

2020 Budget Trailer Bill Analyses Packet

Floor Vote: Monday, June 15, 2020

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SB 74	Floor Report	SB 808	
SB 88	Supplemental Appropriations Bill (2019 Deficiency)	AB 75	2
SB 97	K-12 2019 Deferral	AB 76	6
SB 114	Revenues	AB 85	7

SUMMARY:

Amends the 2019 budget act to address unanticipated expenditures that occurred during the 2019-20 fiscal year.

Major Provisions

Appropriates a total of \$115.4 million General Fund in various departments to address unidentified costs incurred during the current fiscal year. Specifically this bill:

- 1) Appropriates \$4.8 million General Fund to augment the 2019 Budget Act for the California Department of Forestry and Fire Protection (CAL FIRE). The amount includes the cost of back pay of cash-in-lieu-of benefits pursuant to a settlement with Bargaining Unit 8. The Ninth Circuit Court of Appeals ruled that “cash-in-lieu of benefits” payouts should be included in the base salary amounts that are used to calculate employees’ overtime compensation. Accordingly, CAL FIRE and California Department of Human Resources (CalHR) reached a settlement with Bargaining Unit 8 to provide back pay to affected employees. The \$4.8 million settlement agreement covers the calculated cost of planned and unplanned overtime hours for the period of November 2015 to June 2018. According to the Department of Finance, the overtime pay calculation has been corrected and CAL FIRE will absorb the additional incremental cost associated with this calculation change within its existing baseline overtime budget.
- 2) Appropriates \$9.702 million General Fund to augment the 2019 Budget Act for the California Department of Corrections and Rehabilitation (CDCR) to conduct remediation work to control Legionella bacteria at the California Health Care Facility (CHCF) in Stockton. In April 2019, two inmates housed at CHCF tested positive for exposure to Legionella bacteria. One inmate later passed away and a post-death analysis confirmed the presence of Legionella in the patient. CDCR consulted with the United State Centers for Disease Control, the California Department of Public Health and a contracted environmental consultant with water quality expertise. CDCR declared an emergency in accordance with Public Contract Code Section 1102 and took action to control the Legionella bacteria at CHCF. The costs included \$8.5 million for operating expenses and equipment including shower trailer rentals, in-line water filters, a water testing contract, chlorination equipment rental, bottled water and other miscellaneous supplies for water fixture flushing and other maintenance activities. An additional \$1.2 million was spent on overtime costs for plant operations staff and custody staff.
- 3) Appropriates \$11.7 million General Fund to augment the 2019 Budget Act for the Department of General Services (DGS) to conduct ongoing response and recovery

operations related to the 2018 Camp Fire in Butte County. Most of the department's costs were reimbursed through Government Code Section 8690.6, the Disaster Response-Emergency Operations Account (DREOA) and federal reimbursements from FEMA. However, due to the severity of the fire and the prolonged nature of the response and recovery efforts, DGS incurred additional costs that crossed fiscal years. The \$11.7 includes contract work for relief activities that continued into 2019 including janitorial services, security services, RVs, canopies and tents, water truck services, tank and grey water removal services, heating, propane tank and delivery services, and standby medical and airport services.

