


Date: July 30, 2024

To: Mayor and Members of the City Council

From: Thomas B. Modica, City Manager 

Subject: **Adopted Fiscal Year 2025 State Budget**

On June 29, 2024, Governor Newsom signed legislation adopting the Fiscal Year 2025 (FY 25) State Budget (Budget). The Budget reflects state expenditures of approximately \$298 billion, a 4.2 percent decrease from the 2023-24 enacted budget. The adopted Budget maintains the Rainy Day Fund at \$22 billion and is balanced through the 2025-26 fiscal year. The purpose of this memorandum is to provide an overview of the adopted FY 25 State Budget and potential impacts to the City of Long Beach (City).

In early January 2024, the Governor unveiled \$37.9 billion in possible reductions, borrowing, delays, deferrals, and shifts, as well as \$13.1 billion in reserve spending to close the budget deficit. That deficit projection was at odds with a \$73 billion shortfall predicted by the nonpartisan Legislative Analyst's Office. In early April 2024, the Governor and Legislature struck an [Early Action agreement](#) that addressed nearly \$17 billion of the deficit. Their goal was to address a sizeable piece of the deficit immediately, thus giving negotiators more time to focus on closing the remaining gap. However, on May 10, the Governor released an updated budget proposal that addressed a budget shortfall that had increased by roughly \$7 billion after the Early Action budget agreement. The May Revision estimated the shortfall for FY 25 at approximately \$44.9 billion. The adopted Budget includes various strategies to bridge an approximately \$46.8 billion shortfall through reductions (\$16 billion), revenue/internal borrowing (\$13.6 billion), reserves (\$6 billion), fund shifts (\$6 billion), delays and pauses (\$3.1 billion), and deferrals (\$2.1 billion). Despite budgetary constraints, the adopted Budget continues to maintain key funding of interest to the City.

State Budget Items

Climate Resilience

The 2021 and 2022 Budget Acts allocated approximately \$54 billion to fully integrate climate solutions with equity and economic opportunity. The adopted Budget maintains approximately \$44.6 billion of these investments over eight years, prioritizing equity and investments in populations facing disproportionate harm from pollution and the climate crisis. To address the budget shortfall, the adopted Budget includes \$12.8 billion of General Fund solutions in climate-related programs to achieve a balanced budget including: \$6.6 billion in reductions; \$1 billion in delays of General Fund expenditures to future years; and \$5.2 billion in shifts to other funds, primarily the Greenhouse Gas Reduction Fund (GGRF). However, the Governor continues to pursue available federal climate funding, including from the Inflation Reduction Act and the Infrastructure

Investment and Jobs Act. The Governor also championed a climate bond on the 2024 ballot to fund the administration's environmental priorities.

Climate Bond

The California State Legislature and Governor Gavin Newsom approved [Senate Bill 867](#), which places a \$10 billion bond on the November 5, 2024, statewide ballot. The Safe Drinking Water, Wildfire Prevention, Drought Preparedness, and Clean Air Bond Act of 2024, or Proposition 4, authorizes a \$10 billion general obligation bond to finance projects for safe drinking water, drought, flood, and water resilience (\$3.8 billion); wildfire and forest resilience (\$1.5 billion); sea-level rise and coastal resilience (\$1.2 billion); extreme heat mitigation (\$450 million); biodiversity and nature-based climate solutions (\$1.2 billion); climate-smart, sustainable, and resilient farms, ranches, and working lands (\$300 million); park creation and outdoor access (\$700 million); and clean air programs (\$850 million). The language requires that at least 40 percent of the funding shall be allocated to projects that aid disadvantaged communities, defined as those where the median household income is less than 80 percent of the area average. The Intergovernmental Affairs Committee will meet in the coming weeks to review whether to support the climate bond. The Cal Cities Board of Directors recently voted to support the ballot measure.

Education

Early Education

The adopted Budget authorizes California State Preschool Program providers to serve two- to four-year-old children until June 30, 2027. The adopted Budget also maintains that the California State Preschool Program continue to require providers to reserve 5 percent of funded enrollment for children with disabilities. However, the Budget suspends provisions to increase this requirement to 7.5 percent in 2025-26 and 10 percent in 2026-27. The adopted Budget provides authority for the California Department of Education to develop and implement a streamlined request for application process to award new State Preschool slots to existing providers.

