




Date: January 17, 2020

To: State Legislative Committee

From: Thomas B. Modica, Acting City Manager 

Subject: **Governor Newsom's Proposed FY 21 State Budget**

---

### **Introduction**

The Governor introduced the proposed FY 21 State Budget (Budget) on January 10, 2020. The Budget is projected to remain balanced and prioritize strong budget resiliency. The Budget assumes \$156.9 billion in General Fund revenues and expenditures totaling \$153.1 billion. Comparably, the FY 20 Budget (enacted in June 2019) included \$150.6 billion in revenues and \$147.8 billion in expenditures. Most of the Budget's surplus is devoted to one-time spending to make significant investments in critical areas, while maintaining reserves.

In preparation for an eventual downturn of the State's economy, the Budget proposes to bring the Rainy Day Fund to 100 percent of its constitutional target by means of a \$2 billion deposit. The State's budgetary deficit of \$1.9 billion is paid off. Budget resiliency includes a Rainy Day Fund of \$18 billion, including \$1.6 billion toward the Special Fund for Economic Uncertainties. This memorandum provides additional details on the Budget.

### **State Budget Items**

#### **Homelessness**

The Budget proposes \$1 billion toward addressing homelessness. The State will deploy multi-agency strike teams to assist cities with moving individuals from encampments to shelters and connecting them with services. This effort builds upon Governor Newsom's 100-Day Challenge initiative, issued to local governments in December 2019, to encourage additional local jurisdictions to accept 100-Day Challenges to end homelessness for targeted populations. Participating agencies will receive technical assistance.

#### *California Access to Housing and Services Fund (Fund)*

The Budget includes \$750 million one-time General Fund to establish the Fund. The primary goals of the proposed Fund are to reduce homelessness by moving individuals and families experiencing homelessness into stable housing and to increase the number of units available as a stable housing option. Regional administrators will be contracted through the State Department of Social Services to distribute funds (i.e., short- and long-term rental subsidies and funding capital projects.) The Fund also enables regional partners to consolidate federal, State, local and private funding sources.

#### **Affordable Housing**

In total, the Budget proposes \$6.8 billion across State departments to address the housing crisis, including \$10 million General Fund annually for three years to increase housing production in

addition to revamping the next Regional Housing Needs Assessment (RHNA) process by 2023. The State will continue to work with the Legislature to pursue policy changes that support housing production and remove barriers for local jurisdictions. A detailed affordable housing funding chart is provided in Attachment A.

In 2014, the State began investing 20 percent of Cap and Trade auction proceeds toward the Affordable Housing and Sustainable Communities Program (Program). For FY 21, the Program will receive around \$468 million to fund land-use, housing, transportation, and land preservation projects that reduce greenhouse gas emissions.

The 2019 State Legislature passed the strongest renter protection package in the nation, the Tenant Protection Act of 2019 that took effect on January 1, 2020. Annual rent increases may not exceed 5 percent, plus inflation, and renters are protected from discriminatory and retaliatory evictions without cause.

### **2020 Five-Year Infrastructure Plan (Plan)**

The \$53 billion Plan toward State infrastructure consists of four main elements: climate resilience, education, broadband and other critical infrastructure. For FY 21, the Plan includes \$5 billion and \$1.1 billion for public transit and active transportation projects, respectively. The Road Repair and Accountability Act of 2017 (SB 1) increases available State Highway Operations and Protection Program (SHOPP) funding up to \$22 billion for new State highway repair projects. An additional \$1 billion for partnerships between State and local transportation agencies is included in the Plan.

### **Cannabis**

The Budget includes \$329.9 million from the Cannabis Tax Fund and the Cannabis Control Fund. As the legal cannabis market continues to develop and the excise tax revenues continue to increase, the forecast for revenues includes \$550 million in FY 21, however, this estimate is subject to great market uncertainty. The Cannabis Tax Fund is proposed to allocate nearly \$333 million toward youth education, prevention and other allocations, pursuant to Proposition 64.

The State plans to consolidate the three cannabis licensing entities into a single Department of Cannabis Control by July 2021. A single department with dedicated enforcement will centralize and align critical regulatory functions to build a successful legal cannabis market and create a single point of contact for cannabis licensees and local governments. The Administration will submit more details on this proposal in spring 2020.

