

Date: January 27, 2021

To: State Legislation Committee

From: Thomas B. Modica, City Manager 

Subject: **Governor Newsom's Proposed FY 22 State Budget**

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On January 8, 2021, Governor Newsom introduced the proposed FY 22 State Budget (Budget), which prioritizes funding to support COVID-19 recovery efforts. The Budget assumes \$158.3 billion in General Fund revenues and expenditures totaling \$164.5 billion. By comparison, the FY 21 Budget (enacted in June 2020) included \$156.9 billion in General Fund revenues and \$153.1 billion in expenditures. The State's fiscal foundation was strong ahead of the COVID-19 recession, and the FY 22 Budget includes \$34 billion in budget resiliency, with an anticipated budgetary surplus of \$18.4 billion. Most of the surplus is devoted to one-time spending to make significant investments in critical areas while maintaining reserves. The Budget proposes to bring the Rainy Day Fund to 100 percent of its constitutional target, totaling \$15.6 billion, and includes \$3 billion toward the Special Fund for School Stabilization. This memorandum provides additional details on the Budget.

### **Background**

The COVID-19 pandemic has led to an economic crisis worse than the Great Recession. The current crisis follows ten years of economic growth throughout the State, including 118 months of consecutive job growth and the State's unemployment rate at a low of 3.9 percent. Prior to the pandemic, the State also had record-high budget reserves, totaling \$21 billion. By May 2020, the State's economic outlook was bleak as the COVID-19 recession was felt statewide. In response, the State's adopted FY 21 Budget outlined in a July 14, 2020 [memorandum](#) drew down reserves, prioritized programmatic efficiency, and imposed triggered spending cuts.

Despite these grave economic challenges, the State has seen more revenues than expected in the previous budget and the proposed FY 22 Budget showcases the State's resiliency. Additional actions by the federal government in the most recent COVID-19 relief package, discussed in a December 30, 2020 [memorandum](#), better position the State for economic recovery in the years ahead. While the federal relief legislation did not include additional direct local funding to the City, it provided important stimulus to State government programs, individuals, businesses, and the health care industry. Attachment A is a table of the State's estimates from the recent COVID-19 relief package, totaling more than \$105 billion.

## **State Budget Items**

### **Early Action COVID-19 Economic Response**

The proposed FY 22 Budget recommends economic recovery measures reflecting the pandemic's fiscal impacts on low-wage workers, small businesses, and communities that have historically faced inequities. The Budget proposes for the Legislature to take early action on certain measures in the coming weeks to accelerate quicker recovery before FY 22 begins in July 2021.

#### *Immediate Economic Relief Package*

In recognition of the disproportionate impact the COVID-19 pandemic has had on low-income Californians and small businesses, the Budget proposes \$3 billion in pandemic relief for immediate action in January. The Golden State Stimulus Plan, totaling \$2.4 billion, would provide a \$600 payment to low-income workers who were eligible to receive the earned income tax credit in 2019, estimated at 4 million families. The payments would be in addition to the \$600 stimulus checks included in the last federal COVID-19 relief package.

The Governor's proposed early action package also includes \$575 million for grants to small businesses and small nonprofit cultural institutions disproportionately impacted by the pandemic. This would bring total relief for small businesses to over \$1 billion in the past year. Small businesses may also benefit from targeted fee relief for industries most impacted by the pandemic, such as restaurants and personal care services.

#### *Accelerated Job Creation and Sustainability*

Building upon actions taken in FY 21 to support small businesses, the Budget includes actions on several items to accelerate job creation. The Budget proposes \$777.5 million for a California Jobs Initiative to incentivize investments and job creation. As part of the State's sustainability initiatives, \$1.5 billion is allocated for infrastructure and zero-emission vehicle goals and \$300 million one-time General Fund dollars for critical Statewide deferred maintenance, including greening State infrastructure.

#### *State Evictions Moratorium*

As described in a September 29, 2020 [memorandum](#), Governor Newsom signed AB 3088 (Chapter 37, Statutes of 2020) into law to serve as the State's eviction moratorium through January 31, 2021. The Budget requests the Legislature continue deliberations to extend the moratorium. If extended, the eviction moratorium would increase unlawful detainer and small claims filings, and the Budget proposes \$11.7 million to help offset costs to trial courts. Staff will continue to monitor discussions about the evictions moratorium and will provide an update as needed.

