



Budget Approach & Economic Recovery

Senator Toni G. Atkins
President pro Tempore

Senator Holly J. Mitchell
*Chair, Committee on
Budget and Fiscal Review*

Senator Steven Bradford
&
Senator Robert M. Hertzberg
*Co-Chairs, Caucus Working Group
on Economic Recovery*





Budget Approach



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.



Budget Approach



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.



Budget Approach



Keeping Budget Balanced:

Potential Available Solutions for 2020-21 and 2021-22 (in billions)	
Traditional Solutions	
Reserves	\$16.2
Spending Reductions*/Fund Shifts/ Internal Loans/Deferrals	\$25.0
<i>subtotal</i>	\$41.2
Federal Support Solutions	
Increased Federal share of Medi-Cal costs	\$5.8
CARES Act (to cover expenditure increases due to COVID-19)	\$9.5
Federal Cost Recovery	\$5.3
<i>Pending Federal Support 4.0 (\$33-\$66 billion**)</i>	\$33.0
<i>subtotal</i>	\$53.6
Total Solutions	\$94.8

*excludes major ongoing programmatic reductions
**Range based on state/local 55%/45% split of California's share Governors Association and CA Leader proposals



Working Group on Economic Recovery



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.

