Date: January 25, 2022

To: Mayor and Members of the City Council

From: Thomas B. Modica, City Manager

Subject: Governor Newsom’s Proposed FY 23 State Budget

On January 10, 2022, Governor Newsom released the proposed Fiscal Year 2023 (FY 23) State Budget (Budget). As with the two previous State budgets, the Governor’s FY 23 proposal outlines funding to support COVID-19 recovery efforts and redoubles the State’s commitment to behavioral health, housing and homelessness, economic recovery, climate resilience, and public safety. The Budget centers on five core strategies: fighting COVID-19 with science, combating the climate crisis, confronting homelessness, tackling the cost of living, and keeping our streets safe. Coined the “California Blueprint,” this year’s budget proposal builds on the multi-year investments adopted last year in the FY 22 budget through the “California Comeback Plan,” the details of which were discussed in an August 10, 2021 memorandum.

The FY 23 Budget, estimated at $286.4 billion total, represents a 9.1 percent increase over the previous year. With a forecasted $45.7 billion surplus¹, the proposal would set aside $16.1 billion for K-14 education as required by Proposition 98, $3.9 billion to help pay down future pension liabilities, and $5.1 billion in reserve deposits, leaving $20.6 billion in General Fund surplus for discretionary spending. The Budget increases reserves to $34.6 billion total, including $20.9 billion in the Rainy Day Fund, $9.7 billion in the Public School System Stabilization Account, $900 million in the Safety Net Reserve, and $3.1 billion in the State’s operating reserve. This memorandum provides additional details regarding key provisions in the proposed Budget that may impact City of Long Beach (City) priorities, operations, and programs.

State Budget Items

COVID-19 Response

For the past two budget cycles, the State has focused on COVID-19 response. Previous investments have totaled more than $11 billion to scale testing and vaccinations statewide. To date, nearly 68 million vaccines and boosters have been administered and 124.5 million tests processed at more than 6,000 sites. With the recent surge in cases and hospitalizations due to the rapid spread of the Omicron variant, the COVID-19 pandemic continues to devastate communities across California and remains a focal point of the proposed FY 23 Budget.

The Governor announced a $2.7 billion COVID-19 response plan—including a $1.4 billion emergency appropriation this fiscal year and another $1.3 billion for FY 23—to expand testing,
vaccines, and boosters and to support hospitals and frontline workers. Funding would bolster testing availability by expanding hours and capacity at testing sites, distribute COVID-19 antigen tests to health departments and partners, and support State testing facilities. Additionally, $583 million would advance vaccine public education campaigns, outreach, and in-home vaccination programs; and $614 million would be used to distribute resources needed for healthcare systems and frontline workers to strengthen hospital surge capacity.

**Health and Human Services**

**Public Health**

The pandemic has underscored the dire need for broadening public health resources in California. Last year’s adopted budget provided $300 million annually to the Department of Public Health (DPH) and local health jurisdictions for public health infrastructure and workforce, beginning in FY 23. Following budget adoption last year, DPH convened a workgroup of health officials and experts to inform the provision of these funds. The FY 23 Budget proposes $100 million annually for DPH to bolster statewide public health infrastructure and collaboration, and the remaining $200 million annually would go to local health jurisdictions, including the City. Allocations are based on population share (50 percent), Race Ethnicity Index (25 percent), and Poverty Index (25 percent), with jurisdictions receiving a minimum base allocation of $350,000 annually. Funds can be used to meet a range of local public health needs, but resources must include efforts to expand workforce, standardize data collection, and strengthen community partnerships. Realignment revenues, another key funding source for the City’s health staffing and operations, are also projected to increase by 3.9 percent in FY 23.

In addition, the Budget would fund initiatives through the California Health and Human Services Agency to prepare for the impacts of climate change on public health. As with the COVID-19 pandemic, climate change has also been shown to disproportionately affect underserved communities, including people with underlying health conditions, people experiencing homelessness, communities of color, and lower-income neighborhoods. The FY 23 Budget would establish a $25 million grant program for local health jurisdictions to develop Climate and Health Resilience Plans. Furthermore, $10 million would fund a statewide surveillance program to link public health and climate-sensitive disease monitoring, as well as $350 million to increase the community health workforce statewide by 25,000 workers through 2025.

