

Date: June 10, 2024

To: Mayor and Members of the City Council

From: Thomas B. Modica, City Manager



Subject: **State Budget: Governor Newsom's FY 25 May Revision**

On May 10, 2024, Governor Newsom released the May Revision to the proposed Fiscal Year 2025 (FY 25) State Budget (Budget). The total Budget is now estimated at \$288.1 billion, slightly less than the Governor's January estimate of \$291.5 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 [February 6, 2024](#).

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. The May Revision estimates the shortfall for FY 25 at approximately \$44.9 billion, which is \$7 billion higher than the Governor's January estimate. The Governor's proposed FY 25 Budget plans to close the deficit by relying, in part, on an early action budget agreement with the Legislature that addressed \$17.3 billion of the deficit. The May Revision addresses the remaining \$27.6 billion shortfall through reductions, delays and pauses, internal borrowing, fund shifts, and eliminating funding over multiple fiscal years. The May Revision also includes efficiencies, which consist of reducing state operations by approximately 7.95 percent, starting in FY 25, to nearly all department budgets and eliminating approximately 10,000 vacant state positions starting in 2025-26 and ongoing. Furthermore, the May Revision also dips into state reserve accounts, including \$12.2 billion from the rainy day fund and \$900 million from a safety net reserve, spread out over two fiscal years.

Despite the budget challenges, the administration committed to preserving key programs and benefits, including Supplemental Security Income/State Supplementary Payment (SSI/SSP), CalWORKs, Earned Income Tax Credit, CARE Court, health care expansion, and food assistance programs. The May Revision also ensures that there is a positive operating reserve in the 2025-26 fiscal year.

### **Early Action Budget Package**

On April 15, 2024, Governor Gavin Newsom signed AB 106, an early action budget agreement between the Governor, Senate President pro Tempore Mike McGuire, and Speaker of the Assembly Robert Rivas to reduce the shortfall by approximately \$17.3 billion. The early action budget agreement contains a mix of spending reductions (\$3.6 billion), internal borrowing (\$1.4 billion), increased revenue (\$3.8 billion), spending delays (\$3.1 billion), spending deferrals (\$2.1 billion), and fund shifts (\$3.4 billion) to address the State's projected budget deficit for FY 25.

The early action budget agreement includes a number of changes to programs of interest to the City. AB 106 contains \$3.6 billion in reductions, including \$2.9 billion in various climate reductions and \$1.2 billion in various housing program reductions. Furthermore, AB 106 reduces funding for the Student Housing Revolving Loan Fund program by \$494 million. AB 106 achieves \$1.4 billion in savings through internal borrowing, primarily from the AIDS Drug Assistance Program Rebate Fund Loan (\$500 million), the Underground Storage Tank Cleanup fund (\$200.6 million), and other special fund balances.

The early action budget agreement delays funding for a total of \$3.1 billion. The spending delays are spread across the multi-year commitments beginning in 2025-26. Nearly one-third of the spending delays are for the Transit Intercity Rail Capital Program (\$1 billion). Other programmatic delays include \$550 million for the Preschool, TK and Full-Day Kindergarten Facilities Grant Program, \$235 million for the Behavioral Health Bridge Housing Program, \$140.4 million for the Behavioral Health Continuum Infrastructure Program, \$100 million for Broadband Last Mile, and \$100 million for Ports and Freight Infrastructure, to name a few. Furthermore, the early action budget agreement includes \$499 million in programmatic deferrals to the UC and CSU systems. The early action budget agreement shifts \$3.4 billion from the General Fund to other funds, including \$1.8 billion to the Greenhouse Gas Reduction Fund. It also includes the Governor's proposal for the Managed Care Organization Tax which provides \$3.8 billion in revenues.

## **Climate Resilience**

In January, the Governor announced significant changes to climate-related programs, including \$2.9 billion in reductions, \$1.9 billion in delays of expenditures to future years, and \$1.8 billion in shifts to other funds. The May revision continues to reduce climate-related funding by \$50 million one-time in 2023-24 for outdoor environmental education and access programs administered through the Outdoor Equity Grants Program. Furthermore, the May Revision reduces funding for water storage facilities by \$500 million one-time in 2025-26. To fund the administration's environmental priorities, the Governor cited two funding sources – federal climate investments (i.e., the Bipartisan Infrastructure Law and the Inflation Reduction Act) and legislatively proposed climate bonds (i.e., AB 1567 and SB 867) – as an offset to state climate cuts.

