



City of Long Beach
Working Together to Serve

Memorandum

Date: May 27, 2020

To: Mayor and Members of the City Council

From: Thomas B. Modica, City Manager *T.M.*

Subject: **State Budget: Governor's FY 21 May Revision**

Governor Newsom released the May Revision to the FY 21 State Budget on May 14, 2020. Within months of the Governor releasing his January budget proposal, the COVID-19 pandemic radically altered the State's economic condition. Due to the public health and economic impacts of COVID-19, the State is now expecting its first deficit in eight years, estimated at \$54.3 billion. While the May Revision prioritizes public education, public health, public safety, and vulnerable populations hit hardest by COVID-19, there are significant cuts resulting from revenue losses and unbudgeted emergency expenditures.

This memorandum provides details about the May Revision and its impacts to the City of Long Beach (City). Attached is an additional State Budget summary provided by the City's State representative, Arc Strategies.

Solving the Budget Problem

At the beginning of the year, the California economy was strong, and unemployment was at historic lows around 3.9 percent. The Governor's January budget proposal forecasted a \$5.6 billion surplus, reserves at \$21 billion, and a Rainy Day Fund of \$18 billion. The budget assumed \$156.9 billion in General Fund revenues and expenditures totaling \$153.1 billion. Moreover, revenues through March came in \$1.4 billion above January forecasts.

The May Revision stands in stark contrast to these earlier projections. Since March 4, when the Governor declared a state of emergency, the COVID-19 pandemic has transformed California's economic landscape, and the State is now in a deep recession.¹ As businesses have suspended operations due to the public health crisis, statewide unemployment has skyrocketed to roughly 18 percent. More than 4.4 million people have filed unemployment insurance claims within a two-month period, far outpacing unemployment during the Great Recession.

These unprecedented job losses and business closures have led to severe declines in revenue, and the May Revision anticipates \$41.2 billion in revenue losses compared to the Governor's January proposal. Emergency expenditures related to the COVID-19

¹ "The 2020-21 Budget: California's Spring Fiscal Outlook," Legislative Analyst's Office, May 8, 2020: <https://lao.ca.gov/Publications/Report/4228>.

public health response are estimated at \$6 billion, with an additional \$7.1 billion in increases to health and human services programs statewide. Taken together, revenue losses and expenditures contribute to a projected \$54.3 billion deficit in the May Revision.²

California, like all states, is facing a momentous budget problem, and the Governor proposes a multi-year recovery plan to balance the budget:

- *Reserves*: \$16.2 billion in Rainy Day Fund over three years, including \$7.8 billion in FY 21; \$900 million in Safety Net Reserves over the next two years for health and human services programs; and \$524 million in Proposition 98 funds to pay down the deficit and support the K-14 education system this fiscal year.
- *Federal Support*: \$8.3 billion from the federal CARES Act toward education, public health efforts, and local governments.
- *Spending Cuts*: \$6.1 billion in spending and programmatic cuts of one-time expenditures.
- *Special Funds*: \$4.1 billion from special funds to pay down the deficit.
- *Operating Cost Reductions*: \$4.5 billion from net operating cost reductions and short-term limitations.
- *Triggered Cuts*: \$14 billion in conditional cuts that would only be triggered if the federal government does not provide additional relief.

State Budget Items

Local Government Funding

The State received a direct allocation of \$9.5 billion through the federal CARES Act Coronavirus Relief Fund. The Governor's May Revision proposes to allocate \$450 million of these funds to cities that did not already receive direct funds from the federal government. As the seventh-largest city in California, Long Beach, along with six other cities with populations of more than 300,000, will receive a direct allocation from the State, while the remaining smaller cities will receive funds distributed through counties. These funds must be expended within the calendar year, in accordance with federal guidelines and the State's stay-at-home orders. Funds cannot be used to backfill revenue loss; however, these resources will be critical as the City continues to manage the public health crisis, provide economic relief for the community, and supplement services to people experiencing homelessness during COVID-19.

