

Analysis: May Revision of California 2020-2021 State Budget

The [May Revision](#) for the California 2020-21 budget is a troubling demonstration of how the COVID-19 crisis has impacted every aspect of our lives, and will continue to do so.

The proposed budget has cuts in virtually every area of state government, including devastating cuts to education, environmental programs, health care, public benefits, In-Home Supportive Services, and wages for state employees. **Only programs directly fighting the pandemic will see budget increases.**

The chart below makes the depth of cuts across programs clear:

General Fund Expenditures by Agency
(Dollars in Millions)

	2019-20	2020-21	Change from 2019-20	
			Dollar Change	Percent Change
Legislative, Judicial, Executive	\$6,848	\$4,144	-\$2,704	-39.5%
Business, Consumer Services & Housing	1,262	291	-971	-76.9%
Transportation	289	239	-50	-17.3%
Natural Resources	3,771	3,547	-224	-5.9%
Environmental Protection	723	42	-681	-94.2%
Health and Human Services	41,920	45,275	3,356	8.0%
Corrections and Rehabilitation	13,444	13,351	-93	-0.7%
K-12 Education	54,578	47,689	-6,889	-12.6%
Higher Education	17,041	15,372	-1,669	-9.8%
Labor and Workforce Development	186	159	-27	-14.5%
Government Operations	2,331	1,329	-1,002	-43.0%
General Government:				
Non-Agency Departments	1,076	911	-165	-15.3%
Tax Relief/Local Government	505	432	-73	-14.5%
Statewide Expenditures	2,523	1,120	-1,403	-55.6%
Total	\$146,497	\$133,901	-\$12,596	-8.6%

Note: Numbers may not add due to rounding.

Source: [CA Dept. of Finance May Revise Budget Summary](#), page 11

In total, the May Revise estimates a two-year budget deficit of \$54.3 billion. This dwarfs the highest budget deficit from the Great Recession of \$28 billion. While the cuts are deep and painful, they would be worse if the state had not saved nearly \$18 billion in reserves over the past decade. This budget proposes to use half of those reserves in the 2020-21 budget, while preserving the remainder of the reserve funds for future years.

Below is a high level summary of how the budget closes the \$54 billion budget deficit.



May Revision Proposes Balanced Solution (dollars in billions)	
Cancelled Expansions & Other Reductions	\$8.4
Reserves	8.8
Borrowing/Transfers/Deferrals	10.4
New Revenues	4.4
Federal Funds	8.3
Triggers	14.0
	\$54.3

Source: CA Dept. of Finance May Revise Budget Summary, page 4

Notably, the budget is balanced with \$14 billion in cuts that will occur if additional federal funds are not received by July 1, 2020. These cuts, called “triggers” in budget parlance will go into effect automatically. They include cuts to CalWORKs, IHSS, Medi-Cal, and SSI. This means attention will be focused on Congress for the next several weeks. **Western Center is working with a broad coalition of groups to advocate with Congressional members to pass the HEROES Act, a recently proposed \$3 trillion federal relief package that includes \$875 billion for state and local governments to fill budget deficits created by the pandemic.**

CalWORKs

There are no grant cuts or eligibility cuts proposed for CalWORKs, but there are major reductions being proposed to county Single Allocation Funding (SAF) to accommodate explosive growth predicted in the program. CalWORKs caseload is expected to rise to 724,000 families just months after reaching an all-time low of approximately 350,000 families in the program earlier in 2020. This rise in caseload is significantly higher than it was for the Great Recession, which peaked at just below 600,000 cases. To absorb the caseload increases, the budget uses \$450 million from the Safety Net Reserve in the 2020-21 budget while retaining an additional \$450 million in reserve for future budget shortfalls.

There is also very bad news for CalWORKs recipients in this budget. It reduces expenditures in CalWORKs by \$850 million by making the following reductions if additional federal relief funding is not approved by Congress:

CalWORKs Employment Services and Child Care

The May Revision assumes CalWORKs Employment Services and Child Care will not be utilized by as many families due to the lack of jobs. These changes would result in a savings of \$665 million General Fund in 2020-21.