**Behavioral Health**

California’s behavioral health system was a major focus of last year’s budget, receiving a multi-year investment of $1.4 billion for children and youth, the behavioral health continuum, and facilities. In his Budget release press conference, Governor Newsom also mentioned an interest in reforming conservatorship policy. While details will be fleshed out through legislative negotiations over the coming months, the Budget provides a framework to develop the behavioral health continuum and infrastructure needed to offer treatment options. The Governor explained that once those clinical, medical, and housing capacities are available, service providers will need additional legal authority to get people the help they need. City staff
will continue to track these legislative developments.

**Healthcare**

In an effort to drive down healthcare costs, increase transparency, and ensure oversight of pricing in the prescription drug industry, the Budget would establish the Office of Health Care Affordability (Office) within the Department of Health Care Access and Information. The new Office will work to address the underlying drivers of healthcare costs by developing cost targets and enforcing compliance across the healthcare system. The Budget also alludes to potential State efforts to address the rising costs of insulin, in particular, through a contract with a manufacturer. Details will be fleshed out over the coming months, and the City has supported legislation to make insulin more affordable through Assembly Bill 97 last year.

For the past several years, the State also has passed legislation to increase access to healthcare coverage by expanding Covered California subsidies; providing Medi-Cal to children, young adults, and older adults; and covering certain preventive services. Affordable, accessible healthcare through Medi-Cal reform remains a priority in the Budget. The proposal would invest $5.2 billion through FY 25 to expand the California Advancing and Innovating Medi-Cal (CalAIM) program, including the development of a new pre-release Medi-Cal application process for justice-involved individuals. It also includes $400 million for Medi-Cal payments to providers focused on advancing equity and serving disadvantaged communities. Moreover, the Budget seeks to provide Medi-Cal coverage to all income-eligible adults aged 26 through 49, regardless of immigration status, beginning January 1, 2024. The City supports related legislative proposals, such as Assembly Bill 1400, that would provide universal healthcare coverage statewide.

**Immigration Equity**

In addition to efforts to expand healthcare to undocumented community members, the Budget proposes other funding to support immigrant populations, allocating $9.5 million to help build State capacity for service provision among immigrant communities, including an $8.7 million competitive grant program for local governments to build trust and deploy services to immigrants in their community.

**Homelessness and Housing**

**Homelessness**

Since Governor Newsom took office, homelessness has been a core funding and policy priority in the State budget. Last year, the adopted budget developed a multi-year $12 billion investment program to advance homeless prevention and services. The focus of this framework is to create 55,000 beds or housing units through Projects Roomkey and Homekey for people experiencing homelessness and most at risk of COVID-19 exposure. The budget also allocated Rounds 3 and 4 of HHAP funding for local jurisdictions’ homeless services and operations, for which Long Beach received $8.6 million in FY 22 and will be eligible for another
$8.6 million in FY 23.

The proposed FY 23 Budget adds $2 billion to this framework, bringing the multi-year investment in homelessness to $14 billion. While many of last year’s initial investments in homeless services and housing are currently underway, it will take some time to bring the thousands of housing, acute care, and behavioral health beds fully online for those who need it most. By adding $2 billion in FY 23, the Budget seeks to address the immediate need to quickly rehouse people living in encampments as longer-term housing units become available. $1.5 billion over two years will fund the development of tiny homes and other bridge housing settings through the Behavioral Health Continuum Infrastructure Program administered by the Department of Health Care Services. The remaining $500 million will build on the existing Encampment Resolution Grants program for local jurisdictions to invest in rehousing strategies for people experiencing homelessness in encampments.

**Housing**

As with homelessness, last year’s budget included historic investments in a multi-year housing package totaling $10.3 billion. The FY 22 framework focused on increasing housing production through infill grants, planning grants and technical assistance to local jurisdictions, investments in housing development on State excess land, homebuyer and homeowner assistance programs, and developer loans and incentives for affordable housing. Establishing accountability mechanisms and policy reforms to bolster housing across jurisdictions are also central to the housing package. Specifically, the State created a new Housing Accountability Unit within the Department of Housing and Community Development and has sought to streamline affordable housing production through implementation of numerous environmental review reforms.