K-12 Education

The adopted Budget protects Proposition 98 funding that enables increased support for core programs such as the Local Control Funding Formula (LCFF), special education, transitional kindergarten, nutrition, and preschool. The adopted Budget includes an additional \$179.4 million ongoing Proposition 98 General Fund and an additional \$120.8 million one-time Proposition 98 General Fund to fully fund the universal school meals program in the 2023-24 and 2024-25 fiscal years. Additionally, the adopted Budget provides \$25 million one-time Proposition 98 General Fund to support training for educators to administer literacy screenings to meet the requirement to screen students in kindergarten through second grade for risk of reading difficulties, including dyslexia, by the 2025-26 school year. The adopted Budget provides \$988.7 million Proposition 98

General Fund to support the second year (the 2023-24 school year) of expanded eligibility for transitional kindergarten, shifting age eligibility from all children turning five-years-old between September 2 and February 2 to all children turning five-years-old between September 2 and April 2 (roughly 36,000 additional children). Additionally, the adopted Budget provides \$390.2 million Proposition 98 General Fund to support the second year of adding one additional certificated or classified staff person to every transitional kindergarten class. However, to address the budget deficit, the adopted Budget forgoes a planned investment of \$875 million to support the School Facility Program and a planned \$500 million one-time Proposition 98 General Fund investment in 2024-25 to support greening school bus fleets through programs operated by the California Air Resources Board and the California Energy Commission.

Higher Education

The adopted Budget maintains a five percent increase as part of the multiyear compact agreement with the California State University (CSU) and the University of California (UC). However, to address the budget deficit, the adopted Budget includes a one-time reduction of \$75 million General Fund for CSU's operating costs, for a net total of approximately \$165 million of new operating budget funding. The adopted Budget includes an increase of \$5 million one-time General Fund for the CSU to support intersegmental partnerships in historically underserved areas of the state. However, the adopted Budget outlines additional cuts and deferrals intended for the CSU in future budget cycles. For 2025-26, the state intends to impose a 7.95 percent reduction of ongoing funding to the CSU's operating budget, equivalent to a cut of \$397 million. Furthermore, the state intends to defer 2025-26 compact funding in the amount of \$252 million ongoing to 2026-27, and defer 2026-27 compact funding in the amount of \$264 million ongoing to 2027-28.

In contrast to the CSU, the adopted Budget for the California Community Colleges (CCC) includes no major core reductions to programs or services, instead drawing on reserves and operational savings to bring the overall budget in balance. The adopted Budget includes an increase of \$20 million one-time Proposition 98 General Fund for the CCC to support campus financial aid offices as well as an increase of \$12 million one-time Proposition 98 General Fund to support the continued development of e-Transcript California and to provide grants to districts to support local costs related to one-time connectivity, setup, and integration of the e-Transcript platform.

Education Bond

The California State Legislature and Governor Gavin Newsom approved [Assembly Bill 247](#), which places a \$10 billion bond on the November 5, 2024, statewide ballot. The Kindergarten Through Grade 12 Schools and Local Community College Public Education Facilities Modernization, Repair, and Safety Bond Act of 2024, or Proposition 2, authorizes a \$10 billion bond to pay for repairs and upgrades to K-12 and community college campus infrastructure across California. This bond measure allocates \$8.5 billion

for upgrading the infrastructure of K-12 schools, with 10 percent of the funds dedicated to small school districts. The remaining \$1.5 billion would be allocated to community college facilities.

Economic Development

Cannabis

The state continues to work to strengthen California's legal cannabis market through reform of the tax structure, fee relief to support entry into the legal market, and assistance to local governments to move licensees from provisional licensure to annual licenses. The tax reforms included in Chapter 56, Statutes of 2022 (AB 195), suspended the cannabis cultivation tax and modified cannabis excise tax remittance to the point of sale. The state also created numerous programs: the High-Road Cannabis Tax Credit, Cannabis Equity Tax Credit, and the Cannabis Equity Retailer Vendor Compensation Program.

Proposition 64 specifies the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis and the past effects of its criminalization. Once these priorities have been met, the remaining funds are directed to youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities.

Workforce Development

The 2022 Budget invested approximately \$2.2 billion General Fund dollars towards the state's goals of increasing the number of apprenticeships; workforce training to mitigate the effects of climate change; and creating more innovative and accessible opportunities to recruit, train, hire, and advance an ethnically and culturally inclusive health and human services workforce. The Budget reduces \$1.16 billion (\$971.1 million General Fund) and delays \$190 million General Fund from 2023-24 and prior years to 2024-25 and future years (\$50 million in 2024-25, \$70 million in 2025-26, and \$70 million in 2026-27). There will be a delay of \$40 million General Fund for a Goods Movement Workforce Training Facility for the San Pedro Bay Ports complex, but the Budget includes \$20 million General Fund for this purpose in both 2025-26 and 2026-27. The Budget also reverts \$10 million General Fund for the Displaced Oil and Gas Worker Pilot Fund at EDD (the Budget maintains \$30 million General Fund for this program). Lastly, \$60 million one-time Proposition 98 General Fund per year for five years to support the CCC Strong Workforce Program to expand nursing programs and Bachelor of Science in Nursing partnerships to develop, educate, and maintain the next generation of registered nurses through the community college system.

