

Date: June 17, 2021

To: Mayor and Members of the City Council

From: Thomas B. Modica, City Manager 

**Subject: State Budget: Governor's FY 22 May Revision**

---

On May 14, 2021, Governor Newsom released the May Revision to the FY 22 State Budget. Totalling \$267.8 billion, the Revised Budget builds on a national record-setting budgetary surplus of \$75.7 billion and \$27 billion in direct federal relief through the American Rescue Plan Act of 2021 (ARPA). The Revised Budget assumes \$175.9 billion in General Fund revenues and \$196.8 billion in General Fund expenditures, representing substantial increases of \$17.6 billion in revenues and \$32.3 billion in expenditures compared to the Governor's January Proposed Budget, with \$24.4 billion set aside for reserve accounts to bolster longer-term fiscal resiliency.

The purpose of this memorandum is to provide an overview of the May Revision and potential impacts to the City of Long Beach (City). Details of the Governor's January Proposed State Budget are outlined in a memorandum dated [January 27, 2021](#).

### **Background**

Compared to the January Proposed Budget, the State's financial outlook in the Revised Budget has drastically improved, due to revenues coming in higher than forecasted and the State's pandemic response strategies, including drawing down reserves, prioritizing programmatic efficiency, and imposing spending cuts. The \$75.7 billion surplus is a result of strong cash trends, continued stock market appreciation, and an improved economic forecast.<sup>1</sup> In addition, federal COVID-19 relief bills, including ARPA, have contributed to the State's financial response and recovery. Combined, the State has received \$275 billion from federal relief during the pandemic, including \$27 billion in direct funding expected for California through the ARPA.

As a result of this positive fiscal trajectory, the State anticipates a surplus large enough to warrant the State Appropriations Limit for the second time in California's history, in

---

<sup>1</sup> It should be noted that in a [report](#) dated May 17, 2021, the Legislative Analyst's Office (LAO), the nonpartisan fiscal advisor to the Legislature, characterizes this "surplus" in a different way. About half of the \$75.7 million defined as surplus in the Governor's Revised Budget includes Constitutionally required spending and therefore, the LAO argues, should not be considered surplus. \$38 million is Constitutionally limited to be spent on schools, reserves, and debt payments, whereas the remaining \$38 million is discretionary.

compliance with what is commonly referred to as the "Gann Limit." In 1979, fiscal conservative Paul Gann sponsored Proposition 4 to limit government appropriations from tax and fee revenues, and the proposal was approved by 74.3 percent of voters. The Gann Limit caps State Budget spending on a per capita basis to 1978-79 spending levels, adjusted for inflation. Under the Gann Limit, if the State has excess revenues in two consecutive years according to this calculation, the Constitution requires that additional funds be returned to taxpayers via rebates and education spending. For FY 22, the State calculates \$16.2 billion in excess revenues according to the Gann Limit calculation and has proposed half of those funds for stimulus payments to residents and the other half for public education.

### **State Budget Items**

Excess revenues, historic surplus, and federal ARPA relief funding form the foundation of the Governor's proposed \$100 billion California Comeback Plan (Plan). The Plan outlines comprehensive strategies and major investments in response to five of the State's most significant challenges: economy, drought, homelessness, public education, and small business relief. Additional information on the Revised Budget's allocations pertinent to the City are detailed below.

### **Economic Development**

#### *Economic Relief and Recovery*

The May Revision builds upon economic relief investments distributed in January, with new allocations proposed to benefit low-income workers, small businesses, and communities that have historically faced inequities. The Plan provides comprehensive support to residents and businesses, including an expansion of the Golden State Stimulus, rent relief, and financial assistance. A second round of the Golden State Stimulus program costing roughly \$5.6 billion would provide \$600 payments to individuals earning up to \$75,000 annually, in addition to \$500 to undocumented families and \$500 to families with children.

