

Overview of Governor’s Fiscal Year 2022-2023 Proposed Budget *County Administrative Office* *January 26, 2022*

On January 10, 2022, Governor Newsom released a \$286.4 billion budget proposal, a 9% increase over last year’s, focused on five main issues – pandemic, climate, homelessness, inequality and public safety. The economic recovery, federal transfers and a progressive tax structure generate a projected \$45.7 billion surplus, including a discretionary amount of \$20.6 billion of which 86% is allocated for one-time spending. The budget pays down \$3.9 billion in retirement liabilities and reflects reserves of \$20.9 billion in the Budget Stabilization Account (Rainy Day Fund), \$9.7 billion in the Public School System Stabilization Account, \$3.1 billion in operating reserves and \$900 million in Safety Net Reserve. The State’s Unemployment Insurance Trust Fund had to borrow \$19.4 billion from the federal government during the pandemic to pay benefits and the budget provides \$3 billion over two years to reduce this debt.

A brief summary of potential impacts of the Governor’s Fiscal Year 2022-2023 (FY23) Proposed Budget on Monterey County follows and includes departmental input. Though time for initial review is limited, state lawmakers’ response will continue to be monitored for relevant local impacts to incorporate throughout the budget process, culminating in the Recommended Budget.

Health and Human Services

Pandemic Response: The Governor’s Proposed Budget assumed continued pandemic Public Health emergency response expenditures, including medical surge capacity, vaccination, testing and contact tracing. The proposal requests early action on an additional \$1.2 billion for the current Fiscal Year 2021-2022, with another \$1.2 billion allocated in FY23. The State will closely monitor counties use of various federal COVID-19 grants and reallocate amounts unlikely to be spent in the allowable timeframe. The State estimates that the total direct and indirect value of all federal stimulus bills to the Californian economy will approach \$657 billion while cumulative State costs related to direct emergency response since the beginning of the pandemic will reach \$14 billion by the end of FY23. Revenue loss is anticipated to exceed \$11 billion.

Public Health Investments: A minimum base of \$350,000 is allocated to all local jurisdictions, with a formula that factors in population, ethnicity and poverty, to enhance staffing, data collection and partnerships with community-based organizations with a goal of continuous quality improvement.

Medi-Cal Administration and Expansion: The Medi-Cal caseload is projected to decrease 3%, to a budget of \$132.7 billion that covers one third of the population. The proposal provides for \$53.2 million and \$89 million ongoing to reduce premiums for half a million enrollees and continues to build on prior expansions, estimating a cost of \$2.7 billion annually for full-scope Medi-Cal for all income-eligible Californians regardless of immigration status beginning in 2024. The State plans to leverage ARPA matching funds, investing \$1.4 billion over five years to add community mobile crisis response services starting in 2023. The proposal includes \$176 million to maintain an enhanced level of reimbursement for Proposition 56 supplemental payments, which would otherwise be reduced as tobacco use declines. Enhanced federal match for Medi-Cal (FMAP) that had decreased counties share of benefit costs are assumed to cease. The

proposal includes \$36.5 million this year and again in FY23 for counties to resume annual redeterminations.

California Advancing and Innovating Medi-Cal (CalAIM): Building on the success of Whole Person Care for complex needs that necessitate a wide array of services, \$2.8 billion is earmarked for CalAIM reforms to improve the patient experience by integrating managed-care, fee-for-service, mental health, dental, and IHSS programs. This is more than double last year’s allocation. These proposals have the potential to alter reporting requirements and payment methodologies, significantly impacting County operations, particularly Natividad Medical Center as the State prepares to streamline Medi-Cal financing at public hospitals.

The proposal includes one new position at the California Department of Aging to coordinate probate conservatorship best practices with counties.

Department of Social Services

CalWORKS: The monthly CalWORKS program caseload is estimated to be 398,000 families with expenditures of \$6.6 billion and a 7.1% increase to Maximum Aid Payment levels at a cost of \$200.7 million from the 1991 Local Revenue Fund Child Poverty and Family Supplemental Support Subaccount. An overall program caseload increase of 12.6% is attributable to the expiration of unemployment insurance benefits in September.

