TOWNSEND
PUBLIC AFFAIRS
EST TPA 1998

MEMORANDUM

To: **City of Beaumont**

From: Townsend Public Affairs

Date: May 15, 2020

Subject: Legislative Report for the City of Beaumont

State Legislative Update

The May Revise represents a dramatic change from the Governor's January Budget, as it reflects the impact that the coronavirus pandemic has had on the State's economy, as well as the increased demand for many services that the State offers. The full impact of the pandemic has led to a projected budget deficit of $54 billion, with an out-year structural deficit of approximately $45 billion per year. This deficit has materialized in the last three months, as the State has seen a 22.3% reduction in state revenues generated from sales tax, personal income tax, and corporate taxes. In response, Governor Newsom has proposed a budget that addresses the short fall through a mix of budget cuts, revenue generating measures, internal borrowing, accessing of state reserves, and increased resources from the federal government.

Big Picture

The May Revise budget proposal contains $133.9 billion in General Fund spending. This represents a reduction in General Fund spending of $12.5 billion, or a 9.4% decrease, from the current budget year. The budget proposal addresses the projected $54.3 billion budget deficit by utilizing the following strategies:

- Cancelled Expansions and Other Reductions ($8.4 billion): The May Revise cancels $6.1 billion in program expansions and spending increases by canceling/reducing a number of one-time spending items that were included in the 2019 state budget. The May Revise also redirects $2.4 billion in extraordinary payments to CalPERS to temporarily offset the State's CalPERS obligations in 2020-21 and 2021-22.
- Reserves ($8.8 billion): The May Revises proposes to draw down the State's Rainy Day Fund over the next three years, including $7.8 billion from the Rainy Day Fund, $524 million from the Public School System Stabilization Account, and $450 million from the Safety Net Reserve in FY 2020-21.
- Borrowing/Transfers/Deferrals ($10.4 billion): The May Revise includes $4.1 billion in borrowing and transfers from special funds, as well as additional funding deferrals that will free up $6.3 billion in funding for use in FY 2020-21.

- New Revenues ($4.4 billion): The May Revise proposes to generate $4.4 billion in new revenue by temporarily suspending net operating losses and temporarily limits the amount of tax credits that a taxpayer can use to $5 million in any given tax year.
- Federal Funds ($8.3 billion): The May Revise reflects an $8.3 billion General Fund savings by utilizing funds that have been provided by the Federal Government, in response to the coronavirus, in lieu of General Fund dollars for qualifying expenditures.
- Triggered Spending Reductions ($14.0 billion): The May Revise contains $14 billion in reductions to base programs and employee compensation, which will be triggered if the State does not receive additional funding from a federal Phase 4 stimulus bill.

While acknowledging that the State needs to deal with the massive budget deficit, as a result of the coronavirus, the Governor indicated that the May Revise still works to protect the Core Values of Public Education, Public Health, Public Safety, and supporting those facing the greatest hardships.

Below are some key items contained within the Governor's May Revise. Additional information on proposals within the May Revise, and modifications to the January Budget Proposal, can be found in the attached May Revise Summary prepared by the Department of Finance.

COVID-19 Response

The May Revise incorporates significant funding in the current year, as well as in the upcoming budget year, for response to the coronavirus. The May Revise contains $1.8 billion in funding for the current year to reflect activities that have been undertaken, which will largely be funded with funding received from the federal government, including costs which are anticipated to be reimbursed by FEMA.

In the 2020-21 fiscal year, the May Revises proposes:

- $450 million to cities from the Coronavirus Relief Fund for eligible homeless and public safety activities (cities with populations above 300,000 will receive direct allocations and all other cities will be provided funding through their counties).
- $1.3 billion to counties from the Coronavirus Relief Fund for public health, behavioral health, and other health and human services
- The remaining Coronavirus Relief Fund dollar will be utilized for state offsets of costs for vulnerable populations and public health and safety activities ($3.78 billion); and K-12 learning loss mitigation ($4 billion).
- Maintain the Governor's proposal to waive the $800 minimum franchise tax for the first year of business creation.
- An additional $50 million (for $100M total) to the IBank's Small Business Loan Guarantee Program.

Housing, Homelessness and Local Government

The May Revise contains a number of proposals intended to create new housing, as well as to protect renters and homeowners.

- $500 million in low-income housing state tax credits
- $300 million in National Mortgage Settlement Funds for housing counseling and mortgage assistance.

- $31 million in National Mortgage Settlement Funds to provide grants to legal aid services organizations.

