

Overview of Governor’s Fiscal Year 2023-2024 Proposed Budget *County Administrative Office* *January 25, 2023*

On January 10, 2023, Governor Newsom released a \$297 billion budget proposal, a 3.6% decrease from last year, that maintains most of the significant multiyear program investments from recent budgets despite a projected \$22.5 billion deficit stemming from an estimated \$29.5 billion decrease in revenue that results from a combination of a progressive State tax structure and a stock market decline in response to aggressive Federal Reserve interest rate increases. The Governor’s Proposal delivers a balanced budget without using reserves or major service funding reductions by delaying capital projects, reverting cash outlays to bonds, shifting State funding to federal grant sources and General Fund usage to special funds, and eliminating planned commitments to the new inflation adjustment fund, the unemployment insurance trust fund and supplemental reserve deposits. Given the uncertain economic outlook, this preserves California’s ability to respond in the event of a recession. The budget pays down \$1.9 billion in retirement liabilities and reflects reserves of \$22.4 billion in the Budget Stabilization Account (Rainy Day Fund), \$8.5 billion in the Public School System Stabilization Account, \$3.8 billion in operating reserves and \$900 million in Safety Net Reserve.

A brief summary of potential impacts of the Governor’s Fiscal Year 2023-2024 (FY24) 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 State’s May Revise and our Recommended Budget.

Health and Human Services

The proposal does not reflect the recently signed federal Consolidated Appropriations Act, which impacts the timing of Medi-Cal eligibility redeterminations and the phase out of enhanced pandemic benefits.

Medi-Cal and CalAIM: The Medi-Cal caseload is projected to decrease to a budget of \$138.9 billion that covers over one third of the population. The Governor will request a renewal of the Managed Care Organization Tax to sustain prior Medi-Cal expansions, proposing \$844.5 million next year and estimating a cost of \$2.5 billion annually ongoing for full-scope coverage for all income-eligible Californians ages 26 to 49 regardless of immigration status beginning in 2024. California Advancing and Innovating Medi-Cal (CalAIM) receives \$10 billion to continue reforms that improve the patient experience by integrating managed-care, fee-for-service, mental health, dental, and IHSS programs.

Behavioral Health Community-Based Continuum Demonstration: This key component of CalAIM focuses on mental health services for youth, homeless and justice-involved populations, funding county employment and housing assistance to beneficiaries. The proposal earmarks \$6.1 billion over five years beginning January 2024, which would require a match.

Behavioral Health Payment Transition: Counties transitioning from cost-based reimbursement to fee schedule are provided \$375 million in the budget proposal to mitigate cashflow issues one-time at the beginning of the CalAIM payment reform. Trailer bill language

to create a continuously appropriated Medi-Cal County Behavioral Health Special Fund that would facilitate the administration of intergovernmental transfers will also be proposed.

Lanterman-Petris Involuntary Hold Data Reporting: Counties will be required to collect data from local entities quarterly and DHCS will levy civil penalties for failure to comply pending additional trailer bill language.

Public Health Investments: The proposal delays \$1 billion over multiple years to strengthen and expand the health workforce, including nurses, community health workers and social workers for behavioral health, reproductive health and primary care. It continues to provide \$200 million for local public health infrastructure and staffing. The training budget is reduced by \$50 million to address the deficit, and another \$130 million for community health workers is delayed. Natividad Medical Center notes these initiatives would benefit the hospital to a greater degree if the additional funding was not being withheld. The Health Department notes this might impact its lab microbiologists. The department is also monitoring potential adjustments to allocations for Prop 56 and 99 Tobacco Control and Oral Health in case a shift in staffing becomes necessary.

Community Assistance, Recovery & Empowerment (CARE) Act: The Budget continues to include funding to implement a mental health, treatment and housing support program that allows courts to create a plan for individuals with psychotic disorders that render them unable to live independently, with \$16.5 million earmarked for behavioral health departments next fiscal year and \$66.5 million the following as more counties join the program.