In-Home Support Services (IHSS): The proposal estimates an IHSS budget of \$18.5 billion that includes \$399 million for minimum wage increases, with a caseload of 399,000. The cost to make permanent a pandemic backup provider system is \$24.8 million. The resulting \$2 per hour wage differential increase may impact county MOE.

Providing Access and Transforming Health (PATH): CalAIM strives to improve outcomes for incarcerated individuals by mandating a county Medi-Cal application process and allowing reimbursement for services 90 days prior to release. It allocates \$50.2 million as it seeks to link this population to county behavioral health departments for help with substance abuse, mental illness and housing and employment connections.

Child Welfare: The proposal includes \$6.1 million in one-time funding over three years for pending resource family approval applications. The budget earmarks \$187 million to waive recoupment of child support payments so that families on assistance can receive the full pass thru rate. Caseload is projected to increase 12.9% in the current year and decline 3% in FY23 for emergency response. The Family First Prevention Services Act (FFPSA) proposed budget reflects \$222.4 million state-wide and an additional \$56.8 million for county administration.

CalFresh: An overall program caseload increase of 12% in the current year and 4.7% in FY23 is attributable to the expiration of unemployment insurance benefits and student eligibility expansion. While county administrative funding is anticipated, new methodology is delayed until FY24.

The 1991 and 2011 Realignment programs funded by vehicle license fees and State sales tax are projected to increase 3.9% overall in FY23 after increasing 6.4% in the current fiscal year. As these revenues impact multiple Monterey County departments, actuals will continue to be carefully monitored for impacts.

Public Safety

Inmate Intake and Release: Proposition 47 is estimated to produce additional savings of \$31.1 million due to reclassification of crimes and termination of contracts with prisons, and the existing formula allocates 65% to mental health and substance abuse programs, 25% to truancy dropout prevention, and 10% to victim services. The State is projecting reimbursing counties an additional \$20 million this year for any remaining incarcerated individuals held in jails awaiting transfer to prison due to pandemic public health concerns.

Incompetent to Stand Trial (IST): The Department of State Hospitals budget includes \$571 million ongoing for case management and treatment in jails and for infrastructure to expand diversion and community-based restoration programs. As the State implements referral growth caps, counties that exceed the cap or do not meet waitlist reduction targets will be charged.

Medication Assisted Treatment (MAT) Expansion: The proposal confronts the overdose epidemic with \$96 million in MAT resources such as statewide access points and naloxone distribution, and by expanding MAT in county jails.

Community Probation: The proposal provides \$23.2 million to counties to continue the implementation of Proposition 57 which shifted the state’s parolee responsibilities to counties, a decrease of \$400,000 due to fewer releases than in the prior year. Another \$115 million in incentive grants is allocated under SB 678 revocation rate performance metrics. Finally, due to SB 823, the Division of Juvenile Justice ceased intake of wards and closes completely after FY23. One-time grants amounting to \$100 million are available for improvements to county facilities to better serve realigned youth.

Commission on Peace Officer Standards and Training: SB2 authorizes POST to conduct investigations into incidents of serious misconduct and suspend, revoke or cancel peace officer certifications and the proposal provides \$22.7 million for implementation. Another \$5 million over three years is earmarked for local law enforcement wellness programs.

Fee Reform Revenue Loss: Recent fine and fee reforms eliminated nearly \$1 billion in revenues. The budget provides \$63.4 million to backfill trial courts, including for the reduction of civil assessment fees for failure to appear by half. The Revenue Division of the Treasurer Tax Collector estimates a negative impact of over half a million in associated revenue loss. Another \$46.4 million is allocated to the Bureau of Forensic Services to backfill the DNA ID Fund to ensure the timely processing of forensic evidence for local jurisdictions.

Other County Services

Fire Prevention: The proposed budget provides \$1.2 billion over two years to continue this year’s programs to reduce wildfire risk, including home hardening projects such as retrofits and defensible space. It also earmarks \$400 million to improve CAL FIRE firefighter health and wellness and \$423 million for additional specialized firefighting infrastructure, machinery and equipment and inmate crew replacement.

Cannabis Proposition 64: The Governor’s Budget Proposal estimates a decrease of \$34.2 million for a total allocation of \$594.9 million to fund youth education and treatment (60%), environmental enforcement and clean up from illegal cultivation (20%) and public safety activities (20%) according to an existing formula.

