

Overview of Governor’s Fiscal Year 2021-2022 Proposed Budget *County Administrative Office* *January 27, 2021*

After an unprecedented year, on January 8, 2021, Governor Newsom released a \$227.2 billion record-breaking budget proposal that partitions a one-time \$26 billion anticipated windfall to provide direct assistance to individuals and businesses, to support broader economic recovery and to advance housing, climate change resiliency, and educational goals, all while continuing to respond to the health pandemic. Though the improved economic outlook since the 2020 Budget Act, federal transfers, and the State's progressive tax structure generated a revenue windfall, its one-time nature is apparent in the proposal's projected \$7.6 billion deficit in Fiscal Year 2022-2023. The proposed budget sets aside reserves of \$15.6 billion in the Budget Stabilization Account (Rainy Day Fund), \$2.9 billion in operating reserves, \$3 billion in the Public School System Stabilization Account, \$450 million in Safety Net Reserve and pays down \$3 billion in retirement liabilities. It would also delay \$2 billion in various program suspensions previously suggested to balance a more pessimistic budget estimate.

The proposal requests an immediate pandemic relief package of \$2.4 billion for \$600 direct payments to workers with an income below \$30,000, \$2 billion for schools to implement safety measures and offer in person instruction, and \$575 million for small business grants and targeted license and fee waivers. In addition and still for the current Fiscal Year 2020-2021, early action is urged to approve another \$4.6 billion to extend learning programs into the summer, \$323 million for fire prevention projects before the start of the season, \$250 million to enable the purchase of additional housing through the Project HomeKey grant program, \$250 million to support housing and job production with infill infrastructure grants, \$162 million for sustainable agriculture projects, \$50 million to enhance county probation services, and \$12 million to assist trial courts with eviction moratorium caseload.

A brief summary of potential impacts of the Governor's Fiscal Year 2021-2022 (FY22) 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 assumes continued pandemic Public Health emergency response efforts through December of 2021 and requests \$820 million for testing, contact tracing, personal protective equipment and expanded hospital capacity, as well as another \$300 million for vaccine distribution and public awareness campaigns statewide.

Medi-Cal Administration and Expansion: The Medi-Cal caseload is projected to increase 11.7%, to a budget of \$122.2 billion that covers 40% of the population, expanding no-cost Medi-Cal to seniors and those with disabilities living at 138% of the poverty level, income-eligible young adults regardless of immigration status, full coverage for mothers, and permanent telehealth coverage. The proposal provides an additional \$65.4 million for Medi-Cal county administration as a result of CPI adjustments.

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, \$1.1 billion is earmarked for CalAIM reforms to improve the patient experience by integrating managed-care, fee-for-service, mental health, dental, and IHSS programs. A focus on equity of outcomes is evident through both this increased coordination of care and health plan quality standards measures, community navigators, data, dashboards, as well as a new Office of Health Care Affordability. Though impacts are unknown since legislative details are pending, these proposals have the potential to alter reporting requirements and payment methodologies, significantly impacting County operations, particularly Natividad Medical Center and Health, which has been preparing its systems.

Federal Medi-Cal Assistance Percentage (FMAP): The proposal assumes the enhanced federal match for Medi-Cal will continue due to the pandemic response, decreasing counties share of benefits cost.

Medi-Cal Rx: The Health Department estimates reduced Clinic Services revenues of approximately \$1 million if this program carve-out from managed care to fee-for-service is implemented effective April 1, 2021.

Supplemental Payment Program (Prop 56): Due to an improved short-term revenue outlook, numerous suspensions in the 2020 Budget Act could be delayed at least until July 2022, including Proposition 56 supplemental payments, which would otherwise be reduced because of the anticipated ban on flavored tobacco products.

Behavioral Health

Mental Health Services Act (MHSA) / Prop 98: The proposal extends the 2020 Budget Act’s statutory flexibility to spend MHSA funds. The budget includes a record high funding level for education due to Proposition 98, including an ongoing commitment of \$25 million to match county MHSA spending plans. A one-time incentive of \$400 million for preventative and early intervention county behavioral health services through Medi-Cal managed care plans at school centers and another \$25 million for suicide and drop-out prevention and outreach services in rural school districts also constitutes this record setting package.

Infrastructure: Matching grants in the amount of \$750 million over three years are intended for counties to acquire and rehabilitate real estate as community continuum resources to provide residential settings for less restrictive and costly patient care in support of CalAIM, to mitigate homelessness, and for crisis stabilization. In addition, the budget suggests the repurposing of unspent jail facility awards project bonds, estimated at \$202 million, towards the purchase or rehabilitation of community mental health facilities.

Behavioral Health estimates a revenue reduction of \$345,000 from Realignment and an increase of \$777,000 from MHSA.

Department of Social Services

The 2020 Budget Act shifted childcare and nutrition programs from the Department of Education to the Department of Social Services effective July 1, 2021, including the relevant CalWORKS and food programs, with a \$3.1 billion adjustment.