### **Public Safety**

The California Department of Corrections and Rehabilitation (CDCR) incarcerates people convicted of the most violent felonies, supervises those released to parole, and provides rehabilitation programs to help them reintegrate into the community. The Budget proposes total funding of \$13.4 billion, an \$800 million increase from FY 20, comprised of \$13.1 billion General Fund and \$306.5 million from other funds. For local public safety, the Commission on Peace Officer Standards and Training proposes \$35 million, a negligible increase from FY 20 following a \$15 million increase between FY 19 and FY 20.

The Budget reinstates its vested interest to improve outcomes for incarcerated individuals and enhance public safety by improving rehabilitation and reentry programs. In total, FY 21 includes \$552.7 million General Fund for rehabilitation programs. This includes \$6.2 million General Fund, increasing to \$10.1 million in FY 22, and after, to establish the Youth Offender Rehabilitative Communities which are institutional housing and behavioral health facilities for offenders under the age of 26.

## **Health**

The Budget includes \$167.9 billion for the Health and Human Services Agency, \$47.4 billion are State General Funds. FY 21 continues to progress toward universal health care coverage and this Budget proposes a \$5 billion increase to the Agency from FY 20. The Budget for Medi-Cal in FY 21 is \$107.4 billion, a \$2.2 billion increase from \$105.2 billion in FY 20. Medi-Cal is projected to cover approximately 12.9 million individuals in California in FY 21, approximately one-third of the State's population. This includes expansion of coverage to low-income undocumented individuals ages 65 and above.

### *Medi-Cal Healthier California for All Initiative (Initiative)*

The Budget proposes to include \$695 million, \$348 million from the General Fund, for the Initiative to address homelessness by better serving individuals experiencing mental illness and homelessness. Formerly known as the California Advancing and Innovating Medi-Cal Initiative or CalAIM, the Initiative will go into effect on January 1, 2021. The Initiative will provide for enhanced care management and infrastructure to expand whole person care services statewide. In alignment with the Initiative, the Budget proposes to include \$45.1 million General Fund for the implementation of a Behavioral Health Quality Improvement Program.

### *California Work Opportunity and Responsibility to Kids (CalWORKs)*

The Temporary Assistance for Needy Families (TANF) in the State Department of Social Services is allocated \$8.3 billion, an aggregation of federal, State and local funds. This includes \$5.7 billion for CalWORKs program expenditures and \$2.6 billion for partner programs, including child care, Child Welfare Services and Cal Grants. Due primarily to the State's economy, the CalWORKs caseload is expected to decrease by 1.4 percent from FY 20, while the half billion-dollar increase allows CalWORKs grant levels to increase by 3.1 percent, effective October 1, 2020.

## **Emergency Preparedness**

Ten of the most destructive fires in California have occurred since 2015. The Budget includes \$120 million General Fund and 677 positions over five years to provide the Department of Forestry and Fire Protection with flexible resources for fire mitigation and resiliency. The Office of Emergency Services is proposed to receive \$114.4 million to improve the State's emergency response and preparedness capabilities.

The Budget proposes \$50 million one-time General Fund to support additionally needed community resiliency funds. Building upon FY 20 power resiliency investments, this proposal will support a matching grant program for local governments to prepare for, respond to, and mitigate impacts of power outages.

A California Budget would be incomplete without mention of earthquake preparedness. The California Earthquake Early Warning System is anticipated to operate by June 2021. \$17.3 million one-time General Fund is allocated to operate and maintain the system in FY 21.

#### *California Disaster Assistance Act (CDAA)*

The CDAA is projected to receive a \$16.7 million one-time General Fund increase from FY 20 to repair or replace public real property damaged by disasters. This increase would bring the total budget for CDAA to \$79.3 million in FY 21. This is a proposed decrease of \$12.1 million from FY 20.

#### *Wildfire Mitigation Financial Assistance Program*

Chapter 391, Statutes of 2019 authorizes the Program, operated by CAL FIRE and Cal OES. \$110.1 million is proposed for this Program, \$100 million of which will focus on homes located in low-income communities facing high fire risk. Pursuant to Chapter 391 requirements, \$8.3 million is included for the Greenhouse Gas Reduction Fund and 26 positions for CAL FIRE to support defensible space inspections and complete a regional fire prevention capacity review.

