Established in 1991, UCC serves as the representative voice for state legislative advocacy for high-population counties in California. Initially composed of seven counties, the association has grown to 14 today. Just over 80 percent of the state's population reside in UCC counties. Consequently, urban counties carry out critical programs and services to the state's most vulnerable populations. For more information, including details on our Board of Directors, please visit our website.

Legislature Departs for Spring Break; Next Publication on Friday, April 5

The Legislature adjourned yesterday for its Spring Break; members will return to Sacramento on Monday, April 1. Please note that we will take a publication hiatus next week; look for UCC's next update on Friday, April 5.

Prop 1 Secures Passage; State Shifts Focus to Implementation

More than two weeks after the March primary election, it appears evident that Proposition 1 – the Governor's ballot measure to amend the Mental Health Services Act and to authorize upwards of $6 billion in bond capacity for behavioral health infrastructure – will secure a majority vote. As we reported last week, at one point the yes/no margin was separated by as few as 1,700 votes. The latest count – as of yesterday evening – has the measure winning by just over 29,000 votes.

The Department of Health Care Services (DHCS) recently shared some planning and implementation information now that Prop 1's passage is more certain. DHCS indicates that they will first focus on developing policy and guidance to support counties in fulfilling the statutory requirements in the initiative; expect guidance to be released in phases. DHCS will be working to bring behavioral health funding streams into alignment pursuant to the provisions in Prop 1, with a goal of improving the delivery of services to Californians most in need of behavioral health care. Note that there will be opportunities for stakeholder engagement throughout the policy development process to guide the most effective use of this vital funding. More information is available on the state's Behavioral Heath Transformation webpage, including details on upcoming listening sessions.

Also note that the Behavioral Health Continuum Infrastructure Program (BHCIP) will be the program to distribute roughly $4 billion in bond funds for which DHCS is responsible. DHCS will work to release the first Request for Application for the Behavioral Health Infrastructure Bond Act in fall 2024. Monitor BHCIP-related developments here.

Governor, Legislative Leaders Announce a Plan for Early Budget Action

This week, Governor Gavin Newsom and legislative leaders agreed to address the state's significant (and likely growing) budget deficit by tackling about $12-18 billion in budget solutions sometime in early April. Last week, we reported on the Senate's "Shrink the Shortfall" budget plan; the Governor signaled his support for the proposal, while the Assembly leadership wanted time to develop their own proposal.

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The agreement only signals a plan to take action, as opposed to an agreement on specific budget proposals. Legislative leaders suggested that they would finalize the package sometime in early April.

In other budget news, the Legislature approved and sent to the Governor SB 136 (Committee on Budget and Fiscal Review), the Managed Care Organization (MCO) Tax measure. The measure modifies the tiered tax amounts for the MCO tax authorized as part of last year's budget. The additional revenue received from the modified tax is intended to support a portion of the non-federal share of expenditures in the Medi-Cal program (currently supported by the state's General Fund). The modified MCO tax plan must be approved by the federal government before it can take effect.

DOF Reports February Revenue Uptick

The Department of Finance March Finance Bulletin released this week reported that February General Fund tax receipts were $288 million above the Governor's budget forecast for February and $5.6 billion below the Governor's budget fiscal year-to-date forecast. Again, the primary driver of the cumulative shortfall was personal income tax estimated payments, which were $4.7 billion below the budget forecast fiscal year-to-date, indicating weakness in receipts relating to tax year 2023. Personal income tax withholding, which is more indicative of current activity in tax year 2024, were $670 million above the fiscal year-to-date forecast.

Personal income tax cash receipts were $579 million above forecast in February due to withholding exceeding the forecast by $1.2 billion, partially offset by higher refunds of $706 million. This brings the fiscal year-to-date shortfall in personal income tax receipts to $4.1 billion, or 5.1 percent. While withholding reflects more of a real-time indicator of economic activity than estimated payments, single-month readings can be misleading: calendar changes can affect when payments are recorded, and the timing of stock-based compensation can also affect payments, therefore, withholding should be evaluated over multiple months for longer-term trends.

Corporation tax cash receipts were $165 million below forecast in February and $1.1 billion below the fiscal year-to-date forecast. The February shortfall is due to refunds exceeding the forecast by $418 million in February, partially offset by higher corporation tax payments of $253 million. Corporate refunds have been consistently running above forecast, which is partially due to higher-than-expected refunds related to overpayments of the Pass-Through Entity Elective Tax.

Sales and use tax cash receipts were $148 million below forecast in February and $347 million below the fiscal year-to-date forecast. February sales and use tax receipts reflect part of the final payment for calendar year fourth quarter taxable sales, which was due on January 31.

(The Finance Bulletin can now be viewed in the new Finance Bulletin dashboard for those of you interested in an interactive version.)

Newly Amended Bill Would Recast JJCPA Planning Body and Process

Like several bills that have been put before the Legislature in recent years – including AB 1007 (Jones-Sawyer, 2020), SB 493 (Bradford, 2021) and AB 702 (Jackson, 2023) – recently amended SB 1057, by Senator Caroline Menjivar, proposes to make considerable changes to the local planning body and associated process for the deployment of Juvenile Justice Crime Prevention Act (JJCPA) funds. These funds were realigned to counties in 2011 and serve as the bedrock of virtually all counties' juvenile justice systems.