## **COVID-19 Public Health Response**

The COVID-19 pandemic continues to surge, with hospitals and healthcare facilities burdened by the severe increase of cases following the 2020 holiday season. Testing, contact tracing, and vaccine administration remain vital to controlling the virus' rate of transmission. The Budget allocates \$2 billion for COVID-19 testing, in addition to \$473 million for contact tracing.

Supplies of the vaccine remain limited and are distributed in accordance with approved State guidelines. The Budget proposes \$372 million for vaccine distribution, including a public awareness campaign to increase vaccine adoption. The State also anticipates \$1.7 billion for testing and contact tracing and \$350 million for vaccines from the recent federal COVID-19 relief legislation.

## **Homelessness**

Since 2018, the State has provided local governments \$1.45 billion for the Homeless Housing, Assistance, and Prevention (HHAP) program, formerly HEAP, to address homelessness through regional coordination. The proposed FY 22 Budget does not include specific funding for HHAP, but instead focuses on increasing the State's affordable and transitional housing supply. Details of the funding distribution and allocation methodologies are not currently available. Staff will monitor any developments in these proposals as budget trailer bill language is released in the coming weeks. It is a top priority for the City to retain direct allocations and flexibility for spending these funds, as we have with the HHAP program.

### *Project Roomkey and Project Homekey*

The State's proposed FY 22 framework to end homelessness is composed of five components: prevention, shelter, housing, long-term supportive services, and conservatorship. The Budget builds upon investments for Project Roomkey and Project Homekey, totaling \$1.75 billion. The allocation is split among three priorities: \$750 million to purchase motels and hotels for transitional and long-term affordable housing; \$750 million to develop community mental health housing; and, \$250 million for housing dedicated for vulnerable seniors. This represents a \$60 million increase from FY 21.

### *Homeless Coordinating and Financing Council (HCFC)*

In October 2020, the Homeless Coordinating and Financing Council (HCFC) adopted a framework to strengthen relations across State, regional, and local homeless partners. The Budget includes \$2.8 million in one-time General Funds for the HCFC, tasked with compiling a comprehensive statewide homeless database in coordination with all 44 Continuums of Care in the State.

## **Affordable Housing**

Over the past few years, the State has invested billions of dollars to bolster housing production by increasing tax credits, loans, and infrastructure grants as means to address the State's housing affordability crisis. The COVID-19 pandemic has negatively impacted many tenants and homeowners, particularly low-wage workers and communities of color. Direct federal assistance, the Statewide eviction moratorium, and housing support from local governments have helped individuals facing economic hardship. The Budget includes \$2.3 billion for the Department of Housing and Community Development (HCD), \$797 million of which are State General Funds.

### *Low-Income Housing Tax Credits*

Following the previous two State budgets, the FY 22 Budget proposes a third round of \$500 million for low-income housing tax credits. This resembles no change from FY 21. The tax credits incentivize the development of affordable housing by providing a dollar-for-dollar credit against an investor's State or federal taxes owed.

### *Infill Infrastructure Grant Program*

The Budget includes \$500 million one-time General Funds for the Infill Infrastructure Grant Program, which would provide grants to local governments to spur housing development and promote job creation. This amount is unchanged from FY 21. The Budget requests the State Legislature to take legislative action to avail \$250 million of the proposed funds before the Budget is adopted.

### *Housing Accountability Unit*

The Budget also proposes \$4.3 million to establish a new Housing Accountability Unit within HCD. The Housing Accountability Unit would facilitate ongoing development of affordable housing by providing technical assistance, monitoring cities' land use practices, and enforcing existing housing laws. The proposal would be beneficial to cities like Long Beach because it would help hold other cities accountable when they do not meet State requirements or achieve their Regional Housing Needs Assessment goals.

## **Infrastructure**

The Budget includes a Five-Year Infrastructure Plan, totaling \$52 billion, which consists of four main elements: climate resilience, education, broadband, and other critical infrastructure. Caltrans proposes to invest an additional \$5.4 billion over the next decade for improvements to the State's transportation infrastructure. The Road Repair and Accountability Act of 2017 (SB 1) maintains available State Highway Operations and Protection Program (SHOPP) funding at \$17.4 billion for new State highway repair projects from FY 22 through FY 24. During the same period, \$2.4 billion will be included for the State Transportation Improvement Program to fund multi-modal transportation infrastructure.

