


Date: June 7, 2023

To: Mayor and Members of the City Council

From: Thomas B. Modica, City Manager 

Subject: **State Budget: Governor Newsom's FY 24 May Revision**

On May 12, 2023, Governor Newsom released the May Revision to the proposed Fiscal Year 2024 (FY 24) State Budget (Budget). The total Budget is now estimated at \$306.4 billion, representing more than a 3.2 percent increase from the January proposal. Unlike the past two years of historic surplus, however, the FY 24 Budget projects a \$31.5 billion shortfall, which is \$9.3 billion higher than the January estimates. Despite the current budget shortfall, the May Revision continues to maintain key funding of interest to the City, including homelessness, behavioral health care, public health, public safety, water resilience, and transportation—to name a few.

While the May Revision does not forecast a recession, it recognizes increased risks to the Budget since the January proposal that could significantly change the state's fiscal trajectory in the near term. The Governor used a combination of funding deferrals, reversions of unused dollars, and shifts from the General Fund to balance the budget. 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 February 9, 2023.

State Budget Items

Climate Resilience

The 2021 and 2022 Budget Acts allocated approximately \$54 billion over five years to advance the state's climate agenda. In the Governor's January Budget, the administration proposed eliminating \$6 billion in climate spending from the state's previous multi-year budget commitment, resulting in a total of \$48 billion to fund climate-related actions. Given the projected decline in General Fund revenues, the Governor's May Revision includes an additional \$1.1 billion in General Fund reductions across various climate resilience programs, such as the Water Recycling Program (\$270 million); Urban Greening Program (\$100 million); and the Regional Resilience Program (\$100 million). However, the Governor affirmed his commitment to getting a climate bond on the 2024 ballot to fund the administration's environmental priorities.

Drought Response and Water Resiliency

Building on the administration's continuing commitment to address statewide flood impacts, the May Revision includes an additional \$290 million to support flood protection. The May Revision also includes \$125 million one-time General Fund as a flood

contingency set aside to support costs associated with preparedness, response, recovery, and other associated activities related to the 2023 storms. Furthermore, the May Revision proposes to set aside \$25 million in the current year in anticipation of potential additional disaster relief and response costs associated with recent storms and future flooding. Due to the significant improvement in statewide water conditions based on recent winter storms, the May Revision includes \$125 million in water-related reductions.

The Circular Economy

The FY 24 Budget maintains \$443 million (95 percent) of investments to support a circular economy that recognizes waste as a resource, shifting the state's focus to a more resilient and renewable economy in California.

Education

K-12 Education

Due to the decrease in overall General Fund revenues, the Proposition 98 guarantee decreased from \$108.8 billion in the Governor's January Budget to \$106.8 billion in the May Revision. However, the May Revision slightly increases the proposed cost-of-living adjustment (COLA) from 8.14 percent in the Governor's January budget to 8.22 percent. In addition to the updated COLA, the May Revision proposes an additional \$80 million in ongoing Proposition 98 funding to support county offices of education serving students in juvenile court and other alternative school settings. Furthermore, the May Revision proposes an increase of \$1 million ongoing Proposition 98 General Fund for the Los Angeles County Office of Education to support professional development and leadership training for education professionals related to antibias education and the creation of inclusive and equitable schools.

Due to the decline in Proposition 98 resources, the May Revision proposes to decrease support for block grants related to arts, music, and instructional materials from \$2.3 billion in the Governor's January Budget to \$1.8 billion. However, the May Revision includes an additional \$110 million one-time Proposition 98 General Fund and approximately \$191 million ongoing Proposition 98 General Fund to fully fund the Universal School Meals program in the 2022-23 and 2023-24 fiscal years.

Higher Education

The May Revision maintains the administration's commitment to a five percent multi-year base increase annually for the California State University and University of California systems. Additionally, the May Revision includes an increase of \$25.4 million ongoing Proposition 98 General Fund for community colleges to reflect a change in the COLA adjustment described above. The May Revision includes a decrease of approximately \$2.4 million ongoing Proposition 98 General Fund needed to sustain 0.5-percent

enrollment growth at community colleges. Furthermore, because of lower revenue projections, the May Revision proposes a decrease of \$50 million one-time General Fund for 2023-24 and a decrease of \$154.6 million one-time General Fund for 2024-25 relative to affordable student housing projects at the California Community College's system.

Economic Development

Cannabis

To meet the requirements of Proposition 64, which requires funding three cannabis-related programs at a baseline of approximately \$670 million, the May Revision estimates \$567.4 million will be available in 2023-24, which includes \$150 million General Fund to backfill the estimated decline in revenues. The May Revision includes \$340.4 million to fund youth education, prevention, and treatment of youth substance use disorders and school retention (60 percent); \$113.5 million to address the clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation (20 percent); and \$113.5 million to fund public safety-related activities (20 percent). This reflects a total decrease of \$102.2 million compared to the Governor's earlier budget estimate.

Workforce Development

The May Revision proposes to restore certain workforce development funding across several key industry sectors in California. For instance, the May Revision proposes to restore \$15 million in 2023-24 and \$15 million in 2024-25 for the Department of Industrial Relation's Women in Construction Priority Unit that the Governor's January Budget proposed to pause for two years. Additionally, while the January Budget reduced funding for various public health workforce training and development programs to help address the budget problem, the May Revision restores funding of \$49.8 million General Fund over four years for various public health workforce training and development programs.

