

Date: July 12, 2022

To: Mayor and Members of the City Council

From: Thomas B. Modica, City Manager 

Subject: **Adopted FY 23 State Budget**

On June 30<sup>th</sup>, Governor Newsom signed the Fiscal Year (FY) 2023 State budget (Budget). The \$300.7 billion Budget includes nearly \$50 billion in discretionary surplus revenues, predominately used for one-time spending priorities related to fiscal relief, public health and safety, housing and homelessness, climate response, and infrastructure to support long-term economic resilience in the wake of the COVID-19 pandemic.

While the Budget provides record-level investments, it also balances the historic growth in State surplus revenues by increasing reserves to \$37.2 billion total, in anticipation of an impending economic downturn. State revenues are heavily dependent on capital gains tax, which is more volatile than other revenues streams, and State leaders expect to face significant financial pressures in coming years.

In its current form, the adopted Budget provides an overarching framework outlining the key areas of investment, but program-specific details will continue to be finalized through trailer bills that enact statutes necessary to implement the Budget. The Legislature has until August 31<sup>st</sup> to pass all necessary trailer bills and make any further changes to the Budget framework. The purpose of this memorandum is to provide an overview of the FY 23 State budget and its impacts to the City of Long Beach (City).

### **District Budget Requests**

Given the historic state surplus, the City had an opportunity to submit priority projects for consideration to receive funding through the Budget, as described in a [memorandum](#) released on June 29, 2022. In spring, the City developed a [priority project funding requests list](#) and shared the list with the entire delegation. City staff conducted follow-up meetings with delegation offices to align City projects with member priorities. Legislators ultimately decide which projects they would like to submit. The adopted Budget includes \$18.6 million in direct funding to the City for the following projects:

- **\$10.2 million** for El Dorado Park improvements;
- **\$4 million** for Multi-Service Center improvements;
- **\$1.6 million** for the completion of the El Dorado Regional Park Youth softball and baseball fields;
- **\$1.6 million** for Stearns Park softball and baseball field improvements; and,
- **\$1.2 million** for the Wrigley Greenbelt restoration project.

The Budget also funds almost \$15 million for the following community projects:

- **\$5.2 million** to Angels for Sight for renovations at the Long Beach vision care center;
- **\$3.8 million** to the Rivers and Mountains Conservancy for a walking trail along the San Gabriel River to the Pacific Ocean;
- **\$3.7 million** to the YMCA of Greater Long Beach Los Altos capital project; and,
- **\$2.2 million** to Campfire East Long Beach for capital improvements.

City staff will continue to advocate for the inclusion of additional City priority projects as the Legislature finalizes trailer bills through August.

### **Fiscal Relief**

A centerpiece of the Budget is a \$17.2 billion fiscal relief package. Building on last year's investments to address the challenges brought on by the COVID-19 pandemic, the Budget provides fiscal relief to Californians, small businesses, and nonprofits. Of this total, \$9.5 billion will provide direct tax refunds to 17.5 million California tax filers:

- **Tier 1:** Tax filers with incomes up to \$75,000 (single filers) or \$150,000 (joint filers) will receive \$350 per tax filer, plus \$350 if the tax filer has at least one dependent.
- **Tier 2:** Tax filers with incomes between \$75,001-\$125,000 (single filers) or \$150,001-250,000 (joint filers) will receive \$250 per tax filer, plus \$250 if the tax filer has at least one dependent.
- **Tier 3:** Tax filers with incomes up to \$125,001-250,000 (single filers) or \$250,001-500,000 (joint filers) will receive \$200 per tax filer, plus \$200 if the tax filer has at least one dependent.

Additional funding will provide relief to vulnerable Californians through the Supplemental Social Security program and CalWORKs. \$1.2 billion will assist residential utility customers who have experienced financial hardship due to COVID-19, and \$200 million will address residential water arrearages accrued during the pandemic. Another \$2.3 billion will fund business and nonprofit relief, including insurance cost reimbursements, a diesel sales tax suspension, and paid sick leave costs. Lastly, \$1.3 billion will support retention stipends for healthcare workers impacted by the pandemic.

### **Public Health and Human Services**

The State continues to invest in public health resources to fight the pandemic. Using scientific best practices, the Budget includes another \$1.1 billion for the Administration's "SMARTER" plan (Shots, Masks, Awareness, Readiness, Testing, Education, and Rx) to apply various strategies in combating COVID-19 throughout California.