CalWORKs Expanded Subsidized Employment

The May Revision reduces all but the base funding for CalWORKs Subsidized Employment. This proposal would result in a savings of \$134.1 million General Fund in 2020-21.

CalWORKs Home Visiting

The May Revision reduces funding for CalWORKs Home Visiting by \$30 million General Fund in 2020-21.



CalWORKs Outcomes and Accountability Review (CalOAR)

The May Revision eliminates funding for CalOAR, but provides counties with the ability to continue implementation. This proposal would result in a savings of \$21 million General Fund in 2020-21.

The impact of these cuts will be a sharp curtailment of CalWORKs welfare-to-work activities. While the budget does not exempt all families with young children, as was done in the Great Recession, it assumes that the high unemployment rate will result in significantly reduced use of child care and employment services. It takes away significant funding from subsidized employment at a time when this program would be very helpful to encourage and support employers to hire CalWORKs recipients as the economy opens back up.

The budget also proposes one cut to CalWORKs not contingent on receipt of additional federal funds. The Governor's January budget proposal to increase the child support pass through to CalWORKs families was withdrawn. This policy change would have allowed families to keep up to \$100 for one child or up to \$200 for two or more children in child support paid rather than keep this payment to pay the state, local and federal governments for the cost of providing basic needs help to low-income families.

While there are some disappointing cuts to the CalWORKs program services and pass through income, the Governor's proposed budget stays the course on gains made to end childhood deep poverty. First, it retains California's grant levels, including the proposed 3.1% increase proposed in January. CalWORKs grants will be at or above the "deep" poverty level for the first time in decades, just when poor families need the money most. Second, the budget makes no changes to CalWORKs eligibility, meaning that if the economy continues to lose jobs, there will be a safety net for families not eligible for unemployment insurance. Third, the budget does not reduce funding or eligibility for homeless and housing programs like Homeless Assistance, the Housing Support Program (HSP), Family Stabilization or CalWORKs diversion (where the Governor recently expanded eligibility via executive order).

These programs will be vitally important in protecting recipients from evictions once the pause on unlawful detainer filings is lifted.

Income and Tax Credits

While the budget makes no reductions to the state Earned Income Tax Credit and proposes an increase in the child poverty tax credit, it fails to end the exclusion for workers with ITINs.

The budget recognizes the role that wages have in reducing poverty and does not suspend the next increase in the minimum wage to \$14 an hour on January 1, 2021.

SSI/SSP Grants

State funding for SSI/SSP grants is proposed to be reduced on January 1, 2021 to the federal minimum of \$156 a month. While that is not good news, because the Legislature has only restored \$4 of the \$77 cut from SSI/SSP grants during the Great Recession, there is now only \$4 a month that can be taken from recipients. **This cut, like the CalWORKs cuts outlined above, will not go into effect if the state receives additional federal funding.**



Equal Access Fund

The budget proposes a reduction of approximately 5% in the Equal Access Fund, or around \$1 million from the \$20 million fund. The one-time \$20 million augmentation to the EAF is not impacted because those funds were already dispersed in the 2019-20 budget. The budget also proposes to use \$31 million from the Mortgage Settlement Fund to fund legal services for persons facing eviction or homelessness. These funds will be administered by the Judicial Council, who will determine who receives the funds and for what purposes.

CalFresh

There are no changes to the CalFresh program. The budget retains funding for both the Supplemental Nutrition Benefit and the Transitional Nutrition Benefit program which were created in 2018 to help households that lost federal SNAP benefits when SSI recipients were made eligible for SNAP. The May Revision also proposes a decrease of \$11.4 million ongoing Proposition 98 General Fund to establish or support food pantries and CalFresh outreach at community college campuses. Instead, it proposes statutory changes to support community college food pantries within available Student Equity and Achievement Program funding.

