



# UPDATE ON THE CALIFORNIA STATE BUDGET

Business and Economic Development Highlights

# BUDGET FRAMEWORK

- CA Constitution requires the Legislature to pass a budget by June 15 and the Governor to sign a balanced budget by July 1 of each year.
- In January, there was projected to be a budget surplus, but the impact of the COVID-19 pandemic resulted in the state having the potential of a \$54 billion shortfall.
- The Legislature passed a budget on June 15.
- There were foundational disagreements between the approaches taken by the Governor and the Legislature.
- Areas of disagreement included how to address potential federal funding, cuts to health services to seniors, cuts to state employee salaries, and the drawdown of financial reserves.
- On June 22, 2020, a deal between the Legislature and the Governor was announced.
- The Legislature sent the revised \$202.1 billion (\$133.9 billion General Fund) budget package to the Governor on June 26, 2020.

# COMPROMISE HIGHLIGHTS (SLIDE 1)

- The Governor's plan as outlined in the May revision budget proposed \$1.4 billion in cuts with the potential for a backfill should the federal government approve additional state funds by July 1. Legislative leaders proposed fewer cuts and delayed the delivery of the federal funds to the fall.
- The compromise reflects the cuts in the approved budget and specifies that those reductions will be rescinded if federal funds are provided by October 15, 2020.
  - The cuts include \$602 million from higher education, \$150 million from the courts and \$2.9 billion from state employee salaries.
  - The next slide provides a more comprehensive list.
- The compromise rejects the Governor's May revision budget proposal to reduce certain health and social services, which the Legislature credits with keeping low-income Californians out of nursing homes.
  - The final agreement does not reduce hours for in-home health aides, cut meal programs for seniors, defund dental care for Medi-Cal patients, or eliminate health programs that serve more than 47,000 low-income, medically fragile seniors and disabled people.

# COMPROMISE HIGHLIGHTS (SLIDE 2)

- The compromise calls for reducing state employee compensation overall by 10% (\$1.44 billion in General Fund total savings). The exact details will be worked out with each union.
  - The California Correctional Peace Officers Association, the state's prison guard union, agreed to a 4.5% pay cut.
  - SEIU Local 1000, the largest state worker union, has agreed to a 9.2% pay cut. The wage reduction agreement is partially offset by suspending worker payments to their retirement health care.
  - In both cases, reductions are achieved by delaying salary increases scheduled for July 1 for two years. Workers will also receive paid time off as part of the deal.
- In negotiating how to include mutual priorities with the limited spending plan, the Governor and the Legislature agreed to retain the \$65 million expansion in the Earned Income Tax Credit for low-income undocumented workers with a child under the age of 6, and to defer the \$64 million expansion of the Medi-Cal health insurance program to cover undocumented seniors over age 65.

# ADDITIONAL APPROPRIATIONS IF THE STATE RECEIVES \$14 BILLION OF FLEXIBLE FEDERAL FUNDING BY OCTOBER 15, 2020

- \$5.8 billion reduction in payment deferrals to K-12 schools.
- \$791 million reduction in payment deferrals to community colleges.
- \$500 million restoration for the California State University budget.
- \$472 million restoration for the University of California budget.
- \$250 million addition to the budget's \$750 million General Fund "backfill" to offset counties' recent loss of realignment sales tax funding.
- \$203 million restoration of the infill infrastructure grant program at the HCD.
- \$88 million restoration for the Golden State Teacher Grant Program at the Student Aid Commission.
- \$46 million restoration to child support administration funding.
- \$45 million restoration for moderate-income housing production funding.

# SMALL BUSINESS PROVISIONS

\*Economic Stimulus proposals were not included in the June budget package. These proposals will be addressed in August when 2020-2021 tax revenue data is available.

- Approves \$50 million for use by the Small Business Finance Center at the IBank. The Governor previously transferred \$50 million from the State Disaster Fund to the Small Business Finance Center for financial assistance to small businesses impacted by the coronavirus pandemic.
- Approves the third year of a five-year commitment to provide \$20 million annually to GO-Biz for the Small Business Technical Assistance Expansion Program (\$17 million) and Capital Infusion Program (\$3 million).
- Waives the \$800 minimum franchise tax for small and medium-size businesses during their first year of business creation.
- Retains and expands eligibility under the California Earned Income Tax Credit to individuals who file taxes through independent identifier numbers with small children.