### **K-12 Education**

The Budget proposes an increased investment of \$2.4 billion in schools and community colleges. The State's FY 21 Budget provides \$84 billion in Proposition 98 dollars for K-12 education, an all-time high. Proposition 98 funds are distributed under the Local Control Funding Formula (Formula). FY 21 proposes a \$1.2 billion augmentation to the Formula, including \$900 million for educator recruitment and training, \$900 million for special education and \$70 million to improve school meal programs, and brings total Formula funding to \$64.2 billion.

#### *Early Education*

The Budget expands upon the State's FY 20 \$156 million Proposition 98 General Fund commitment to provide preschool for all children with increases of \$32 million one-time and \$2 million ongoing Proposition 98 General Fund, for a total of \$159 million in FY 21. This amount will support an additional 10,000 income eligible four-year-olds to attend full-day and full year access to State preschool.

Full-day kindergarten also remains a funding priority. \$300 million Proposition 98 General Fund is available to support the conversion of part-day kindergarten programs into full-day programs.

The Public Preschool, K-12, and College Health and Safety Bond Act of 2020 will be on the March 3, 2020 ballot for voter consideration. Obligated by Chapter 530, Statutes of 2019, the \$15 billion general obligation bond would authorize school districts to construct and modify facilities to include preschool facilities. If approved, the State will propose legislation to provide a per-pupil grant enhancement to local educational agencies.

### *Addressing the Achievement Gap*

California is working toward closing achievement gaps although, persistent gaps remain. Students experiencing homelessness and students with disabilities continue to perform differently compared to their peers.

The State is introducing \$300 million one-time Proposition 98 General Fund to establish Community School grants for local educational agencies to address achievement gaps for students experiencing conditions associated with poverty. Community schools are unique educational models that integrate health and mental health services along with offering a range of community services such as before and after school care.

Students with disabilities are more likely than their peers to score below the State standards on State English language arts and math tests. To improve local educational agencies' ability to effectively support students with disabilities, the Budget proposes a new special education formula composed of \$645 million, a three-year average of local educational agency ADA, combined with a 15 percent increase to the Proposition 98 General Fund contribution. Of high importance to the Governor, the Budget proposes a \$4 million one-time Proposition 98 General Fund for dyslexia research, training and a statewide conference.

### **Higher Education and Community Colleges**

The Budget proposes total funding of \$36 billion to the UC, CSU and Community College systems. This is a \$111 million increase from FY 20 funding. The UC system is proposed to receive \$9.5 billion in FY 21, a \$125 million increase from FY 20, while \$7.9 billion is included for the CSU system, a \$109 million decrease from FY 20. Funding for the Community College system will increase by \$140 million in FY 21 to a total expenditure of \$15.8 billion.

The CSU continues to make significant strides to increase the four-year graduation rate to at least 40 percent and the two-year graduation rate to at least 45 percent by 2025. In tandem, the Budget proposes \$6 million one-time General Fund to support the development of degree and certificate completion programs through the Extended and Continuing Education programs.

As part of the Student-Centered Funding Formula (Formula) for California Community Colleges, the California College Promise Grant is anticipated to receive a \$1.5 million decrease in FY 21 General Fund to adjust for anticipated participation. Recognizing that the Formula is in its second year of implementation, allocations, including providing two free years of community college, remain relatively consistent from FY 20.

### **Grants for Animal Shelters**

FY 21 proposes \$50 million one-time General Fund for development of a grant program for animal shelters. The University of California Davis Koret Shelter Medicine Program will develop the program that will award about 100 shelters with funding to achieve the State's goal to treat and adopt out all dogs and cats that enter a shelter.

## **Broadband for All**

The State's Broadband for All strategy includes four elements: mapping connectivity, investing new resources, optimizing existing resources and coordinating government entities to prioritize connectivity across policies. Over five years, the State expects to provide \$260.9 million toward broadband infrastructure improvements and systemwide technology investments. In FY 21, Proposition 98 provides \$51.4 million for kindergarten-12<sup>th</sup> grade purposes and \$41.9 million for California Community Colleges.

## **2020 Census**

A complete and accurate count is vital to ensure appropriate allocations of resources statewide. To date, the State has allocated \$187.2 million to assist the U.S. Census Bureau and no additional funding is proposed for FY 21. The available funding is dedicated to an extensive outreach program including media campaigns and community based organizing to encourage participation in the 2020 Census.