Health and Human Services

Healthcare and Behavioral Health

Behavioral Health largely preserves funding across multiple programs supporting the expansion of the continuum of behavioral health treatment and infrastructure capacity for providing behavioral health services to Californians (\$7.1 billion total funds). The Budget reduces \$746.1 million General Fund over five years and \$189.4 million Behavioral Health Services Fund in 2025-26 for various healthcare workforce initiatives at the Department of Health Care Access and Information. The Budget maintains \$108.9 million General Fund in committed funds and \$357.7 million General Fund in prior and current year workforce investments in the Department of Health Care Access and Information. The Budget also includes \$60 million Proposition 98, per year over five years, in the community colleges for nursing, as well as a reduction of \$250 million General Fund and a shift of \$90 million to the Mental Health Services Fund.

The Budget includes a trigger to implement health care worker minimum wage increases. The minimum wage increases would be effective either October 15, 2024, if agency cash receipts for the first quarter of 2024-25 are at least 3 percent higher for the same time period than projected at the 2024 Budget Act, or the sooner of January 1, 2025, or 15 days after DHCS provides legislative notification that it has initiated the data retrieval to implement an increase to the Hospital Quality Assurance Fee. The Hospital Quality Assurance Fee will provide significant new revenue to hospitals and could help mitigate the costs associated with the minimum wage increases.

Public Health

Through joint advocacy with the County Health Executives Association of California (CHEAC), the final budget agreement rejects the May revision's proposed complete elimination of recent funding increases for Public Health programs, and instead contains a modest cut of 7.95 percent.

The Budget reverts \$41.5 million General Fund in 2023-24 and reduces \$23.9 million General Fund in 2024-25 and ongoing, which aligns with the state's 7.95 percent efficiency reductions. The Budget maintains \$276.1 million General Fund in 2024-25 and ongoing for state and local public health infrastructure.

Homelessness and Housing

The Governor's January proposal maintained the state's \$15.3 billion multi-year commitment to address homelessness, including \$1 billion for a fifth round of Homeless Housing, Assistance, and Prevention (HHAP) grants. However, the May Revision did not include any new funding for round six of the program or a commitment to fund it on an ongoing basis. The City worked collaboratively with our regional and statewide partners to advocate for the inclusion of HHAP grants in the adopted Budget. Through joint

advocacy with the Big City Mayors, the adopted Budget includes \$1 billion for a sixth round of HHAP grants. The adopted Budget also includes statutory language that requires more frequent reporting by grantees on HHAP expenditures, requires corrective action plans for grantees that are not meeting their HHAP system performance measures, and requires cities and counties to have a compliant Housing Element to receive the second half of their HHAP round six award. As part of the state's continued focus on homelessness, the adopted Budget includes \$1.25 billion in new funding for homelessness programs, including \$250 million (\$150 million in 2024-25 and \$100 million in 2025-26) for the Encampment Resolution Grant Program. However, to address the budget deficit, the adopted Budget includes a reduction of \$260 million General Fund of HHAP round five supplemental funds and a reversion of \$142 million General Fund of unneeded administrative funding for HHAP, ERF grants, and Family Homelessness Challenge Grants.

Since 2019, the state has invested approximately \$5.2 billion General Fund into affordable housing and homeownership programs. The adopted Budget includes approximately \$1.1 billion General Fund in reductions over the multiyear period for various housing programs that received recent investments, leaving the total General Fund investment in affordable housing and homeownership programs at approximately \$4.1 billion since 2019. In May, the Governor proposed cutting an additional \$75 million in the Multifamily Housing Program, totaling \$325 million. The adopted Budget includes a reversion of \$10 million General Fund for the Multifamily Housing Program, which leaves \$315 million in 2023-24 for this program. The City worked collaboratively with our regional and statewide partners to advocate for protecting the Regional Early Action Planning Grants of 2021 (REAP 2.0) from cuts. Through joint advocacy with the Southern California Association of Governments (SCAG), the adopted Budget restored \$260 million in one-time funding to the REAP 2.0 Program, reducing the cut to \$40 million out of the original \$600 million allocation. To address the budget deficit, the adopted Budget includes a reduction of \$484 million General Fund for the Foreclosure Intervention Housing Preservation Program and a reversion of \$76.3 million General Fund for the Veteran Housing and Homelessness Prevention Program.

