

Date: February 9, 2023

To: Mayor and Members of the City Council

From: Thomas B. Modica, City Manager 

Subject: **Governor Newsom's Proposed Fiscal Year 2024 State Budget**

On January 10, 2023, Governor Newsom released the proposed Fiscal Year 2024 (FY 24) State Budget (Budget). The Budget centers on seven core strategies: transforming public and higher education, addressing the homelessness crisis, expanding housing affordability, increasing health care access, fighting climate change, keeping Californians safe, and investing in economic development.

The FY 24 Budget, estimated at \$297 billion, is slightly less than last year's record-setting \$308 billion budget. Unlike the past two years of historic surplus, however, the FY 24 state budget projects a \$22.5 billion shortfall. The Governor's proposed budget does not draw from the state's reserve accounts to address the deficit. Instead, it proposes balancing the state's budget with a combination of funding delays, shifts, and reductions. Despite the slowdown impacting the state's economic and revenue outlook this year, the state's commitment to building reserves and budget resiliency over the last several years enables the FY 24 Budget proposal to invest in key areas of interest to the City of Long Beach (City). This memorandum provides additional details regarding key provisions in the proposed Budget that may impact City priorities, operations, and programs.

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. Given the projected decline in General Fund revenues, the Governor's proposed Budget includes reductions across several climate programs. The FY 24 Budget proposes to eliminate \$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. Governor Newsom stated that he is committed to pursuing available federal funding through the Inflation Reduction Act (IRA) and the Infrastructure Investment and Jobs Act (IIJA) to offset the decrease of state funds for climate-related programs. The Administration will also engage the Legislature to explore a bond if federal resources do not materialize.

Drought Response and Water Resiliency

California is experiencing large swings between drought and flood, and due to climate change, those swings are becoming more severe. The FY 24 Budget maintains \$8.6 billion (98 percent) of previously committed funding to minimize the immediate economic

and environmental damage from the current drought and support hundreds of local water projects to prepare for future droughts. The FY 24 Budget includes new strategic investments such as a two-year, \$135.5 million General Fund allocation for local agencies to address urban flood risk. Furthermore, the FY 24 Budget sets aside \$125 million General Fund to be allocated as part of the spring budget process when additional water data is available to inform future drought needs. However, the Budget includes \$194 million in General Fund reductions across various programs, such as the Water Recycling Program (\$40 million); the State Water Efficiency and Enhancement Program (\$40 million); and the Water Refilling Stations at Schools Program (\$5 million), to name a few.

The Circular Economy

The FY 24 Budget includes \$2.3 million from various special funds for the Department of Resource Recycling and Recovery to develop a zero-waste plan that develops a roadmap for the transition to a true circular economy that reduces use of natural resources, brings new manufacturing industries and jobs to the state, and enhances the ability of Californians to recycle.

Transportation

The 2022 Budget Act included \$13.8 billion for transportation programs and projects that align with the state's climate goals. The FY 24 Budget proposes to eliminate \$2.7 billion from the state's previous multi-year budget commitment, partially mitigated by an additional \$500 million from state transportation funds, to maintain \$11.6 billion for transportation programs and projects. Moreover, the FY 24 Budget proposes to reduce \$200 million from the Active Transportation Program, such as walking or biking infrastructure projects. However, the program will sustain all of the programming capacity approved in the 2023 programming cycle.

Zero-Emission Vehicles and Infrastructure

The FY 24 Budget includes \$2.5 billion of General Fund reductions across various zero-emission vehicle (ZEV) programs, limiting the availability of ZEV subsidies and charging infrastructure in disadvantaged communities. Approximately \$1.4 billion of that amount would be shifted to the Greenhouse Gas Reduction Fund to invest in other climate-related priorities. The Budget also includes a mechanism to allocate any additional discretionary Cap and Trade auction proceeds towards ZEV programs.

Education

Early Childhood and Childcare

The Governor's Budget continues to implement a multi-year plan to ensure the California State Preschool Program serves a greater diversity of children. The FY 24 Budget proposes \$64.5 million in Proposition 98 funds and \$51.8 million in the General Fund for

State Preschool to increase adjustment factors for the enrollment of students with disabilities, mental health needs, and dual language learners; and an adjustment factor for three-year-old children, with the goal to increase their respective enrollment in State Preschool programs. Furthermore, the proposed Budget maintains over \$2 billion annually to expand subsidized childcare slot availability by over 200,000 after the state reached a historic agreement with Child Care Providers United – California to collectively bargain reimbursement rate increases