Small Business Assistance: The proposal allocates \$150 million for COVID-19 relief grants to small businesses that were wait listed, \$45 million for the Visit California media campaign to support the travel and tourism industry, \$39.8 million one-time to waive new business registration filing fees and \$2 million to train immigrant entrepreneurs on exports.

Road Fund: Gasoline consumption is estimated to increase 11.8% this year and 3% in FY23. The Highway User’s Tax Account (HUTA) is expected to grow with increases of 9.1% in gasoline excise tax and 6.9% in diesel excise tax revenue, resulting in a \$2.2 million increase for the County of Monterey. The budget proposes foregoing the annual inflation adjustment of the per gallon fuel excise tax rate scheduled to take effect in July to limit impact on consumers. This would decrease SB1 revenues by \$523 million and the amount available for local road projects might be backfilled.

Child Support Services: The Governor’s proposal indicates an increase of \$20.1 million for local assistance, with the federal match resulting in \$60.3 million in total additional funding.

Various other funding proposals include \$10 million to expand First 5 early literacy by providing multilingual books to childcare and \$8.7 million in competitive grants for local jurisdictions to help immigrants navigate government services.

Infrastructure

The Governor's vision for a broader economic recovery centers around multifaceted infrastructure investments that support workforce development, housing and climate goals and leverage federal funding. California anticipates receiving \$14 billion above existing funding levels over five years from the \$1.2 trillion federal Infrastructure Investment and Jobs Act (IIJA) for formula allocated transportation, water, clean energy, broadband projects, potentially up to \$40 billion when additional competitive programs are considered.

Housing and Homelessness: Following Project Homekey’s success, the Governor proposes \$5.8 billion to continue this longer-term solution as well as an additional \$2 billion over two years to rapidly rehouse unsheltered individuals including behavioral health housing and local grants for encampment resolution. Another \$1.5 billion is provided for affordable housing development in downtowns. Local jurisdictions are encouraged to further remove barriers and increase housing options, building on new land use laws intended to expedite development in urban centers that have amenities to support affordability and healthy communities and infill areas to further climate strategy. Investments include \$300 million for infill grants and projects, \$50 million to accelerate residential conversions and \$25 million to preserve affordable mobile home parks. The particularly vulnerable senior parolee population receives continued support with transitional housing in this proposal, which provides the Returning Home Well program \$10.6 million in funding. HCD notes that it is staffed adequately for mandated programs, but may not have the capacity to pursue additional grant opportunities.

Workforce Development: Workforce investments include \$1.7 billion over three years to recruit, train and hire health and human services workers and \$350 million for community health workers. Another \$125 million is directed to other workforce development transition programs related to climate change, a low carbon economy, and forest resilience. Online job training and upskilling programs through the Library are extended for two years with a one-time investment of \$8.8 million.

Climate Change Mitigation: The proposal dedicates \$750 million to drought response, including \$175 million for local water agencies and districts experiencing loss of water supply and for groundwater recharge projects. WRA notes staffing constraints that limit the ability to divert from existing operations to grant related activities and may prevent it from leveraging new funding. Another \$400 million is earmarked for coastal restoration. Corporations can tap into \$350 million in tax credits intended for innovative green energy technology and climate change mitigation efforts. Finally, \$265 million is provided over three years for capping oil and gas wells and training displaced workers and \$175 million to enhance individual and community resilience to extreme heat. A \$25 million one-time grant aids local jurisdictions in developing regional climate and health resilience plans.

Smart Agriculture: The proposal provides \$447 million to farmers and ranchers transitioning to climate smart agriculture that replace equipment or implement irrigation systems, soil carbon sequestration practices, livestock methane reduction programs and pollinator habitats.

Future Technology: Over five years, \$6.1 billion is intended for zero emissions transportation goals targeting low-income communities and transit networks. Another \$2 billion over two years is invested in various grant projects focused on storage, hydrogen, wind and decarbonization to meet renewable energy and efficiency goals that reduce pollution and operating costs for industry and low-income communities.

This overview serves to briefly highlight significant areas of potential impact to Monterey County from the Governor’s FY23 Proposed Budget and is not an exhaustive analysis. A more thorough summary from the California State Association of Counties (CSAC) is attached. Departments can also provide more detailed insight of potential impacts to their corresponding programmatic areas.