cuts that would be restored if sufficient additional federal funds are provided.

- Level of Care (LOC) Protocol – Due to the triggered suspension of the LOC, there is an accompanying $4.8 million GF reduction for county administration.

CCR True-Up

The May Revision provides $2.6 million to reflect the net costs owed to counties for 2016-17 and 2017-18 for implementation of Child and Family Teams. However, there is no funding provided to true-up RFA or FPRRS costs. The Administration indicates that they believe that the RFA and FPRRS requirements existing prior to 2011 Realignment and therefore are not required to be funded as part of the CCR True-Up.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTAL PAYMENT (SSI/SSP)

The May Revision assumes an offset to the SSP grant equal to the federal January 2021 cost of living adjustment to the SSI portion of the grant, which would result in a savings of $33.6 million GF in 2020-21. Overall SSI/SSP grants would not be reduced, but held at the prior year level. This is one of the trigger cuts that would be restored if sufficient additional federal funds are provided.

WAGES AND TAX CREDITS

The May Revision maintains the expanded population served by the Earned Income Tax Credit. The 2019 Budget Act significantly expanded the Earned Income Tax Credit (EITC) beginning in tax year 2019, by more than doubling the existing credit from $400 million to $1 billion. The expanded program extends credits to 1 million additional households, raising the number of households receiving the credit to 3 million. The expanded credit includes a $1,000 credit for every family that otherwise qualifies for the credit and has at least one child under the age of 6.

In addition, the May Revision maintains scheduled increases to the statewide minimum wage, which increase to $14 per hour beginning January 2021.

AUTOMATION

The key automation projects appear to be funded at the levels needed to proceed as expected, based on the information currently available. Funding for the large statewide projects, including CalSAWS, CalWIN, CARES, CMIPS II, and EBT is largely consistent with prior and/or expected levels. In some cases, this includes adjustments for anticipated changes, such as modified contract costs and adjustments to support policy implementation.

The impacts to SAWS premise funding for policy items that are proposed to be eliminated or deferred are still being evaluated but are not anticipated to create any significant budget gaps. The May Revision includes $5.5 million in current year COVID-19 premise funds for the work the SAWS have done to support the federal and state policy changes in response to COVID, however, this funding is coming too late to be included in current year, as the closeout process has already begun. The SAWS will be requesting it be shifted to budget year.

A number of the policies included in the Governor's January budget are now proposed to be delayed or eliminated, including the Health4All – Older Californians Medi-Cal Expansion, the Medicare Part B Disregard, the Aged, Blind, Disabled Expansion up to 138% of the Federal Poverty Level, and the Medi-Cal Provisional Postpartum Care Extension. *DHCS has asked the SAWS to immediately stop all work on these efforts.* It is important to note that, should any of these be restored in the final adopted budget, this work stoppage is likely to make the original implementation dates impossible to achieve.

Additional Resources

A summary of the Governor's proposed 2020-21 May Revision can be found at the following link:

http://www.ebudget.ca.gov/budget/2020-21MR/#/BudgetSummary

This budget update was created by CWDA Staff. Direct questions to the contact at right.

For more information, visit: cwda.org

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