² "Fiscal Update," Department of Finance, May 7, 2020:
http://www.dof.ca.gov/Budget/Historical_Budget_Publications/2020-21/documents/DOF_FISCAL_UPDATE-MAY-7TH.pdf.

Affordable Housing and Homelessness

The State's housing and homelessness crisis remains at the forefront of the Governor's agenda, and the May Revision leverages existing capital for these programs, since the budget does not have capacity for enhancement.

Program Improvement

The Governor touted the necessity of increased governmental efficiency that extends to housing procedures to stimulate housing production. One recommendation to the budget revision is a dual tax credit application between the Tax Credit Allocation Committee and California Debt Limit Allocation Committee. The Department of Housing and Community Development has been advised to align program award schedules for expedited funding allocations.

Project Roomkey

Project Roomkey is a statewide program to provide isolation and quarantine space for people experiencing homelessness in leased hotel and motel rooms. The program is currently supported by the Federal Emergency Management Agency (FEMA) until May 31, 2020, and the State plans to extend in 30-day increments, as needed. The Governor's May Revision proposes using \$750 million in federal CARES Act funds to acquire hotels and motels that are currently being used as temporary shelter for individuals experiencing homelessness. Project Roomkey sites would be owned and operated by local governments or non-profit organizations, and the State would support these projects by providing technical and financial resources.

The State is expecting an additional \$532 million in federal aid for housing and homeless programs. This funding is proposed to continue the State's housing production progress through the COVID-19 recovery. The federal aid will backfill some of the proposed \$565 million housing program and grant fund cuts over the next one to three years.

Education

COVID-19 has placed a tremendous strain on public education systems statewide. Since early March, schools have closed and transitioned to distance learning models, and the State Legislature provided \$100 million in emergency funding to educational agencies to help facilitate this transition. Yet, these significant changes have been especially challenging for low-income families, students experiencing the digital divide, and students with disabilities.

K-12 Education

The May Revision includes almost \$99.7 billion in total funding for all K-12 education programs, down from \$103.4 billion in FY 20. Due to the outsized impact of COVID-19 on revenue losses statewide, the May Revision anticipates an overall \$19 billion decrease

in Proposition 98 funding compared to FY 20; a 10 percent reduction to the Local Control Funding Formula, totaling \$6.5 billion, compared to the proposed January budget; and more than \$350 million in K-12 categorical reductions.

Despite these reductions, the May Revision maintains the January budget proposal to increase special education base rates through \$645 million in Proposition 98 funds, and it leverages \$4.4 billion in one-time federal relief funds to help mitigate the challenges of school closures and potential learning loss during COVID-19.

Early Education

Early childhood education faces similar challenges due to COVID-19. From the outset, the State provided 30 days of payments to schools that closed or reduced attendance, expanded eligibility for subsidized care, and established additional childcare programs for essential workers. The federal CARES Act also distributed more than \$350 million to California for childcare providers and resources, such as emergency vouchers, cleaning supplies, and fee reductions. The May Revision also includes \$53.3 million in federal Child Care and Development Block Grant funds to offer 5,600 subsidized childcare slots.

However, without additional federal support, the May Revision would eliminate 10,000 preschool slots that were scheduled to begin April 1, 2020, decrease the standard reimbursement rate for childcare providers by 10 percent, and propose almost \$250 million in other cuts to the State preschool program. It would further reduce CalWORKS childcare resources by almost \$400 million. Further, the January proposal to create a standalone Department of Early Childhood Development is no longer in the budget.

Higher Education and Community Colleges

The federal CARES Act allocated \$1.36 billion across California higher education institutions. CSU Long Beach is expected to receive \$41 million and Long Beach City College \$14.6 million, to provide emergency grants to students and respond to COVID-19. The May Revision also sustains support for two years of free community college and \$10 million in ongoing Proposition 98 funds to support immigrant legal services. The budget, however, reflects a 10 percent reduction in General Fund support across the UC (\$338 million) and CSU (\$398 million), triggered if the federal government does not provide more relief.