### *Zero-Emission Vehicles and Infrastructure*

The May Revision maintains the Zero Emission Transit Capital Program (\$1.1 billion) funding levels. Furthermore, the May Revision proposes to shift \$1.7 billion in 2024-25 from the General Fund to the Greenhouse Gas Reduction Fund for various climate programs that support greenhouse gas reductions. Additionally, over the next five years, the May Revision includes shifting \$3.6 billion from the General Fund to the Greenhouse Gas Reduction Fund, including transit programs, clean energy programs, zero-emission vehicle programs, and nature-based solutions programs.

## **Education**

### *Early Childhood and Childcare*

The Governor's January proposal maintained the state's multi-year commitment to expand access to subsidized childcare slots by including \$2.1 billion for the Department of Social Services to fund roughly 146,000 new subsidized childcare slots expected to be filled by 2024-25, working towards the goal of creating over 200,000 new slots by 2026-27. Approximately 119,000 slots have been added; however, there will be a pause at the current level until fiscal conditions allow for resuming the expansion. To address the budget deficit, the May Revision includes reducing a planned 2025-26 investment of \$550 million that would have supported the California Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facilities Grant Program. Furthermore, the May Revision includes eliminating the planned General Fund investments of \$47.9 million in 2025-26 and \$97.9 million ongoing starting in 2026-27 that would have supported California State Preschool Program adjustment factor costs for State Preschool to serve at least 10 percent of students with disabilities by 2026-27.

### *K-12 Education*

The Governor's May Revision assumes a FY 25 Proposition 98 funding level of \$109.1 billion for K-14 education. Since Proposition 98 guarantee tends to reflect changes in state General Fund revenues and estimates of General Fund revenue in the May Revision are lower than estimates in the January budget proposal, the Governor's revised spending plan assumes a decrease in the Proposition 98 guarantee in 2023-24 and 2022-23. Specifically, the May Revision assumes a 2023-24 Proposition 98 funding level of \$102.6 billion, \$3 billion lower than the \$105.6 billion funding level assumed in the Governor's January budget proposal. The 2022-23 Proposition 98 funding level of \$97.5 billion is roughly \$800 million below the \$98.3 billion funding level assumed in January, but it is \$9.8 billion below the level assumed in the 2023-24 budget agreement – the largest decline in an estimated Proposition 98 guarantee for a prior-year since Proposition 98 was adopted.

Governor Newsom proposes withdrawing approximately \$8.4 billion from the Public School System Stabilization Account to maintain predictable support for local educational agencies and community college districts. Furthermore, the May Revision slightly increases the proposed cost-of-living adjustment (COLA) from 0.76 percent in the Governor's January budget to 1.07 percent in May. The May Revision also eliminates the remaining \$375 million one-time in planned support for the School Facilities Aid Program.

### *Higher Education*

The Governor's January proposal included a total \$44.8 billion for all segments of higher education, including a one-time deferral of approximately \$227.8 million General Fund to the UC and a one-time deferral of approximately \$240.2 million General Fund to the CSU.

The Governor's May Revision includes additional cuts to higher education and maintains funding deferrals for both of the state's public university systems. The May Revision reduces \$60.2 million one-time support for the Golden State Teacher Grant Program, which provides awards to students in professional preparation programs and who are working toward a teaching credential. Due to the budget deficit, the May Revision proposes reducing \$510 million ongoing General Fund support for the Middle-Class Scholarship Program.

## **Economic Development**

To address the budget shortfall, the May Revision proposes eliminating \$300.9 million in 2023-24, \$302.7 million in 2024-25, \$216 million in 2025-26, \$19 million in 2026-27, and \$16 million in 2027-28 for various healthcare workforce initiatives including community health workers, nursing, social work, Song-Brown residencies, Health Professions Career Opportunity Program, and California Medicine Scholars Program. Furthermore, the May Revision proposes reducing \$150 million (\$50 million annually from 2024-25 through 2026-27) for the California Jobs First Program, an inter-agency partnership to support resilient, equitable, and sustainable regional economies. Additionally, the May Revision includes a reduction of \$10 million on an ongoing basis for the Women in Construction program, in addition to the \$5 million ongoing reduction proposed at the Governor's January Budget, which would result in the elimination of the program.

## **Health and Human Services**

### *Behavioral Health*

The May Revision includes numerous cuts to several behavioral health programs, including eliminating \$450.7 million in one-time funds from the last round of the Behavioral Health Continuum Infrastructure Program; reducing \$132.5 million in 2024-25 and \$207.5 million in 2025-26 for the Behavioral Health Bridge Housing Program; and reducing \$72.3 million one-time in 2023-24, \$348.6 million in 2024-25, and \$5 million in 2025-26 for school-linked health partnerships and capacity grants provided through the Children and Youth Behavioral Health Initiative.

