



Special Legislative Update ■ May 7, 2020

Governor Newsom Previews Budget Shortfall... And It's Really Big

In a surprise [update](#) from the Department of Finance, we learned today just how massive the state's looming budget deficit is: \$54.3 billion. The size of the budget hit reflects a combination of revenue loss, a spike in caseloads, and expenditures associated with the COVID-19 pandemic. The Governor's May Revision, expected on Thursday, May 14, will have to offer solutions to cover a shortfall that represents nearly 37 percent of the current \$147.8 billion General Fund budget, absent significant assistance from the federal government.

The bulk of the deficit comes from a projected \$41.2 billion revenue decline over the next 14 months from the Governor's January budget assumptions. Finance indicates that they expect the state's big three tax sources — personal income, sales, and corporations — will plummet by about 25 percent.

K-12 schools and community colleges will lose an estimated \$18 billion under a revised Proposition 98 calculation, even as they adjust to a new socially-distanced learning format.

Further, Finance anticipates skyrocketing caseloads for health and human services programs, adding an estimated \$7.1 billion in costs, while additional expenditures related to the pandemic response effort will cost an additional \$6 billion.

Finance also points out that the size of the estimated deficit is more than three and a half times the updated size of the state's Rainy Day Fund, which, under any other circumstance, was broadly considered quite healthy.

Today's announcement outlines a deficit significantly larger than that earlier estimated by the Legislative Analyst's Office (LAO) of about \$35 billion, but we anticipate the LAO will provide its updated assessment of the state's fiscal position to the Legislature shortly after the release of the May Revision. It is important to note, too, that revenue projections in this environment are particularly challenging for even the most seasoned experts.

Governor Newsom used today's announcement to make his case for additional resources from the federal government, highlighting the state's exceptionally positive fiscal circumstances and outlook prior to the COVID-19 pandemic and noting that the state's needs extend beyond state

government to local communities where front-line workers are keeping Californians safe and healthy.

Governor Issues More Detailed and Industry-Specific Directives on Early Stage 2 Re-opening

In the lead-up to the modifications to the state's stay-at-home order – effective tomorrow, May 8 – Governor Newsom issued updated [guidance](#) to ensure steps are taken to reduce risk and ensure safe environments for workers and consumers alike. Industry-specific directives for this early stage of re-opening can be found [here](#). Before reopening, all businesses must conduct a detailed risk assessment and implement a site-specific protection plan. Not all businesses deemed lower-risk are permitted to resume operations at this time; a second phase of the Stage 2 opening will extend to in-store retail, dine-in restaurants, specified personal services, and the like. The Governor further clarified that the gradual reopening beginning tomorrow does not apply to workplaces where the risk of spread remains high, including salons, gyms, tattoo parlors, bars and nightclubs, entertainment venues, theme parks, museums, public pools, playground, religious services, as well as hotel/lodging for non-essential (leisure/tourism) purposes.

Importantly, the Governor's announcement also covered the process that will permit some counties to accelerate through the phases of Stage 2. Counties wishing to pursue the variance option and ease restrictions on additional workplaces than what is permissible in the state's revised order effective tomorrow must meet specified readiness criteria, consulted with the California Department of Public Health, and submitted a COVID-19 variance [attestation form](#). Details on this process are covered in detail in this [memo](#).

The state has established a [portal](#) to solicit public input into future guidance for recovery and re-opening.

Hospitals Ask for State Fiscal Help

The California Hospital Association (CHA) is asking the Governor and Legislature for \$4.1 billion funding in funding to address hospital costs associated with the COVID-19 pandemic. Arguing that California hospitals' short-term losses already exceed \$10 billion and may rise to \$15 billion or more, CHA has asked for: 1) \$1 billion in the current year and 2) \$3.1 billion in the budget year for an Emergency Section 1115 Waiver to support hospitals.

CHA argues that surge preparation has impacted hospitals, including a 50 percent decline in emergency care; revenue losses averaging 20 to 30 percent; as well as significant costs incurred to do special COVID-19-ready construction, purchase personal protective equipment to keep workers safe, stand up alternate sites of care, and more. The Governor's six indicators to reopen our economy specifically rely on the surge capacity of hospitals. Hospital surge capacity impacts schools, businesses, and other sectors reopening.

To date, about \$3 billion in federal funds have been allocated to California hospitals. CHA estimates that the federal funds account for about 4 percent of the total made available to health

care providers nationally; California's health care system cares for 12 percent of our nation's population, making the federal funds insufficient.