The May Revise contains several proposals aimed at reducing homelessness in California, including:

- $750 million in federal funding to be used for the purchase of hotels and motels secured through Project Roomkey. These properties would be operated by local governments or non-profit providers.

Education

Due to the reduced level of revenue coming in to the State, the May Revise estimates that the Proposition 98 guarantee will decline by $19 billion over what was projected in January. The May Revises proposes to mitigate these losses through a mix of solutions, including revenue generation (which will increase the overall amount of Proposition 98 funding), the use of federal funds, and revising CalPERS/CalSTRS contributions.

Additionally, the May Revise proposes to accelerate the recovery of the Proposition 98 funding level by providing a supplemental appropriation, above the required Prop 98 funding level, equal to 1.5% of General Fund revenue, up to a cumulative $13 billion.

In order to account for the loss in funding, the May Revise proposes several reductions, including:

- 10% reduction ($6.5 billion) in the Local Control Funding Formula. This reduction will be triggered off if the federal government provides sufficient funding to backfill this cut.
- The withdrawing of a number of education related proposals that were included in the Governor's January Budget (15 proposals totaling over $1.8 billion).
- The suspension of the 2.31% COLA for eligible programs
- A $300 million decrease for the construction of new, or retrofitting of existing, facilities for full-day kindergarten.

Other

The May Revise provides significant funding for the Office of Emergency Services to enhance the State's emergency preparedness and response capabilities. Specifically:

- $50 million for Community Power Resiliency to help support critical services that are vulnerable during power outage events, including schools, county elections offices, and food storage reserves. This funding will support a matching grant program to help local governments prepare for, and respond to, the impacts of power outages.
- An additional $38.2 million for the California Disaster Assistance Act (for $100.8 million total) which is used to repair, restore, or replace property damaged or destroyed by a disaster or to reimburse local governments for eligible costs associated with emergency activities.
- $2 million for the Wildfire Forecast and Threat Intelligence Integration Center to enhance the State's emergency response capabilities.

Stage 2 Local Variance

Governor Newsom announced that his Administration has been working closely with several counties on their plans to move further into Stage 2. As of today, ten counties have filed their Attestation Forms and supporting documentation with the State, thereby allowing them to advance further in modifying their Stay-At-Home orders. Those counties are: Amador, Butte, Colusa, El Dorado, Glenn, Lassen, Nevada, Placer, Plumas, San Benito, Shasta, Sierra, Tuolumne, and Yuba-Sutter.

The Governor indicated that his Administration has conducted consultations regarding local variances with 31 counties.

Senate Budget Hearings

State Senate Democrats' COVID-related Budget Proposals: Today a group of Democratic Senators, led by Pro Tem Toni Atkins and Senate Budget Committee Chair Holly Mitchell, unveiled two proposals that they will aim to incorporate into the State Budget to assist with the economic impacts from the COVID-19 pandemic. The two proposals deal with renter/landlord stabilization and an Economic Recovery Fund.

- **Renter/Landlord Stabilization:** This proposal would create a program to enable a three-party agreement to resolve unpaid rents over a limited time period. The agreements would be among renters, landlords and the State. The program would complement any rental assistance provided by the federal government.
    - Under the program, a renter would receive immediate relief for unpaid rent, as well as be protected from eviction.
    - A renter would commit to repaying past rents, without interest, to the State over a ten-year period beginning in 2024. The program would allow for hardship cases which could lead to full repayment forgiveness.
    - Landlords would provide immediate rent relief and commit note to evict their tenant.
    - Landlords would receive tax credits from the state equal to the value of the lost rents, spread equally over the years 2024-2033. The tax credits would be transferable, so landlords could sell them for immediate cash value.

- **Economic Recovery Fund:** This proposal would create a $25 billion Economic Recovery Fund, over two years, to fund a variety of activities, including: small business/non-profit/worker assistance, worker retraining, infrastructure project acceleration, residential and small business rental assistance, health and safety net gap fixes, green economy investments, homelessness assistance, wildfire prevention response, school funding, higher education protections, and local government relief.
    - The funding for the Economic Recovery Fund would be generated through the establishment of a voluntary program to incentivize the pre-payment of income taxes for the 2024 to 2033 tax years.
    - Participating taxpayers would acquire the California Recovery Tax Vouchers for those tax years at a modestly reduced amount to reflect inflation and to incentivize participation. The tax vouchers would be full transferable so taxpayers could sell them to third parties for a cash benefit at any time.
    - The State anticipates that this would cost the State approximately $3 billion per year over the affected tax years.