Child Nutrition Programs

No cuts were made, but the \$70 million in the Governor's January budget proposal to increase access to and quality of food served has been withdrawn. Additionally, the May Revision proposes some of the remaining \$1.6 billion in federal Elementary and Secondary School Emergency Relief funds be given in grants to county offices of education for the purpose of developing networks of community schools and coordinating health, mental health, and social service supports for high-needs students, citing food insecurity as one of the barriers to learning that this funding is intended to address.

Child Support

The May Revision has withdrawn the Governor's January Budget Proposal that would have increased the child support disregard pass-through and would have automatically forgiven uncollectable child support debt owed to the government, resulting in a savings of \$8.4 million General Fund in 2020-21. Absent additional federal COVID-19 general relief funds, the budget would assume the funding levels for local child support agencies at the 2018 funding level, resulting in savings of \$38.2 million General Fund in 2020-21. It would also require savings of \$8.2 million in Department contracts and services.

Criminal Justice Fines and Fees

To address the expected decline in revenue for fines and fees collection, the Governor's May Revision includes an additional \$238.5 million one-time General Fund in 2020-21 and a 2-year total backfill to \$315.5 million General Fund. No action was taken to relieve people who owe fees and fines.

Fees and fines will continue to weigh heavily on the physical, economic, and mental health of those impacted, and will continue to damage credit scores, access to traditional banking, and access to tax credits. What's more, that debt will continue to impact relationships within families, and relationships with employers. Western Center will continue to push our co-sponsored bill, [SB 144](#), to end these devastating fees in California.



The May Revision maintains funding included in the Governor's Budget to expand the ability to pay program statewide.

Health Care

Unfortunately, the May Revision makes deep cuts to the Medi-Cal program at a time when many of California's poor families have not yet rebounded from the last recession. The Medi-Cal budget grows slightly from last budget year to \$112.1 billion (\$23.2 billion General Fund) due to an anticipated increase in caseload of 2 million due to the COVID-19 pandemic, for a total of 14.5 million (an increase of about 2 million absent the COVID-19 pandemic). However, there are significant proposed cuts to eligibility, benefits/services, and provider rates as outlined below:

The May Revision proposes the following Medi-Cal eligibility cuts:

- Withdraws January proposal to expand full-scope Medi-Cal to undocumented elders (Health4AllElders) for a savings of \$87 million General Fund. Maintains Medi-Cal eligibility for undocumented children and young adults (Health4AllKids and Health4AllYoungAdults).
- Does not implement the 2019 Budget Act expansion of Medi-Cal Aged and Disabled Program for individuals with incomes between 123% and 138% of the FPL, for a savings of \$67.7 million General Fund. The 2019 Budget scheduled implementation for January 2020, but was delayed to August 2020, and now proposed to be eliminated.
- Does not implement the Medicare Part B disregard, which would have stopped seniors and people with disabilities from losing access to free Medi-Cal because of a confusing Medi-Cal rule that creates fluctuations in income calculations, even when a person's actual income has not changed.
- Does not implement the 2019 Budget Act to extend Medi-Cal eligibility from 60 days to one year for post-partum women diagnosed with a mental health disorder, for a savings of \$34.3 million General Fund in 2020-21.
- Reverts one-time \$30 million General Fund funding for enrollment navigator funding that was approved in the 2019 Budget.

On the Medi-Cal benefits/services side, the May Revision proposes trigger cuts (absent additional federal funds) to:

- Reduce adult dental benefits to the partial restoration levels of 2014. Partial dentures, gum treatment, and rear root canals will be cut for adults.
- Eliminate audiology, incontinence creams and washes, speech therapy, optician/optical lab, podiatry, and optometry, all of which were restored earlier this year. It also proposes to eliminate acupuncture (which was restored July 2017), nurse anesthetist services, occupational and physical therapy, pharmacist-delivered services, screening, brief intervention and referral to treatment for opioids and other illicit drugs, all of which were newly approved in the 2019 budget.
- Repeal 2016 Budget Act that limited estate recovery to federal requirement to long term services for individuals who pass away after January 1, 2017. Estate recovery is asset seizure of the home and savings of poor individuals who have received health care coverage through Medi-Cal and are 55 or older or permanently institutionalized. This has acted as an enrollment barrier.