Health and Human Services

Healthcare and Behavioral Health

The May Revision proposes the renewal of the Managed Care Organization (MCO) Tax effective April 1, 2023, through December 31, 2026, resulting in \$19.4 billion in funding to help maintain the Medi-Cal program and support increased investments while minimizing the need for reductions to the program. Additionally, the May Revision includes \$15 million one-time 988 State Suicide and Behavioral Health Crisis Services Fund in 2023-24 to support eligible 988 call center behavioral health crisis services, for a total of \$19 million in 2023-24 and \$12.5 million in 2024-25 and ongoing. Furthermore, the May Revision provides an annual increase between \$43 million and \$54.5 million for county behavioral health departments to implement the CARE Court program. The May Revision also includes an additional one-time \$15 million for Los Angeles County. This is due to Los Angeles County's announcement that it will implement the CARE Act one year early.

Public Health

The May Revision maintains \$300 million ongoing General Fund to modernize state and local public health infrastructure and transition to a more resilient public health system. The May Revision also includes \$10 million for the Health and Human Services Agency to establish a new public-private partnership that will create the environment for researchers and developers to create solutions to the greatest health challenges facing Californians, such as targeting diabetes-related morbidity and mortality, addressing disparities in maternal and infant mortality faced by women and their babies, and preventing and mitigating infectious diseases.

Building on the opioid response investments proposed in the Governor's January Budget, the May Revision includes an additional \$141.3 million in Opioid Settlements Fund over four years for the Department of Health Care Services to support the Naloxone Distribution Project, for a total of \$220.3 million over four years. Additionally, the May Revision includes \$30 million one-time Opioid Settlements Fund in 2023-24 to support the development of a lower-cost, generic version of a naloxone nasal spray product through the CalRx Naloxone Access Initiative at the Department of Health Care Access and Information.

Homelessness and Housing

Homelessness

Since Governor Newsom took office, homelessness has been a core funding and policy priority in the state budget. The state continues to focus on strengthening local collaboration between cities, counties, and service providers to prevent and address homelessness. The May Revision does not propose any major changes to the Governor's January Budget for addressing homelessness. The May Revision maintains the state's \$15.3 billion multi-year commitment to address homelessness through continued aid to local governments through the Homeless Housing, Assistance and Prevention (HHAP) Program; Project Homekey and Roomkey; behavioral health continuum infrastructure and bridge housing; and encampment clean-up grants. In an effort to eliminate the pipeline from foster care to homelessness, the May Revision restores \$20 million to the Court Appointed Special Advocates program, which was proposed for reductions in the Governor's January Budget.

The administration continues to engage the Legislature in discussions about enhancing local accountability around homeless services and enhancing regional coordination on homelessness strategies. As part of the \$1 billion one-time General Fund for HHAP in the Governor's Budget, the administration proposed statutory language to focus funding on activities to reduce unsheltered homelessness. This includes prioritizing spending on permanent housing, Project Homekey operations, and CARE Act housing support.

Housing

Housing continues to be one of the greatest challenges the state faces. However, the May Revision includes \$17.5 million in General Fund reductions and \$345 million in deferrals related to housing programs. The May Revision proposes to defer \$345 million of the \$500 million one-time allocation to the Foreclosure Invention Housing Preservation Program (FIHPP). FIHPP is designed to preserve affordable housing and promote resident or nonprofit organization ownership of residential real property. Instead of being allocated this year, the \$345 million deferral will be allocated to the program over the next four fiscal years. Additionally, the May Revision proposes to recapture \$17.5 million in unspent Downtown Rebound Program funds and redirect it to the General Fund. The Downtown Rebound Program was intended to provide funding for the conversion of commercial and industrial structures into residential housing. Over two decades later, \$17.5 million of the original \$25 million allocated in the 2000 Budget Act remains unspent.

Public Safety

In response to an increase in mass shootings, the May Revision moves \$25 million in General Fund provided in the 2022 Budget Act for the Local Law Enforcement Gun Buyback Grant Program from the Board of State and Community Corrections to Cal OES. Furthermore, due to a recent federal court ruling resulting in an increase in the number of carry concealed weapon permits, the May Revision includes \$5 million in 2023-24 and \$3.2 million in 2024-25 to process additional concealed carry weapon permits.

Transportation Infrastructure

Transportation

The May Revision maintains \$11.6 billion for transportation infrastructure. This includes \$5.65 billion for transit and rail infrastructure; \$1.4 billion for Active Transportation Program projects; and \$350 million for grade separation projects. Furthermore, the May Revision proposes \$1.2 billion for projects that improve goods movement on rail and roadways at port terminals, including new bridges and zero-emission modernization projects. The May Revision also proposes statutory changes to expedite infrastructure projects that advance California's climate, equity, and economic goals and maximize the state's share of federal infrastructure spending while maintaining appropriate environmental review.

Zero-Emission Vehicles and Infrastructure

The state recently achieved its goal of 1.5 million Zero Emission Vehicles (ZEVs) on the road two years ahead of schedule. Building on the administration's ambitious climate action plan, the May Revision maintains \$8.9 billion from last year's zero-emission vehicle (ZEV) package, which is the same level of funding that was proposed in the Governor's January Budget. However, the May Revision shifts an additional \$635 million General

Fund (\$500 million in 2023-24) over three years to the Greenhouse Gas Reduction Fund.

Next Steps

Following the May Revision, the Legislature will continue to develop the Budget proposal and negotiate additional changes with the administration. The Legislature must pass the FY 24 Budget by June 15, 2023, 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 24 Budget. If you have any questions, please contact Tyler Bonanno-Curley, Acting Deputy City Manager, at (562) 570-5715 or Tyler.Curley@longbeach.gov.

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