### *Public Health*

The Governor's January proposal included \$253.4 billion for all health and human services programs in 2024-2025. To address the budget shortfall, the May Revision proposes eliminating \$300 million for state and local public health programs, as well as cutting \$52.5 million in Future of Public Health (FoPH) funds in the current fiscal year. The proposed cuts in the May Revision would reduce the public health workforce and impact Long Beach Health Department's ability to address core foundational public health services. The City was a major proponent of the FoPH program and continues to work with other public health jurisdictions to oppose any proposed cuts to this funding.

## **Homelessness and Housing**

The Governor's January proposal maintained the state's \$15.3 billion multi-year commitment to address homelessness, including previously budgeted amounts of \$400 million for a third round of encampment resolution grants and \$1 billion for a fifth round of Homeless Housing, Assistance, and Prevention (HHAP) grants. However, the May Revision proposes reducing \$260 million in previously budgeted HHAP bonus funds, which are awarded to recipients if they can meet specified performance metrics. Furthermore, the May Revision does not include any new funding for round six of the program or a commitment to fund it on an ongoing basis. Long Beach has been a strong advocate for ongoing funding to address homelessness through the HHAP Program and continues to push for additional, structural resources for this program. The City is dedicated to utilizing these funds to continue building out critically needed infrastructure to address unsheltered homelessness, such as expanding outreach, bridge housing and emergency shelter supports, and more.

The Governor's January proposal included over \$1 billion in cuts to key housing programs that cities rely on to increase affordable housing in their communities. The May revision includes additional cuts to these programs, including eliminating key funding sources for affordable housing. In January, the Governor's budget proposed eliminating \$250 million from the Multi-Family Housing Program and leaving \$75 million for the 2024-2025 budget year. To address the budget shortfall, the Governor's May Revision includes eliminating the remaining funds from this year's budget. Furthermore, the Governor's May Revision includes reducing \$127.5 million in 2023-24 for the Adaptive Reuse Program, which will eliminate the program. The Governor's May Revision also includes eliminating the remaining \$236.5 million in 2023-24 for the Foreclosure Intervention Housing Preservation Program, in addition to the \$237.5 million proposed in January, resulting in a complete elimination of the program.

## **Public Safety**

The Governor's January proposal included key investments aimed at reducing fentanyl trafficking and retail theft. During the press conference, the Governor said that he is "holding the line" on crime, maintaining California Highway Patrol retail theft operations, and working in partnership with the National Guard to stop fentanyl at the border. Major reductions proposed in the Governor's May Revision related to public safety mostly impact state and county programs. The May Revision proposes reducing \$80.6 million ongoing within the California Department of Corrections and Rehabilitation to reflect the deactivation of 46 housing units across 13 prisons, totaling approximately 4,600 beds. The May Revision also proposes reducing \$8.5 million in 2023-24, \$13.8 million in 2024-25, and \$22.6 million ongoing to reflect a reduction in annual training for correctional officers and a discontinuation of the California Reality Based Training Center. Additionally, the May Revision reduces \$4.4 million one-time in 2024-25 to eliminate funding provided to county probation departments for the temporary increase in offenders released from prison to Post Release Community Supervision under Proposition 57.

## Transportation

The May Revision maintains the Formula Transit and Intercity Rail Capital Program (\$4 billion) and the Zero Emission Transit Capital Program (\$1.1 billion) funding levels. However, the May Revision reduces \$148 million not used for awarded projects from the Competitive Transit and Intercity Rail Capital Program and maintains 96 percent of the Competitive Transit and Intercity Rail Capital Program (\$3.5 billion of the originally planned \$3.65 billion). To address the budget shortfall, the May Revision reduces funding for active transportation grants by \$300 million in 2025-26 and \$99 million in 2026-27. The May Revision also shifts \$555.1 million from General Fund to the Greenhouse Gas Reduction Fund above what was proposed in the Governor's January budget, for a total of \$1.3 billion in proposed fund shifts for transit.

## Next Steps

Following the May Revision, the Legislature will continue to develop the Budget proposal and negotiate additional changes with the administration. On May 29, 2024, Legislative leaders announced a [proposed budget plan](#) in response to the Governor's May Revision. Most of interest for the City, the Legislative proposal includes a sixth round of HHAP funding at \$1 billion and opposes cuts to public health funding outlined above. The Legislature must pass the FY 25 Budget by June 15, 2024, and the Governor must sign it before July 1, marking the start of the fiscal year. City staff will continue to advocate for the City's priorities – including protecting state and local public health funding and advocating for ongoing HHAP funding – with state leadership. City staff will provide a memorandum upon adoption of the FY 25 Budget. If you have any questions, please contact Sarah Patterson, Manager of Strategic Partnerships and Government Affairs, at [sarah.patterson@longbeach.gov](mailto:sarah.patterson@longbeach.gov).

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