

Date: July 14, 2020

To: Mayor and Members of the City Council

From: Thomas B. Modica, City Manager 

Subject: **Adopted State FY 21 Budget**

On June 29, 2020, Governor Newsom approved the State's FY 21 Budget, a \$202.1 billion spending plan. Facing the first deficit in eight years, estimated at \$54.3 billion over multiple budget cycles, the Budget leverages \$11.3 billion in reserves, \$9.5 billion in Federal CARES Act dollars. It also anticipates \$14 billion in additional Federal stimulus to preserve core health and social services programs, fund education and child care, and provide resources to counties and cities to manage the public health and economic impacts of the COVID-19 pandemic. The purpose of this memorandum is to outline how certain provisions of the adopted FY 21 Budget impact the City.

Budget Overview

In the span of the four months between the Governor's January 2020 budget proposal and his May Revision, the COVID-19 pandemic transformed the State's economic condition to such a degree that the budget was largely unrecognizable. Given the substantial budget overhaul necessitated by COVID-19, the Legislature was forced to condense negotiations and stakeholder engagement that typically takes multiple months into just four weeks, in order to meet their Constitutional deadline to pass the State budget by June 15. While successful in meeting this deadline, it was not until the following week, on June 22, that the Legislature came to a final agreement with the Governor, and the FY 21 Budget was enacted on June 29.

The adopted FY 21 Budget differs in important ways from the Governor's May Revision, discussed in detail in a [memorandum](#) dated May 27, 2020. While the Governor's and the Legislature's proposals both anticipate \$14 billion in additional Federal stimulus, the final FY 21 Budget seeks to retain certain programmatic investments through an alternative approach to triggered cuts. Instead of the May Revision proposal to institute immediate budget cuts and then reinstate projects when the anticipated Federal stimulus is allocated to the State later this year, the adopted Budget triggers solutions including drawing down reserves and deferring investments in CalPERS, education, and health, if the State does not receive additional Federal assistance by September 1, 2020.

This approach to triggered solutions not only extends the timeline for potential spending cuts, but also rejects certain austerity measures proposed in the May Revision, notably significant decreases in public health and education funding. Most important for the City, the final Budget allocates critical resources to Long Beach and other local jurisdictions to help manage the challenges brought on by the COVID-19 pandemic. The table below

provides an overview of how negotiations shaped the final adopted Budget in key priority areas for the City, including COVID-19 support, homeless services, and health.

	May Revise (May 14)	Legislature Proposal (June 15)	Adopted Budget (June 29)
Key Budget Provisions	<i>COVID-19 Support</i>		
	<ul style="list-style-type: none"> • \$450 million to cities: <ul style="list-style-type: none"> ◦ \$225 million to 7 big cities (300-500k in population) ◦ \$225 million to small cities • \$1.3 billion to counties for public health response 	<ul style="list-style-type: none"> • \$500 million to cities: <ul style="list-style-type: none"> ◦ \$225 million to 7 big cities (300-500k in population) ◦ \$275 million to small cities • \$1.289 billion to counties for public health response 	<ul style="list-style-type: none"> • \$500 million to cities: <ul style="list-style-type: none"> ◦ \$225 million to 7 big cities (300-500k in population) ◦ \$275 million to small cities • \$1.289 billion to counties for public health response
	<i>Housing and Homelessness</i>		
	<ul style="list-style-type: none"> • \$750 million in CARES Act funds for homelessness, including \$600 million for Project Homekey— hotel/motel acquisition 	<ul style="list-style-type: none"> • \$550 million in CARES Act funds for homelessness for Project Homekey— hotel/motel acquisition • \$350 million from General Fund for homelessness 	<ul style="list-style-type: none"> • \$550 million in CARES Act funds for homelessness for Project Homekey— hotel/motel acquisition • \$300 million from General Fund for homelessness
<i>Public Health</i>			
<ul style="list-style-type: none"> • Significant decreases in public health funding, including roll back of realignment funds for health departments and a \$4.5 million reduction in the Black Infant Health Program 	<ul style="list-style-type: none"> • \$1 billion to backfill health realignment revenues (\$600 million would be triggered off without Federal support) • Rejects reduction of \$4.5 million in the Black Infant Health Program 	<ul style="list-style-type: none"> • \$750 million to backfill health realignment revenues (\$250 million triggered on with Federal support) • Rejects reduction of \$4.5 million in the Black Infant Health Program 	

Long Beach Impacts

COVID-19 Support

The State of California received approximately \$9.5 billion from the Federal CARES Act to respond to the COVID-19 crisis. The FY 21 Budget allocates \$500 million from the State’s share of CARES Act funds to local governments that did not receive allocations from the Federal government, due to the 500,000-population threshold. This includes \$225 million for cities with a population between 300,000 and 500,000, and \$275 million to cities with a population less than 300,000. Within each category, funding is allocated based on share of population and is contingent upon the local jurisdictions demonstrating

adherence to Federal guidelines and the State's stay-at-home order. These funds must be expended on public health, public safety, homelessness, and other economic recovery initiatives by December 30, 2020.

At roughly 475,000 in population, Long Beach is the largest California city to not receive a direct Federal allocation from the CARES Act. Long Beach expects to receive approximately \$40.3 million from the State's FY 21 Budget. Since the passage of the CARES Act, Mayor Garcia, the City Council, and City staff have advocated for the inclusion of direct COVID-19 support to cities in the State budget. Staff is currently in the process of developing the City's proposed FY 21 Budget, and the CARES Act proposal is in front of the Council for consideration on July 14.