State leaders have also prioritized funding for access to care and behavioral health. The Budget expands Medi-Cal to all income-eligible Californians, regardless of immigration status, and provides coverage to Californians 26-49 years old beginning no later than January 1, 2024. It also aims to lift families out of deep poverty by providing a 21 percent increase to CalWORKs grants and additional food assistance through CalFresh.

Following the recent Supreme Court decision to overturn *Roe v. Wade*, the State has redoubled support for abortion access and reproductive healthcare. Earlier this year, the Governor and legislative leadership announced a proposed California Constitutional Amendment that would codify the right to choose in California, which the City Council [supported](#) on May 24, 2022. In addition to placing this Constitutional Amendment on the November 2022 ballot for voter consideration, the Budget provides more than \$200 million to improve access to abortion through the California Abortion Support Fund and other key investments for abortion providers.

The Budget also provides direct, ongoing funding to support public health infrastructure and workforce needs, including \$100 million annually for the California Department of Public Health and \$200 million annually for local health jurisdictions. While the specific allocation methodology is expected to be finalized through trailer bill negotiations, the City's Department of Health and Human Services is eligible to receive funding through this critical State program.

For behavioral health, the Budget sets aside more than \$77 million to support the Community Assistance, Recovery, and Empowerment (CARE) Court framework, which aims to provide community-based care and services for individuals with mental health and substance use disorders. A legislative proposal to require counties to provide mental health treatment, substance use treatment, and housing to the most severely impaired and untreated Californians is currently moving through the legislative process and has been [supported](#) by the City Council.

## **Housing and Homelessness**

The Budget invests \$2 billion over two years for the development of affordable housing, with a goal of constructing 2.5 million units statewide. Funds will support adaptive reuse projects (\$450 million), infill infrastructure grants (\$425 million), preservation of existing affordable housing (\$150 million), housing construction on state excess sites (\$100 million), CalHOME program expansion (\$350 million), the Multifamily Housing Program (\$325 million), financing to incentivize accessory dwelling units (\$50 million), and more. The Budget also provides \$500 million to establish the California Dream for All program to make homeownership a reality for first-time homebuyers by lowering down-payments and monthly mortgage payments, and establishes a \$250 million Multifamily Seismic Retrofit Matching Grant Program beginning in FY 24.

Homelessness continues to be a top state priority. The Budget's homelessness package provides \$3.4 billion over three years, including \$1.5 billion for immediate bridge housing

solutions for people experiencing homelessness with serious mental illness and \$1.3 billion for Project Homekey. Furthermore, the Budget expands the Encampment Resolution grant program by \$700 million over two years to help local governments address critical encampments and transition individuals experiencing homelessness into permanent housing. Earlier this year, the City was [awarded](#) \$1.3 million through the Encampment Resolution grant. More funding for this program will increase the City's opportunities for comprehensive outreach, support services, and shelter resources for encampment sites.

Additionally, while the City will receive another \$8.6 million through the Homeless Housing, Accountability, and Prevention (HHAP) Program in FY 23, there was no guarantee that additional funding would be provided in future years. The Big City Mayors coalition advocated the Governor and Legislature to extend the HHAP Program beyond FY 23, and the Budget deal includes \$1 billion for FY 24 to keep the program funded at current levels for another year.

## **Infrastructure**

The Budget funds a multi-year \$47 billion infrastructure investment package, which will advance transportation (\$13.8 billion) and active transportation projects (\$1 billion), fund zero-emissions infrastructure (\$6.1 billion), support energy innovation and reliability (\$6.6 billion), expand the Clean California local grants program (\$100 million), and bolster wildfire and drought resilience (\$4 billion), among other key infrastructure needs across the State.

\$1.2 billion over two years will support freight-related infrastructure projects at and around the State's ports, 70 percent of which is set aside for the Ports of Long Beach and Los Angeles. The Budget includes direct funding for the San Pedro Bay Port Complex training facility, which the City Council voted to [support](#) on May 17, 2022. \$110 million will advance the development of the Goods Movement Workforce Training Campus in partnership with the Ports of Long Beach and Los Angeles and labor unions.

## **Economic and Workforce Development**

The Budget aims to bolster economic growth, job creation, and shared prosperity in response to the economic impacts of the COVID-19 pandemic through additional tax relief and grants to small businesses and an expansion of the CalCompetes Tax Credit to encourage capital investment in California.