The FY 23 Budget builds on these actions to include another $2 billion for affordable housing. Linking the State’s housing crisis with its climate goals to reduce greenhouse gas emissions and address health disparities exacerbated by climate change, the Budget aims to invest in and incentivize housing production near jobs, education, and economic centers through grant programs and tax credits. The Governor’s proposal emphasizes the need to partner with local governments to identify land near downtowns—in urban, suburban, and rural areas—best suited for infill housing funds and accelerated development. Over two years, $1 billion will support climate-focused housing activities through the Infill Infrastructure Grant Program ($500 million); the Affordable Housing and Sustainable Communities Program ($300 million); housing opportunities on State excess land sites ($100 million); and adaptive reuse incentive grants ($100 million). Another $1 billion would expand Low-Income Housing Tax Credits and increase affordable housing options through developer loans and incentives.
Economic Development

Recovery

The COVID-19 pandemic ravaged the State economy, triggering the worst economic recession in generations, with significant negative impacts for lower-income workers, the services industry, and small businesses. With the historic surplus and significant federal relief last year, however, the FY 22 State budget invested in many recovery programs, such as $7.2 billion in rent and utility assistance; Golden State stimulus payments for low-income and unemployed Californians; and small business relief through grants, loan forgiveness, fee waivers, and tax payment extensions. Continuing these COVID-19 recovery efforts, the proposed FY 23 Budget aims to further California’s economic relief by foregoing nearly $500 million in taxes paid by small businesses. The Budget conforms with federal tax requirements for various small business relief programs by exempting certain grants from taxable income. To encourage business growth, the Budget includes nearly $40 million to waive filing fees when forming a business in California.

The proposal further expands the State’s investments in small business development, with $1 billion to scale the State Small Business Credit Initiative, and another $200 million to establish a new Venture Capital program through the California Infrastructure and Economic Development Bank (IBank) to support underserved entrepreneurs and invest in socio-economically disadvantaged areas. The Budget includes $150 million to fund remaining applications through the California Small Business COVID-19 Relief Grant Program, which provides up to $25,000 to eligible small businesses and nonprofits. Additionally, $20 million over four years will further expand the State’s Innovation Hub program to establish technology- and science-based startup community hubs and entrepreneurship resources in underserved communities. The Budget also proposes $23 million ongoing to permanently fund small business technical assistance and consulting services to historically underserved business groups.

Workforce Development

Alongside these small business impacts, the COVID-19 pandemic has presented significant workforce challenges across a number of key industry sectors in California. The FY 23 Budget aims to build on workforce investments initiated last year to strengthen partnerships and offer pathways from education to quality, good-paying jobs. Over two years, $500 million will support career pathways for college students after graduation. The proposal also centers new investments on climate and clean energy sectors and the care economy.

Climate-related industries are one of the most promising pathways for high-quality jobs. Last year’s budget allocated $600 million to the Community Economic Resilience Fund for regional strategies that support economic and workforce transitions to the jobs of the future. The FY 23 Budget complements this effort with $550 million over three years to bolster climate workforce strategies. In addition to $200 million to properly seal orphaned oil and gas wells statewide, the proposal includes $15 million for a workforce pilot program to retrain displaced oil and gas
workers and $50 million in financial support for workers impacted by the State’s phase-out of oil production. The Budget also includes $60 million over three years to restart the California Workforce Development Board’s Low Carbon Economy Workforce program to facilitate job pathways in environmental sustainability.

The care economy is perhaps the sector hardest hit by workforce challenges due to the COVID-19 pandemic response. The FY 23 Budget proposes $1.7 billion over three years to bolster equity, wage growth, and safety in the health and human services workforce. Among the most significant investments in this package are: $350 million to expand the community health workforce by 25,000 workers mentioned above; $340 million for local workforce boards and other stakeholders to eliminate barriers to employment for underrepresented communities in the healthcare sector; and $90 million for the Employment Training Panel to advance job entry and career pathways in healthcare.

The Green Economy

More than in previous budget cycles, the FY 23 Budget aims to bolster economic growth and job creation in sectors that will advance the State’s climate resilience objectives. For the next three years, the Budget provides $250 million annually to support California companies engaged in efforts to mitigate climate change and another $100 million per year in tax credits for businesses that develop green energy technologies. The Governor’s Office of Business and Economic Development (GO-Biz) will oversee the tax credit awards, which can help to fund pre-development costs for new technologies.

Cannabis

Consolidating cannabis oversight at the State level was a core advancement in the FY 22 budget. The FY 23 Budget proposes to build on these efforts by investing $13.6 million in various programs through the newly formed Department of Cannabis Control, including the initial planning for a unified licensing system ($5.5 million), development of a data warehouse to better coordinate licensing and compliance data across stakeholders ($2 million), and launch of a consumer education and awareness campaign regarding public safety and health ($6.1 million). Moreover, the Budget estimates nearly $595 million in revenues through the Cannabis Tax Fund, which would be allocated for youth education, prevention, and treatment related to substance use and school retention (60 percent); clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation (20 percent); and public safety activities (20 percent).

