



Date: November 21, 2017

To: State Legislative Committee

From: Patrick H. West, City Manager *T. West*

Subject: **State of California – FY 18 Budget**

Introduction

On June 27, 2017 the Governor signed the State's FY 18 budget into law. Overall the Budget does not include any changes that impact cities significantly, though it does include a notable policy change affecting the new employee on-boarding process. This memorandum will provide additional information on those issues, as well as other notable State budget items.

Summary

The State's FY 18 budget assumes \$125.8 billion in General Fund revenues and \$125 billion in General Fund expenditures. Key components around which the budget was developed include preservation of State funding for education, Medi-Cal expansion, and cost increases associated with raising the State's minimum wage to \$15 per hour.

It is also important to note that the State's budget assumes a continuation of existing federal fiscal policy. Should Congress and the President choose to repeal the Affordable Care Act, there would be significant impacts to California's budget. Repeal of the Affordable Care Act, as approved by the House of Representatives in early May would cost the State an estimated \$4.3 billion by 2020, increasing to \$18.6 billion by 2027 (General Fund impact of \$3.3 billion in 2020, increasing to \$13 billion in 2027). The State's position on budgeting has been to assume stable federal revenues until stable information on specific changes to federal fiscal policy is known.

State Budget Items

CalGRIP Funding

The FY 18 State budget will provide \$9.5 million for the California Violence Intervention and Prevention Grant Program (CalVIP, formerly named CalGRIP). CalVIP is different from CalGRIP in that Community Based Organizations (CBOs) will be eligible to apply for the funding directly without going through a city or public agency.

Over the last 3 years, the City of Long Beach has used CalGRIP funding to reduce gang activity among at-risk youth, ages 8-24, by providing workforce training, evidence-based mentoring, civic leadership training, and evidence-based parent education. Funding has also been used to reduce female gang membership and commercial sexual exploitation of female youth, ages 10-24, by increasing community awareness about the nexus of gangs and human trafficking, providing

training and education for at-risk girls, providing comprehensive social services to victims of human trafficking, and active police suppression of gangs that use human trafficking as a for-profit venture. Long Beach will continue to apply for grant funds through CalVIP to support these programs.

Los Angeles River

While the 2014 State Water Bond included \$100 million for the Los Angeles River, the bond did not specify where those funds would be spent. As part of the FY 18 State budget, the full \$100 million has been appropriated and divided equally between the San Gabriel Rivers and Mountains Conservancy and the Santa Monica Rivers and Mountains Conservancy. Long Beach will work with the San Gabriel Rivers and Mountains Conservancy to secure a portion of these revenues.

Labor Relations

A budget trailer bill was adopted to reverse the *Frederick vs. California Teachers Association* case. This policy change will apply to local governments. Public employers will be required to include time for union orientation as a part of the new employee on-boarding process, but timing, location and other logistical components remains subject to negotiations between the local government and applicable union.

Tobacco Tax Increase (Proposition 56)

The California Cigarette Tax to Fund Healthcare, Tobacco Use Prevention, Research, and Law Enforcement Act of 2016 (Proposition 56) was adopted by voters in November 2016. This measure increased the excise tax on cigarettes and tobacco products by \$2 beginning on April 1, 2017. The tax is also applicable to electronic cigarettes for the first time in the State's history. This new revenue stream provides \$1.3 billion in new funding to support Medi-Cal growth; payments will be divided amongst doctors, dentists, women's health providers, providers serving people with developmental disabilities, and providers caring for people with HIV/AIDS. It remains to be seen whether or not new revenues will be available to cities through the State's Tobacco Control Program.

Proposition 47 Cost Savings and Investments

As in years past, Proposition 47, requires misdemeanor sentencing rather than felony sentencing for certain property and drug crimes. State savings resulting from this Proposition have been transferred into the State's Safe Neighborhoods and Schools Fund annually. The fund is used to reduce truancy and support drop-out prevention programs in K-12 schools, increase victim services grants, and support mental health and substance use disorder treatment services. In FY 18, \$45.6 million will be available for mental health treatment, substance use disorder treatment, and diversion programs.

Statewide Transportation Infrastructure Funding

The passage of SB 1, also known as the Road Repair and Accountability Act of 2017 provides long-term funding for State and local transportation infrastructure priorities

through the Roadway Maintenance and Rehabilitation (RMR) Program. The RMR Program will provide an average of \$5.4 billion per year for State and local transportation when all revenue mechanisms are implemented. The package includes a combination of new revenues, accelerated loan repayments, reforms, accountability measures, and constitutional protections. The new revenues are split evenly between State and local transportation priorities.

Long Beach expects to receive \$11 million per year from RMR Program revenues once all the revenue mechanisms are implemented. The \$11 million will be used for local streets and road maintenance. RMR funds are in addition to annual Highway User Tax Account (HUTA) funding. For FY 18, Long Beach expects \$2.8 million in RMR funding in addition to \$10.7 million in HUTA funding.

Tree Removal Funding

California's tree mortality crisis afflicts an estimated 100 million trees statewide. In recognition of this issue, the State's FY 18 budget includes \$85 million to address continuing drought legacy issues, such as tree mortality, including tree removal.

Proposition 64

In November 2016, voters approved Proposition 64, which legalized the nonmedical use of cannabis. The State's FY 18 budget includes a methodology to implement two taxes imposed by Proposition 64, the cultivation tax (\$9.35 per dry weight ounce for flowers and \$2.75 for leaves) and excise tax (15 percent of the sales price). The budget also clarifies that the cultivation tax shall be imposed when cannabis or cannabis products enter the commercial marketplace. It also requires the distributor to collect and remit the cultivation tax at the time of distribution; the excise tax is due and payable 90-days after the transfer of the products.

If you have questions or comments, please contact Diana Tang, Manager of Government Affairs, at 8-6506.

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