- 4) Appropriates \$40.3 million General Fund to augment the 2019 Budget Act for the California Department of Food and Agriculture (CDFA) with an extended encumbrance to June 30, 2021. There are 77 fairs in California. Of those, 53 fairs are state-affiliated and have state civil servant employees. Due to the COVID-19 pandemic and the inability to conduct revenue-generating activities, many fairs, if not all, are facing significant financial difficulty. According to the Administration, all of the fairs are developing financial plans which may include laying off employees. The state expects the layoff process to begin in June 2020. The \$40.3 million appropriated in this item is the estimated cost of employee compensation for the fairs that do not have sufficient funds or reserves to cover employee compensation costs during the layoff process. Under the projection, fair managers were expected to be laid off immediately. The remaining state civil servants are expected to go through the layoff process, incurring approximately 6 months of payroll expense. According to the Administration, fairs have lost approximately \$98 million in revenue between March and June 2020. As a result, fairs are either using their reserves to pay their employees or are having to lay off staff or a combination of both. In the end, the state is financially responsible for the employee compensation of the state civil servants and the \$40.3 million is the estimated cost of that obligation.
- 5) Appropriates \$17,000 General Fund to augment the 2019 Budget Act to reimburse Mariposa County for the costs related to the homicide case of "People v. Cary Stayner." This claim has been approved by the State Controller, pursuant to Chapter 3 (commencing with Section 15200) of Part 6 of Division 3 of Title of the Government Code, which allows qualified counties to seek state reimbursement for homicide trial costs.
- 6) Appropriates \$48.9 million General Fund to augment the 2019 Budget Act for multiple departments that incurred costs associated with the 2019 wildfires and the public safety power shutoffs (PSPS). The Governor issued an emergency proclamation on October 25, 2019 for the counties of Sonoma and Los Angeles in response to the Kincadee and Tick Fires, respectively. In addition, the Governor issued another emergency proclamation on October 27, 2019, in anticipation of the public safety power shutoffs initiated by the Investor-Owned Utilities due to the extreme fire and wind conditions. As a result, DOF directed all departments to report costs associated with the two emergencies.
 - a. This bill augments the following departments for costs incurred for the 2019 wildfires:
 - i. Department of Transportation - \$6.8 million for state highway system asset repair and traffic controls during the evacuations.

- ii. Department of the California Highway Patrol - \$1.286 million for traffic management overtime costs related to the wildfires.
 - iii. Department of Motor Vehicles - \$19,000 for customer support to assist in replacement of important government records, claims for insurance, and other purposes related to losses suffered from the wildfires.
 - iv. Department of Parks and Recreation - \$58,000 for the mobilization and deployment for fire response coordination and overtime costs for assistance with patrols for areas impacted by the fires.
 - v. Emergency Medical Services Authority - \$389,000 for the deployment of the California Medical Assistance Team (CalMAT) to provide care to patients and state personnel (e.g. Firefighters) and overtime costs for staffing and logistical support.
 - vi. Department of Social Services - \$83,000 for the State Emergency Food Reserve.
 - vii. Department of Corrections and Rehabilitation - \$122,000 for wildfire suppression activities, including the use of CDCR state employee strike teams and equipment for both direct wildfire suppression and structure protection.
 - viii. Department of General Services - \$6.457 million for overtime for emergency staff, laundry and shower units, sanitation rentals and transport, bio-cleaning for shelters, water and fuel infrastructure, comfort kits, unarmed security services, and other equipment and commodities.
 - ix. California Military Department - \$2.979 million for the deployment of staff and resources to assist with evacuations, patrols, and providing/distributing life sustaining goods to populations affected/displaced by the fires.
- b. This bill augments the following department costs incurred for the 2019 public safety power shutoffs:
- i. Department of Social Services - \$6 million for county Adult Protective Services social workers to conduct wellness checks of seniors during the public safety power shutoff and resources to reimburse and replenish the State Emergency Food Reserve, which provides shelf stable and ready to eat food for immediate use in response to emergencies.
- c. This bill augments the following department for the costs incurred for 2019 wildfires and public safety power shutoffs:
- i. Office of Emergency Services (Cal OES) - \$24.717 million
 - 1. The PSPS related costs were for the State Operations Center and regional response activity costs incurred by Cal OES for activations in response to the power shutoff events.
 - 2. Cal OES' wildfire costs were made up of two components: (1) reimbursing local California fire companies for incident responses that were directed by Cal OES, but were outside of the mutual aid agreements; and (2) reimbursing the costs for out of state engines that provided mutual aid through the Emergency Management Assistance Compact (EMAC). Oregon, Washington, Montana, Utah, New Mexico, and Idaho each responded—sending a

combined total of 150 engines to assist the state in suppressing the fires.