Healthcare

The COVID-19 pandemic is, first and foremost, a public health crisis, and the State anticipates a total of about \$6 billion in expenses directly related to the health emergency. Further, case work for Medi-Cal and other health and human services programs are expected to increase expenditures by more than \$7 billion. In March, the State Legislature appropriated up to \$1 billion for the COVID-19 pandemic.

Public Health

In response to the need to monitor and contain the COVID-19 virus, the Governor's revised budget includes \$5.9 million for the coming year and \$4.8 million ongoing to support laboratory testing statewide. The proposal also maintains \$5 million for infectious disease programs administered at the local level for sexually transmitted diseases, HIV, and Hepatitis C. However, the Governor's January plan to increase \$4.5 million for the Black Infant Health program, which the City participates in, has been eliminated.

Medi-Cal

The May Revision anticipates Medi-Cal cases to peak at 14.5 million by July 2020, with Medi-Cal expenditures of \$99.5 billion in 2019-20 and \$112.1 billion in 2020-21. Given this increase, the May Revision rolls back a number of proposed expansions to Medi-Cal coverage, such as reductions of \$54.7 million to certain optional Medi-Cal benefits and \$1.2 billion of Proposition 56 funding for supplemental payments to Medi-Cal providers. And while the Governor's January budget proposed expanded Medi-Cal eligibility to undocumented seniors, additional income ranges, and post-partum individuals diagnosed with a mental health condition, the May Revision eliminates these proposals for a savings of \$189 million.

Emergency Preparedness, Response, and Recovery

The May Revision includes the \$1.8 billion General Funds the State has expended for COVID-19 direct emergency response and \$716 million General Funds dedicated to ongoing measures. COVID-19 response efforts include personal protective equipment and medical supplies, statewide testing, and protection for vulnerable populations, such as the City's temporary shelter sites at Martin Luther King Jr. Park and Silverado Park. Additionally, FEMA reimbursement requires 25 percent matching funds, which is included in the totals.

Aside from COVID-19, the May Revision prioritizes other emergency response and preparedness activities. California is preparing for an unprecedented wildfire season after a record dry winter. The May Revision enhances the California Office of Emergency Services, totaling \$127 million. An additional \$21.5 million is included from the January proposal, increasing the California Disaster Assistance Act Fund to \$100.8 million, compared to \$91.4 million in FY 20. The California Earthquake Early Warning Program maintains an allocation of \$17.3 million from the January proposal, with a recommendation to use the School Land Bank Fund as the revenue source instead of the General Fund.

Encouraging Recovery

The May Revision includes several proposals to develop new sources of revenue. The proposed electronic cigarette tax the Governor introduced in January, pending Legislative approval, remains in the FY 21 budget, as it would raise an estimated \$33 million annually.

Changes to business operations including suspending net operational losses for three years and limiting business tax credits to \$5 million will procure \$4.5 billion General Fund revenues and \$1.8 billion for Proposition 98.

Cap and Trade Program

The May Revision maintains the \$965 million Cap-and-Trade expenditure plan outlined in the Governor's January proposal. However, the Cap-and-Trade auction to support infill development could result in less proceeds in connection to the statewide decrease of Green House Gas emissions since the State's emergency declaration. Conversely, a quarter annual "pay-as-you-go" mechanism is proposed to prioritize funding for the Community Air Protection Program (Chapter 136, Statutes of 2017), Forest Health and Fire Prevention (Chapter 391, Statues of 2019), and Safe and Affordable Drinking Water programs.

Next Steps

While the long-term impacts of the COVID-19 pandemic on the State budget are still unclear, the Legislature must adopt the FY 21 State budget by June 15. The City will continue to advocate with State leadership to ensure the direct allocations to the City remain in the adopted budget, and we will further support additional federal relief legislation. If you have any questions, please contact Tyler Bonanno-Curley, Manager of Government Affairs, at (562) 570-5715 or Tyler.Curley@longbeach.gov.