Summarized below are the principal provisions of SB 1057:

- Recasts the composition of the Juvenile Justice Coordinating Council (JJCC), the body responsible for developing the multiagency juvenile justice plan;
    - Requires that the JJCC be comprised of at least half community representatives and the remainder from governmental entities;
    - Specifies that the JJCC shall elect two co-chairs, at least one of whom is a community representative.
- Requires the JJCC to meet at least three times per year and further specifies other requirements to facilitate public participation;
- Confers authority to the Board of State and Community Corrections (BSCC) or other state entity with oversight over administration of these funds to determine remedial action or to withhold JJCPA funding if a county fails to establish a JJCC;
- Amends and expands the required elements of the comprehensive multiagency juvenile justice plan developed by the JJCC;
- Expands requirements that programs and strategies funded with JJCPA funds must meet;
- References a new request for proposal (RFP) process for JJCPA funds, which is virtually identical to the process amended into the March 23, 2023 version of AB 702 by Assembly Member Jackson; specifies that a local agency other than a law enforcement related agency – with a stated preference for behavioral health-related local agencies – must administer the RFP; and
- Requires new, detailed reporting to the state about JJCC membership and meeting dates.

While previous measures referenced above expressly sought to redirect the majority of JJCPA funds to community-based organizations, similar provisions that specify an explicit reprioritization of funds to CBOs are not included in SB 1057. However, the far-reaching amendments to the existing local planning process and JJCC composition are certainly intended to have the same effect. SB 1057 has been referred to the Senate Public Safety Committee but has not yet been scheduled for hearing.

Measures Propose Transparency for Sales and Use Tax Agreements

For a number of years, the Legislature has expressed interest in additional transparency and regulation of local sales tax rebate agreements. These agreements send a portion of local Bradley-Burns sales and use tax revenue received by the city or county back to a retailer, usually as part of an agreement to locate within that community, sometimes to the detriment of neighboring communities.

Two measures attempt to address the Legislature's concerns about local sales tax rebate agreements. The first is AB 2854, by Assembly Member Jacqui Irwin who serves as the chair of the Assembly Revenue and Taxation Committee. It would require cities and counties to annually report to the California Department of Tax and Fee Administration (CDTFA) specified information relating to rebate agreements, as well as post that information on their website.

The second measure, SB 1494 by Senator Steve Glazer, the chair of the Senate Revenue and Taxation Committee, would prohibit a local agency from entering into any local sales tax rebate agreement after January 1, 2024. Further, the measure would make these forms of agreements existing before January 1, 2024 void and unenforceable on January 1, 2030.

AB 2854 will be heard in the Assembly Revenue and Taxation Committee on Monday, April 8. SB 1494 is scheduled for hearing in the Senate Local Government Committee on Wednesday, April 3.

Senate Budget Subcommittee Debates Governor's Proposed Cuts to REAP 2.0

The $300 million proposed reversion from the Regional Early Action Planning Grant Program of 2021 (REAP 2.0) included in the Governor's January budget was heard by the Senate Budget Subcommittee No. 4 on State Administration and General Government last week (agenda). The proposed reversion eliminates half of the $600 million program administered by the Department of Housing and Community Development (HCD), which is designed to implement state housing and climate goals at the local and regional level. The Committee heard from many concerned stakeholders, including regional transportation planning agencies, counties, and cities. Key points of the testimony included:

- REAP 2.0 funds projects and planning activities accelerate infill housing development, reduce Vehicle Miles Traveled (VMT), increase housing supply at all affordability levels, affirmatively further fair housing (AFFH), and achieve state climate goals through implementation of adopted regional and local plans.
- Regions and their local jurisdictions have spent several years completing the statutorily required process of community engagement and securing HCD's approval of program designs.
- Nearly all the funding has been approved by HCD and regions have held competitive funding rounds, awarding funds and executing contracts with local jurisdictions.
- Local agencies have already initiated projects with the assumption the work would be reimbursed.

In the greater Sacramento region, REAP 2.0 funding is expected to unlock 8,000 infill housing units, 6,000 of which are projected to be affordable to low- and moderate-income households. In Southern California, REAP 2.0 funds are projected to support as many as 10,000 new units on surplus LA Metro transit lands, more than 1,150 affordable housing units in the Coachella Valley, infrastructure improvements to support nearly 5,000 newly zoned housing units in Rialto, and more.

Committee members expressed concerns with the impacts of this proposed funding reduction, while also recognizing the difficult fiscal position the state currently faces. Subcommittee Chair Padilla (D-San Diego) highlighted the significant work that was underway despite the specific definitions of encumbrances that may have guided the Administration's proposed reductions. While discussing the full suite of housing reductions on the agenda, newly appointed Subcommittee member, Senator Smallwood-Cuevas (D-Los Angeles), pushed the Administration to identify the expected impacts of the cuts on housing production and raised questions about which funding sources local communities were already relying upon.

The Subcommittee did not take action on the proposed REAP 2.0 reversion or other proposed housing cuts. Assembly Budget Subcommittee No. 5 on General Government is expected to hear REAP 2.0 and other housing-related budget items on April 9.

Assembly Names Distressed Hospital Select Committee

Assembly Speaker Robert Rivas has named Assembly Member Esmerelda Soria as chair of the Select Committee on Distressed Hospitals. The Select Committee will provide a public forum to examine issues impacting distressed hospitals and their ability to remain open and provide essential healthcare services to the community. The Select Committee will focus on distressed hospitals in both rural and urban settings serving a disproportionate share of Medi-Cal and Medicaid patients. The Committee plans to hold two informational hearings in areas of the state with the highest concentration of distressed hospitals.

Members of the Select Committee include: Assembly Members Cecilia Aguiar-Curry, Juan Alanis, Jasmeet Kaur Bains, Vince Fong, Eduardo Garcia, Mike Gipson, Blanca Pacheco, and Jim Wood.