

Date: May 31, 2022

To: Mayor and Members of the City Council

From: Thomas B. Modica, City Manager 

Subject: **State Budget: Governor Newsom's FY 23 May Revision**

On May 13, 2022, Governor Newsom released the May Revision to the proposed Fiscal Year (FY) 2023 State Budget. The total Budget is now estimated at \$300.7 billion, representing a five percent increase from the January proposal. The May Revision builds on the Governor's January Budget by investing additional resources in key areas including public health, climate response, housing and homelessness, COVID-19 relief, public safety, and infrastructure.

Due to monumental capital gains revenues, the State's projected surplus is \$97.5 billion, with nearly \$50 billion available for discretionary spending. While this year's surplus is historic, the Administration forecasts recession in the coming years, and a majority of the Budget is dedicated to one-time expenditures. The May Revision continues to build on the State's efforts to advance budget resilience in the face of an uncertain future, bringing budgetary reserves to \$37.1 billion.

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 were discussed in a [memorandum](#) released on January 28, 2022.

State Budget Items

Inflation Relief Package

As we continue to recover from the COVID-19 pandemic while facing the highest inflation rates in decades, the May Revision proposes an \$18.1 billion inflation relief package. Building on previous stimulus packages put forward by Governor Newsom, including the FY 22 Golden State Stimulus, utility assistance program, and small business relief, the May Revision would provide direct tax relief to registered vehicle owners to combat rising gas costs (\$11.5 billion) and support for residents behind on utility payments due to the COVID-19 pandemic (\$1.2 billion). This package also aids families and individuals through increased emergency rental assistance funding (\$2.7 billion) and childcare fee waivers (\$157 million). Additionally, the relief package proposes three months of free public transit (\$750 million), healthcare worker retention stipends (\$933 million), and middle-class healthcare subsidies (\$304 million).

Infrastructure

Adding to the January proposal's \$20 billion in infrastructure investments, the May

Revision recommends another \$17 billion in State infrastructure funding, bringing the total to \$37 billion. Funds will focus on energy, education, climate sustainability, broadband, and deferred maintenance. These funds will also help the State in its transition to zero-emission vehicles, improve transportation systems, and encourage greater efforts to build housing for individuals experiencing homelessness.

These investments are in addition to the \$13.9 billion in formula-based funding that California will receive for FY 23 from the federal Infrastructure Investment and Jobs Act. Funds will support vital infrastructure projects in areas such as transportation, housing, and broadband. The Governor's office estimates that every \$1 billion invested in infrastructure is expected to create 13,000 well-paid jobs in California.

Housing and Homelessness

Housing continues to be one of the greatest challenges the State faces. The May Revision invests an additional \$500 million in housing, bringing the total housing budget to \$2.5 billion. The State aims to achieve the goal of building 2.5 million housing units, by expanding resources for adaptive reuse projects and infill housing, including the conversion of shopping malls and office buildings into housing.

To continue addressing homelessness, the May Revision adds more than \$700 million to the \$2 billion proposed in the January Budget. Of these funds, \$500 million will be dedicated to crisis response and interim housing (tiny home) construction, \$150 million for Project Homekey expansion, and \$65 million for the proposed Community Assistance, Recovery and Empowerment (CARE) Court framework for advancing behavioral health.

The Governor emphasized the importance of continuing negotiations with the Legislature to provide ongoing support for homeless services, outreach, and rehousing efforts through the Homeless Housing, Assistance and Prevention (HHAP) Program. HHAP is currently funded at another \$1 billion for FY 23. Cities are required to submit local homelessness accountability plans by June 30, 2022, to measure the progress of HHAP funding, and the May Revision explicitly states the Administration's commitment to continue funding HHAP at current levels for additional years.

Economic Development

The May Revision includes several investments that will aid businesses as they continue to grow and recover from the COVID-19 pandemic. Proposals include an extension of the CalCompetes Tax Credit Program through 2028, with an investment of \$180 million per year. This program incentivizes businesses to relocate to or remain in California, while creating vital full-time jobs for residents. Additional weight is given to companies that seek to relocate from states that undermine LGBTQ+ rights and access to reproductive healthcare.

Further one-time investments include \$500 million for the California Small Business Hard-

Hit Industries Grant Program, which would provide relief for small businesses in the ten most-impacted industries from the pandemic. The program focuses on job growth through economic recovery while promoting equity and inclusivity. Grants will range between \$10,000 to \$50,000 and will activate job growth for residents across California.

Cannabis

Current tax regulations placed on the legal cannabis industry allow the illegal cannabis market to thrive in California. The May Revision proposes statutory changes to alter the current cannabis tax system, which will allow for legal cannabis businesses to operate in a more competitive market. The changes to the cannabis tax system include setting the cultivation tax rate at zero beginning July 1, 2022, maintaining a 15 percent excise tax starting January 1, 2023, and strengthening tax enforcement policies to increase tax compliance and reduce unfair competition. These actions align with the City Council recommendation on May 10, 2022, to support efforts to decrease the State cannabis cultivation tax.