# NEW AUTHORITY FOR THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBANK)

- Rejects the \$250 million proposal to fund the Climate Catalyst Revolving Loan Fund and, instead, establishes a Climate Catalyst Revolving Loan Program at the IBank.
  - Funding will be provided through non-state governmental entities and private sources.
  - The Strategic Growth Council will advise the Legislature on categories to fund, and a report on the projects funded will be annually presented to the Legislature.
- Appropriates \$25 million for the IBank to expand underserved small business lending in the state by establishing funds to support California Community Development Financial Institutions and mission-based lender liquidity.
- Authorizes the IBank to establish one or more programs administered by the bank directly, in conjunction with financial companies or financial institutions, in direct or indirect participation with special purpose entities established for small business finance or under contract with small business financial development corporations.

# EDUCATION PROPOSALS

- Appropriates the Proposition 98 General Fund minimum guarantee (\$70.5 billion) for the K-12.
- Appropriates \$300 million to support the K-12 career tech programs, including \$150 million to the California Career Technical Education Incentive Grant Program and \$150 million to the Strong Workforce Program.
- Reduces funding for Calbright Community College by \$5 million ongoing and \$40 million one-time. These funds are redirected to other community college programs.
- Appropriates \$5.8 million to support Dreamer Resource Liaisons and student support services through the community colleges, including services related to career pathways and economic mobility for immigrant students.
- Rejects the May Revision Budget proposal for 10% cuts to all child care programs.



# TAX PROVISIONS

- Suspends the Net Operating Loss (NOL) tax provision for tax years 2020, 2021, and 2022.
  - Applies the suspension to both corporate and personal income taxes, pursuant to this budget.
  - Extends the carryover period for up to three years, as specified, for any net operating loss for which a deduction is denied pursuant to this budget.
  - Excludes taxpayers with business income under \$1 million from the NOL suspension.
- Limits the application of business tax credits to offset tax liability to \$5 million in each of the following tax years: 2020, 2021, and 2022.
  - Extends the carryover period for up to three years, as specified, for any net operating loss for which a deduction is denied pursuant to this budget.
  - Excludes Low-Income Housing Tax Credit from this calculation.
- Requires a licensed car dealer, other than new vehicle dealer, to collect and remit to the DMV the applicable sales tax at the same time as the dealer submits the vehicle registration fee.

# ADDITIONAL BUSINESS BUDGET ACTIONS

- Authorizes the state to access the Federal-State Extended Benefit program using the Total Unemployment Rate, which would potentially provide up to 20 weeks of total Unemployment Insurance extended benefits to unemployed workers, funded 100% by the federal government.
- Makes statutory changes necessary for the California Public Utilities Commission to provide matching funds, administered through the California Advanced Services Fund, to help California broadband providers pursue funding through the federal Rural Digital Opportunity Fund.
- Appropriates \$10 million to fund the Social Entrepreneurs for Economic Development initiative, administered by the California Workforce Development Board to assist economically disadvantaged groups who face significant barriers to employment, including, but not limited to, individuals with limited English proficiency.

# DEFERS ACTION ON SOME PROPOSALS

- Defers action on economic recovery proposals until after July 15, the new state income tax deadline.
- Defers action without prejudice on the expansion of consumer financial protection activities under a new Department of Consumer Financial Protection and Innovation.
- Defers action without prejudice on creating the Department of Better Jobs and Higher Wages.
- Defers action on the \$965 million Cap and Trade Expenditure plan proposed in the January budget.
- Defers action without prejudice on resources to levy an additional, nicotine-based tax of \$1 per 20mg of nicotine on e-cigarettes effective January 1, 2021.
- Defers without prejudice on a proposal to collect additional information from taxpayers in order to establish the valuation of vehicles subject to private party sale. This language would require the DMV to calculate use tax for private party sales as the greater of the vehicle's sale price or the vehicle's standard presumptive value.

# THIS SUMMARY WAS PREPARED BY

The Assembly Committee on Jobs, Economic Development, and the Economy.

The committee is chaired by Assemblymember Sabrina Cervantes.

Toni Symonds, Chief Consultant

[Toni.Symonds@asm.ca.gov](mailto:Toni.Symonds@asm.ca.gov)