CalWORKS: The unemployment benefits portion of the federal stimulus package has thus far prevented a significant increase to the \$7.4 billion CalWORKS program caseload, though the proposal does predict a 19% rise in FY22. One-time funding of \$46.1 million is identified to pause the 48-month program limit for the duration of the pandemic. Another \$50.1 million is estimated for a 1.5% increase to Maximum Aid Payment levels, funded by the Local Revenue Fund subaccount Child Poverty and Family Supplemental Support.

Food Assistance: The pandemic prompted related one-time funding items, including an additional \$30 million for food banks and other Emergency Food Assistance Program providers and CalFresh support stemming from the most recent federal relief package, and \$11.4 million in an emergency allotment to permit the maximum allowable under the California Food Assistance Program.

Child Welfare/Foster Care: Child centered proposed initiatives include \$54.5 million to delay suspensions for the Child Welfare Public Health Nursing Early Intervention Program, Emergency Child Care Bridge, and Family Urgent Response System and \$61.1 million for further implementation of the Family First Prevention Service Act. Another \$61.1 million is proposed for foster care program pandemic needs including quarantine, extension of assistance payments and technology purchases, and \$5.2 million was already provided in December to help counties relocate youth back to California, including associated quarantine costs. One-time Rapid Response Program funding of \$5 million is earmarked to assist unaccompanied undocumented minors in emergent situations.

In-Home Support Services (IHSS): As previously mentioned, the State’s windfall allows it delay certain suspensions, including a 7% IHSS reduction in hours and one-stop centers for aging, Alzheimer’s and disability with cultural and language competencies. The proposal estimates a 10% increase to the IHSS budget to \$16.5 billion in FY22 with an assumed 3.9% caseload increase funded by \$17.8 million to reflect CPI adjustments. Another \$1.2 billion is earmarked for minimum wage increases over 2 years. Finally, \$5.3 million covers the extension of the pandemic backup provider system and wage differential through December 2021.

Additional proposed items include \$250 million for the acquisition and rehabilitation of facilities to house seniors at risk of homelessness and an ongoing \$22.3 million adjustment to the Supplemental Nutrition Benefit Program to mitigate the elimination of the SSI cash-out policy.

The 1991 and 2011 Realignment programs funded by vehicle license fees and State sales tax are projected to decline 1.9% overall in FY22 after increasing 5.6% this 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 \$11.9 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 victims services. The State is projecting a 20% decrease in its prison population due to the pandemic, between suspending intake from counties and the accelerated release of inmates to county probation supervision. Intake was halted completely from March to August and again in November due to current public health conditions. Counties

have already received \$38.8 million in reimbursements for holding inmates, with another \$40.4 million pending. The total is estimated to reach \$163.4 million by July. The Sheriff-Coroner’s Office estimates approximately \$3 million in associated unanticipated revenues.

Incompetent to Stand Trial (IST): The Department of State Hospitals budget includes a proposed \$46.4 million over three years to expand IST Diversion and \$5.6 million to expand community-based treatment options beyond the centralized outpatient clinic model plus \$7.3 million to increase community step down capacity enabling the State to make room for more IST patients instead.

Community Probation: Per SB 823, the Division of Juvenile Justice will cease to intake wards this fiscal year and close two years later and the proposed budget includes an ongoing \$46.5 million to assist county probation offices with the transition as well as one-time funding of \$50 million still proposed for action this fiscal year for treatment and programming needs to include adults and AB 1950 impacts. Since SB 678 tied funding to performance, but AB 1950 will organically lower revocation rates and because the pandemic affected performance measures, reimbursement will be based on the highest individual amounts over the last 3 fiscal years until trends stabilize and the allocation can be recalculated. Monterey County Probation anticipates the combined impact of the SB 823 and SB 678 funding to result in approximately \$1 million in additional revenues, though crucial legislative details are still pending. The proposal also provides \$19.5 million to counties to continue the implementation of Proposition 57 which shifted the state’s parolee responsibilities to counties.

Beginning July 1, 2021, AB 1869 eliminates local administrative fees for criminal offenses including public defense and probation supervision with \$65 million allocated for backfill.

The proposed budget confirms \$24.9 million for ongoing local child support collections and services, but without additional funding of \$270,085, Child Support Services expects to lose eight positions.

Other County Services

The Governor’s proposal for a broader economic recovery centers around multifaceted investments in response to an historic pandemic and wildfire season, including workforce development, housing infrastructure, deferred maintenance and sustainable agriculture.

Small Business Assistance: The Governor’s Office of Business and Economic Development (Go-Biz) more than doubles its emergency COVID-19 Relief Grant Program initial investment of \$500 million in November by allocating another \$550 million in FY22, for \$25,000 grants to underserved small business groups, disadvantaged communities and regions, and industries most impacted by health and safety guidance and stay-at-home orders, while partnering with nonprofits for additional wrap-around services, loans and technical assistance. Go-Biz also provides businesses that create jobs with tax credits through CalCompetes, and the budget provides \$270 million ongoing plus another \$250 million one-time early this year for an additional grant component to businesses that invest significant infrastructure, commit to a high-need, high-opportunity area or create 500 jobs. Finally, the budget sets aside \$35 million to encourage equity in entrepreneurship through the California Dream Fund, which provides startup micro-grants of \$10,000 to underserved groups, including people of color, women and immigrants.

