

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lee Wilcox

**SUBJECT: STATE FISCAL YEAR 2020-2021
BUDGET UPDATE**

DATE: July 14, 2020

Approved



Date

7/14/2020

INFORMATION

This memorandum summarizes the fiscal year 2020-2021 California State Budget related to the City of San José's priorities, policies, and programs.

On June 29, 2020, Governor Gavin Newsom signed the 2020-2021 State Budget into law, enacting a \$134 billion General Fund spending plan. The approved Budget reflects the severe impacts of the ongoing COVID-19 pandemic on the State, and manages significant financial shortfalls associated with decreased revenues. The Budget deal reached by the Governor and the Legislature uses a combination of reserves, federal funds, temporary revenues, internal borrowing, and deferred payments to help resolve the budgetary shortfall. Additionally, the Budget includes critical funding to several program categories to mitigate the impacts of the COVID-19 pandemic.

Housing and Homelessness

The State Budget allocates \$300 million to the Homeless Coordinating and Financing Council for the Homeless Housing, Assistance, and Prevention (HHAP) program to address and prevent homelessness. Eligible projects include rapid rehousing, rental subsidies, subsidies for new and existing housing and emergency shelters, permanent housing, and services such as workforce, education, and training programs to support housing stability. The Homeless Coordinating and Financing Council will distribute \$130 million to cities with a population of 300,000 or more. The remaining funds will be distributed to Continuums of Care (\$90 million) and to counties (\$80 million).

The Budget provides \$440 million to Project Homekey (formerly Project Roomkey), for acquisition and/or rehabilitation of motels, hotels, hostels, or tiny homes to provide housing and supportive services to individuals who are unhoused and immunocompromised or at-risk, or for those needing to quarantine or isolate themselves due to coronavirus exposure. Project Homekey funding must be expended by December 30, 2020, per federal requirements. The Budget also includes an additional \$50 million in General Fund dollars for the acquisition of and to provide initial operating subsidies for Homekey sites. Hotels and motels are an important local source of

non-congregate shelter for homeless residents vulnerable to COVID-19. Santa Clara County and the City are currently renting San José hotel and motel rooms and funding stays for this population. The City also worked with the County and a nonprofit affordable housing developer in 2015 to purchase and rehabilitate a San José motel to provide both temporary and permanent supportive units for homeless residents. Given the imminent expenditure deadline for Project Homekey funds, their use would most likely be focused on acquisition costs, and other funds would be needed to complete rehabilitation if needed on any identified properties.

The Budget allocates \$300 million to the California Housing Finance Agency to provide housing counseling services to homeowners, former homeowners, and renters. The allocation also covers mortgage assistance to households, including landlords who own residential properties with four or fewer units. The Budget also allocates \$31 million to the Judicial Council for qualified legal services projects and support centers to provide eviction defense or other tenant defense assistance in landlord-tenant disputes, including pre-eviction and eviction legal services, counseling, advice and consultation, mediation, training, renter education, and representation.

Coronavirus Relief Funds

The Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act established the Coronavirus Relief Fund (CRF), which provides funding to state and local governments grappling with the effects of the pandemic. The State of California received approximately \$15.3 billion from the CRF. Local governments in California with populations of at least 500,000 received \$5.8 billion in direct CRF funding from the U.S. Treasury Department. The City of San José received \$178.3 million in direct CRF funding.

The State Budget allocates \$500 million from the State share of CRF to cities that did not qualify for a direct CRF allocation.

Power Resiliency

The Budget allocates \$50 million to the Community Power Resiliency program to support State or local costs related to preparing for and responding to power shutoff events. Funds can be used for critical planning and response activities such as purchasing generators for State facilities, providing grants to local governments to help them plan for shutoff events, and helping local governments or food banks secure backup power for key facilities.

Excess Educational Revenue Augmentation Funds

Educational Revenue Augmentation Funds (ERAF), are a mechanism for the State to shift local property taxes to pay for the State's school funding obligations. The State determined that several counties, including Santa Clara County, were using excess ERAF calculations that were out of compliance with the Department of Finance's calculations. In the revised May Budget proposal, the Governor proposed levying civil penalties and lawsuits on counties found out of compliance, retroactive to 2019. In response, Santa Clara County officials contended that this proposal would have resulted in significant losses at the county level, and approximately \$17 million annually in reductions to the City of San José's ERAF allocation. The approved Budget

now removes those penalties, and allows counties to maintain excess funds redirected before July 2019. Moving forward, the State Controller's office will decide on the calculation.

Unemployment

The Budget authorizes the State to expend up to \$38 billion in unemployment insurance funds. These are primarily federal funds distributed by the federal Unemployment Insurance Trust Fund, from which the State can borrow up to \$34 billion.

Taxes

The Budget includes the following changes to tax law and sales tax remittance to raise additional revenue:

- Suspends net operating losses for medium and large businesses through 2022. This applies to individuals and corporations in which the taxpayer has more than \$1 million in taxable income.
- Caps business incentive tax credits to \$5 million per taxpayer through 2022. Applies to individuals and corporations, and includes R&D credits, enterprise zone credits, hiring credits, college access credits, credits for produce donations by agricultural producers to food banks, and motion picture credits.
- Used car dealers must remit sales taxes alongside registration fees within 30 days of a sale.

Environment

The Budget adopts a "deferred action" on the State's Cap-and-Trade program, which delays allocating funding from the program. In May 2020, the auction revenues from the program netted \$25 million in proceeds, far below the expected \$600 million. The Budget authorizes the Air Resources Board to make changes to the program, which will likely be resolved in forthcoming Budget negotiations. In the meantime, the State continues to collect Cap-and-Trade fees.

Trigger Cuts

If California does not receive at least \$14 billion in additional federal assistance by September 1, the following "trigger cuts" may occur:

- \$550 million in grants for infill infrastructure improvements and mixed-income development loans.
- \$2.7 billion in additional draw-downs from State Budget reserves.
- \$1.3 billion one-time deferral of State payments to State pension funds CalPERS.
- \$5.9 billion of increased deferrals in education funding.
- \$600 million reduction to the county prison realignment backfill programs.
- \$770 million in cuts to UC & CSU programs.
- \$100 million in cuts to judicial processes and programs.
- At least \$1.5 billion in reduction to State employee compensation.
- \$1.6 billion from reinstatement of the one-day payroll deferrals.

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The City will continue to work with the Governor, San José's legislative representatives, and legislative leadership to access grant funding in new or enhanced programs at the State.

COORDINATION

The City Manager's Office coordinated this memo with the City Attorney's Office, the City's State Legislative Advocates, and the Departments of Community Energy, Library, Environmental Services, Housing, and Public Works.

/s/

LEE WILCOX

Chief of Staff, City Manager's Office

For questions, please contact Bena Chang, Director of Intergovernmental Relations, 408-975-3240.