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ATTACHMENT A – ARC STRATEGIES STATE BUDGET SUMMARY

CC: CHARLES PARKIN, CITY ATTORNEY
LAURA L. DOUD, CITY AUDITOR
REBECCA GUZMAN GARNER, ACTING ASSISTANT CITY MANAGER
KEVIN JACKSON, DEPUTY CITY MANAGER
TERESA CHANDLER, INTERIM DEPUTY CITY MANAGER
ALL DEPARTMENT DIRECTORS
AJAY KOLLURI, ACTING ADMINISTRATIVE DEPUTY TO THE CITY MANAGER
MONIQUE DE LA GARZA, CITY CLERK



1121 L Street, STE 408 Sacramento, CA 95814 | www.lawpolicy.com | 916.341.0808 | 916.341-0849 (fax)

May 19, 2020

To: Tyler Curley & Julia Katz
Fr: Amy Brown, Max Perry & Colin Hawley
Re: State Budget Summary

The COVID-19 pandemic has caused a global economic crisis which has had an enormous fiscal impact on California. The virus caused business closures and job losses, resulting in millions of Californians seeking unemployment and other assistance. Not only have traditional revenue sources plummeted, necessary efforts to contain the virus and to address its effects have increased costs for state and local governments across the country.

Even with the State's structurally balanced budget and record reserves, the effects of the COVID-19 recession on the state budget are massive. Substantial federal assistance is essential to safeguard core government functions, as well as to support a safe, quick economic recovery.

The May Revision is guided by the principle of prudent fiscal management to: protect public health, public safety and public education; provide assistance to small businesses and Californians most hurt by the pandemic; and to invest in a safe and quick economic recovery. It proposes to strategically use federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funds to support schools, public health and local governments. It is anchored in a commitment to preserving core services and supporting Californians facing the greatest hardships.

To that end, the State anticipates a \$54 billion deficit for FY 2020-21, which could increase in the coming months. The Legislature must pass a budget by the constitutional deadline of June 15th and have it signed by the Governor by June 30th. Unlike previous years, the State Legislature and Governor's office anticipate potential revisions in August due to the rapidly changing fiscal climate we are experiencing on a month-to-month basis.

Over the next month, the Senate and Assembly will conduct hearings, propose changes, and ultimately adopt a balanced budget on time. In order to balance the budget, the Governor has proposed numerous cuts to state workers, education, healthcare, and more. Virtually every function of state government will be reduced. Through cancelled expansions, deferrals, federal funding, and tapping into our state reserves, the proposed budget is a balanced one that must be passed by the Legislature by June 15th.

In addition to the highlighted changes below, various other programs have been reduced or withdrawn. The entire budget summary can be found here - <http://www.ebudget.ca.gov/2020-21/pdf/Revised/BudgetSummary/FullBudgetSummary.pdf>.

SAVING LIVES & EMERGENCY RESPONSE

The May Revision reflects **\$1.8 billion** net General Fund expenditures for the State's direct emergency response efforts for the COVID-19 pandemic. A significant portion of this funding will provide the 25-percent cost share required to leverage FEMA funding.

So far, the state has supported the following activities:

- Personal Protective Equipment and Other Critical Medical Supplies
- Hospital Surge Preparation
- Hotels for Healthcare Workers and Support Staff
- Supporting the State's Vulnerable Populations
- State Response Operations and Other Support Services
- Reopening the State

The May Revision also includes \$716 million net General Fund as a set-aside contingency for additional response activities in the budget year.

CORONAVIRUS RELIEF FUND

The CARES Act allocated Coronavirus Relief Funds (CRF) to state and local governments for expenditures incurred between March 1 and December 30, 2020 in response to COVID-19, not previously accounted for in the most recent state and local budgets. These funds cannot be used to backfill lost revenues or to serve as the State match for drawing down other federal funds (such as FEMA reimbursements).