The Plan also aims to address small business recovery from the COVID-19 pandemic with \$5.1 billion for small business relief. Small businesses will receive \$4 billion in grant programs, in addition to \$895 in new credit enhancements. For small businesses, \$1.5 billion in ARPA funding is proposed for an additional three rounds of small business COVID-19 relief grants. Recognizing the impacts of the pandemic on tourism and the global trade industry, the Plan also provides \$95 million from the State's one-time federal ARPA funds toward the Visit California campaign for promotion and marketing to bolster tourism and hospitality industries, along with another \$250 million to address revenue impacts at California ports.

The Revised Budget includes \$35 million General Fund over five years to support local Universal Basic Income pilot programs. These pilot programs would be city or county administered, require a local-match commitment, and benefit low-income Californians. This investment could help expand the Long Beach Recovery Act's (LBRA) \$2 billion investment for a City guaranteed income program to be overseen by the Pacific Gateway Workforce Innovation Network.

### *Workforce Development*

The COVID-19 pandemic has had a devastating impact on employment, especially in hard-hit sectors like tourism, hospitality, and services. The May Revision focuses investments in workforce development training and programs to catalyze economic recovery and growth.

Recognizing the correlation between ongoing education and workforce development, the Revised Budget includes nearly \$2.5 billion in higher education resources. This includes \$1 billion one-time ARPA funds for reskilling and up-skilling workers whose jobs have been displaced by the pandemic. An additional \$1 billion one-time General Fund over two years will establish the Learning-Aligned Employment program to promote long-term career development within public higher education systems. Related, the proposal includes an additional \$20 million one-time General Fund for housing apprenticeship opportunities via partnerships between public education systems, State and local workforce development boards, and affiliated organizations.

For youth employment opportunities, the Revised Budget includes \$200 million ARPA funds for grants to cities and counties to create or expand youth employment opportunities. The grants, which will be administered by California Volunteers, will be provided both to large cities on a per capita basis, and to other cities and counties through a competitive grant process. This grant opportunity will complement LBRA's \$1 million investment to establish a youth jobs program.

### *Digital Inclusion*

The pandemic has also underscored the importance of making broadband accessible and affordable for economic recovery and other educational, employment, and health purposes. The Revised Budget proposes a \$7 billion investment to expand broadband infrastructure, increase affordability, and enhance access. This will be achieved through a middle-mile network to incentivize providers to expand service to unserved and underserved communities.

Additionally, the Revised Budget includes \$500 million to establish a Loan Loss Reserve Account to assist local governments, tribes, and community organizations with securing

new municipal fiber networks. This investment will be accompanied by \$500 million one-time federal ARPA funds within the California Advanced Services Fund to incentivize existing and new providers to fund infrastructure for “last mile” service to the State’s remaining unserved households, which could benefit our local Digital Inclusion Initiative efforts.

## **Homelessness and Housing**

Homelessness remains one of the State’s most significant challenges, and the COVID-19 pandemic has exacerbated the difficulties of coordinating services and stable housing for people experiencing homelessness or at risk of losing their homes. The Revised Budget retains significant investments to address homelessness and advance housing production statewide. Governor Newsom proposes to utilize ARPA funds to invest in new and existing programs to increase the State’s affordable housing supply.

### *Homelessness*

The Revised Budget includes a historic \$12 billion two-year investment to address homelessness with a focus on ending family homelessness, expanding supportive services, and developing solutions to homeless encampments. This represents more than a ten-fold increase from FY 21’s investments in homelessness. Of this total, \$7 billion is proposed to expand acquisition and rehabilitation efforts through Project Homekey, including investments in affordable and transitional housing through hotel/motel conversions, behavioral and mental health housing support, and housing for older adults.

With the California Comeback Plan’s historic investment in homelessness comes additional accountability measures. One of the State’s goals is to end family homelessness, affecting an estimated 37,000 individuals statewide, within five years aided by \$3.5 billion to assist families through rent support, developing affordable family units, and shelter resources for families. Additionally, \$1 billion of the \$3.5 billion for Project Homekey expansion will be targeted for families experiencing or at risk of experiencing homelessness. To expand the types of resources available for people to regain stable housing, \$1.1 billion is proposed to expand the State’s mental health system with a significant expansion in family homelessness programs. In addition, \$447 million is proposed to address student homelessness at California Community Colleges, California State Universities, and the UC system.