K-12 Education

The FY 24 Budget includes \$96.8 billion in Proposition 98 funding for K-12 schools. This represents a decrease of approximately \$1.5 billion relative to the FY 23 Budget. However, the Budget proposes an increase in per-pupil spending to \$23,723 – the highest per-pupil spending in California's history. Additionally, the Budget includes a Local Control Funding Formula (LCFF) cost-of-living adjustment of 8.13 percent, resulting in \$4.2 billion in additional discretionary funds. To fund the LCFF, Governor Newsom proposes to redirect \$1.2 billion from the Arts, Music, and Instructional Materials Discretionary Block Grant. In accordance with the Arts and Music Education in Public Schools Initiative passed by voters in November 2022 (Proposition 28), which requires one percent of the Proposition 98 Guarantee to fund arts and music in all K-12 public schools, the FY 24 Budget includes approximately \$941 million for this purpose. The FY 24 Budget does not propose using any of the \$8.5 billion in the Proposition 98 Rainy Day Fund.

Building on last year's historic investment in early childhood education, the Governor's Budget includes \$690 million to expand eligibility to another 46,000 children. Guided by the goal of offering transitional kindergarten to all students by the 2025-26 school year, the FY 24 Budget includes \$165 million to support the addition of another certificated or classified staff person in transitional kindergarten classrooms. The Budget also proposes an increase of \$3.5 million in ongoing Proposition 98 funds to provide all middle and high schools with at least two doses of naloxone hydrochloride to reverse an opioid overdose. The Governor's budget maintains the state's commitment to fund the expansion of universal meal programs with \$1.33 billion ongoing in annual funding.

Higher Education

The FY 24 Budget proposes a total of \$40.3 billion for all segments of higher education. The University of California and the California State University system would each receive five percent more in state support for their core educational commitments, resulting in an increase of approximately \$215.5 million in ongoing funding for the University of California system and \$227.3 million in ongoing funding for the California State University system. The California Community College's system would also see funding increases under the proposed budget, including an additional \$652.6 million cost-of-living adjustment. The FY 24 Budget includes an additional \$28.8 million in Proposition 98 funds to cover expected enrollment growth at some community colleges and another \$92.5 million to support a cost-of-living adjustment for different programs across the California Community

College's system, including its adult education program.

Despite the base funding increases for the University of California and the California State University system as well as the cost-of-living adjustment for the California Community College's system, overall funding for higher education would decrease slightly by 2.1 percent under the FY 24 Budget. This is the result of Governor Newsom's proposal to delay funding for capital projects, including affordable housing projects across the three higher education systems. The FY 24 Budget proposes delaying \$250 million of anticipated funding for affordable student housing projects to the 2024-25 fiscal year. Furthermore, the FY 24 Budget proposes delaying \$1.8 billion of anticipated funding for the creation of a student housing revolving loan program. This delay would result in \$650 million in 2024-25 fiscal year and \$1.15 billion in 2025-26 fiscal year being available for the program.

Economic Development

Workforce Development

The FY 24 Budget shortfall has presented significant workforce challenges across several key industry sectors in California. The Budget reduces funding for various public health workforce training and development programs by \$49.8 million from the General Fund over four years to help address the budget problem. Moreover, the Budget removes \$20 million (\$10 million in each 2023-24 and 2024-25) at the Employment Development Department to provide targeted emergency medical technician training, reducing the total three-year investment to \$40 million. The Budget maintains over \$1 billion to the Department of Health Care Access and Information (HCAI) to strengthen and expand the state's health and human services workforce. These investments include funding for increasing nurses, community health workers and social workers, and supporting new individuals joining the behavioral health, primary care, and reproductive health workforce.

The FY 24 Budget proposes to remove \$40 million from the Department of Industrial Relations to expand nontraditional apprenticeships, reducing the total three-year investment to \$135 million. Furthermore, the Budget proposes to withdraw \$20 million (\$10 million in each 2023-24 and 2024-25) to the California Workforce Development Board to invest in career pathway programs at community colleges, reducing the total three-year investment to \$40 million. Moreover, the Budget proposes to pause funding in FY 24 and 2024-2025 for the Department of Industrial Relations to promote and support women and nonbinary individuals in skilled trade careers.

Cannabis

To meet the requirements of Proposition 64, which requires funding three cannabis-related programs at a baseline of approximately \$670 million, the FY 24 Budget includes \$95.4 million to backfill the estimated decline in revenues to fund the prescribed programs. The Budget includes \$401.8 million to fund youth education, prevention, and

treatment of youth substance use disorders and school retention (60 percent); \$133.9 million to address the clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation (20 percent); and \$133.9 million to fund public safety-related activities (20 percent). To further buttress enforcement efforts, the Budget also includes \$83.9 million allocated to the Board of State and Community Corrections to award grants to local governments to assist with law enforcement, fire protection, or other local programs addressing public health and safety associated with cannabis regulation.