Public Health

The State continues to fight the COVID-19 pandemic with science. Using lessons learned over the past two years, the Administration will implement a "SMARTER" plan (Shots, Masks, Awareness, Readiness, Testing, Education, and Rx) to apply various strategies in combating COVID-19 throughout California. The May Revision includes funding for testing (\$530 million), vaccines (\$93 million), and an emergency contingency fund (\$250 million) to support unanticipated COVID-19 emergency response needs.

The right to safe and accessible reproductive health care services continues to be a core value in California. Building on the January proposal of \$69 million, the May Revision adds \$57 million in funds, bringing the State's total investment in reproductive health to \$125 million. These resources will contribute to services such as the Uncompensated Care Funding for Reproductive Health Services, California Reproductive Justice and Freedom Fund, and for Research on Unmet Needs for Reproductive Health Care Services.

The May Revision also includes significant investments in children's mental health, adding to the \$4.5 billion Children and Youth Behavioral Health Initiative enacted last year. Another \$290 million will go to critical youth programs such as the Wellness and Mindfulness Program, Youth-Led Social Media Campaign, School Community-Based Crisis Response, Community-Based Youth Suicide Prevention, and Career Development and Parental Support. These programs help address the growing concern over youth suicide rates in the last decade while ensuring emerging technology has a positive impact on our youth.

Investments are also proposed for the Community Assistance, Recovery, and Empowerment (CARE) Court framework to provide community-based care and services

for individuals with mental health and substance use disorders. On March 15, 2022, the City Council voted to support the CARE Court concept and to examine the feasibility of implementing this type of program at the local health jurisdiction level. A current proposal moving through the legislative process would require counties to provide mental health treatment, substance use treatment, and housing to the most severely impaired and untreated Californians.

Public Safety

The May Revision makes a \$193 million investment in public safety, in addition to the \$356 million proposed in the January Budget for the gun buyback program, retail theft task force, and combating ghost guns. Focusing on the physical and mental wellbeing of officers throughout the State, the May Revision includes \$50 million for local law enforcement grants to support officer wellness. Additionally, the Governor's proposal establishes a new Fentanyl Enforcement Program at the Department of Justice.

Climate

California remains steadfast in its commitment to combating climate change. The May Revision adds \$9.5 billion to improve the State's drought resilience, wildfire and forest protection, and energy reliability and affordability. Over the next five years, the State intends to invest upwards of \$32 billion in climate-related projects, programs, and infrastructure. As the State experiences its third year of drought, the May Revision includes an additional \$1.3 billion for drought resilience and response efforts such as water recycling and groundwater cleanup, grants for urban water districts for drought relief projects, and food assistance programs for farmworkers impacted by drought.

The May Revision also includes an \$8 billion investment in California's energy reliability and affordability. A host of factors including supply chain disruptions, increased energy demand due to extreme heat, and the pandemic have caused incredible stress on the State's energy system. The investment will allow the State to create new strategic electricity reliability reserves, streamline the permitting process through the California Energy Commission's one-stop process for largescale infrastructure projects, and make other reliability investments in areas such as solar and fuel cell technology.

K-12 Education

The May Revision includes a total of \$128.3 billion for K-12 education programs. The Local Control Funding Formula cost-of-living adjustment has been updated to 6.56 percent, up from 5.33 percent in the January Budget. This is the largest adjustment since the creation of the formula in 2013, bringing total per pupil spending to \$22,850. In response to the challenges of operational and pension contribution costs, the May Revision includes a flexible \$8 billion discretionary block grant that will be allocated on a per-pupil basis for various purposes including supporting the mental health of students and staff.

To ensure that all students have access to high-quality nutritious meals, the May Revision adds \$611.8 million to the January Budget's \$596 million in ongoing Proposition 98 funds towards the State meal reimbursement rate. Additional investments will be made in areas such as teacher and school counselor residencies, allocating a one-time investment of \$500 million toward that effort.

Proper school infrastructure is vital to the safety and wellbeing of our students and staff. Building on January's proposed \$2.1 billion budget, the May Revision includes an additional \$1.8 billion dollar investment in school facilities. This brings a total investment of \$3.9 billion to the State's school facility rehabilitation. These funds will significantly improve the overall wellbeing of our educational facilities by tending to any outstanding maintenance issues.

Higher Education

The May Revision maintains the Administration's commitment to a 5 percent multi-year base increase annually for CSU and UC, while investing available Proposition 98 funds for community colleges. These investments will provide fiscal security for the State's university system and allow for an even greater focus on student success pre- and post-graduation. Aside from tuition, students are often faced with an even greater concern of where they will live and how they will pay for it. The Administration continues to move towards its goal of providing \$2 billion over a three-year period to aid in the construction of affordable student housing.

Next Steps

Following the May Revision, the State Legislature will continue to develop the Budget proposal and negotiate additional changes with the Administration. The Legislature must pass the Budget by June 15, 2022, and the Governor must sign it by July 1st, marking the start of the fiscal year. City staff will continue to advocate for the City's priorities with State leadership and will provide a memorandum upon adoption of the FY 23 State Budget. If you have any questions, please contact Tyler Bonanno-Curley, Manager of Government Affairs, at (562) 570-5715 or Tyler.Curley@longbeach.gov.

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