

The First 5 Association
FY 2020-21 State Budget May Revision: Overview & Early Analysis

Updated: May 18, 2020

Helpful Resources:

- [State Budget Overview](#)
- [Women's Caucus Statement](#)
- [Senate Leader Atkins and Budget Chair Mitchell's Statement](#)
- [First 5 Network's Statement](#)

Overview:

Governor Newsom announced his May Revision for the FY 2020-21 State Budget today, presenting a sobering reality for state revenues in the midst of the global pandemic. In January, the Governor presented a state budget that hailed a \$6 billion surplus, paid down debt and contributed to reserves. Today's May Revision emphasized a **\$54 billion budget deficit**, fueled by reduced sales and income taxes coupled with increased demand for human services programs.

The state must pass a balanced budget by June 15th. Governor Newsom proposes a mixture of program cancellations and **withdrawals** (largely from unallocated funds from last year's budget or the halting program expansion proposed in January), use of Reserves; deferring and transferring of funds, generation of new revenues, and the use of currently available federal funds – see chart below.

Most alarming is the \$14 billion in budget reductions across all service areas that will be **triggered** absent of federal or new funding be made available. Earlier this week, Governor Newsom [signed a letter](#) with the Western State Pact, requesting \$1 trillion in direct and flexible relief for all states.

The May Revision Overview across our policy agenda can be found below. The Associations early analysis and comments can *found in italics*.

| May Revision Proposes Balanced Solution (dollars in billions) | |
|---|---------------|
| Cancelled Expansions & Other Reductions | \$8.4 |
| Reserves | 8.8 |
| Borrowing/Transfers/Deferrals | 10.4 |
| New Revenues | 4.4 |
| Federal Funds | 8.3 |
| Triggers | 14.0 |
| | \$54.3 |

I. Sustainability & Scale

Vaping Tax:

As expected, the Vaping Tax is moving forward. Revenues from the new tax are estimated to be \$33 million in 2020-21, will be deposited into a new special fund, and will be used to increase enforcement and to offset Medi-Cal costs.

The Budget includes \$13.9 for the Department of Tax and Fee Administration to administer the proposed tax and \$7 million for the California Highway Patrol to establish a task force in collaboration with the Department of Justice dedicated to combatting the underground market for vaping products. In addition to the tax, the Administration will support a statewide ban on all flavored nicotine products as of January 1, 2021.

Our Analysis: As we speak, First 5s across our Network are stepping up to have these important conversation with their lawmakers and members of the administration. We believe bypassing the existing tobacco tax structure sets a dangerous precedent. This will be a primary focus of our advocacy efforts in the weeks ahead.

II. Quality Early Learning:

Federal Funding Child Care Funding:

California received a **\$350.3 million through the federal CARES Act** (CCDBG funding) for COVID-19 related child care activities. The following expenditure plan:

- **\$144.3 million** for state costs associated with SB 89 expenditures, family fee waivers, and provider payment protection;
- **\$125 million** for one-time stipends for state-subsidized child care providers offering care during the COVID-19 pandemic;
- **\$73 million** for increased access to care for at-risk children and children of essential workers;
- **\$8 million** to extend family fee waivers until June 30, 2020.

Analysis: We are pleased to see the \$350 M in federal dollars allocated to the field. We advocated for this during First 5 Advocacy Day, and we know these funds will be essential moving forward to increase access. We are concerned about the use of these funds to backfill the \$100 M in emergency expenditures from SB 89, the family fees, and provider payment protection.

The one-time stipends sound promising and we are seeking additional information.

Child Care & Preschool:

The Newsom administration stated their commitment to work towards their universal preschool goals, however, budget realities are curbing these plans.

Triggers:

- Reduction of \$159.4 million General Fund to eliminate 10,000 slots scheduled to begin April 1, 2020 and 10,000 additional slots scheduled to begin April 1, 2021.
- Reduction of \$130 million Proposition 98 General Fund to align State Preschool funding with demand.
- Reduction of \$94.6 million Proposition 98 General Fund and \$67.3 million General Fund to reflect a 10 percent decrease in the State Preschool daily reimbursement rate.
- Reduction of \$20.5 million Proposition 98 General Fund and \$11.6 million General Fund to reflect suspension of a 2.31 percent cost-of-living adjustment.
- Reduction of \$3.3 million Proposition 98 General Fund and \$3 million General Fund to eliminate a 1 percent add-on to the full-day State Preschool reimbursement rate.
- **Reduction of \$363 million one-time General Fund and \$45 million one-time federal Child Care and Development Block Grant funds from the 2019 Budget Act for child care workforce and infrastructure.**
- **Reduction of \$223.8 million General Fund to reflect a 10 percent decrease in the Standard Reimbursement Rate and the Regional Market Rate.**
- Reduction of \$35.9 million General Fund to reflect to reflect lower caseload estimates in CalWORKs Stage 2 and Stage 3 child care.
- Reduction of \$25.3 General Fund to reflect suspension of a 2.31 percent cost-of-living adjustment.
- Reduction of \$10 million one-time General Fund from the 2019 Budget Act for child care data systems
- Reduction of 4.4 million in one-time General Fund to reduce resources available for the Early Childhood Policy Council, leaving \$2.2 million available for both 2020-21 and 2021-22.
- Additionally, the May Revision appropriates \$13.4 million federal funds through the Health and Human Services Agency to reflect the state's 2020 Preschool Development Grant award.
- Increase child care access for approximately 5,600 children in the AP Program due to \$53.3 million in federal CCDBG funds.

