

THE BOND BUYER

California lawmakers approve expansive placeholder budget

By

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The California legislature passed a \$261.4 billion placeholder budget with proposals that use an unprecedented surplus and federal funding to expand social programs despite protests from some Republicans.

The Legislature, ruled by Democrats in both houses, met the June 15 constitutional requirement to approve a budget by Monday's deadline or lose a portion of their pay, but budget negotiations will continue with Gov. Gavin Newsom, a Democrat, through the July 1 start of the fiscal year.



"This doesn't return our state to normal, but takes us forward," said Assembly member Joaquin Arambula, D-Fresno, pictured at a rally in 2018. Assemblymember Joaquin Arambula

The budget passed on party line votes of 58-18 in the state Senate and 30-8 in the Assembly.

“This budget doesn’t return our state back to normal, but takes us forward,” Joaquin Arambula, D-Fresno said during the Assembly’s budget hearing. “It helps to lead us toward equity and directs bountiful resources toward those who need them first. What you see here are plans that champions and advocates have been working on for years.”

The state’s lawmakers have made it a habit in recent years of pushing some thornier budget items even past the July 1 signing deadline through budget trailer bills.

One Republican lawmaker cried foul on what he viewed as a placeholder budget as opposed to the finished product.

“This is a fake budget,” state Sen. Jim Nielsen, R-Red Bluff, said during the Senate’s budget hearing on Monday. “It’s a feel-good budget, a ‘let us get paid’ budget. But what we are voting on is not going to be the budget.”

Despite Nielsen’s protests, the Legislature has reached agreement with Newsom on a number of major items in the 924-page budget bill including increased education spending from pre-kindergarten through the universities, new [stimulus payments](#), government expansions and \$7 billion tapping federal relief funding to create universal broadband.

Though the budget total equals Newsom’s May revised budget, there are differences.

“The budget framework differs from the May revision in two primary ways,” according to a Senate analysis. “First, it maximizes flexible federal funds to support and improve core programs. Second, the budget uses the revenue forecasts of the Legislative Analyst’s Office, as well as up to date revenue performance through the month of May in the current fiscal year.”

It also adds a laundry list of new items including 100,000 child care slots on top of the 100,000 proposed by the governor, as well as \$1.1 billion in ongoing funds above the governor’s May budget revisions to implement child care rate reform. The governor proposed expanding Medi-Cal, the state’s medical program for impoverished residents to undocumented immigrants 60 and above, but the Legislature lowered that threshold by a decade to 50 and above.

The Legislature’s proposal also adds \$8.5 billion of new spending for homelessness programs over the next two years, including \$1 billion of annual

flexible funding to help local governments pay to construct new affordable housing and \$1.2 billion of federal funds over the next two years to purchase hotels and motels for unhoused people. The budget also allocates \$20.6 million to the California Department of Transportation to remove hazardous materials from homeless encampments and \$2.7 million to fund 20 positions for two years to provide homeless encampment liaisons to work with local service providers and other states agencies to help find homes for homeless people living near freeways.

S&P Global Ratings analysts said in a January report that California's affordable housing crisis and social inequities are a [credit factor](#) if income inequalities lead to higher costs for services.

The state holds ratings of AA, Aa2 and AA-minus from Fitch Ratings, Moody's Investors Service and S&P Global Ratings. All have stable outlooks.

This year's budget season has been downright jubilant with a [surplus](#) ranging from \$38 billion (the Legislative Analyst's Office estimates minus what constitutionally goes to education) or the \$76 billion Department of Finance estimate available. A marked difference from 2020's process that involved massive cuts to close an estimated \$52 billion budget shortfall.

"I am rising today to introduce a record and historic budget," said Assembly Budget Chair Phil Ting, D-San Francisco, during Monday's budget hearing. "It's only a few months short of a year ago today that we were facing a \$52 billion deficit, and we were worried about the impact on schools and every institution we hold dear in our state."

Taking the LAO's view the state has a \$38 billion surplus combined with \$27 billion in funds from the American Rescue Plan, which some Democratic lawmakers are saying they view as an unprecedented opportunity to address gaps in key programs and cuts made after the recession to services. The budget sets aside \$25.5 billion total reserves split between \$15.9 billion in the budget stabilization account, \$1.2 billion in the safety net reserve and \$5.3 billion in the public school system stabilization account.

"Our goal is to have \$35 billion in reserves by 2025," Ting said. "This budget I am presenting today is part of a robust budget process. Even at the height of the COVID-19 pandemic, when we had to hold remote hearings and work around committee hearings, we have been able to hold 62 hearings."

Nielsen, who criticized the amount set aside for reserves and spending during the Senate's hearing saying the budget creates new programs with one-time

money, asked LAO Gabriel Petek during the Senate hearing if he thought the approach lawmakers are taking was prudent or if it would be better to pump more money into reserves.

“I think you are speaking to important conversations about tradeoffs in risk tolerance,” Petek responded. “I would note the legislative package is complying with the Proposition 2 requirements of increasing the rainy day fund deposit. It also pre-pays \$1 billion in bonded debt service and includes the full pay down of [last year’s] school funding deferrals.”

What those proposals mean for the state “is there are substantial reserves compared to 20 years ago, before the 2008 recession,” Petek said. “Ultimately, it will be up to the Legislature to balance its risk tolerance.”

That involves balancing the need to prepare for the next downturn by building even more reserves versus using substantial resources to restore funding to some of its priority programs, he said.

“If we don’t have a downturn in the next few years, it could prove to be a missed opportunity, if there are legislative priorities that are warranted,” Petek said.

Lawmakers also included \$475.1 million in 2021-22 and \$403 million annually after “to rebuild an equitable public health system.”

The healthcare funding, which provides \$200 million for local public health departments and \$100 million to support a grant program to alter health disparities and racial justice innovation projects, counters criticism that the governor’s budget included nothing to help counties deal with healthcare shortcomings revealed by the pandemic.

There are also a long list of social program expansions including programs that help the developmentally disabled and \$497.5 million to fund the acquisition, construction, and rehabilitation of adult and senior care facilities.

It maintains the governor’s \$5.4 billion of new spending for transportation projects with \$3 billion funding statewide projects and \$2 billion for local street, road and highway projects. It also maintains the increase to \$4.8 billion in the governor’s May budget revisions from the \$612 million he originally proposed for high speed rail in his January draft budget.

It would also authorize nearly \$1 billion of lease revenue bonds for capitol buildings: \$191.6 million for the design build phase of the Gregory Bateson Building in Sacramento, \$124.4 million for the Jesse Unruh Building in

Sacramento, \$452.1 million for the Resources building in Sacramento and \$11.6 million from the general fund to renovate the Bonderson Building swing space.

This budget provides the opportunity “to put our money where our mouth is” when it comes to combatting homelessness, said Assemblymember Luz Rivas, D-San Fernando Valley. “I hope the administration will support these measures and the additional accountability measures that will be following shortly in our trailer bills.”

This past year “reminds us that we need to plan for the unexpected — and that we must maintain a strong fiscal foundation that doesn’t overcommit the state to long-term spending it cannot afford, which could lead to future cuts,” Newsom said.

“I’m grateful for the Legislature’s partnership and am confident we will reach a budget agreement that reflects our shared values and keeps California on a sustainable path of recovery and growth,” he said.

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