Based on the State's population, California received a total of \$15.3 billion with \$9.5 billion paid to the State. Cities and counties with populations over 500,000 received \$5.8 billion directly from the U.S. Treasury. The funding allocated to five large cities was deducted from the county share.

The May Revision allocates a portion of the state's \$9.5 billion CARES Act funding to local governments to further support their COVID-19 efforts—**\$450 million to cities for homelessness and public safety** and \$1.3 billion to counties for public health, behavioral health, and other health and human services.

HOUSING & LOCAL GOVERNMENT

The Administration's broad goals to reduce homelessness have not changed but given the State's current fiscal constraints, the strategy to achieve those goals has evolved through proposed legislation, the Governor's executive orders and the May Revise proposal.

PROJECT ROOMKEY

Project Roomkey is a multi-agency State effort to provide safe isolation motel rooms for vulnerable individuals experiencing homelessness. This occupancy program is currently supported by the Federal Emergency Management Agency (FEMA) through May 31, 2020. The State will request 30-day extensions as necessary.

Early in the COVID-19 pandemic, **\$100 million** was allocated to local governments and Continuums of Care to help reduce the spread of COVID-19 among Californians experiencing homelessness using the existing HHAP allocation formulas. This funding was provided to implement social distancing and increased sanitation at shelters and to support Project Roomkey. In addition, **\$50 million** was provided to the Department of Social Services to secure hotel and motel rooms and acquire trailers to safely house homeless populations most at risk due to COVID-19.

As of mid-May, Project Roomkey and its county partners have secured over 15,000 hotel and motel units, of which more than 7,200 are occupied. They also purchased and disbursed 1,305 trailers to local governments for the same purpose. Local governments are paying only for the occupied motel rooms, and these expenditures will leverage federal reimbursements through FEMA.

These units are providing short-term emergency shelter for homeless individuals to mitigate the spread of COVID-19 among this vulnerable population and maintain hospital and emergency room capacity in the event of a surge of critically ill COVID-19 patients.

LEVERAGING FEDERAL FUNDS TO CREATE A PERMANENT SOLUTION

The State is not in a fiscal position to expand programs given the drastic budget impacts of the COVID-19 recession. Instead of utilizing the General Fund, the May Revision proposes **\$750 million** in federal funding and directs the use of these funds to purchase hotels and motels secured through Project Roomkey, to be owned and operated by local governments or non-profit providers. The State will also use these funds to provide significant technical assistance to local jurisdictions or other parties seeking to purchase and operate former Project Roomkey hotels and motels to address homelessness in their localities. The State has worked with local governments to include purchase options where feasible. These purchases are necessary to protect public health and stop the spread of COVID-19 in the homeless population. These efforts also help to maintain hospital and emergency room capacity in the event of a surge of critically-ill COVID-19 patients.

In addition to Project Roomkey, the State will continue to work with local governments and service providers to maximize federal funding to provide safe interim housing options, rapid rehousing opportunities and rental subsidies for individuals and families experiencing homelessness.

The May Revision includes:

- Homeless Coordinating and Financing Council Administrative Resources—
\$1.5 million General Fund ongoing and 10 permanent Homeless Coordinating and Financing Council positions to effectively carry out statutory mandates and strengthen its strategic coordination of the State's efforts to address homelessness.

LOCAL GOVERNMENT

The CARES Act provides a direct allocation of **\$9.5 billion** to California and \$5.8 billion to cities and counties with populations over 500,000 (includes 15 counties, 5 cities, and the city and county of San Francisco). CARES Act funding provides relief to states and local governments for expenditures incurred between March 1 and December 30, 2020, in response to the COVID-19 pandemic. According to federal guidance, this funding must be used for expenditures incurred for COVID-19 related activities before December 30, 2020, and cannot be used to backfill lost revenues.

The May Revision allocates a portion of the State's CARES Act funding to local governments—**\$450 million to cities** and \$1.3 billion to counties—to be used toward homelessness, public health, public safety, and other services to combat the COVID-19 pandemic.