Analysis: *The Workforce Development funding and the ECE Facilities monies, which sit unallocated at CDE, are likely to be swept. If they are, it is our goal to ensure that these funds support essential child care infrastructure to re-open and remain safe for providers and families. It is looking like IMPACT 2020 may be a larger backbone to workforce development support than initially designed. With this being the case, we are interested to hear how your commissions are positioning themselves to support the ECE workforce at this time.*

The 10% reduction to the SRR and RMR would significantly upend the field. The field will be pushing back on the proposed rate reduction. Child care is essential to economic recovery, and now is not the time to reduce rates for a field that is already struggling to keep their doors open.

Child Care Transferred to Department of Social Services

The Department of Early Childhood Development was put on hold, however, the May Revision proposes to move child care program to the Department of Social Services. CSPP would still stay at CDE. The argument is that all child care programs within a single department in state government and will ease the administration of collective bargaining commencing later this year. The May Revision maintains \$2 million General Fund in 2020-21 to support this transition.

Analysis: *The Association did not have a position on the Department of Early Childhood Development and we are eager to hear input from commissions about this restructuring proposal. We know that bifurcating CSPP will be challenging for many, but at the same time, having all three stages of CalWORKs housed together with licensing will be beneficial. We will be working with the policy committee to assess this proposal moving forward.*

III. Comprehensive Health & Development

The Medi-Cal budget is \$99.5 billion (\$22.7 billion General Fund) in 2019-20 and \$112.1 billion (\$23.2 billion General Fund) in 2020-21. The May Revision assumes that caseload will increase significantly due to economic conditions associated with the COVID-19 Recession. Specifically, the May Revision assumes that caseload will peak at 14.5 million in July 2020, or about 2 million above what caseload would have been absent the COVID-19 pandemic.

Withdrawn:

- **California Advancing and Innovating Medi-Cal (CalAIM)**—The May Revision proposes to delay implementation of the CalAIM initiative, resulting in a decrease of \$695 million in 2020-21. In addition, the May Revision removes \$45.1 million General Fund in 2020-21 associated funding for the Behavioral Health Quality Improvement Program.
- **Postpartum Mental Health Expansion**—The May Revision proposes not to implement the 2019 Budget Act expansion of Medi-Cal to post-partum individuals who are receiving health care coverage and who are diagnosed with a maternal mental health condition, for a savings of \$34.3 million General Fund in 2020-21.
- **Department of Developmental Services: Enhanced Caseload Ratios for Young Children**—Reduce the regional center services coordinator caseload ratio for children who are three to five years old. This results in a savings of \$11.8 million General Fund in 2020-21.

Triggers:

- **Developmental Screening Rates & Other Prop 56 Supplemental Payments:** The May Revision proposes to cancel the supplemental payments for physicians, dental, family health services, **developmental screenings**, and non-emergency medical transportation, value-based payments, and loan repayments for physicians and dentists.

Ongoing:

- Funding for **ACEs screening**, training, and statewide media campaign will continue. The May Revision reduces, but does not eliminate, the funding for each of these programs.

***Analysis:** We are very concerned about the potential reductions to the developmental screening reimbursement rate through Prop 56. Children have fewer eyes on them now more than ever, meaning developmental delays are more likely to go undetected.*

IV. Family Resiliency

A few critical measure to support families were either maintained or expanded. The **Earned Income Tax Credit (EITC)** will continue with an expansion of up to a \$1,000 credit for eligible families with children under six.

The May Revision includes the administration's proposed expansion to **Paid Family Leave** job protections, including \$1 million in assistance to small businesses. The January budget proposal directed the state to provide these additional resources to small businesses that extend leave benefits to their employees.

