



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY EXECUTIVE

File #: 23-82

Board Meeting Date: 2/14/2023

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

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

Subject: Analysis of the Governor's FY 2023-24 State Budget Proposal

RECOMMENDATION:

Accept this informational analysis of the Governor's FY 2023-24 State Budget Proposal.

BACKGROUND:

On January 10, 2023, Governor Newsom released his initial budget for the 2023-24 fiscal year, a \$297 billion (\$224 billion General Fund (GF)) spending plan. The Governor's Budget forecasts that GF revenues will be \$29.5 billion lower than projections, and California will be facing an estimated budget gap of \$22.5 billion in the 2023-24 fiscal year. To close the budget gap, Governor Newsom proposes a combination of funding delays, reductions and pullbacks, budget shifts, trigger reductions, and limited revenue generation and borrowing to address the problem. The Governor has not proposed tapping into the state's reserve accounts.

Compared to the 2022 Budget Act, there is a \$1 billion increase in budgetary reserves (\$34.6 billion for 2022-23), with \$22.4 billion reserved for the Rainy Day Fund (up \$1.5 billion from last year). Few new programs and funding commitments are proposed, in stark contrast to the Governor's previous annual budgets.

The Governor's Budget projects that California's economy will grow modestly in 2023 as interest rates remain high. Additionally, the Governor's Budget forecasts that nonfarm job and wage growth will slow in 2023 and eventually align more closely with normalized growth rates. While the Governor's Budget is cautiously optimistic, there is significant uncertainty, given the geopolitical issues and potential for inflation to persist longer than expected, which could cause a mild recession.

The Governor's Budget includes investments in the following areas of focus of interest to the County:

Homelessness. The proposed budget maintains the investments made in 2021 (\$7.3B) and 2022 (\$10.2B). The \$15.3B package includes the following:

- \$3B in flexible aid to local governments, with a focus on accountability
- \$1.4B for Homeless Housing, Assistance and Prevention (HHAP), and Encampment Resolution Funding programs.
- \$3B for Project Homekey
- \$750M in encampment cleanup grants
- \$262M towards Project Roomkey

Notably, for all future homeless-related grants and competitive programs administered through the Business, Consumer Services and Housing Agency and the Health and Human Services Agency, the Administration will seek to condition eligibility on compliance with state housing law. As a result, local jurisdictions that are not compliant will be disqualified from receiving specific homelessness funding, and funds will instead be diverted to overlapping jurisdictions such as cities, counties, and Continuums of Care.

Affordable Housing. The proposed budget includes \$2.85B (88%) of the housing program allocations made in 2022-23 and proposed for 2023-24. These reductions are included in the trigger, so if there is sufficient General Fund in January 2024, these reductions will be restored. No changes in funding are being made to the following housing programs in the proposed budget:

- Infill Infrastructure Grant Program
- State Excess Sites Development
- Adaptive Reuse
- Portfolio Reinvestment Program
- Manufactured Housing Opportunity and Revitalization Program

Public Health Workforce. The proposed budget reduces funding for various public health workforce training and development programs by \$49.8M over four years.

Expanding Health Care Access and Health Care Delivery Transformation. The Governor's Budget maintains continued funding to expand full-scope Medi-Cal eligibility to all income-eligible Californians, regardless of immigration status. Additionally, the proposed budget sustains approximately \$10B in total funds to continue transforming the state's health care delivery system through California Advancing and Innovating Medi-Cal (CalAIM), including \$6.1B over five years for the Behavioral Health Community-Based Continuum Demonstration.

Expanding the Behavioral Health Continuum. The proposed budget maintains over \$8B to expand the continuum of behavioral health treatment and infrastructure capacity and transform the system for providing behavioral health services to children and youth.

Community Assistance, Recovery & Empowerment (CARE) Act. The proposal includes \$215M annually for implementing the CARE Act, including \$88.3M for county start-up costs. The Administration has indicated it will continue to work with counties and stakeholders to refine this ongoing program cost estimate. However, to date, the Administration has yet to begin engaging in formal discussions with county associations on the estimated county costs to implement the CARE Act statewide.

Climate Resiliency. The proposed budget reduces funding across several climate programs, though the state plans to pursue additional federal funding. Most climate reductions are included in the “trigger,” so if there is sufficient General Fund in January 2024, these reductions will be restored. The proposed budget maintains 89% of the investments made in 2021 and 2022 (approximately \$48 billion), including:

- \$2.7B (97%) of critical investments in forest health and fire prevention
- \$444M (68%) of extreme heat funding
- \$734M (57%) of coastal resilience funding
- \$443M (95%) of investments to support the implementation of goals to reduce short-lived climate pollutants and advance organic waste infrastructure

The Governor proposes \$202.4M in new investments for flood infrastructure, including \$135.5M to support local agencies working to reduce urban flood risk.

Broadband Implementation. The 2021-22 and 2022-23 budgets made investments to expand access to broadband and close the digital divide across the state. While the 2023-24 Governor’s Budget maintains the same level of funding for broadband middle-mile, last-mile, and the Loan Loss Reserve Fund, \$550 million designated to last-mile infrastructure grants in 2023-24 has been deferred. The Governor’s Budget also defers \$175 million from 2022-23 and \$400 million from 2023-24 for the Loan Loss Reserve Fund at the CPUC to future years.

Transitional Kindergarten. The 2022 Budget Act included funds for the first year of expanded eligibility for transitional kindergarten. In addition, the budget includes \$690 million to implement the second year of transitional kindergarten expansion, which will increase access to the program to all children turning five years old between September 2 and April. Full implementation of universal transitional kindergarten is expected in 2025-26.

FY 21-22 State’s In-Lieu Vehicle License Fee (VLF) Payment Obligation. Finally, the Governor’s Budget does not allocate \$32.8M in requested funding to fulfill its FY 21-22 in-lieu VLF payment obligation to the County and its cities. Rather, the Department of Finance has directed County staff to work with its state delegation to seek reimbursement through the State budget process.

The Senate and Assembly Budget Committees have completed their initial overview of the Governor’s proposed spending plan. Subcommittee hearings will begin soon and continue through May. The final budget is due to the Governor by June 15 and must be signed into law by July 1, 2023.

DISCUSSION:

The attached table outlines the impacts the Governor’s FY 2023-24 proposed State Budget would have on select County programs and services.

FISCAL IMPACT:

Unknown. However, the exclusion of the County’s and cities’ FY 21-22 in-lieu VLF payment would result in a potential loss of approximately \$19.5M to the County. The Intergovernmental and Public Affairs Unit of the County Executive’s Office has launched an advocacy effort to secure the funding through the State budget process.

The County Executive’s Office (CEO) 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 CEO will also continue to keep your Board updated regarding talks in Sacramento and our advocacy actions throughout the process.