- Eliminate diabetes prevention program services.
- Eliminate the Community-Based Adult Services (CBAS) program, effective January 2021, for a General Fund savings of \$106.8 million in 2020-21 and \$255.8 million in 2021-22. Eliminate the Multipurpose Senior Services Program (MSSP) effective no sooner than July 2020.

Note: The May Revision includes an additional \$386.7 million in General Fund costs in 2019-2020 and \$284.5 million in 2020-2021 for COVID-19 response for changes including:

- The COVID-19 presumptive eligibility program for the uninsured and underinsured who are ineligible for Medi-Cal.
- Hospital Presumptive Eligibility Expansion (HPE) for people over age 65 and for additional time periods.
- Waiving Shares of Cost for COVID-19 testing and treatment.
- Emergency Paid Sick Leave for IHHS and other providers.
- Testing, Diagnosis, and Treatment of COVID-19 for people who are Medi-Cal eligible and incarcerated.
- A number of provider rate increases.

On the Medi-Cal provider side, the May Revision proposes to:

- Eliminate supplemental provider rates for physicians, dentists, family health services and developmental screenings, non-emergency medical transportation, value-based payments, and amounts not yet spent on the physician and dental loan repayment programs funded by Prop 56, absent additional federal funds. These funds will be redirected toward caseload growth.
- Eliminate Prospective Payment System (PPS) carve-outs for FQHCs and Rural Health Clinics for Medi-Cal services including pharmacy, dental and other services with the exception of Specialty Mental Health and Drug Medi-Cal Services, for \$50 million General Fund savings.
- Reduce rates to Medi-Cal plans resulting in \$452.6 million General Fund savings, including a retroactive rate reduction going back to July 2019.
- A 4-month, 10% rate increase to Skilled Nursing Facilities to support COVID-19 response.

Other Medi-Cal proposals:

- Delay implementation of the CalAIM initiative, resulting in a decrease of \$347.5 million General Fund in 2020-21.
- Withdraw proposal to provide payments to non-hospital clinics for 340B pharmacy services for a savings of \$26.3 million General Fund in 2020-21, but continue planned implementation of Medi-Cal Rx for January 2020.
- Remove \$45.1 million General Fund in 2020-21 in associated funding for the Behavioral Health Quality Improvement Program.
- Revert one-time \$20 million General Fund for behavioral health counselors in emergency departments that was approved in 2019 Budget.
- Revert one-time \$5 million General Fund for the Medical Interpreters Pilot Project that was approved in the 2019 Budget.
- Adjustment of \$5.1 billion General Fund savings due to enhanced Federal Medical Assistance Percentage (FMAP) rate through June 30, 2021 and \$1.7 billion saving from federally approved Managed Care Organization tax in April.



- Shift \$50 million from the County Medical Services Program (CMSP) reserves in each of the next four fiscal years to offset CalWORKs costs, but maintains realignment annual allocation.

The May Revise proposes the following changes to other health programs:

- Covered California – keeps the additional state-based subsidies for households below 138% FPL and between 200-600% FPL. Because the take-up rate has been lower than anticipated, there are savings of \$164.2 million for 2019-2020 and \$90.3 million for 2020-2021, and \$15 million in increased individual mandate penalty revenues in 2020-2021.
- Hearing Aids – the \$5 million General Fund proposal to help cover the cost of hearing aids not covered by insurance for children in households up to 600% FPL is withdrawn.
- Medi-Cal's Health Insurance Premium (HIPP) program in which Medi-Cal pays the premiums for eligible enrollees' private insurance for \$.7 million General Fund savings will be eliminated.

