



## **Analysis of Governor Gavin Newsom's 2021-2022 California Budget Proposal**

Governor Newsom has released his [proposed 2021-22 state budget](#). Due to a strong, unanticipated influx of General Fund revenue, Newsom proposes to spend billions of dollars on a one-time basis to address the immediate needs of tenants, landlords, businesses, schools and others in the midst of the pandemic. The budget follows the outlines of the [2020-21 budget](#) agreement, which largely avoided the draconian cuts to education, health and public benefit programs that characterized many past budgets during economic downturns. This proposed budget, while not austere, is conservative both in terms of its long term economic outlook and ambition to meet existing needs of millions of Californians.

Though the budget avoids deep cuts and proposes immediate action to bolster spending, the Governor assumes slower growth in revenue in future years, resulting in significant deficits beginning in 2022-23, which could result in lower spending in the future. In short, the 2022-23 state budget and beyond will either require deep cuts or substantial new revenues to maintain current spending levels.

### **BACKGROUND**

The 2020-21 budget assumed that there would be a substantial loss of state General Funds due to the economic crisis brought on by the COVID-19 pandemic. The budget was passed using half of the Prop 2 Budget Stabilization reserves (aka Rainy Day Fund) and by assuming that the state would receive \$14 billion from the federal government in the form of COVID relief by September 2020. Without that funding, the "trigger" mechanism would institute \$14 billion in budget cuts.

Despite the fact that federal COVID relief did not arrive in September as projected, budget cuts have not been implemented. In late December, the federal government approved additional COVID relief, but much-needed funding for state and local governments was not included. The state did receive billions to address some COVID related costs, and to fund transportation, education and rental assistance. But in general, those funds cannot be used to fill holes in state budgets.

Fortunately, the deep recession did not result in the massive loss of state General Fund revenue that was predicted. Throughout the second half of 2020, state revenue coffers exceeded estimates by billions of dollars. This counterintuitive outcome reflects the growing impact of income inequality in California, where despite double digit unemployment, tax receipts continue to climb because the incomes of the wealthy are growing -- most of the lost jobs were in low wage employment. Additionally, many of those who lost jobs received unemployment insurance that was supplemented by the federal CARES Act. Higher income workers largely did not suffer job losses, and many online enterprises saw substantial increases in profits leading to higher tax payments to the state.

Additionally, anticipated higher caseloads for health and human service programs did not materialize, resulting in lower state spending in the 2020-21 budget. By late November, the non-partisan Legislative Analyst Office [projected a \\$26 billion surplus](#) for the state. The Governor's budget, however, is cautious, and pegs the surplus at \$15 billion. But starting with the 2022-23 budget, the Governor projects that



revenue will be more than \$6 billion short of estimated expenses, and by the 2024-25 budget, the deficit could grow to \$11 billion if no adjustments to spending or revenue are made.

### **COVID-19**

The Governor is calling for “early action” by the Legislature on a package of assistance to respond to the COVID crisis. Among the items in the package are:

- \$600 checks to all households receiving the state earned income tax credit. This would provide cash to approximately 4 million Californians.
- \$575 million to small businesses and non-profits impacted by the COVID crisis.
- \$2 billion in Prop 98 funds to safely re-open public schools starting with classes for the youngest children.
- \$1.2 billion to help Californians with low incomes acquire green vehicles.

While this spending is welcome, it does not come close to meeting the needs of struggling Californians. Increased cash payments to the poorest Californians are needed now and should not be limited to those who have earnings from work. More state assistance is needed to ensure tenants are not saddled with debt that will decimate their credit and drive them further into poverty. The greatest public health crisis in memory is the time to provide health care for all.

### **FINANCIAL SECURITY**

#### *CalWORKs*

The budget proposes a 1.5% increase in CalWORKs grants to begin October 1, 2021. The increase will bring the grant for a family of three to 49% of the federal poverty level or a maximum grant of \$891 a month. This is similar to a proposed increase from last year’s budget that was dropped when the pandemic started. This funding is provided from the Child Poverty subaccount.

Overall spending on CalWORKs is declining to account for lower than anticipated caseload. The 2020-21 budget assumed the caseload would rise by more than 200,000 families. However, the increase was far more modest, resulting in an increase of about 50,000 cases. Thus, funding for the 2020-21 budget is proposed to be clawed back. Funding for 2021-22 is \$600 million lower than the current year but a caseload increase to 480,000 families is funded in the budget.