- Cities—Six California cities received a direct CARES Act allocation as a result of their size—for a total of \$1.5 billion direct from the federal government. The May Revision supplements this by providing **\$450 million to all cities that did not receive a direct allocation. Of these recipients, cities with populations above 300,000 will receive a direct State allocation while all other cities will be provided funding through their counties.** Recipient jurisdictions must spend these funds consistent

with federal law and are advised to prioritize these dollars to supplement existing efforts by counties and Continuums of Care to address the impacts of COVID-19 on people experiencing homelessness, including but not limited to outreach and hygiene efforts, shelter and housing supports, public safety, and rental subsidies.

- Counties—The state is allocating \$1.3 billion of its CARES Act funding directly to counties based on population size to address the public health, behavioral health, and other health and human services needs that have arisen as a result of the COVID-19 pandemic.

Funding is contingent on adherence to federal guidance and the State's stay-at-home orders and will be released upon jurisdictions' certification of both.

ENCOURAGING RECOVERY

MINIMUM FRANCHISE TAX

The May Revision maintains the Governor's budget proposal to waive the \$800 minimum franchise tax for the first year of business creation. This proposal supports new business creation and innovation by eliminating a costly barrier to entry.

SMALL BUSINESS LOAN GUARANTEES

The California Infrastructure and Economic Development Bank's (IBank) Small Business Finance Center manages California's small business loan guarantees, disaster loan guarantees, and direct lending programs. The Small Business Loan Guarantee Program provides financial assistance and access to capital needed to small businesses. It works to leverage private lending to reduce the cost of capital for small businesses.

The May Revision proposes to increase funding for this program by \$50 million, for a total increase of \$100 million, to fill gaps in available federal assistance and grow California's program. This increase will be leveraged to access existing private lending capacity and philanthropic funding to increase the funds available and provide necessary capital to restart California's small businesses.

STATE SUPPORT FOR RENTERS AND HOMEOWNERS

The Governor took a series of actions to pause evictions statewide and to compel financial institutions to halt foreclosure proceedings. The Judicial Branch also temporarily halted default and eviction proceedings. These efforts have provided immediate relief for Californians.

The May Revision proposes to expend \$331 million in National Mortgage Settlement funds for housing counseling, mortgage assistance and renter legal aid services as follows: the California Housing Financing Agency will administer \$300 million for housing counseling and mortgage assistance, and the remaining \$31 million to the Judicial Council to provide grants to legal aid services organizations.

There are several bills that have been amended to include protections of commercial businesses and residential renters for non-payment and evictions. We are monitoring those closely and continue to report updates to City staff.

PUBLIC SAFETY

The Newsom Administration, through the May Revision, is also proposing significant assistance and changes in the Public Safety sector to address the effects of the COVID-19 pandemic.

Under the May Revise, The California Department of Corrections and Rehabilitation (CDCR) is directed to close two adult institutions – one beginning in 2021-22 and the second beginning in 2022-23. The Budget also asks the CDCR to pursue changes to good conduct credits through a regulatory process.

Parole caps are altered in the May Revise. The budget proposes to cap supervision for most parolees at 24 months, establish earned discharge for non-Penal Code section 290 registrants at 12 months, and establish earned discharge at 18 months for certain Penal Code section 290 registrants. This proposal is expected to result in estimated savings of \$23.2 million in 2020-21, increasing to \$76 million ongoing in 2023-24.

The management of juveniles in California will change under the May Revise. Local jurisdictions will be responsible for the undertakings of the Division of Juvenile Justice in this budget. Originally, the Governor intended to move DJJ to Health and Human Services Agency, but now plans on transferring responsibility for managing all youthful offenders to local jurisdictions. As such, the state will stop intake of new juvenile offenders effective January 1, 2021.

Prop 47 funds have decreased in the May Revise. The Department of Finance currently estimates net savings of \$102.9 million in the General Fund for Proposition 47 when comparing 2019-20 to 2013-14, a decrease of \$19.6 million from the Governor's Budget estimate for 2019-20. These funds will be allocated according to the formula outlined in the initiative.