Naloxone Distribution and Fentanyl Outreach: The Budget provides \$79 million over four years from opioid settlements for overdose antagonist medication to county agencies and first responders. Another \$10 million in grants is earmarked for education, testing, recovery and support services.

Provider Rate Increases: The Budget proposes \$22.7 million and \$57.1 million ongoing for primary and obstetric care service reimbursement.

CalWORKS: The monthly CalWORKS program caseload is estimated to be 360,000 families with expenditures of \$7.4 billion and a 2.9% increase to Maximum Aid Payment levels at a cost of \$87 million from the 1991 Local Revenue Fund Child Poverty and Family Supplemental Support Subaccount.

In-Home Support Services (IHSS): The proposal estimates an IHSS budget of \$20.5 billion with a caseload of 642,000. Overall IHSS services costs are projected to increase by \$1.1 billion due to continued caseload growth, higher hours per case, and higher costs per hour associated with increased minimum wage. An estimate of \$74.1 million for a 4% annual inflation factor is applied to the county maintenance of effort (MOE). Monterey’s estimated MOE is \$20.5 million, an overall increase of \$1.7 million.

CalFresh: The proposed budget includes a 2% increase in county funding due to increased caseload. The development of a new budget methodology to determine appropriate funding levels for CalFresh administration funding is in progress

Mello-Granlund Older Californians Modernization Pilot: The proposal includes \$37.2 million and \$186 million over five years for programs supporting community-based services programs, senior nutrition support, family and caregiver supports, senior volunteer development, and/or aging in place.

Child Care: The proposal includes \$6.6 billion for vouchers and to continue to fund an expansion to a goal of 200,000 subsidized new slots by FY25. While this continues a commitment started in FY21, it delays it by a year due to an inability to fill slots.

1991 and 2011 Realignment: Programs funded by vehicle license fees and State sales tax are projected to increase 1.6% overall in FY24 after increasing 1.3% in the current fiscal year. As these revenues impact multiple Monterey County departments, actuals will continue to be carefully monitored for impacts.

Public Safety

Public Defender: In addition to the amount mentioned above for county behavioral health departments, the proposal sets aside \$6.1 million and \$31.5 million ongoing for CARE court participants requiring counsel from Public Defenders or legal service organizations. The budget eliminates the final year grant amount of \$50 million for the Board of State and Community Corrections (BSCC) pilot grant program for indigent defense.

Fee Reform Revenue Loss: The proposal provides backfill of \$109.3 million to trial courts for revenue declines anticipated from the elimination of local administrative fees previously charged for criminal offenses. Multiple county departments continue to monitor negative impacts as the backfill amounts provided are insufficient.

Inmate Intake and Release: Proposition 47 is estimated to produce savings of \$101 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. This is \$60.1 million less than last year. The prison population is expected to decrease by 2,761 along a long-term downward trend.

Family Justice Centers and Victim Services: The proposal identifies \$11 million for victim services at Family Justice Centers, \$30 million over three years to expand trafficking survivor support, and \$6.7 million for local law enforcement reimbursements to medical professionals for evidentiary sexual assault exams. If the economic situation improves, the budget will also prioritize changes to victim compensation benefits and eliminating the restitution fine.

Integrated Substance Use Disorder Treatment (ISUDT): This program receives \$260 million in the Governor’s budget proposal and supports Medication-Assisted Treatment for incarcerated individuals.

Incompetent to Stand Trial (IST): The Department of State Hospitals budget maintains \$535.5 million for case management and treatment in jails and for infrastructure to expand diversion and community-based restoration programs.

Community Probation: Probation notes the nominal increase in base realignment revenues and flags the \$280 million or over 90% decrease in AB109 Community Corrections Growth Subaccount funding. Otherwise, funding continues at last year’s levels, including another \$123.8 million in statewide incentive grants allocated under historic SB 678 static revocation rate performance metrics.