COMMENTS:

The bill, the 2020 Supplemental Appropriations Bill, or the Deficiency Bill, is part of the 2020 budget package. The expenditures are already accounted for in the scoring of the 2020 budget and represent expenditures that were unanticipated throughout the current fiscal year. Enacting this bill will allow the state to settle up its books for the 2019-20 fiscal year, which ends on June 30, 2020.

According to the Author:

The deficiency bill is a routine component of the annual budget package and allows the State to close out the books for the current fiscal year.

FISCAL COMMENTS:

This bill has a total cost of \$115.4 million General Fund, which is already accounted for in the overall 2020 budget package.

VOTES:

SENATE FLOOR: 27-9-2

YES: Allen, Archuleta, Atkins, Beall, Bradford, Caballero, Dodd, Durazo, Galgiani, Glazer, Hertzberg, Hill, Hueso, Hurtado, Leyva, McGuire, Mitchell, Monning, Pan, Portantino, Roth, Rubio, Skinner, Stern, Umberg, Wieckowski, Wiener

NO: Bates, Chang, Grove, Jones, Moorlach, Morrell, Nielsen, Stone, Wilk

ABS, ABST OR NV: Borgeas, Jackson

UPDATED:

VERSION: June 10, 2020

CONSULTANT: Christian Griffith / BUDGET / (916) 319-2099

SENATE THIRD READING
SB 97 (Committee on Budget and Fiscal Review)
As Amended June 10, 2020
2/3 vote

SUMMARY:

K-12 Education and Community Colleges 2019-20 Deferral

Major Provisions

- 1) This bill would defer \$1,850,377,000 in payments for K-12 education from June 2020 to July 2020, reducing apportionments for the Proposition 98 Guarantee by this amount in 2019-20 and instead counting those apportionments for the 2020-21 Proposition 98 Guarantee.
- 2) The bill would appropriate \$ 406,664,000 in Proposition 98 General Fund for the purposes of funding the Local Control Funding Formula in the 2019-20 fiscal year. These funds would count against Proposition 98 settle-up obligations in the 2013-14 and 2018-19 fiscal years.
- 3) Allows for a deferral of \$330.1 million Proposition 98 General Fund from 2019-20 to 2020-21. Allows for colleges to apply for a hardship exemption from this deferral.

COMMENTS:

According to the Author:

This bill is necessary to resolve the change to the Proposition 98 Guarantee without cutting K-12 and Community College education funding.

FISCAL COMMENTS:

This bill is a budget trailer bill to amend the overall 2019-20 budget package to implement actions related to K-12 and Community College education.

VOTES:

SENATE FLOOR: n/a

YES:

NO:

ABS, ABST OR NV:

UPDATED:

VERSION: June 10, 2020

CONSULTANT: Erin Gabel / BUDGET / (916) 319-2099

SUMMARY:

This is the Revenues trailer bill for 2020-21. It contains the necessary changes related to the 2020 Budget Act. Specifically, this bill:

Major Provisions

Used Car Dealer Sales Tax

1. Requires any licensed car dealers, other than new vehicle dealers, to collect and remit to the Department of Motor Vehicles (DMV) applicable sales tax, measured by the sales price of the vehicle with the registration fee. This requirement would be effective January 1, 2021.
2. Requires used vehicle dealers to remit applicable sales tax along with the Report of Sale (ROS) and registration fees to DMV within 30 days from the date of sale.
3. Requires DMV to withhold registration of vehicles purchased from used motor vehicle dealers until the dealer pays to DMV sales tax measured by the sales price together with any penalty.
4. Imposes upon a used vehicle dealer a penalty for failure to timely remit sales tax if that dealer is subject to the DMV penalty for failure to make a timely application for registration.
5. Requires used vehicle dealers to continue to file sales tax returns with CDTFA and impose interest and penalties for sales tax not timely paid.