The May Revise proposes to allocate POST funding for distance learning. On top of funding from the State Penalty Fund, POST is being allocated \$10 million from the General Fund for a Distance Learning Grant Program, which includes \$5 million to develop and deliver remote training. POST was able to assist the state by reverting \$16.5 million in unspent funds back to the General Fund. Overall, POST is comfortable with the funding they have been provided.

Victim Services receives assistance under the May Revise. The budget proposes \$23.5 million in a one-time General Fund allocation to backfill declining fine and fee revenues in the Restitution Fund, allowing the Victim Compensation Board to continue operating at its current resource level. The California Violence Intervention and Prevention (CalVIP) grant program will also receive an ongoing \$9 million allocation from the General Fund to continue operations through the BSCC.

The May Revise delays cannabis enforcement consolidation. The Governor's original budget set forth a plan to consolidate state enforcement into a single Department of Cannabis Control – that proposal has now been deferred to 2021-22. Grants provided for under Prop 64 are still available to local law enforcement, although the total funding has been reduced to \$59.4 million.

The Judicial Branch will receive assistance. The May Revise includes \$4.3 billion in 2020-21 for the Judiciary. \$1 billion of this total is allocated for trial court operations. In an effort to help the trial courts address its backlog of cases and resume normal operations, the May Revision includes \$50 million one-time in 2020-21.

STATE PENSION CONTRIBUTIONS

The State faces unfunded pension obligations of \$167 billion, which will continue to increase in the foreseeable future as the state's retirement systems absorb the impact of the current recession. While the State has made great strides in paying down those liabilities to ensure the long-term security of the State's retirement benefits, the current budget problem requires a judicious approach.

Proposals necessary to balance the state budget include:

- CalPERS State Annual Pension Contribution Payment Offset—Chapter 33, Statutes of 2019 (SB 90) authorized a **\$3 billion General Fund supplemental pension payment** toward the California Public Employees' Retirement System (CalPERS) State plans' unfunded liabilities with the goal of maximizing the State's savings over the next three decades. Of the \$3 billion, \$2.5 billion was paid to CalPERS in 2019. CalPERS applied approximately \$100 million of the \$2.5 billion to produce savings in the 2019-20 employer contributions. The May Revision proposes to redirect the remaining \$2.4 billion over the next two years to pay the State's obligations that will produce more immediate savings to the State and results in a reduction in the State's retirement contribution.
- Redirect Remaining \$500 million General Fund Supplemental Pension Payment—The May Revision proposes statutory changes to eliminate the remaining \$500 million General Fund supplemental pension payment to CalPERS as authorized under SB 90. SB 90 was subsequently amended by Chapter 859, Statutes of 2019 (AB 118) to specify that of the \$500 million payment to CalPERS, \$243 million would be applied to the California Highway Patrol (CHP) retirement plan. The Governor's Budget proposed to accelerate the payment in 2019-20; however, current fiscal challenges warrant the elimination of these discretionary payments so the funds can be directed toward offsetting General Fund costs to maintain core programs. AB 118 also authorized multiple payments of \$25 million annually beginning in 2019-20 through 2022-23 from the Motor Vehicle Account (MVA) toward the CHP plan. The 2019-20 payment from the MVA is scheduled to be paid as planned. However, the May Revision proposes to suspend the remaining \$25 million annual MVA payments through 2022-23, along with the elimination of the \$243 million General Fund supplemental pension payment to CHP. The May Revision expects to achieve this through collective bargaining with the association.

Note: The State will continue to pay its minimum required contribution rates. This has no direct bearing on contract agency plans, however, it does affect the overall funded status. Actuarial valuations are approximately 2 years behind; the true effect of the economic downturn on contract agency plans may not be fully realized until then, however, if investment returns continue to spiral downward, local agency rates could see impacts sooner. According to the CalPERS CEO and CFO, the anticipated funded status will be at around 60 percent during the next quarterly returns.