Renters and Homeowners

The Governor's revised budget proposal includes a recognition of the devastating impact of the COVID-19 pandemic on the state's finances as well as its disproportionate impact on low-income Californians, including with respect to housing. The revised budget summary highlights actions that have been taken to provide temporary, emergency relief from evictions during the pandemic, but recognizes that increased support for both homeowners and renters will be critical to our recovery. At the same time, the Governor's May Revise recognizes the economic reality we face after COVID-19, and makes reductions to multiple sources of funding for housing production.

The budget allocates \$331 million in funds from the National Mortgage Settlement by providing \$300 million for housing counseling and mortgage assistance to homeowners, and \$31 million for grants to legal aid programs to assist struggling renters, which we estimate will enable these programs to provide eviction prevention services to up to 7,000-10,000 renters. While we are heartened to see this recognition of the need for renter assistance, as well as the critical role of California's legal services programs in any disaster recovery effort, we are disappointed that the budget does not account for the scale of increased need for legal services for California's 17 million renters. Legal assistance is most successful when paired with financial assistance and substantive legal protections against inappropriate eviction; Western Center echoes the Governor's call for federal funding for struggling renters.

Housing Stability and Housing Supply

Importantly, the Governor's May Revise outlines principles with respect to housing which we support, and are critical to recovering from the current crisis while advancing the goals of equity and inclusion. The proposal acknowledges the great need for increased stabilization and protection of tenants, and the related need to preserve and maintain existing affordable housing resources. At the same time, the proposal meets the current crisis and is informed by lessons learned from the foreclosure crisis by outlining the need to acquire properties and use public resources to ensure every Californian has a place to call home.

The Governor's proposal stands for the principle that we cannot allow distressed properties to be acquired en-masse by entities which will utilize them as speculative investments, but rather must ensure



community acquisition and control to advance our goals and put such properties to work solving our housing crisis.

With respect to housing production, we are heartened to see the Governor's proposal maintain \$500 million in funding for state tax credits for affordable housing construction. This program is critical for producing the units we need that can serve those hit hardest by our housing crisis. The Governor's revised proposal also maintains various bonds and other funding streams for affordable housing production: approx. \$277 million affordable housing funding from real estate transaction fees, approx. \$452 million in cap and trade auction proceeds, and \$4 billion in Prop. 1 bonds for affordable and veterans' housing production.

The May Revise also recognizes available federal funding for affordable housing and necessary infrastructure to support it: \$1.1 billion in CDBG funds for infrastructure and disaster relief stemming from the 2017-18 wildfires, and an additional \$532 million in funding from the CARES Act for housing and homelessness. While the precise breakdown of proposed uses of this funding is not included in the Governor's proposal, the proposal states these funds will be used to support ongoing efforts to address homelessness and to secure low- and moderate-income housing.

Recognizing the state's dramatically reduced revenue projections, the Governor's proposal also cuts several existing sources of funding for affordable housing that have not been dedicated to specific projects. The proposal includes \$250 million in cuts to mixed-income development funds over the next three years, \$200 million in cuts to the infill infrastructure grant program, and \$115 million in cuts to various unnamed sources. Overall, we are pleased to see the level of funding for affordable housing in the Governor's proposal, given the economic reality our state is facing.

Homelessness

The May Revise reiterates the critical need to shield our unhoused residents from the COVID-19 pandemic, and the need to continue advancing solutions to reduce homelessness overall, while recognizing the reality of the state's financial outlook. The May Revise proposes to maintain the \$750 million level of funding contained in the previous budget proposal, but anticipates these funds to come from federal sources, and proposes to use this funding to acquire properties currently being used as temporary housing under Project Roomkey, to be operated by local governments or nonprofits. To date, the state has acquired approximately 15,000 units through this program, approximately half of which have been successfully occupied.

Additionally, the May Revise proposes to send \$450 million in CARES Act funding to cities that did not get a direct allocation of CARES funds to reduce homelessness, \$1.3 billion to counties for the same purpose, as well as a commitment to seek additional federal funds for various homelessness programs, including rapid rehousing, rental subsidies, and temporary/interim housing.