



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

File #: 22-102

Board Meeting Date: 2/8/2022

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Michael P. Callagy, County Manager
Connie Juarez-Diroll, Legislative Officer

Subject: Analysis of the Governor's FY 2022-23 State Budget Proposal

RECOMMENDATION:

Accept this informational analysis of the Governor's FY 2022-23 State Budget Proposal

BACKGROUND:

On January 10, 2022 Governor Newsom released his initial budget proposal for the 2022-23 fiscal year, a \$286.4 billion (\$213.1 billion General Fund (GF)) spending plan reflecting a 9.1 percent total budget increase over last year and 1.5 percent GF increase over last year.

The Governor's Budget projects a \$45.7 billion surplus; however, after accounting for constitutionally required funding for K-14 schools (\$16.1 billion) and Proposition 2 deposits and supplemental state pension payments (\$9 billion) obligations, the discretionary surplus is \$20.6 billion. The Administration states that this is lower than the \$31 billion surplus estimated by the Legislative Analyst's Office (LAO) in its November Fiscal Outlook largely due to different revenue assumptions.

The Governor's Budget includes \$34.6 billion in budget reserves allocated as follows:

- \$20.9 billion in the Proposition 2 Budget Stabilization Account (Rainy Day Fund), bringing the account to its constitutional maximum and requiring \$2.4 billion to be dedicated to infrastructure investments;
- \$9.7 billion in the Public Schools System Stabilization Account;
- \$900 million in the Safety Net Reserve; and
- \$3.1 billion in the state's operating reserve.

The proposed budget currently estimates that available GF revenues will exceed the State Appropriations Limit (also called the Gann Limit) by \$2.6 billion. The Gann Limit is a constitutional spending limit imposed on state and local governments. Revenues available above that limit are required to be spent on schools, refunded to taxpayers, and/or spent on items excluded from the

calculated limit. The Administration has no proposal at this time to address the Gann Limit, instead deferring proposals to address it to the May Revision, when the limit will be recalculated. It should be noted that deposits into the reserves count towards the State Appropriations Limit. Therefore, any additional deposits would need to be carefully balanced against other spending priorities.

The Administration notes several risks to its current revenue projections that could impact the State Budget as we move through the fiscal year. GF revenues in 2021 from capital gains are at their highest level ever—approaching levels previously only seen in 2000 and 2008, right before devastating crashes. Thus, capital gains are a notoriously volatile revenue source. The Governor’s Budget revenue projections were finalized in November 2021, before the prevalence of the COVID-19 omicron variant, and do not assume any impacts on the State economy of the omicron or other variant. The revenue projections also do not reflect any assumed impacts of the Federal Reserve’s recent announcement of interest rate hikes.

The Governor’s Budget sets forth a blueprint, and nearly \$10 billion in new spending, to address what he calls California’s biggest challenges: 1) Fighting COVID-19 with Science; 2) Combating the Climate Crisis; 3) Confronting Homelessness; 4) Tackling the Cost of Living; and 5) Keeping our Streets Safe.

Finally, the Governor’s Budget includes a request for the Legislature to approve a \$2.7 billion COVID-19 emergency response package—\$1.4 billion in early action to continue to efforts to combat COVID-19 for the remainder of the fiscal year and \$1.3 billion for 2022-23. This funding is intended to support the following:

- \$1.2 Billion to Bolster Testing—includes expanding hours and capacity at testing sites, distribution of antigen tests to local health departments, community clinics, and schools. The investment is also intended to support the state’s testing facilities.
- \$583 Million to Promote Vaccines and Combat Misinformation—includes funding for the continuation of the “Vaccinate All 58” education campaign and building vaccine confidence while combatting vaccine misinformation.
- \$614 Million to Support Frontline Workers—includes support distribution of critical personnel resources for health care systems throughout the state as facilities work to deliver patient care amid the COVID-19 surge.
- \$200 Million to Support State Operations—includes enhanced spending on the state’s emergency response and public health capacities, including staffing and information technology at the California Department of Public Health (CDPH), Office of Emergency Services (OES), and Emergency Medical Services Authority (EMSA).
- \$110 Million to Support Contact Tracing—includes increased public health and humanitarian efforts at the U.S.-Mexico border, including vaccinations, testing, and expanded statewide contact tracing activities.

Additionally, the budget includes \$300 million ongoing GF for the Department of Public Health (\$100 million) and local health jurisdictions (\$200 million). Local dollars are intended to enhance public health infrastructure, strengthen local public health department staffing, standardize the collection and integration of data to develop actionable information to guide local decision-making, and expand local partnerships with health care delivery systems and community-based organizations, including faith-based organizations, to drive system change.

The Senate and Assembly Budget Committees have completed their initial overview of the Governor's proposed spending plan. Since the Administration is seeking early action on COVID-19 response funding, subcommittee hearings may begin soon. The final budget is due to the Governor by June 15 and must be signed into law by July 1, 2022.

DISCUSSION:

The attached table outlines the impacts Governor's FY 2022-23 proposed State Budget would have on select County programs and services.

FISCAL IMPACT:

Unknown currently; however, the FY 2022-23 State Budget continues to reflect a second year of stronger-than-expected revenues, which provide the Governor with an opportunity to call for a series of emergency investments to respond to the public health effects of COVID-19 and a combination of one-time and ongoing investments to provide greater support for the health and well-being of Californians.

At the County-level, the inclusion of \$96.2 million in FY 2021-22 VLF shortfall funding to reimburse the County and its cities is welcome news. So too, is the State's commitment of inclusion of a permanent legislative fix through follow-up trailer bill language. The Governor's other major funding proposals from providing comprehensive Medi-Cal for Californians who are undocumented (ages 26-49) to additional investments in homelessness and housing and County public health systems provide the County with the opportunity to build on existing programs, a notable shift from previous budgets.

The County Manager's Office (CMO) and departments will continue to closely monitor state budget discussions in the coming months and advocate for the interests of the County and residents. The CMO will also continue to keep your Board updated regarding discussions in Sacramento and our advocacy actions throughout the process.