Date:       June 4, 2018

To:         Mayor and Members of the City Council

From:       Patrick H. West, City Manager

Subject:    State Budget: Governor’s FY 19 May Revision

Introduction
Governor Jerry Brown released his May Revision to the Fiscal Year (FY) 19 State Budget on May 11, 2018. In it, there is an $8 billion surplus at the close of FY 18, with State revenues that continue to exceed expenditures for FY 19.

Summary
The State’s FY 18 is projected to close with an $8 billion surplus, while the State’s FY 19 budget is projected to also have a healthy surplus. For FY 19, the Governor is proposing $142 billion in General Fund revenues available, and expenditures totaling $137.5 billion. While a continued rise in revenues is expected, uncertainties at the federal level could impact California with respect to education and healthcare. The Governor noted that California is spending more on K-12 education, community colleges, and healthcare than ever before.

With the increase in revenues, the Governor is proposing to:

- Increase the Rainy Day Fund to $13.7 billion in FY 19 by investing in the maximum of 10 percent of the State’s projected General Fund.
- Provide a one-time increase of $359 million for Homelessness in FY 19; and
- Provide counties with an additional $312 million for programs that support mental illness. Of this amount, $254 million is intended to serve youth with mental illness, with an emphasis on teens.

The Governor’s May Revision also proposes to place the $2 billion “No Place Like Home Program” on the November 2018 ballot. This revenue source was signed into law in 2016 as AB 1618. AB 1618 proposed to re-purpose existing Proposition 63, Mental Health Services Act, bonds to construct permanent supportive housing for chronically homeless persons experiencing mental illness and provide other support services. This change has since been the subject of litigation. Should the Legislature adopt the proposal to place the “No Place Like Home Program” on the November 2018 ballot, the election will include at least two housing bond measures:

- No Place Like Home Program – This was adopted by the Legislature in 2016 as AB 1618 to provide $2 billion for permanent supportive housing; and
- Veterans and Affordable Housing Bond – This was adopted by the Legislature in 2017 as SB 3 to provide $4 billion for veterans housing, multifamily housing, transit-oriented housing, and create a Local Housing Trust Fund Matching Grant Program.
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State Budget Items

Affordable Housing and Homelessness

The Governor’s May Revision adds additional one-time funds for housing to those that were originally proposed in his January Budget. The May Revision also includes $359 million in new one-time funds for homeless services programs. The Governor views these one-time funds as a "bridge" to continue and/or initiate local efforts until additional dollars from the No Place Like Home Program and Veterans and Affordable Housing Bond are made available. The chart below summarizes the Governor’s proposed allocation of new one-time revenues. Additional details on each program follow.

![Chart: Homelessness Response Proposal](chart.png)

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<th>Department</th>
<th>Program</th>
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<td>Domestic Violence Shelters and Services</td>
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<td>Homeless Youth and Exploitation Program</td>
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<td>Department of Health Care Services</td>
<td>Homeless and Mental Illness Program</td>
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<td>Total</td>
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* Housing within the Business, Consumer Services, and Housing Agency.

Homeless Coordinating and Financial Council

- **Emergency Homeless Aid Block Grants ($250 million)** – If adopted, this would create a one-time Homelessness Emergency Aid block grant of $250 million administered through Continuums of Care (federal HUD designations) for cities, counties, or joint powers authorities that declare a local shelter crisis and identify city-county coordination. Grants can be used for emergency housing vouchers, rapid rehousing, emergency shelter construction, and use of armories to provide temporary shelters, among other activities.

Department of Social Services

- **CalWORKs Housing Supportive Program ($24.2 million)** – If adopted, this funding would expand the existing $47 million CalWORKs housing support program with an increase of $24.2 million in FY 19.

- **CalWORKs Homeless Assistance Program ($8.1 million)** – If adopted, this funding would increase funding for the CalWORKs Homeless Assistance Program by $8.1 million in FY 19 to raise the payment from $65 per day to $85 per day to provide families with up to 16 days of temporary shelter.

- **Home Safe Pilot Program ($15 million)** – The May Revision proposes $15 million, on a one-time basis, to fund a pilot program within Adult Protective Services. The pilot provides housing-related supports to seniors experiencing homelessness or at risk of losing their
homes by providing temporary rental or utility assistance, housing repairs, landlord mediation, and case management. The funding will be available to participating counties over a three-year period with a local match.

Office of Emergency Services

- **Domestic Violence Shelters and Services ($10 million)** – If adopted, this funding would provide one-time funding of $1 million through the California Office of Emergency Services for additional domestic violence service providers for projects that include emergency “safe” homes or shelters for victims and their families.

- **Homeless Youth and Exploration Program ($1 million)** – If adopted, this funding would provide one-time funding of $1 million through the California Office of Emergency Services to augment the Homeless Youth and Exploration Program for homeless and exploited youth shelters that serve unaccompanied minors.

Department of Health Care Services

- **Homeless and Mental Illness Program ($50 million)** – If adopted, this funding would provide a one-time augmentation of $50 million for the Department of Health Care Services to provide counties with funding for intensive outreach, treatment and related services for homeless in need of mental health services, as referenced in the Health and Human Services Chapter.

- **Additional Mental Health Investments** – Although primarily a county responsibility, mental health issues affect the entire state. Such funding benefits enhance early detection of mental health problems and the education of mental health professionals. The May Revision proposals include the repayment of $254 million plus interest in mandate claims to give counties additional resources for youth with mental illness, with an emphasis on teens.

Cannabis Excise Taxes

In November 2016, voters approved Proposition 64, the Adult Use of Marijuana Act which legalized the adult-use sale and production of cannabis to persons over the age of 21. As of January 1, 2018, the Adult Use Marijuana Act levies new excise taxes on the cultivation and retail sale of both adult-use and medical cannabis. The 15 percent tax on retail price of cannabis is expected to generate $185 million in 2017-18 and $630 million in 2018-19. However, preliminary data has indicated revenue receipts are significantly lower than anticipated, as cannabis projects are subject to great uncertainty.

Statewide Transportation Infrastructure Funding

The Governor's May Revision leaves the January FY 19 transportation budget proposal unchanged. In January, the Governor proposed $4.6 billion in new transportation funding. The new funding from SB 1 revenues include $1.2 billion in additional funding for cities and counties. The revenues are allocated by statutory formula to the state for highways, to cities and counties for local roads, and to transit agencies for operations and capital expenditures. In FY 19, Long Beach expects to receive $8 million in Road Maintenance Rehabilitation funding with an increase each year until reaching $11 million per year once all revenue mechanisms are in place. It is
expected that there will be an attempt to repeal SB 1 based on constitutional grounds. A successful repeal approved by voters in November 2018 would mean that future expected SB 1 revenue would no longer be allocated to Long Beach. However, the proposed repeal would not impact State Highway Users Tax Account (HUTA) dollars currently allocated to cities for streets and roads. In FY 19, Long Beach is estimated to receive $11.3 million from HUTA. City staff will maintain a close on eye on SB 1 repeal efforts. The Road Maintenance and Accountability Act funding is as follows:

Next Steps

The State Legislature is required to adopt the State’s FY 19 budget by June 15, 2018. The new State fiscal year will begin July 1. If you have any questions, please contact Diana Tang, Manager of Government Affairs, at 562-570-6506.

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