Health and Human Services

Public Health

The FY 24 Budget proposes a \$1.2 billion reduction to the California Department of Public Health's budget compared to last year's funding of \$6.7 billion, resulting in a total of \$5.5 billion to fund public health initiatives. Most of the decrease comes from a \$614 million transfer of COVID-19 emergency relief dollars into the General Fund. However, the proposed FY 24 Budget includes \$176.6 million in General Fund to sustain the state's COVID-19 response efforts. This is consistent with the Administration's [SMARTER Plan](#), unveiled last year to continue efforts to increase access to COVID-19 vaccinations, boosters, testing, and treatment.

In an effort to address the significant increase in opioid and fentanyl-related deaths, the Budget would fund an additional \$93 million over four years to support youth- and fentanyl-focused investments for the Department of Health Care Services and for the Department of Public Health. This includes \$79 million for the Naloxone Distribution Project to increase distribution to first responders, law enforcement, community-based organizations, and county agencies; \$10 million for fentanyl program grants to increase local efforts in education, testing, recovery, and support services; and \$4 million to support innovative approaches to make fentanyl test strips and naloxone more widely available.

Healthcare

To expand health care access, the Budget invests \$844.5 million in FY 24, \$2.1 billion in 2024-25, and approximately \$2.5 billion ongoing to expand full scope Medi-Cal eligibility to all income-eligible adults ages twenty-six to forty-nine regardless of immigration status, starting on January 1, 2024. Additionally, the Budget maintains approximately \$10 billion to continue transforming the health care delivery system through California Advancing and Innovating Medi-Cal (CalAIM).

Homelessness and Housing

Homelessness

Since Governor Newsom took office, homelessness has been a core funding and policy

priority in the state budget. Last year, the adopted budget allocated \$10.2 billion for homelessness solutions. The Governor's proposal maintains \$3.4 billion to address homelessness as committed to in prior budgets. This includes \$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. Last year's budget included \$8.6 million of HHAP funds allocated to the Long Beach Continuum of Care. The City's allocation has significantly increased from last year's budget to approximately \$13.1 million.

The Administration intends to pursue statutory changes to the HHAP program to prioritize spending on activities such as encampment resolution, Homekey operating sustainability, and Community Assistance, Recovery and Empowerment (CARE) Act housing support. This focus may also be accompanied by expanded housing streamlining provisions. In addition, the Administration will seek to condition eligibility for any future homeless-related grants and competitive programs through the Business, Consumer Services and Housing Agency and the Health and Human Services Agency, on compliance with state housing law. Jurisdictions that are not compliant with their legal responsibilities will be disqualified from receiving specified homelessness funding.

Housing

Last year, the adopted budget included a housing package of \$11.2 billion over multiple years with a focus on affordable housing production and homeownership opportunities. However, due to declining General Fund revenues, the FY 24 Budget includes \$350 million in reductions related to housing programs that were included as part of the FY 23 Budget. The Governor's proposed budget focuses heavily on implementing recently approved housing laws, providing local governments with technical assistance, encouraging regional collaboration, and holding cities and counties accountable when violating state housing laws.

Last year's budget also included \$500 million one-time General Fund to the California Housing Finance Agency to provide shared-appreciation loans to help low- and moderate-income first-time homebuyers achieve homeownership. The Budget reduces this to \$300 million General Fund in FY 24. Furthermore, the Budget eliminates proposed funding to the Department of Housing and Community Development to provide local agencies and nonprofits with grants to assist low- and very-low-income first-time homebuyers with housing assistance, counseling, and technical assistance, as well as \$50 million one-time General Fund for the California Housing Finance Agency's Accessory Dwelling Unit program.

Public Safety

Law Enforcement

The FY 24 Budget includes investments in programs to create safer communities and

provides resources to support peace officer wellness and training. The Budget maintains a three-year, \$564.4 million General Fund allocation to bolster local law enforcement efforts to address retail theft and other crimes. These investments will help local law enforcement agencies implement anti-theft task forces, combat human trafficking, support programs to remove and dispose of firearms, expand drug interdiction, and combat fentanyl prevalence. Furthermore, the Budget includes \$65 million in one-time General Fund appropriation for research and grants to support peace officers' physical, mental, and emotional wellness. The Budget also includes \$11 million in one-time General Fund appropriation for the Office of Emergency Services (Cal OES) to facilitate education and training efforts related to gun violence restraining orders, including a public awareness campaign, grants to domestic violence groups to conduct outreach, and provide gun violence restraining order trainings to entities statewide.

Next Steps

Over the coming months, the Governor's proposed FY 24 Budget will be reviewed in detail by the Legislature and other stakeholders. In May, the Governor will release a revised budget based on stakeholder input and updated revenue forecasts. City staff will continue to monitor developments in budget trailer bill language for programs that could impact City priorities and will provide an updated memorandum following the release of the Governor's May Revise. 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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