Infrastructure

Federal Investments and Transportation

The Infrastructure Investment and Jobs Act, outlined in a November 22, 2021 memorandum, not only reauthorizes core transportation funding for the next five years, but also augments existing and new State programs. California is estimated to receive nearly $40 billion in formula-
based funding for transportation infrastructure through FY 26. The State, along with the City, will also be able to compete for a number of other grant opportunities funded through the federal infrastructure legislation. While programs are still in development, the FY 23 Budget includes information regarding the formula-based grants the State anticipates receiving. In particular, the infrastructure legislation will increase base federal funding for highways, roads, transit, safety, and research by $4.5 billion over a two-year period. More information about the grant opportunities initiated through this federal infrastructure legislation will be shared in a memorandum soon.

Along with these federal infrastructure investments, the Budget proposes $9.1 billion in General Fund and bond funds to support a number of key transportation infrastructure priorities statewide, including transit and rail projects ($2 billion), Southern California transit projects focused on mobility and greenhouse gas reductions ($1.25 billion), active transportation projects that advance bicycle and pedestrian safety ($750 million), grade separations ($500 million), climate adaptation ($400 million), and high-speed rail in the Central Valley ($4.2 billion).

Additionally, the Budget expands the State’s Clean California Local Grant Program by $100 million next year. This program allows local jurisdictions and partners to apply for funding to beautify communities and clean up trash and debris along highways, streets, and roads, while offering job opportunities to community members.

Supply Chain Infrastructure

International trade has been greatly impacted by the pandemic, underscoring the need to invest in supply chain infrastructure. The Budget includes $2.3 billion to advance goods movement in California. $1.2 billion will support a competitive grant program for high-priority port projects that decrease congestion and environmental impacts through rail expansions, bridges, and zero-emission technology. Another $875 billion will be invested in zero-emission port equipment and infrastructure. Most importantly, the Budget proposes $110 million over three years for the development of a Goods Movement Training Campus in Southern California.

Climate Resilience

Expanding on last year’s historic $15.1 billion in climate investments, the Budget would provide an additional $22.5 billion over five years to address climate change and advance environmental justice. $750 million will support drought-related programs, such as grants to water suppliers to improve water efficiency ($180 million) and local emergency drought assistance grants to water agencies ($145 million), among others. In addition, the FY 23 Budget proposes $2.1 billion as part of a three-year investment in climate resilience. Programs include urban greening through tree canopy and green infrastructure ($100 million); efforts to reduce the urban heat island effect ($25 million); community resilience centers to provide respite from emergencies related to climate change ($25 million); coastal resilience infrastructure ($400 million); community capacity building for regional climate resilience efforts ($135 million); and support for the Transformative Climate Communities Program ($165 million).
Zero-Emission Vehicles and Infrastructure

The proposal adds $6.1 billion to the State's zero-emission vehicle programs, bringing the total to $10 billion through FY 29. More than $1.25 billion would support the deployment of zero-emission vehicles and charging infrastructure in low-income communities. The package includes funding to purchase 1,000 zero-emission drayage trucks and 1,700 zero-emission transit buses ($935 million); electric school buses ($1.5 billion); other zero-emission vehicles and fueling infrastructure ($1.1 billion); and investments in port electrification and grid resilience ($400 million). Furthermore, $419 million would support local projects that advance community-based transportation equity and access to zero-emission options.

Clean Energy

As part of the Budget's infrastructure funding, the proposal includes $2 billion over two years for a Clean Energy Investment Plan aimed at advancing the development of clean energy technologies. Perhaps most significantly for the City’s Climate Action and Adaptation Plan, the proposal includes more than $960 million over two years to support the decarbonization of existing building through installed equipment, labor, rebates, education, and technical assistance. Funding will support the development of a direct-install retrofit program and consumer rebates prioritizing residents most impacted by climate change, specifically extreme heat.

The Circular Economy

The Budget includes $65 million to support implementation of requirements in SB 1383 to develop organics waste programs. Specifically, the funds seek to advance a circular economy to reduce short-lived climate pollutants through organics processing, edible food recovery, and composting.