### *Broadband*

In 2019, Governor Newsom launched the Broadband for All strategy, and by the end of 2020, the California Broadband Action Plan was adopted. This Plan centers on three goals: accessibility, affordability, and training and support. The Budget proposes \$353.9 million over the next five years for broadband infrastructure improvements and systemwide technology investments.

### **Cannabis**

Beginning July 1, 2021, the State plans to consolidate cannabis functions and roles across the Bureau of Cannabis Control, Department of Food and Agriculture, and Department of Public Health into a new stand-alone Department of Cannabis Control within the Business, Consumer Services, and Housing Agency. The consolidation is reflected by \$153.8 million in the Cannabis Control Fund. This was originally proposed in the Governor's FY 21 January Budget but was sidelined by the COVID-19 pandemic.

The Budget further estimates \$458.6 million for the Cannabis Tax Fund and \$153.8 million for the Cannabis Control Fund, totaling \$612.4 million. This represents an increase of \$146.2 million for the Cannabis Tax Fund, established by Proposition 64. The Budget includes statutory changes to the Cannabis Tax Fund to authorize permanent allocations to the Governor's Office of Business and Economic Development (GO-Biz) to facilitate greater equity in the cannabis workforce and market. The Cannabis Tax Fund is estimated to allocate \$15.5 million ongoing to GO-Biz and \$443.1 million to youth education, prevention, and other allocations pursuant to Proposition 64.

### **Health**

The Budget includes \$195.1 billion for the Health and Human Services Agency, \$79.2 billion of which are State General Funds. This is a \$34.4 billion increase in State funds from FY 21. The proposed FY 22 Budget continues the movement toward universal health care coverage with a Medi-Cal investment of \$117.9 billion, including \$22.5 billion from the General Fund. This year, Medi-Cal is anticipated to cover 15.6 million Californians, roughly 40 percent of the State population. This includes expansion of coverage to low-income young adults regardless of immigration status and new mothers with a maternal mental health diagnosis, in addition to providing Medi-Cal at no cost to individuals ages 65 and above.

### *California Advancing and Innovating Medi-Cal (CalAIM)*

Governor Newsom proposes to transform Medi-Cal, the State's Medicare program, into CalAIM. The transformation includes adding services such as reforming payment structures, enhancing case management, and implementing statewide whole person care. To phase-in the implementation of CalAIM beginning January 1, 2022, the FY 22 Budget includes \$1.1 billion, with \$531.9 million General Fund, and increases to \$1.5 billion in FY 24.

### *Behavioral and Mental Health*

Mental health services remain a priority in FY 22. The State anticipates receiving \$500 million through federal support for mental health and substance abuse. As part of the State's goal to safely reopen in-person learning for students, the Budget includes \$400 million in one-time funds for behavioral health services for students through schools. Recognizing the correlation between mental health and the digital divide, the Budget also proposes \$15 million ongoing General Fund dollars to ensure student access to electronic devices with high-speed internet to help access mental health services.

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

The Budget allocates \$9.3 billion to the Temporary Assistance for Needy Families (TANF) in the State Department of Social Services. An aggregation of federal, State, and local funds, this investment includes \$7.4 billion for CalWORKs program expenditures and \$1.9 billion for partner programs, such as childcare, Child Welfare Services, and Cal Grants. Since FY 11, CalWORKs caseloads have decreased each year. Due to the COVID-19 pandemic, the FY 22 caseload is estimated to serve 482,436 families, reflecting a 19 percent increase from the previously projected caseload for the year.

### **Environmental Justice**

The Budget includes \$300 million one-time General Fund investments dedicated to alleviating toxins in the environment. Funding will go toward toxic cleanup and investigations of highly contaminated properties. The Budget includes incentives to develop these properties into housing.

### *Cap and Trade*

The Budget proposes a \$1.4 billion expenditure plan for Cap and Trade, including several early action investments for FY 22. The expenditure plan includes \$325 million one-time to support the Community Air Protection Program to reduce emissions in communities disproportionately impacted by air pollution. The Budget also proposes \$54 million for the Safe and Affordable Drinking Water program, with an early investment of \$30 million.

To achieve the State's goal of phasing out sales of emission-emitting vehicles by 2035, the Budget proposes a \$1.5 billion strategy, \$1 billion of which is designated as future revenue to expand needed infrastructure, such as the installation of zero-emission vehicle charging stations. This is supported by a \$50 million one-time General Fund allocation in FY 22. Cap and Trade funds also include a \$465 million one-time General Fund investment to enhance accessibility to zero-emission vehicles.

