Budget Approach & Economic Recovery

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California is strong and will meet this challenge.

Top Guiding Principles:

- **Be Responsible**: Look beyond just the budget year, and pass a budget package that is balanced in 2020-21 and also projected to be balanced in 2021-22.

- **Don’t Become Part of the Problem**: Aim to avoid major ongoing program cuts and middle-class tax increases to cause additional economic harm.
Keeping Budget Balanced:

• Decade of responsible budgeting has California better prepared for an economic downturn.

• A mix of reserves, other traditional tools, and federal support approach nearly $100 billion of solutions to manage our budget challenge.
Keeping Budget Balanced:

<table>
<thead>
<tr>
<th>Potential Available Solutions for 2020-21 and 2021-22</th>
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<tbody>
<tr>
<td>(in billions)</td>
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<tr>
<td><strong>Traditional Solutions</strong></td>
</tr>
<tr>
<td>Reserves</td>
</tr>
<tr>
<td>Spending Reductions*/Fund Shifts/Internal Loans/Deferrals</td>
</tr>
<tr>
<td><strong>subtotal</strong></td>
</tr>
<tr>
<td><strong>Federal Support Solutions</strong></td>
</tr>
<tr>
<td>Increased Federal share of Medi-Cal costs</td>
</tr>
<tr>
<td>CARES Act (to cover expenditure increases due to COVID-19)</td>
</tr>
<tr>
<td>Federal Cost Recovery</td>
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<tr>
<td><em>Pending</em> Federal Support 4.0 ($33-$66 billion**)</td>
</tr>
<tr>
<td><strong>subtotal</strong></td>
</tr>
<tr>
<td><strong>Total Solutions</strong></td>
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*excludes major ongoing programmatic reductions

**Range based on state/local 55%/45% split of California’s share Governors Association and CA Leader proposals**
Two Proposals:

• Renter/Landlord Stabilization

• $25 Billion Economic Recovery Fund
Renter/Landlord Stabilization:

- Create Program that enables three-party agreement to resolve unpaid rents over a limited time period.

- Agreements will be among Renters, Landlords, and the State of California.

- Program will complement any rental assistance provided by federal government.
Renter/Landlord Stabilization:

• Renter:
  • Receives immediate rent relief for unpaid rent.
  • Receives protection from eviction.
  • Provides commitment to repay past rents, without interest, to the state over 10-year period, beginning in 2024.
    • Repayment based solely on ability to pay.
    • Hardship cases can lead to full forgiveness.
Renter/Landlord Stabilization:

- Landlord:
  - Provides rent relief and commitment not to evict.
  - Receives tax credits from the state equal to the value of the lost rents, spread equally over tax years 2024-2033.
    - Tax credits fully transferable, so landlords could sell for immediate cash value.
Renter/Landlord Stabilization:

- **State:**
  - Provides Tax Credits to Landlords equal to the amount of unpaid rents.
  - Receives reimbursement from renters, minus hardship exemptions, over 10-year period from 2024-2033.
$25 Billion Economic Recovery Fund

• Fill fund up to $25 billion over two years.

• Purpose of the new fund includes, but not limited to, these topics:

  ✓ Small business, nonprofit, and worker assistance.
  ✓ Worker retraining.
  ✓ Infrastructure project acceleration.
  ✓ Residential and small business rental assistance.
  ✓ Health and safety net gap patches.
  ✓ Green Economy investments.
  ✓ Multi-year commitment to homelessness crisis.
  ✓ Wildfire prevention response.
  ✓ School funding students most harmed by school closures.
  ✓ Higher Education protections.
  ✓ Local Government relief.
$25 Billion Economic Recovery Fund

• How $25 billion is generated:

  • The state establishes voluntary program to incentivize pre-payment of approximately $3 billion of income taxes per year for tax years 2024 to 2033.

  • Participating taxpayers acquire the California Recovery Tax Vouchers for those years at a modestly reduced amount to reflect inflation and to incentivize participation.

  • California Recovery Tax Vouchers will be fully transferable so taxpayers can sell to third parties to get cash benefit at any time.
$25 Billion Economic Recovery Fund

• Tradeoffs:
  • California gets up to $25 billion over two years.
  • But loses around $3 billion per year over 2024-2033.
  • However, by stabilizing economy, baseline revenues will be higher, to offset costs in 2024-2033.
  • Ultimately, this has effect of:
    • Enabling taxpayers to invest in California to help Californians struggling during this crisis.
    • Accelerating resources from better times ahead to today’s downturn, when revenues are more critically needed.