Net Operating Loss Suspension

6. Suspends the use of net operating loss (NOL) deductions for taxpayers with business income in excess of \$1 million for 2020, 2021, and 2022. Applies the suspension to both personal income tax and corporation tax taxpayers.
7. Extends the carryover period for up to three years, as specified, for any net operating loss for which a deduction is denied pursuant to the changes made by this bill.

Limit Tax Credits

8. Limits the use of business incentive tax credits to offset no more than \$5 million in tax liability for 2020, 2021, and 2022. Makes this suspension applicable to both personal income tax and corporation tax taxpayers.
9. Provides that the amount of any credit otherwise allowable that is not allowed due to the application of this bill, will remain a credit carryover amount and provides that the

carryover period will be increased by the number of taxable years the credit or any portion thereof was not allowed.

10. Makes similar/conforming changes to the Sales and Use Tax Law in relation to the Film and Television Tax Credit and laws governing the gross premium tax on insurers.

11. Exempts the Low Income Housing Tax Credit from the \$5 million limit.

Minimum Franchise Tax First Year Exemption

12. Provides that every limited partnership, limited liability partnership and limited liability company that files, registers or organizes to do business in the state, is exempted from payment of the annual tax of \$800 in its first taxable year.

13. Applies for taxable years beginning on or after January 1, 2021 and expires on January 1, 2024.

Menstrual Hygiene and Diaper Sales and Use Tax Exemption

14. Extends the sales and use tax exemption for the sale of, or the storage, use, or other consumption of, diapers for infants, toddlers, and children, and menstrual hygiene products from January 1, 2022 to July 1, 2023.

Film and Television Tax Credit Carryforward

15. Aligns the carryforward period in 2.0 Program from 6 years to 9 years consistent with the 3.0 program.

Individual Shared Responsibility

16. Requires the non-coverage penalty to be collected along with other interest-bearing debt.

17. Limits the future maximum monthly penalty for a responsible individual with an applicable household size of 5 or more individuals to the current maximum monthly penalty for a responsible individual with an applicable household size of 5 individuals.

18. Corrects drafting errors in the original bill regarding definitions of and references to “responsible individual” and “applicable household member.”

19. Authorizes the FTB to adopt regulations to implement the Individual Shared Responsibility Penalty.

Advanced Strategic Aircraft Credit

20. Provides that for taxable years, beginning on or after January 1, 2020, to January 1, 2026, the Advanced Strategic Aircraft Credit could be used to reduce the alternative minimum tax.

COMMENTS:

This bill is a budget trailer bill within the overall 2020-21 budget package to implement actions related to revenues.

FISCAL COMMENTS:

The provisions of this bill result in a net General Fund benefit of approximately \$4.4 billion for the 2020-21 fiscal year, including:

1. \$12 million from the Used Car Dealer Sales Tax Remittance provisions.
2. \$50 million decrease from the Minimum Franchise Tax First Year Exemption
3. \$1.8 billion from the Net Operating Loss Suspension
4. \$2 billion from the Tax Credit Limits
5. \$611 million from the interaction between the Tax Credit Limit provisions and the Net Operating Loss Suspension provisions.

VOTES:

SENATE FLOOR: 27-9-2

YES: Allen, Archuleta, Atkins, Beall, Bradford, Caballero, Dodd, Durazo, Galgiani, Glazer, Hertzberg, Hill, Hueso, Hurtado, Leyva, McGuire, Mitchell, Monning, Pan, Portantino, Roth, Rubio, Skinner, Stern, Umberg, Wieckowski, Wiener

NO: Bates, Chang, Grove, Jones, Moorlach, Morrell, Nielsen, Stone, Wilk

ABS, ABST OR NV: Borgeas, Jackson

UPDATED:

VERSION: June 10, 2020

CONSULTANT: Genevieve Morelos / BUDGET / (916) 319-2099