## **Public Safety**

The California Department of Corrections and Rehabilitation (CDCR) incarcerates people convicted of the most violent felonies, supervises individuals released on parole, and provides rehabilitation programs to help them reintegrate into the community. The Budget proposes total funding of \$13.1 billion, a \$300 million decrease from FY 21, comprised of \$12.7 billion General Fund and \$345 million from other funds. Proposition 57, the Public Safety and Rehabilitation Act of 2016, is estimated to reduce the average daily adult inmate population by about 7,300 in FY 22, about 3,500 less than projected in FY 21.

The Budget proposes \$35.1 million General Fund for the Commission on Peace Officer Standards and Training. Of that total, \$22.9 million is proposed for reimbursement payments to local law enforcement agencies to attend training courses.

## **Emergency Preparedness**

Last year, the State experienced historically destructive wildfires. The Budget directs funding toward prevention, mitigation, and suppression of the State's natural disasters, including \$25 million one-time General Funds for the Office of Emergency Services and the Department of Forestry and Fire Protection to implement a home hardening pilot grant program. This is proposed as an early action item to launch prior to the Budget's enactment for prevention efforts ahead of the summer wildfire season.

### *Department of Forestry and Fire Protection (CAL FIRE)*

Given the increased threats posed by California wildfires, the Budget proposes significant investments to enhance the CAL FIRE prevention and suppression capacity, including \$143.3 million in one-time General Funds for additional fire crews and \$323 million for early action in the spring to accelerate wildfire prevention projects before next fire season. The Budget includes \$2.9 billion and roughly 8,700 positions for CAL FIRE. The Budget also includes \$48.4 million to support the phasing in of new firefighting aircrafts.

### *Office of Emergency Services (CalOES)*

The Budget includes an operational budget of \$1.9 billion for CalOES and funds 1,119 positions. This includes \$282 million General Funds to enhance emergency preparedness and response. The California Disaster Assistance Act is projected to receive \$256.1 million one-time General Funds, an increase of more than \$150 million compared to FY 21, for local governments to repair property damage arising from disasters that required state of emergency proclamations. To continue supporting the California Earthquake Early Warning System, the Budget allocates \$17.3 million one-time General Funds while continuing to evaluate ongoing revenues.

## **K-12 Education**

The Budget proposes an increased investment of \$14.9 billion in schools and community colleges, the highest investment in the State's history at a total of \$89.2 billion. The Budget provides \$85.8 billion in Proposition 98 dollars for K-12 education, in addition to \$3.4 billion non-Proposition 98 General Funds.

Proposition 98 funds are distributed under the Local Control Funding Formula (LCFF). The LCFF FY 22 total is \$64.5 billion, funding local educational agencies at their full formula amounts. Compared to the FY 21 Budget, which did not include cost of living adjustments, the FY 22 Budget proposes cost of living adjustments for FY 21 and FY 22, increasing LCFF funding by 3.84 percent, or \$2 billion.

### *Transition to In-Person Learning*

Governor Newsom aims to return students to in-person learning in the 2020-2021 academic year, subject to health orders. For this purpose, the Budget includes \$2 billion one-time Proposition 98 General Funds for In-Person Instruction Grants to educational agencies on a per-pupil basis. Educational agencies may use funding of \$450-700 per pupil for COVID-19 testing, personal protective equipment, and mental health support.

The Budget includes \$4.6 billion one-time Proposition 98 General Funds to address COVID-19-related learning loss in K-12 school districts with a focus on students who are low-income, English language learners, experiencing homelessness, or in foster care. Interventions may also include expanding the academic year or summer school.

Recognizing the immense toll the COVID-19 pandemic has had on teachers, the Budget includes \$315.3 million for educator professional development resources. The Proposition 98 General Fund includes several investments, such as \$250 million one-time for the Educator Effectiveness Block Grant and \$50 million one-time to develop statewide resources for social-emotional learning and trauma-informed practices.

### *Addressing the Achievement Gap*

The State is working to close the achievement gap, evidenced by \$400 million in investments over the past two years, and the FY 22 Budget expands early education resources and support for students with disabilities.