Public Safety

Law Enforcement

On December 17, 2021, Governor Newsom unveiled a plan to invest $356 million over the next three years in public safety and crime prevention measures. The Real Public Safety Plan supports local law enforcement through the creation of a new Smash and Grab Enforcement Unit to combat organized retail crime. Through FY 25, $85 million annually will support a competitive grant program for law enforcement agencies to address theft in their communities. The Budget also would invest $10 million per year for competitive grants to bolster prosecution of retail theft and another $25 million in matching grants for local gun buyback programs. Furthermore, the Budget would fund $20 million in grants to small businesses that have suffered damages from retail theft.
Emergency Preparedness

Emergency preparation and response is another priority outlined in the FY 23 Budget proposal. In addition to significant investments in the Department of Forestry and Fire Protection’s capacity to protect communities from the historic increase in wildfires over the past several years, the Budget aims to mitigate the impacts of other disasters by strengthening the State’s emergency response capacity. $30 million and 31 additional staff positions will help to modernize the mutual aid system through the creation of the Fire Integrated Real-time Intelligence System (FIRIS), technology to allow real-time information across mutual aid responders. Another $17.1 million in ongoing funds will support the California Earthquake Early Warning System. The Office of Emergency Services will also construct a new Southern California Regional Operations Center to more effectively coordinate with regional partners.

Education

Early Childhood and Childcare

The Governor’s Budget highlights programs that promote and expand quality education and ease financial pressures associated with early childhood education and childcare. The Budget proposes $5.8 billion to support multi-year infrastructure funding to reach a goal of establishing 200,000 childcare slots. Guided by the Master Plan for Early Learning and Care, the Budget includes $823.7 million for 36,000 additional subsidized childcare slots. Additionally, the Budget proposes $639.2 million to expand eligibility for Universal Pre-K and $383 million for educator costs to reduce the adult-to-student ratio.

To meet the diverse needs of California families, the Budget proposes greater flexibility for in-home visiting models and provides $50 million to expand the California Home Visiting Program and the California Black Infant Health Program. The Budget also includes $53.2 million for FY 23 and $89 million annually in Medi-Cal Premiums to minimize the disruption of coverage for approximately 500,000 pregnant women, children, and disabled working adults.

K-12 Education

Building on last year’s historic investment in education, the FY 23 Budget includes total funding of $119 billion for all K-12 education programs. The Budget proposes an increased investment of $8.2 billion in schools and would increase per-pupil spending to $20,855—California’s highest level ever. Additionally, the Budget includes a Local Control Funding Formula (LCFF) cost-of-living adjustment of 5.33 percent, resulting in $3.3 billion in additional discretionary funds. As the State experiences a decline in enrollment and attendance, the Budget proposes changes to the average daily attendance (ADA) component of the LCFF to include independent study and remote learning as an option for local education agencies to count as instructional time for students and earn apportionment for non-classroom-based instruction.

The Budget also highlights early literacy, STEM-focused college career pathways, and educator workforce development as key investments to bolster the pipeline between education
and labor. Given the current staffing shortages, this Budget proposes one-time funds to cover exam and credentialing fees in addition to teacher preparation programs to help support the training and retention of well-prepared educators. To reinforce the State’s commitment to economic growth, the Budget includes $1.5 billion to support the development of pathway programs for high school students focused on technology, healthcare, education, and climate-related fields. The Budget also proposes $450 million in one-time Proposition 98 funds to upgrade school kitchen infrastructure and equipment to incorporate minimally processed California-grown foods in school meals.

Higher Education

The Budget proposes a total of $39.6 billion for all segments of higher education, representing a 5 percent increase. The Governor announced the development of a new multi-year framework for higher education focused on advancing access and affordability, closing equity gaps, increasing undergraduate enrollment, and improving the degree completion rate to at least 70 percent. In line with these long-term objectives, the FY 23 Budget proposes to expand middle-class scholarships to $632 million and provides $750 million for the second installment of a planned $2 billion to expand the availability and affordability of student housing. Other significant investments include funding for deferred maintenance and energy efficiency projects at community college facilities ($387.6 million) and the California State University system ($100 million), as well $100 million to modernize technology infrastructure and sensitive data protection.

Next Steps

Over the coming months, the Governor’s proposed FY 23 Budget will be reviewed in detail by the Legislature and other stakeholders. In May, the Governor will release a revised budget based on stakeholder input and updated forecasts related to the estimated surplus. City staff will continue to monitor developments in budget trailer bill language for programs that could impact City priorities and will provide an updated memorandum following the release of the Governor’s May Revise. If you have questions, please contact Tyler Bonanno-Curley, Manager of Government Affairs, at (562) 570-5715 or Tyler.Curley@longbeach.gov.

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