Public Safety

Public safety is a top priority for Governor Newsom and the Legislature, and funding to keep Californians safe is at an all-time high. Since 2022-23, \$370 million has been provided to address Organized Retail Theft and crimes, \$234.4 million to address gun violence, \$88 million for reducing illicit drugs, and \$258.3 million for victim services. Additionally, more than half a billion dollars has been allocated toward community public safety, which includes officer wellness, officer use of force and de-escalation training, the reduction of roadway violence, and internet crimes against children. The adopted Budget maintains key investments aimed at reducing fentanyl trafficking and retail theft. This includes \$369.9 million General Fund over four years to bolster local law enforcement efforts to address organized retail theft and other crimes. Additionally, the adopted Budget includes an increase of \$30 million to the California Military Department's existing drug

interdiction efforts to prevent drug trafficking by transnational criminal organizations, with a focus on helping federal, state, local, and tribal law enforcement agencies stem the flow of fentanyl. The adopted Budget also includes \$200 million General Fund over three years to expand violence prevention efforts within communities that focus on those at the highest risk of violence and an increase of \$103 million one-time General Fund in 2024-25 to supplement federal funding supporting a variety of services for domestic violence victims. However, to address the budget deficit, the adopted Budget includes a reduction of \$9 million General Fund for the CalVIP Grant Program in 2024-25 and ongoing, which will be replaced by funding from the newly created Gun Violence Prevention and School Safety fund starting in 2024-25.

Transportation Infrastructure

Transportation

The 2022 Budget Act included \$13.8 billion for transportation programs and projects that align with the state's climate goals. The Budget maintains \$13.1 billion of these investments and includes \$675 million in General Fund reductions, \$1.5 billion in fund shifts, and \$1.8 billion in delays across various programs. The Budget maintains \$200 million of the original investment total in fiscal years 2024-25 and 2025-26 for Active Transportation, and allows for the remaining \$400 million to be added, subject to appropriation, in future fiscal years. Prior to any future additions, this will leave the Active Transportation Program with \$650 million, including \$350 million General Fund in one-time funding, in addition to the program's base annual funding of approximately \$280 million. Shifts in funding will impact the Statewide, Regional, and Local Transit and Rail Projects-Competitive Grants, formula grants, and a delay of \$1 billion of formula Transit and Intercity Rail Capital Program funds. Additionally, the Budget shifts \$839 million from General Fund to the Greenhouse Gas Reduction Fund (GGRF). The Budget reduces \$75 million from the Highways to Boulevards Program and shifts \$75 million from the General Fund to the GGRF. This maintains \$75 million for the program. For the Zero Emission Transit Capital Program, the Budget delays \$680 million in program funds across future fiscal years through 2027-28. These solutions result in a total of \$150 million for the program. Additionally, the Administration will continue to research potential alternate funding mechanisms, including existing state transportation programs.

Zero-Emission Vehicles and Infrastructure

The 2021 and 2022 Budget Acts committed \$10 billion over five years in investments to the state's Zero-Emission Vehicles (ZEV) agenda, from cleaning up short-haul trucks and school buses to accelerating equitable electrification of passenger vehicles, coupled with infrastructure and incentives for in-state manufacturing. The Budget maintains \$9.2 billion, extended over seven years, in investments to the state's ZEV agenda, including targeted investments in disadvantaged and low-income communities by increasing access to the benefits of clean transportation and by continuing to decarbonize California's transportation sector and improve public health. The Budget includes \$920.6

million of General Fund reductions, \$528.3 million in fund shifts to the GGRF, and \$600 million in delays across various programs. The reduction in funds will impact the School Buses and Infrastructure, Fueling Infrastructure Grants and Clean Trucks, and Buses and Off-Road Equipment. The Budget shifts \$528.3 million General Fund to the GGRF in 2023-24 for various programs including but not limited to ZEV Fueling Infrastructure Grants, Drayage Trucks and Infrastructure, and Clean Trucks, Buses and Off-Road Equipment. It also delays \$600 million GGRF from 2024-25 to 2027-28 across various programs, which will enable a shift of \$600 million General Fund expenditures to the GGRF for other programs.

Next Steps

While the framework for the FY 25 State Budget has been enacted, many of the specific details of the funding programs will continue to be finalized in budget trailer bills through September 30th, 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 Sarah Patterson, Manager of Strategic Partnerships and Government Affairs, at sarah.patterson@longbeach.gov.

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