Infrastructure and Workforce Development: The budget proposal earmarks nearly \$370 million for workforce development, focusing on retraining programs, skills development, coordination between education and local workforce partners, including \$25 million to expand the High Roads program to support an additional 2,000 public and private apprenticeships in the fields of construction, forestry, medicine, dentistry, and cybersecurity. While the Governor’s five-year infrastructure plan encompasses fire stations, courthouses, correctional facilities, hospitals and exclusively state property, it is expected to stimulate local jobs. For example, Caltrans estimates that SB 1 has created 350,000 jobs since 2017. During the pandemic, fuel tax revenues have dropped, and public works construction will likely require additional federal stimulus funding, but planning, engineering, development, design and award work will continue. The Monterey County Road Fund does not anticipate an immediate impact to local projects from the decline in fuel tax revenues due to its substantial current balance and the potential of a 10% rebound in the highway and road accounts.

Housing and Homelessness: Significant resources are allocated for housing and homelessness in the Governor’s FY22 Proposed Budget, including \$750 million to continue the acquisition and rehabilitation of units under Project HomeKey, \$250 million for the Infill Infrastructure Grant Program to support housing development construction, particularly sites requiring remediation and \$500 million for low-income housing dollar-for-dollar tax credits. It would also create the Housing Accountability Unit to engage, educate and assist local governments not making progress on planning, permitting, or implementing new laws and enforce obligations where necessary. Finally, \$2.7 million is earmarked for the Department of Housing and Community Development to align different program applications and scoring systems.

Sustainable Agriculture: The proposal continues early investments in sustainable agriculture with \$8 million to expand the University of California Cooperative Extension’s (UCCE) capacity for integrated pest management and to support grower implementation of safer alternatives plus \$16.5 million to support local agricultural commissioner enforcement and improved air monitoring and another \$1.5 million for community engagement. An additional \$3.35 million is earmarked for UCCE to provide technical assistance to small and underserved farmers and \$15 million as part of the Health Soils Program to manage and sequester carbon. The budget also sets aside \$80 million for Funding Agricultural Replacement Measure for Emission Reductions (FARMER) to replace equipment and \$10 million for Farm to School Program grants to schools to establish and coordinate local food procurement in meals.

State Supplementation for County Assessors Program (SSCAP): The State’s discontinuation of SSCAP ends the Assessor’s Office \$170,000 grant and threatens three positions which will lead to the anticipated decrease of the property tax roll.

Library: The Monterey County Free Libraries (MCFL) plans to apply for several grant opportunities. Possible State initiatives include \$5 million for early learning and after-school program grants, \$3 million in grants for bookmobiles or outreach vehicles in underserved communities, \$1 million in online materials, \$800,000 for low-income student summer meals, \$500,000 to support broadband connectivity, and \$500,000 for the Braille Talking Book program. Any successful grant applications would help MCFL defray, enhance or supplement current operations, especially as core California Library Services Act funding was cut in half in the current year and funding is not restored in the budget proposal.

Fire Prevention: In response to record-breaking wildfires, the proposed budget includes \$1 billion for home hardening projects through Cal OES, such as retrofits and defensible space, to mitigate damage for low-income individuals. This funding will also support small landowners in sustainably managing their forest lands and local community fire safety projects such as fuel breaks, as well as vocational training for forest management jobs and the wood products industry.

Cannabis: As in 2020, the Governor again proposes to consolidate relevant operations within the Department of Food and Agriculture and Department of Public Health with the Bureau of Cannabis Control into one new department within the Business, Consumer Services and Housing Agency, a single point of contact for cannabis licensees and local governments that will simplify participation in the legal market, support safe operations and centralize enforcement. This move aims to increase access to banking services and expand equity programs which support local jurisdictions and provide joint workshops to eligible applicants. Separately, the budget wants to secure \$15.5 million from the Cannabis Tax Fund to administer local grant programs through Go-Biz that promote equity in business ownership and employment in the cannabis market.

The Governor’s Budget Proposal increases the 2020 Budget Act allocation for Proposition 64 by \$146.2 million to \$443.1 million for the implementation, administration and enforcement of Cannabis Act and research, with any remaining funds to be spent on youth education and treatment (60%), environmental enforcement and clean up from illegal cultivation (20%) and public safety activities (20%) according to an existing formula.

Various other funding proposals featured include \$256.1 million for the California Disaster Assistance Act to provide assistance to local governments responding to emergencies and destruction of public real property and \$60 million of which \$30 million is proposed early for local agency grants to support sustainable groundwater basin levels and \$183 million to leverage federal funds for collaborative flood risk management.

This overview serves to briefly highlight significant areas of potential impact to Monterey County from the Governor’s FY22 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.