Despite these historic investments, the Revised Budget does not include direct allocations to local governments through programs like Homeless Housing, Assistance and Prevention (HHAP) to provide flexible, ongoing services and resources for people experiencing homelessness. The California Comeback Plan proposes two grant programs the City would be eligible for related to encampments and ending family

homelessness. The first is \$50.3 million toward State collaboration with the California Department of Transportation (Caltrans) and local governments to provide encampment resolution grants. The second is \$40 million for family homelessness challenge grants supporting local governments' pursuit in innovation to end family homelessness.

On top of the California Comeback Plan's \$12 billion investment to address homelessness, the Revised Budget includes a proposed \$1.5 billion one-time General Fund for Clean California, an effort to support partnerships between Caltrans and local governments to clean and beautify State property. Clean California will create an estimated 15,000 jobs for maintenance workers and artists statewide. The City has been actively engaged with Caltrans and the State Legislature to include this type of resource in the State budget, as outlined in a memorandum dated [May 11, 2021](#). The proposal would directly benefit the City's activities to strengthen coordination with Caltrans to clean State rights-of-way.

### *Affordable Housing*

The Revised Budget proposes to dedicate \$1.75 billion one-time ARPA funds toward affordable housing programs. Building on the success of the Department of Housing and Community Development's (HCD) Regional Early Action Planning (REAP) program in 2019, the Revised Budget proposes \$500 million for additional HCD infill development regional grants targeting the State's housing and climate goals. Also proposed is \$100 million to expand the State's First Time Homebuyer Assistance Program, which is in alignment with the City's priorities through the LBRA. Additional affordable housing investments include \$81 million for the State's Accessory Dwelling Unit (ADU) program and \$45 million for scaling land development for housing.

### *Emergency Rental Assistance Program*

In January 2021, Governor Newsom signed SB 91 (Chapter 2, Statutes of 2021) to extend eviction and foreclosure protections through June 30, 2021, with the support of \$2.6 billion in federal relief to pay 80 percent of rent in arrears for eligible tenants. Subsequently, ARPA provided an additional \$2.6 billion to the State and jurisdictions for rental relief aid, on top of the \$21 million the City has received for the second round of the Emergency Rental Assistance Program. Combined, these investments total \$5.2 billion for State rent relief as proposed in the California Comeback Plan. The Revised Budget also proposes statutory language to maximize ARPA funding for rent, utility, and house-expense relief. With the additional funding, the program would be expanded to backpay 100 percent of unpaid rent since April 2020 for eligible applicants, and \$2 billion to help renters cover outstanding water and utility expenses. For homeowners, the Revised Budget proposes \$1 billion ARPA funds for assistance with mortgages, principal reductions, and additional housing costs.

## **Public Health Equity and Emergency Response**

The COVID-19 pandemic has highlighted discrepancies in health outcomes public health experts have long known. To learn from the pandemic, the Revised Budget includes \$3 million for a review of the State's public health response and root causes of the disparities and inequities experienced by disproportionately impacted communities. The Revised Budget intends to aggregate lessons learned and identify gaps to shape actionable policies in the FY 22 Adopted Budget. Furthermore, State realignment funding for public health is expected to increase by 9.5 percent in 2021-22 compared to the January Proposed Budget.

One of the City's priorities during the COVID-19 pandemic has been to elevate the need for direct State allocations to city health jurisdictions like Long Beach, which are on the frontlines of the emergency response. Aside from the aforementioned study proposed to review ways to improve spending on public health, the Governor's Revised Budget does not fully address the City's efforts to secure ongoing funding to advance public health locally. Staff will continue to advocate with the Legislature to include funding directly to local health jurisdictions.

### *Emergency Preparation*

In addition, California Governor's Office of Emergency Services (CalOES) is proposed to receive \$98.4 million, including \$76.2 million General Fund to address regional emergencies and disasters faced statewide. This amount includes \$29.9 million ongoing General Fund to establish a new Office of Equity in response to California's disasters having a disproportionate impact on marginalized communities, and \$26.5 million one-time General Fund to establish a new emergency operation center in the southern operational region. Also included is \$25 million General Fund to support a permanent Listos grant program for community emergency response and recovery.