- Total TANF (Temporary Assistance for Needy Families) funding: \$9.3 billion. This amount includes \$7.4 billion for CalWORKs program expenditures and 1.9 billion in other programs.
- Average monthly caseload for CalWORKs is to be 482,436 2021 – 22, this is a 19% increase from last year.
- CalWORKs Time on Aid Exemption – \$46.1 million one-time General Fund (TANF) block grant funding to temporarily suspend any month in which CalWORKs aid or services are received from counting towards the CalWORKs 48th month time based on a good cause exemption due to the COVID-19 pandemic.



- CalWorks Grant Increase – 1.5% increase to CalWORKs maximum aid payment levels effective October 1, 2021. \$50.1 million in 2021 – 22. The increased grants costs are funded entirely by the Child Poverty and Family Supplemental Support Subaccounts of the Local Revenue Fund.

### *SSI/SSP*

There is no SSP grant adjustment in the Governor’s budget. The budget describes the passing through of federal COLAs that are required under current federal law, but that is not an increase. Indeed, state spending for SSI is proposed to decline again, by an estimated \$20 million. Yet again, as in past years, these “savings” are not re-invested into the program to benefit recipients who still have not had grant cuts restored from the last recession. The ongoing failure to address these cuts is unreasonable and unjust.

- \$2.69 billion General Fund, a 0.6% decrease from last year’s budget.
  - Monthly average case load is expected to be 1.18 million recipients this fiscal year, a 1.1% decrease.

### *\$2.4 Billion in Earned Income Tax Credit Assistance*

The Governor is proposing a one-time \$600 increase in state Earned Income Tax Credit (CalEITC) payments to families that receive CalEITC. With so many people in California struggling, and with many working families losing jobs or income from work, putting cash in people’s pockets is good for people experiencing poverty and good for the state economy. The Legislature may wish to consider increasing the size of the payments or providing more cash assistance to the lowest income families.

The Governor’s proposal will benefit more than four million California families, but it leaves out several million California households who do not have earnings from work. This includes CalWORKs families, virtually all SSI recipients, immigrants with neither SSNs or ITINs, people on General Assistance and many others who are unemployed. The Legislature should consider ways to provide assistance to all low income families and individuals.

### *Food Security*

- \$30 million in one-time General Funding for emergency food assistance to food banks, tribes, and tribal organizations.
- Supplemental Nutrition Benefit and Transitional Nutrition Benefit Programs Adjustment - \$22.3 million ongoing General Fund.
- California Food Assistance Program - \$11.4 million in one-time General Funding for households to receive max allowable allotment based on household size.
- \$10 million one-time General Funding to the Office of Farm to Fork’s Farm to School Program. Brings healthy food to schools and supports agriculture education, including school gardening, farms and cooking.

### *Higher Education*

- \$100 million in Prop 98 funds to address food and housing insecurity for community college students.
- Increase of \$15 million ongoing General Fund to the CSU Graduation Initiative 2025 that targets students experiencing food and housing insecurity.



- \$35 million ongoing from the General Fund for Cal Grants which will add 9,000 students to the Cal Grant awards, bringing the total to 50,000 awards.

#### *Child Support*

- \$24.9 million (\$8.5 million General Fund) ongoing for local child support agencies to improve collections and services
- \$23.8 million (\$8.1 million General Fund) for local child support courts and state operations for child support funding.

#### *Miscellaneous*

The proposal includes \$35 million one-time General Fund to support micro-grants of up to \$10,000 seed funding. These grants are for underserved groups, including undocumented immigrants, to start small businesses.

### **ACCESS TO JUSTICE/ FINES & FEES**

#### *Online Traffic Court Adjudication Pilot*

The Governor is proposing again to expand the traffic court online adjudication pilot program statewide. This pilot allows people to pay traffic tickets online rather than make an appearance in court. People with low incomes are given a minimum reduction of 50% of the fines, fees and assessments due to the court. It also allows them to get on a payment plan not to exceed \$25 a month.

The proposal allots \$12.3 million General Fund, increasing the total to \$58.4 million ongoing General Fund by 2024-25, to expand the program statewide, and to include non-traffic infractions.

The Legislature chose not to move forward with the proposal last year and instead used the funding provided for the pilot to reduce criminal fees. Advocates also expressed concern about the design of the pilot and were seeking changes that would expand discounts to people with low incomes.