The Budget invests in a number of workforce development and training programs to drive economic equity and inclusion for youth and communities historically underrepresented in the labor market, including \$60 million over three years for the California Youth Leadership Corps and \$65 million to establish the California Youth Apprenticeship Grant Program for those 16–24 years old who are unhoused, in the welfare or juvenile justice system, or facing other barriers to labor market participation. The Budget also supports

individuals who have faced high barriers to employment, such as the re-entry population (\$50 million) and individuals experiencing homelessness (\$25 million).

Furthermore, the Budget aims to expand opportunities in key industry sectors. \$315 million will fund workforce development programs to create high-quality jobs that bolster the climate and clean energy economy, such as investments in oil and gas well-capping employment opportunities and funding for workers impacted by the transition away from fossil fuels. Given the unprecedented strain on health workforce statewide brought on by the COVID-19 pandemic response, the Budget invests more than \$350 million over four years to support the behavioral health workforce (\$200 million), public health workforce (\$75.6 million), and primary care and reproductive health workforce (\$76 million).

### **Climate and Sustainability**

The Budget commits \$38.8 billion over five years for climate and energy, building on last year's \$15 billion allocation. While many of the programmatic details will be finalized later in the session through trailer bills, funding will focus on addressing the following key issues: transportation projects that align with climate goals (\$13.8 billion), water-drought resilience (\$2.8 billion), wildfire resilience (\$1.2 billion), extreme heat (\$300 million), nature-based solutions (\$768 million), energy (\$8.09 billion), zero-emission vehicles (\$6.1 billion), and other climate actions. Furthermore, the Budget includes \$180 million to support local jurisdictions' compliance with State organics diversion requirements, in addition to the \$60 million for local assistance appropriated last year.

### **Cannabis**

To make legal cannabis businesses more competitive, the Budget enacts statutory changes to alter the State cannabis tax structure that are in line with City Council priorities to reduce or eliminate the State cultivation tax. The changes to the cannabis tax system include the following:

- Set the State cannabis cultivation tax rate to zero;
- Maintain the current 15 percent cannabis excise rate for three years;
- Allow the California Department of Tax and Fee Administration to adjust the cannabis excise tax rate every two years that would capture revenues equivalent to the cultivation tax;
- Require an economic study that measures the impacts of tax reform on revenues;
- Provide tax relief for equity operators; and,
- Add enforcement tools against the illicit cannabis market and worker protections, including enforcement of labor peace agreements.

## Public Safety

The Budget advances key components of the Governor's proposals to address the increase in crime statewide, including local law enforcement grants (\$85 million), grants to district attorneys (\$10 million), capacity at the Department of Justice to address organized retail theft (\$18 million), a fentanyl enforcement taskforce (\$22 million), and a gun buyback grant program (\$25 million). The Budget also includes resources for peace officer wellness and training to develop statewide resources (\$5 million) and local agency grants (\$50 million).

## Education

Last year, the State invested record amounts in education, and the FY 23 Budget continues this trend by increasing base funding for the local control funding formula (LCFF) by more than \$4 billion, bringing the total funding for all K-12 education programs to \$128.6 billion. This is the largest adjustment since the creation of the LCFF in 2013, with total per pupil spending at nearly \$23,000. The Budget also expands eligibility for transitional kindergarten and reduces student-to-adult ratios.

The State also announced multi-year agreements with higher education institutions focusing on shared priorities benefitting students, including student success, equity, college affordability, and workforce preparedness. The adopted Budget invests in key areas to support these higher education goals, with total base increases of \$600 million for the community college system and \$211.1 million for the California State University system's operational costs. In addition, the Budget includes \$2.2 billion over three years across higher education institutions to ensure that students have access to housing.

## Next Steps

While the broad framework for the FY 23 state budget has been enacted, many of the specific details of the funding programs will continue to be finalized in budget trailer bills through August 31<sup>st</sup>, the end of the legislative session. City staff will continue to monitor the impacts of trailer bills on the City and will provide follow-up information as appropriate. If you have any questions, please contact Tyler Bonanno-Curley, Manager of Government Affairs, at (562) 570-5715 or [Tyler.Curley@longbeach.gov](mailto:Tyler.Curley@longbeach.gov).

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