## **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 Revised Budget proposes total funding of \$13.6 billion for CDCR, a \$200 million increase from FY 21, comprised of \$13.3 billion General Fund and \$347 million from other funds.

The Board of State and Community Correction's California Violence Intervention and Prevention (CalVIP) program, established in 2019, provides competitive grants to cities and community-based organizations to support services such as community education, diversion programs, outreach to at-risk transitional age youth, and violence reduction

models. The Revised Budget proposes an additional \$100 million one-time General Fund over three years to the \$9 million January Proposed Budget proposal.

Following enactment of AB 1506 (Chapter 326, Statutes of 2020), the Revised Budget also includes funding to advance the State's capacity to investigate incidents of officer-involved shootings that result in the death of an unarmed civilian. Funding will support the development of investigative resources statewide. The City supported this legislation last year, in line with the City's Framework for Racial Equity and Reconciliation to strengthen partnership and initiatives to effectuate safe communities for all through shared safety practices.

## **Infrastructure and Environment**

Infrastructure is a critical component of the State's economic recovery strategy, and the Revised Budget includes nearly \$10 billion in infrastructure investments to spur economic growth and job creation. The proposal includes funding for State transportation projects, such as \$4.2 billion for the High-Speed Rail project, \$3.1 billion for other rail and active transportation projects, and \$2.4 billion for State highways and local bridges.

The Revised Budget includes \$1.3 billion for infrastructure to advance climate resilience in areas of the State that are most impacted by climate change. The Revised Budget proposes to allocate \$500 million for cleanups of contaminated properties in impacted communities statewide, including an additional \$291 million General Fund over three years to cleanup properties near the former Exide facility in Southeast Los Angeles.

### *Organics Waste Management*

One of the City's priorities for the FY 22 Budget is resources to support compliance with the State's organics waste management objectives and regulations outlined in SB 1383 (Chapter 395, Statutes of 2016). The May Revision includes \$50 million in General Funds to offer low-interest loans for recycling infrastructure, \$55 million to provide grants for new composting and anaerobic digester facilities to expand organic waste capacity and reduce methane emissions. The City will continue to advocate for additional resources to support local governments compliance with SB 1383, especially given the lack of organics waste infrastructure throughout the region.

### *Drought Response*

In recognition of the California's drought emergency statewide, \$5.1 billion General Fund is proposed for water infrastructure and drought resiliency. Relevant to the City's Climate Action and Adaptation Plan (CAAP) efforts, \$200 million is proposed for habitat

restoration to support tidal wetland, floodplain, and multi-benefit flood-risk reduction projects.

## **Education**

The Revised Budget aims to transform the State's public education system, in light of the challenges presented by the COVID-19 pandemic. It includes total funding of \$121.7 billion for K-12 education programs, which is \$32.5 billion more than the January Proposed Budget. Due to the allocation specifications of the Gann Limit discussed above, this represents the highest level of K-12 education funding in California's history. In January, the Proposed Budget made significant immediate investments to transition to in-person learning, while the Revised Budget represents a broader transformation in statewide K-12 education. The proposal calls for bold action, including universal transitional kindergarten. Additional investments include \$5 billion for wraparound services beyond school hours, \$4 billion for mental and behavioral health services, and \$2 billion for 3.7 million post-secondary savings accounts starting with \$1,000 for homeless or foster youth and \$500 for low-income youth.

### *California for All Kids Plan*

The California for All Kids Plan prioritizes equitable learning and resource opportunities for students. Building upon the California Comeback Plan outlined above, the California for All Kids Plan includes comprehensive five-year goals, including universal access to transitional kindergarten. The Revised Budget includes \$2.7 billion over three years to support the implementation of transitional kindergarten statewide by 2024. Additionally, an increase of \$200 million one-time funds from FY 21 will support school districts' construction and retrofitting of existing facilities for transitional kindergarten and full-day kindergarten programs. The California for All Kids Plan also proposes to provide access to year-round enrichment and educational opportunities for low-income students, enhanced integration between schools and local health services, and greater access to broadband and devices, in classrooms and at home.