### **HEALTH CARE**

The Governor's proposal takes a baseline approach to health care with no major expansions, including no proposal to expand Medi-Cal to undocumented elders or eliminate the harmful [Medi-Cal assets test](#). The proposal resumes the California Advancing and Innovating Medi-Cal initiative (CalAIM), which was put on hold due to the pandemic; expands Continuous Glucose Monitoring systems; extends suspension of Medi-Cal benefits and supplemental provider rates for 12 months; proposes one-time funding for behavioral health services, particularly for school-aged children; and takes further steps to implement the Master Plan on Aging.

#### *Medi-Cal*

- The Governor's proposal assumes a 10.1% Medi-Cal case rate from 2019-20 to 2020-21 and 11.7% from 2020-21 to 2021-22, starting with nearly 14 million Californians and increasing to 15.6 million (peaking at 16.1 million in January 2022), representing nearly 40% of California's population in 2021-22. The administration bases this estimate on continuous coverage



requirements under federal law and a pandemic-induced recession, although enrollment numbers have not borne out these projections.

- The proposal includes \$12 million (\$4.2 million General Fund) to add Continuous Glucose Monitoring systems as a Medi-Cal benefit for beneficiaries ages 21 and older with diabetes, effective January 1, 2022.
- The proposal implements the CalAIM initiative effective January 1, 2022, including \$1.1 billion (\$531.9 million General Fund) for FY 2021-22, growing to \$1.5 billion (\$755.5 million General Fund) in FY 2022-23. This investment follows the proposal that was put on hold last year.
- The proposal includes \$750 million General Fund, available over three years, for DHCS to invest in critical gaps across the community-based behavioral health continuum, including the addition of at least 5,000 beds, units, or rooms. Funding would be made available to counties, requiring local funding match, via a competitive application process.
- The proposal includes \$400 million (\$200 million General Fund) one-time over multiple years to implement an incentive program through Medi-Cal managed care plans, in coordination with county behavioral health departments and schools, to build infrastructure, partnerships, and capacity statewide to increase the number of students receiving preventive and early intervention behavioral health services.
- The Governor's proposal extends the suspension of Medi-Cal benefits, eligibility, and provider rates by 12 months. Specifically:
  - Optional benefits restored in 2019 Budget, specifically audiology and speech therapy services, incontinence cream and washes, eyeglasses and contacts, and podiatric services, have been extended by 12 months to 12/31/2022 for a cost of \$47 million (\$15.6 million General Fund).
  - The proposal delays the suspension of Medi-Cal post-partum extended eligibility by 12 months to 12/31/2022 for a cost of \$27.1 million General Fund.
  - Supplemental provider payments are also extended by 12 months to 6/30/2022 for a cost of \$3.2 billion (\$275.3 million General Fund, \$717.8 million Prop 56 funds, and \$2.2 billion in federal funds).
    - Payments to intermediate care facilities for the developmentally disabled, freestanding pediatric subacute facilities, and Community Based Adult Services proposed to be extended to 12/31/2022 to align with managed care calendar rate year. The 7% IHSS hour cuts has also been proposed to be suspended to 12/31/2022.
    - Supplemental payment for Women's Health, Family Planning, the Loan Repayment program, behavioral health integration program, AIDS waiver, home health, and pediatric day health no longer subject to suspension.
- The proposal reflects last year's announcement to postpone the carve-out of prescription drugs through Medi-Cal Rx to April 2021. Under revised estimates, Medi-Cal Rx is projected to result in less net savings of \$612 million (\$238.1 million General Fund) in FY 2021-22.
- The proposal makes permanent the restoration of adult over-the-counter cough/cold and acetaminophen drug benefits for savings of \$21 million (\$7.8 million General Fund) effective July 2021, although the waiver provided temporary reinstatement earlier as of March 2020.



- The proposal includes \$94.8 million (\$34 million General Fund) to make permanent and extend telehealth flexibilities, including implementing remote patient monitoring services as an allowable telehealth modality in fee-for-service (FFS) and managed care delivery systems.
- The proposal states the administration's intention to focus on health disparities and cultural and language competency through health plan contractual language.

