



City of Long Beach
Working Together to Serve

Memorandum

Date: October 23, 2018

To: Mayor and Members of City Council

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

Subject: **California State FY 19 Budget Update**

Introduction

On June 27, 2018, the Governor signed the State's Fiscal Year 2019 (FY 19) budget into law. The new budget supports an unprecedented investment by the State in funding for homeless services, includes an agreement that prevents cities from increasing sales tax at grocery stores through 2030, but allows cities to otherwise continue raising revenues through traditional methods, and does not include any other changes that would substantially impact cities adversely. This memorandum provides additional information on the opportunities, as well as other important State budget items.

Summary

The State's FY 19 budget assumes \$137.7 billion in General Fund revenues and \$138.7 billion in General Fund expenditures. Key components around which the budget was developed include preservation of State funding for affordable housing and homelessness services, infrastructure and MediCal expansion.

It is also important to note that the State's budget assumes a continuation of existing federal fiscal policy. The outcome of the November 2018 mid-term election could impact the California budget significantly, especially in regard to the Affordable Care Act. In California, \$18.7 billion has been allocated to the Affordable Care Act Optional Expansion. Repeal of the Affordable Care Act, as approved by the House of Representatives in early May 2018 would have 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 information on specific changes to federal fiscal policy is known.

State Budget Items

Housing and Homeless Services

Support for homeless services programs is being provided for immediately through a one-time \$500 million block grant, from which Long Beach will receive \$12.3 million. Beyond this initial investment, the State is expecting future support for housing and homelessness to come from revenues that are anticipated from Proposition 1 and Proposition 2 on the November 2018 ballot.

Proposition 1 proposes a \$4 billion housing bond; and Proposition 2 proposes to reallocate an existing \$2 billion to continue the "No Place Like Home" Program. California's No Place Like Home Program provides permanent supportive housing for people who are in need of mental health services and experiencing homelessness, chronic homelessness, or are at risk of chronic homelessness. From multiple reports of current services available, permanent

supportive housing has been proven to be the most effective strategy to eradicate chronic homelessness by instilling the importance of housing first.

Proposition 47

In November 2014, Proposition 47 passed to require violation of certain property and drug crimes to be charged as a misdemeanor rather than as a felony and permits reclassification of previously sentenced individuals. The State estimates this change has allowed California to reallocate funds to mental health services, substance use disorder treatment and/or diversion programs for those in the criminal justice system. In FY 19, the amount will include \$64.6 million.

Wildfire Response and Recovery

Due to the increase of unprecedented historic disasters, the State's FY 19 budget includes resources to support wildfire response and recovery programs. The State is also investing \$32.8 million in General Fund revenues to backfill property tax revenue losses that cities, counties and special districts will incur from these disasters. Of this amount, \$11 million is for southern California jurisdictions.

Mental Health Services Fund

The Mental Health Services Fund within the State Department of Health and Human Services is supported by approximately \$4.8 billion in General Fund which is matched by MediCal. Proposition 63, passed in 2004, provides \$1.8 billion and \$1.4 billion derives from the 2011 Realignment Behavioral Health Subaccount to continuously support this Fund.

Included in the State Department of Health and Human Services, \$15 million out of \$100 million in General Funds is directed to Los Angeles County for Incompetent to Stand Trial Diversion. This is due to the region's highest number of severely mentally ill individuals and referrals to State hospitals.

Minimum Wage

The State is nearly halfway through its plan to obtain a minimum wage of \$15.00 per hour which was signed into law in 2016. Each calendar year, the hourly wage increases by \$0.50 or \$1.00 as an attempt accommodate for inflation and the cost of living. Beginning January 1, 2019, the State minimum wage will be \$12.00 per hour for employers with 26+ employees or \$11.00 per hour for those with 25 or fewer employees.

Road Repairs

The road conditions of the State's roads and highways continue to decline without sufficient funding being allocated and used for repairs. In 2017, after the passage of SB 1, \$461 million was provided to 479 cities and 58 counties to address their highest road repair needs. The FY 19 budget continues to implement SB 1 and provides \$1.2 billion from revenues. Amongst the cities and counties, more than 4,000 projects have been identified for eligible use of these new revenues. The future of SB 1 depends on the outcome of Proposition 6 which has the ability of being repealed with no definite replacement in November. The City of Long Beach would incur a loss of \$8 million in FY19 if SB 1 gets repealed. The Long Beach City Council, on September 11, formally adopted a resolution to oppose Proposition 6.

Budget Reserves

Since taking office in 2011, Governor Brown has been vocal about his predictions for the inevitable next recession. The State's FY 19 budget considers the potential for an economic downturn by adding two additional reserves to the constitutionally mandatory \$1.7 billion in the Rainy Day Fund. The Budget Deficit Savings Account has \$2.6 billion to not be considered until May 2019. The New Safety Net Reserve Fund is allotted \$200 million to go towards future health and welfare programs. Both of these reserve accounts provide more spending flexibility due to fewer restrictions compared to the Rainy Day Fund.

Next Steps

This budget will be in effect July 1, 2018 through June 30, 2019. The process for the FY 20 State Budget cycle will begin under the next Governor, who will be elected November 6, 2018.

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

cc: Mayor and Members of the City Council
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