### *School Reopening*

The Revised Budget financially prepares for full-time, in-person instruction for the 2021-22 school year. It proposes \$2 billion one-time Proposition 98 General Fund toward health and safety measures, including testing and vaccine initiatives, enhanced cleaning, personal protective equipment, and improved ventilation. These funds will supplement the \$2 billion appropriated by AB 86 (Chapter 10, Statutes of 2021) to schools that were open for in-person instruction by April 2021.

In recognition of the learning loss endured throughout the pandemic, the Revised Budget includes a 5-year plan for expanded school days and academic year instruction for elementary schools of local educational agencies with the highest concentrations of low-income students. The Revised Budget proposes \$1 billion Proposition 98 General Fund in FY 21 for expanded learning, increasing to \$5 billion by FY 26.

### *Higher Education*

Total funding to the University of California (UC), California State University (CSU), and California Community College (CCC) systems is \$48.7 billion, representing a \$10.4 billion increase compared to FY 21. The UC system would receive \$10.6 billion in FY 22, a \$1.3 billion increase from FY 21; and the CSU system would receive \$10.3 billion, a \$2 billion increase from FY 21. Funding for the community college system would increase by \$1 billion in FY 22, totaling \$19.1 billion. The Revised Budget builds upon the Student Aid Commission's Cal Grant Program by adding two years of free community college, while UC and CSU maintain resident undergraduate tuition and fees at current levels for the 2021-2022 academic year.

The CSU will receive a \$150 million one-time increase from ARPA funds for deferred maintenance and energy efficiency projects. Additionally, CSU has \$175 million one-time General Fund flexibility for these purposes. The Revised Budget also proposes \$433 million one-time General Fund to transition Humboldt State University into the third public polytechnic university in California.

### **Cannabis**

New to the Revised Budget is \$100 million in one-time General Fund to establish a local jurisdiction assistance grant program for cannabis. Grants may be used to support modifying permitting methods, mitigating environmental impacts, and providing enhanced support to jurisdictions implementing social equity programs, among other initiatives, such as Long Beach.

Retained in the Revised Budget is a consolidation of resources into a streamlined Department of Cannabis Control within the Business, Consumer Services, and Housing Agency beginning July 1, 2021. Included in this effort would be the creation of a Deputy Director of Equity and Inclusion to regulate commercial cannabis activity in a manner mindful of public health, safety, the environment, and local communities.

### *Cannabis Tax Fund*

The Revised Budget estimates \$629.1 million will be available in the Cannabis Tax Fund for non-cannabis expenses, a \$185.9 million increase from the January Proposed Budget.

Following Proposition 64 specifications, this would provide \$377.5 million for education, prevention, and treatment of youth substance use disorders, \$125.8 million for environmental remediation from cannabis cultivation, and \$125.8 million for public-safety activities.

### **Next Steps**

The State Legislature conducted budget committee hearings to pass the Legislature's State budget bill on June 14, 2021. The Governor has approximately two weeks to enact the Budget, effective as soon as it is signed. Staff will continue to advocate for the City's priorities with State leadership and will provide a memorandum on the adopted FY 22 State Budget.

If you have any questions, please contact Tyler Bonanno-Curley at (562) 570-5715 or [Tyler.Curley@longbeach.gov](mailto:Tyler.Curley@longbeach.gov).

CC: CHARLES PARKIN, CITY ATTORNEY  
DOUGLAS P. HAUBERT, CITY PROSECUTOR  
LAURA L. DOUD, CITY AUDITOR  
LINDA F. TATUM, ASSISTANT CITY MANAGER  
KEVIN JACKSON, DEPUTY CITY MANAGER  
TERESA CHANDLER, DEPUTY CITY MANAGER  
REBECCA G. GARNER, ADMINISTRATIVE DEPUTY CITY MANAGER  
MONIQUE DE LA GARZA, CITY CLERK  
DEPARTMENT HEADS