#### *Other Health Proposals*

- The proposal includes \$11.2 million in 2020-21 and \$24.5 million in 2022-23 to establish the Office of Health Care Affordability, which is charged with increasing cost and quality transparency, developing cost targets for the health care industry, enforcing compliance, and filling gaps in market oversight. The Office will be under the newly created Department of Health Care Affordability and Infrastructure, which will also house the current Office of Statewide Health Planning and Development.
- The proposal provides \$25 million in one-time Mental Health Services Act (MHSA) funds over five years, for the oversight and accountability commission to augment the mental health student services act partnership grant; \$25M ongoing Prop 98 General Fund to fund partnerships and county behavioral health departments to support student mental health.
- The proposal provides \$750M in one-time General Funding for competitive grants to counties to acquire and rehabilitate real estate assets to expand the community continuum of behavioral health treatment resources.
- The proposal establishes a new Office of Medicare Innovation and Integration that will explore strategies and models to strengthen and expand low and middle income Californians access to services and supports, while developing new partnerships with federal government.
- The administration will appoint a senior advisor on Aging, Disability, and Alzheimer's to advance cross-Cabinet initiatives and partnerships; \$5 million General Fund to further implement Master Plan on Aging; \$3 million one-time General Fund for OSHPD to grow and diversify geriatric medicine workforce.
- In response to the pandemic, the proposal includes \$300 million as an initial estimate for vaccine distribution, including a public awareness campaign.

## **HOUSING**

The Governor's budget proposal includes important investments to address California's existing housing crisis at a time when the COVID-19 pandemic is making the crisis worse for low-wage workers and communities of color. The proposal builds on recent efforts to provide stability to at-risk households and invest in programs that will aid economic recovery, and increase the supply and production of very low, low, and moderate income housing. In total, the Governor proposes more than \$8 billion in housing resources.

#### *Preventing Evictions and Foreclosures*

Last August, the Legislature enacted AB 3088 to create strong statewide eviction protections for tenants unable to pay rent due to hardship caused by COVID-19. The bill extended rental protections to January 31<sup>st</sup>, 2021 to forestall an incoming wave of evictions. The administration is seeking an immediate extension of AB 3088 beyond January 31, 2021 to allow the state to use federal resources to assist those



with arrears, rent, and utilities so families and individuals with low incomes stay housed. The budget includes \$11.7 million one-time General Funds for trial courts to process the anticipated increase in unlawful detainer and small claims filings resulting from AB 3088.

The Governor is relying on the federal COVID-19 relief bill that was enacted in late December, which will allocate \$2.6 billion in rental relief funds to California. Rental assistance will be dispersed between the state and local governments with an estimated \$1.4 billion going to the state and \$1.2 billion to local jurisdictions with populations over 200,000. The federal program includes eligibility parameters related to eligible use of funds as well as income parameters, with the primary focus of the rental assistance to support individuals and households with less than 80% Area Median Income (AMI), with a priority for individuals and households with less than 50% AMI.

#### *National Mortgage Settlement Program*

In the 2020-2021 budget, the California Housing Finance Authority allocated \$331 million in National Mortgage Settlement funds to prevent foreclosures and evictions. Last year, the Judicial Council provided \$31 million of those funds to local legal service organizations, with the California Housing Finance Authority (CalHFA) recently providing the remaining amount to 90 certified housing counselors throughout California. CalHFA plans to continue to provide mortgage assistance in 2021-22.

#### *Anti-Discrimination*

The Budget proposes \$2 million General Fund dollars for the Department of Fair Employment and Housing to prosecute violations of anti-housing discrimination laws and to conduct surveys and education and outreach campaigns.

#### *Low-Income Housing Tax Credits*

The budget proposes a third round of \$500 million in tax credits to reduce funding gaps in affordable housing units. These tax credits will be administered by the California Debt Limit Allocation Committee, the Tax Credit Allocation Committee, and the California Business Consumer Services and Housing Agency.

#### *Excess State Land Development*

The Governor is proposing statutory changes to allow market-rate and commercial development on excess state land.

#### *Construction Apprenticeships*

In an effort to align housing development with workforce development, the budget proposes \$8.5 million General Fund to expend access to state-approved construction apprenticeships and pre-apprenticeships that will result in approximately 650 jobs.

#### *Infill Infrastructure Grant Program*

\$500 million in General Fund dollars is included to create jobs and increase long-term housing development to further a more equitable housing supply in a post-COVID-19 housing market. This includes \$250 million in the current fiscal year and \$250 million in fiscal year 2021-22.



*Expanded Facilities to Support Housing*

To further the goal of ending homelessness in California, the Governor's budget includes \$250 million for the acquisition and/or rehabilitation of Adult Residential Facilities (ARF) and Residential Care Facilities for the Elderly (RCFE). These funds will support physical upgrades and capital improvements.

*Project Homekey*

To accelerate the work on providing permanent housing for people experiencing homelessness and stop the spread of COVID-19 among this vulnerable population, the Governor is allocating \$750 million to extend the program. \$250 million is allotted for the current year (2020-21), and \$500 million for fiscal year 2021-22. This will be administered by the Department of Housing and Community Development.