Homelessness and Housing

In his State of the State Address on February 19, 2020, Governor Newsom identified homelessness as the single greatest challenge facing California. Prior to the COVID-19 crisis, there were an estimated 150,000 people experiencing homelessness in California. The public health and economic effects of the pandemic have undoubtedly exacerbated this issue.

In April, the Governor announced a statewide goal to secure 15,000 hotel and motel rooms to house people experiencing homelessness and to help mitigate the spread of COVID-19 through Project Roomkey. Statewide, more than 15,600 rooms have been secured and an estimated 14,200 individuals have been served through this program, according to a [press release](#) dated June 30, 2020. In order to ensure program participants have long-term housing opportunities after COVID-19, the Governor's May Revision included funding to provide affordable and transitional housing through a new program dubbed Project Homekey. The adopted Budget includes \$550 million from the State's CARES Act dollars to administer this program to acquire and rehabilitate hotels, motels, or hostels; lease properties; convert units from nonresidential to residential; purchase affordability covenants and restrictions for units; and cover relocation costs for individuals who are displaced. These projects will also receive an exemption from the California Environmental Quality Act through July 1, 2021.

Despite this innovative use of CARES Act funding to address the worsening homelessness crisis in California, these funds are roughly half of the \$1 billion investment proposed in the Governor's January proposal and must be expended by the end of the calendar year, following CARES Act guidelines. Recognizing these limitations, the Big City Mayors advocated for the Legislature to include more flexible resources that may be leveraged through the fiscal year. Accordingly, the adopted Budget allocates \$300 million in General Fund dollars to homelessness, distributed by the Homeless Housing, Assistance and Prevention formula to large cities, continuums of care, and counties to address immediate homelessness challenges at the local level. Long Beach is expected to receive roughly \$3 million based on this methodology.

The Budget also includes resources to support affordable housing in California, such as \$45 million to the Department of Housing and Community Development for moderate-income housing and \$500 million in State Low Income Housing Tax Credits from 2020-21. Furthermore, the Budget seeks to extend homeowner and tenant protections by allocating \$300 million in National Mortgage Settlement funds for housing counseling services and mortgage assistance to borrowers who own residential properties with four or fewer units, as well as \$31 million to Judicial Council for legal services related to eviction defense. Aside from several eviction moratorium bills in the Legislature, there is only one remaining proposal, Senate Bill 1410 (Caballero and Bradford), that would offer relief to both tenants and property owners. The City submitted a [letter of support](#) for this proposal on July 2, 2020. For more information on housing assistance programs, see the [memorandum](#) dated June 1, 2020.

Public Health

As one of only three California cities with a Health Department, Long Beach is in a unique position to lead the local response to COVID-19. However, as State emergency health expenditures have skyrocketed to meet the COVID-19 crisis—estimated at \$6 billion for public health and \$7 billion for Medi-Cal—the Governor’s May Revision proposed cutbacks to key funding programs that the City relies on for maintaining effective public health resources both during and after the pandemic. Funding for some of these public health priorities have been reinstated in the adopted Budget.

Central among these restored priorities is funding to partially offset an estimated \$1.6 billion loss in realignment revenues that fund public health efforts statewide. The adopted Budget allocates \$750 million in General Fund dollars, with an additional \$250 million triggered by Federal stimulus, to backfill this shortfall for public health, mental health, and social services. Long Beach expects to receive \$562,079 in the first allocation and another \$187,360 dependent on Federal support. These funds help sustain critical programs within the City’s Health and Human Services Department, including our Public Health Laboratory and Communicable Disease and Surveillance teams integral to COVID-19 response.

The Governor’s January plan to increase the Black Infant Health program by \$4.5 million has also been restored in the adopted Budget. Long Beach is one of only two California cities that participate in this program to improve the health conditions for Black women and their families, and these additional funds are critical to strive for equitable public health response to COVID-19. As detailed in a [memorandum](#) dated June 29, 2020, persistent racial health inequities inordinately affect communities of color, especially Black residents, in Long Beach. These health inequities have been heightened by the COVID-19 pandemic. The mortality rate among Black residents (22 percent) is almost twice the population size (12 percent).

Other Provisions of Note

In addition to the broad public health challenges effectuated by the COVID-19 pandemic, the State Budget seeks to facilitate economic recovery through targeted investments in underserved communities. The Budget expands the California Earned Income Tax Credit (CalEITC)—a program that provides a financial boost for low-income working families—to tax filers with children under age six using an Individual Taxpayer Identification Number, rather than a Social Security number. The Budget also allocates \$10 million to fund the Social Entrepreneurs for Economic Development Initiative, which offers micro-grants and entrepreneurial training to immigrants.

The adopted Budget further rejects proposed cuts in early education and childcare programs and provides \$100 billion in total funding for K-12 education, through spending deferrals and Proposition 98 minimum guaranteed funding levels. In contrast to the May Revision proposal to implement 10 percent cuts to the California State University and University of California systems, the adopted Budget would restore these cuts on October 1, if the State receives additional Federal stimulus.

Next Steps

The State's FY 21 Budget was effective July 1, 2020, and updates to the Budget are likely in August, following revenue collections and anticipated Federal stimulus. Staff will continue to monitor the Budget and provide additional information as appropriate. If you have any questions, please contact Tyler Bonanno-Curley at (562) 570-5715 or Tyler.Curley@longbeach.gov.

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