On December 1, 2020, the State released the Master Plan for Early Learning and Care (Master Plan). The Budget begins to fund the Master Plan's recommendations, such as expanding access to transitional kindergarten (TK), the first year of a two-year kindergarten program. The Budget includes \$250 million one-time Proposition 98 General Funds over multiple years to expand TK in local educational agencies.

The achievement gap is most pronounced for students with disabilities. The State has made special education investments of \$1.5 billion over the last two years, including adding \$545 million ongoing Proposition 98 General Funds. FY 22 builds upon existing investments to provide \$300 million ongoing Proposition 98 General Funds for the Special Education Early Intervention Grant program.

## **Higher Education**

The Budget proposes increasing funding to the higher education system and student aid with no tuition or fee hikes. Total funding to the UC, CSU, and community college systems is \$36.1 billion, representing a \$951 million increase from FY 21. The UC system would receive \$9.3 billion in FY 22, a \$384 million increase from FY 21; and the CSU system would receive \$7.8 billion, a \$410 million increase from FY 21. Funding for the community college system would increase by \$8.6 million in FY 22, totaling \$16.2 billion.

The CSU continues to exceed expectations toward achieving the CSU Graduate Initiative 2025, an initiative 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. The Budget also proposes \$15 million ongoing General Funds to support the expansion of the Basic Needs Initiative, a component of the CSU Graduate Initiative 2025.

In response to the COVID-19 pandemic, the Budget proposes \$250 million one-time General Funds to support workforce development and connections from higher education to gainful employment and an early action priority of \$353 million for workforce development. The Budget proposes \$150 million one-time Proposition 98 General Funds to provide emergency financial assistance to full-time and low-income students experiencing financial loss due to the pandemic.

## **Next Steps**

The Governor's next budget update will come in May 2021. Meanwhile, staff will continue to monitor developments in budget trailer bill language and provide updates as appropriate. If you have questions, please contact Tyler Bonanno-Curley, Manager of Government Affairs, at (562) 570-5715 or [Tyler.Curley@longbeach.gov](mailto:Tyler.Curley@longbeach.gov).

### ATTACHMENT

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**Potential Estimates for California  
Coronavirus Response and Relief Supplemental Appropriations Act**

(Dollars in Billions)

Cost Areas	Available Nationwide	California Estimate
<b>Individuals and Families</b>	<b>\$326.4</b>	<b>\$42.4</b>
Unemployment Insurance Benefits	\$120.0	\$20.0
Economic Impact Payments (\$600 per person)	\$166.0	\$18.3
Food Assistance	\$13.0	\$1.3
Rental and Utility Assistance	\$25.0	\$2.6
Funeral/Burial Assistance	\$2.4	\$0.2
<b>Test, Trace, Vaccinate</b>	<b>\$54.1</b>	<b>\$2.2</b>
Testing and Contact Tracing	\$19.5	\$1.8
Testing in Rural and Underserved Communities	\$2.8	TBD
Vaccine Development	\$19.7	-
Vaccine Manufacturing and Distribution	\$8.8	\$0.4
Strategic National Stockpile (PPE)	\$3.3	-
<b>Health/Mental Health</b>	<b>\$10.3</b>	<b>\$0.7</b>
Provider Relief	\$3.0	\$0.2
Increase Medicare Provider Payments	\$3.0	TBD
Mental Health and Substance Use Disorders	\$4.3	\$0.5
<b>Business and Transportation Support</b>	<b>\$408.1</b>	<b>\$50.1</b>
Small Business Support/Paycheck Protection (excluding airlines)	\$310.0	\$45.2
Live Venues	\$15.0	TBD
Child Care/Head Start	\$10.3	\$1.0
Agriculture (Farmers, Ranchers)	\$13.0	\$0.6
Loans to Underserved Communities	\$15.0	TBD
Airlines (Paycheck Protection) and Airport Improvements	\$18.0	\$0.4
Transit/Bus/Amtrak	\$17.0	\$2.0
State Highways	\$9.8	\$0.9
<b>Education</b>	<b>\$81.1</b>	<b>\$10.1</b>
Primary and Secondary	\$54.3	\$6.8
Governor's Emergency Education Relief (GEER) Funds	\$1.3	\$0.2
GEER - Private Schools	\$2.8	\$0.2
Higher Education	\$22.7	\$2.9
<b>Broadband/Telehealth</b>	<b>\$7.0</b>	<b>TBD</b>
<b>Totals</b>	<b>\$887.0</b>	<b>\$105.5</b>