## **Next Steps**

The Governor's next budget update will come in May 2020. The City will continue to monitor these developments and provide updates as appropriate.

If you have questions or comments, please contact Julia Katz, Government Affairs Analyst, at (562) 570-5191 or [Julia.Katz@longbeach.gov](mailto:Julia.Katz@longbeach.gov).

ATTACHMENT

JL:KJ:JK  
M:\IGR\STATE\STATE LEG COMM\MEMOS 2020\MCC\_JANSTATEBUDGET\_1-10-20.DOCX

CC: CHARLES PARKIN, CITY ATTORNEY  
LAURA DOUD, CITY AUDITOR  
DOUG HAUBERT, CITY PROSECUTOR  
TOM MODICA, ACTING CITY MANAGER  
KEVIN JACKSON, DEPUTY CITY MANAGER  
REBECCA GUZMAN GARNER, ACTING ASSISTANT CITY MANAGER  
AJAY KOLLURI, ACTING ADMINISTRATIVE DEPUTY TO THE CITY MANAGER  
MONIQUE DE LA GARZA, CITY CLERK  
ELEANOR TORRES, HARBOR DEPARTMENT MANAGER OF GOVERNMENT AFFAIRS

Attachment A

**2020-21 Affordable Housing Funding**  
 (Dollars in Millions)

<i>Department</i>	<i>Program</i>	<i>Amount</i>
Department of Housing and Community Development	Veterans and Affordable Housing Bond Act Programs (SB 3)	\$563.0
	No Place Like Home Program	\$400.0
	Building Homes and Jobs Fund Programs (SB 2)	\$277.0
	Federal Funds	\$68.0
	Veterans Housing and Homelessness Prevention	\$75.0
	Various	\$45.0
California Housing Finance Agency <sup>1/</sup>	Single Family First Mortgage Lending	\$2,500.0
	Multifamily Conduit Lending	\$600.0
	Multifamily Permanent Lending	\$140.0
	Mixed-Income Loan Program	\$180.0
	Innovative Fund Programs	\$60.0
	Single Family Down Payment Assistance (SB 3)	\$85.0
	Special Needs Housing Program	\$25.0 <sup>2/</sup>
Tax Credit Allocation Committee	Low Income Housing Tax Credits (Federal)	\$295.0 <sup>3/</sup>
	Low Income Housing Tax Credits (State)	\$601.0
	Farmworker Housing Assistance Tax Credits	\$1.0
Strategic Growth Council <sup>4/</sup>	Affordable Housing and Sustainable Communities	\$468.0
Department of Veterans Affairs	CalVet Farm and Home Loan Program (SB 3)	\$220.0
Office of Emergency Services	Domestic Violence Housing First Program	\$34.0
	Transitional Housing Program	\$40.0
	Specialized Emergency Housing	\$10.0
	Domestic Violence Assistance, Equality in Prevention and Services, Human Trafficking Victim Assistance, North American Domestic Violence and Sexual Assault	- <sup>5/</sup>
California Department of Corrections and Rehabilitation	Integrated Services for Mentally-Ill Parolees	\$4.0
	Specialized Treatment of Optimized Programming, Parolee Service Center, Day Reporting Center, Female Offender Treatment and Employment Program, Proposition 47 Grant Program	- <sup>5/</sup>
Department of Social Services	CalWORKS Family Stabilization, Housing Component	\$46.9
	CalWORKS Housing Support Program	\$95.0
Department of Public Health	HIV Care Program	- <sup>5/</sup>
	Housing Opportunities for Persons with AIDS (HOPWA)	\$4.0
	Housing Plus Program	\$1.0
<b>Total</b>		<b>\$6,837.9</b>

1/ Amount is based on lending activities from 2018/19.

2/ Amount represents voluntary allocations of local Proposition 63 funds from 16 participating counties.

3/ This represents the estimated 9 percent tax credits to be allocated in 2020 plus the estimated amount of 4 percent credits to be awarded in 2020.

4/ The Affordable Housing and Sustainable Communities program amount reflects 20 percent of the projected Cap and Trade revenues. The Transformative Climate Communities (TCC) program (\$47.5 million in carryover available for 2020-21) funds various activities, including affordable housing.

5/ The State provides a number of wrap-around supportive services through these programs including housing, which cannot be separated from the program's overall budget.