The budget revision preserves expanded **California Work Opportunity and Responsibility for Kids (CalWORKs)** cash grants and includes additional funding to support higher caseloads. The administration expects CalWORKs enrollment to increase by over 100 percent due to COVID-19, with the program expected to serve 724,000 families by next year. To support increased health and social services programs including CalWORKs and Medi-Cal, the governor proposes to utilize the entire \$900 million Safety-Net Reserve over the next two years. Lawmakers designed that fund to support increased costs to health and safety-net programs, but there was no constitutional requirement that the administration use the reserve for this purpose.

The May Revision maintains CalWORKs program eligibility, in order to support the state's low-income residents respond during the COVID-19 pandemic. In addition, the May Revision includes an increase of \$82.3 million General Fund/TANF Block Grant for CalWORKs county administration to facilitate enrollment in the program and services to beneficiaries.

Triggers:

- **CalWORKs Home Visiting**— Reduction of \$30 M General Fund in 2020-21 for CalWORKs Home Visiting.
- **CalWORKs Employment Services and Child Care**—Reduction of \$665 M General Fund in 2020-21 in CalWORKs Employment Services and Child Care to reflect assumed reductions in demand for these services.

Withdrawals:

- Department of **Public Health Home Visiting and Black Infant Health**—\$4.5 million General Fund ongoing beginning in 2020-21.

Home Visiting: *We are dishearten to see that the CalWORKs Home Visiting and CA Home Visiting Programs are slated for cuts. These are exceptionally stressful times for families, and now more than ever, we need to support them. The state has invested \$248 M to date in the CalWORKs Home Visiting program since FY 18-19. We are trying to assess how the \$30 M in reductions will harm this program moving forward. The \$4.5 M for CHVP and BIH appear to be unallocated.*

CalWORKs Child Care Stages: *With fewer jobs available and demand for child care, we suspect that CalWORKs child care stages may implement more exemption for families around welfare-to-work requirements. Similar measures were taken during the Great Recession. We will await further detail from CDSS.*

V. Other Critical Systems for Early Childhood Development:

Other essential parts of the budget pertaining to early childhood also experienced budget reductions. These include, but are not limited to:

Child Welfare:

The May Revision includes \$506.1 million General Fund on 2020-21 for these programs, a decrease of \$90.5 million General Fund since the Governor's Budget.

Withdrawal:

- **Foster Family Agencies**—The May Revision eliminates Foster Family Agency social worker rate increases. This proposal would result in a savings of \$4.8 million General Fund in 2020-21.
- **Family Urgent Response System**—The May Revision eliminates the Family Urgent Response System. This proposal would result in a savings of \$30 million General Fund in 2020-21.
- **Public Health Nurse Early Intervention Program**—The May Revision eliminates the Public Health Nurse Early Intervention Program in Los Angeles County. This proposal would result in a savings of \$8.3 million General Fund in 2020-21.

Trigger:

- **Continuum of Care Reform Rates**—The May Revision assumes a reduction in Continuum of Care Reform short-term residential treatment program provider payment rates of 5-percent. It also assumes the suspension of additional level of care rates 2 through 4. This proposal would result in a savings of \$28.8 million General Fund in 2020-21.

Prop 98 & K-14 Education:

Increases:

- Use **\$4.4 billion for schools to run summer programs and other programs** that address equity gaps that were widened during the school closures.
- **\$63.2 million for training and professional development** for teachers, administrators, and other school personnel, focused on mitigating opportunity gaps and providing enhanced equity in

learning opportunities, addressing **trauma-related health and mental health** barriers to learning, and developing strategies to support necessary changes in the educational program, such as implementing distance learning and social distancing.

Despite federal supports, budget pressures will result in reductions to the Proposition 98 minimum guarantee. When combined with statutory technical adjustments, this creates a shortfall of \$15.1 billion (\$14.8 billion General Fund) for K-14 education. Numerous new proposals were put on hold or withdrawn. The Administration proposes the following:

- **Local Control Funding Formula (LCFF) 10% Reduction Trigger**— Reduction of 10 percent (\$6.5 billion) to LCFF. This reduction includes the elimination of a 2.31 percent cost-of-living adjustment. This reduction will be triggered off if the federal government provides sufficient funding to backfill this cut.
- **Full-Day Kindergarten Facilities Swept**—A decrease of \$300 million one-time non-Proposition 98 General Fund for construction of new, or retrofit of existing, facilities for full-day kindergarten programs. This is roughly the amount that is unexpended from \$400 million provided for this purpose in the 2018 and 2019 Budget Acts. The May Revision proposes sweeping these unexpended program funds to facilitate budgetary resiliency.
- **Special Education Funding Remains**— The May Revision maintains the Administration’s commitment to increasing special education resources and improving special education financing, programs, and student outcomes. Specifically, the May Revision sustains the Governor’s Budget proposal to increase special education base rates, updated at May Revision to \$645 per pupil (reflecting the suspension of the 2.31 percent cost-of-living adjustment).