Department of Justice: Backfill of \$53.4 million ongoing is allocated to the DNA ID Fund to ensure the timely processing of forensic evidence for local jurisdictions. Guidelines for race blind charging will be developed alongside local jurisdictions with the help of \$2.4 million ongoing

starting with FY25. The budget also provides \$2.2 million to address the appeal workload associated with past discriminatory convictions.

Cannabis Proposition 64: The Governor’s Budget Proposal includes \$95.4 million from the General Fund to backfill revenue loss resulting from cultivation and excise tax reforms in order to meet a required minimum allocation of \$670 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. Cannabis tax funds of \$83.9 million are dedicated for BSCC grant awards to local government public health and safety efforts.

Infrastructure and Other County Services

Last year, Governor Newsom proposed a broad vision for pandemic economic recovery centered around multifaceted infrastructure investments that support climate goals, housing, and workforce development. Most of the trigger reductions proposed to balance an anticipated sharp decline in capital gain revenues target these areas and funding will be restored if the fiscal situation improves by next 2024. Approximately \$5.2 billion in reductions and deferrals fall under climate and transportation programs, \$550 million from CPUC last mile broadband grants, \$350 million from first time homebuyer assistance and \$55 million from workforce initiatives, but significant investments still remain available in the budget for all these efforts.

Housing and Homelessness: The Governor maintains his commitment to affordable housing and homelessness solutions, with \$3.4 billion dedicated to these efforts in the budget proposal, including \$1 billion for a fifth round of Homeless Housing, Assistance and Prevention (HHAP) and \$400 million for encampment resolution grants. 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. However, \$200 million previously planned for Dream for All low-income first-time homebuyer shared appreciation loans and \$100 million for CalHome grants through local agencies is removed due to the budget deficit, as well as another \$50 million for ADUs. Finally, \$250 million or only half the originally intended funding is provided through the Behavioral Health Bridge Housing program for up to six months temporary housing or rent assistance to eligible homeless or at-risk individuals.

Library: To balance the budget, the Governor proposes delaying \$100 million intended for local library infrastructure projects to future years. Monterey County Free Libraries had planned to apply for funding of a critical project and may need to close a branch if alternate sources are not identified.

Road Fund: The Highway User’s Tax Account (HUTA) is expected to grow 8.6% in gasoline excise tax and 11.1% in diesel excise tax revenue, while Transportation Improvement Fee revenues are anticipated to increase 9%. Otherwise, while there are significant reductions in the State’s transportation budget, Public Works Facilities and Parks does not anticipate local impacts as its active transportation project is already funded.

Climate Change Mitigation: Though the proposal makes small reductions in drought, water recycling and watershed programs totaling \$194 million, it maintains \$8.6 billion of the original amount and provides \$135.5 million over two years in new funding for local agencies to address urban flood risks. The Water Resources Agency will apply for newly available grants that expand existing programs if staffing and cashflow levels permit. Other deficit measures include

slashing \$297 million from coastal protection and adaptation programs and a reduction of \$75 million from community resilience to extreme heat efforts.

Smart Agriculture: While the proposal eliminates \$85.7 million from various funding programs that aid farmers and ranchers in transitioning to more efficient practices by replacing equipment or implementing irrigation systems, soil carbon sequestration, livestock methane reduction and pollinator habitats, nearly 90% of the original commitment is maintained. Though impacts are mostly minimal, the Agricultural Commissioner notes that State investments were anticipated to replace local pesticide awareness efforts and education programs.

Future Technology: Significantly, the proposal cuts, delays or shifts \$5.9 billion of previously planned spending on zero emissions transportation and transit networks and investments in energy projects focused on storage, hydrogen, wind and decarbonization to reduce greenhouse gas emissions and operating costs, impacting equity and efficiency efforts for industry and low-income communities.

This overview serves to briefly highlight significant areas of potential impact to Monterey County from the Governor’s FY24 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.