

PLATINUM | ADVISORS

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TO: Joel Young, President, AC Transit Board of Directors
Members of the AC Transit Board of Directors
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FR: Steve Wallauch
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RE: **Legislative Update**

Happiness: While there will be no happiness in the budget this year, former Speaker Anthony Rendon announced that Speaker Rivas has appointed him to be the chair of the new Select Committee on Happiness & Public Policy Outcomes. The initial hearing is set for March 12th, and a path toward happiness will be set soon after.

In the Green: California's cap & trade auction continues to set record prices with each auction. The auction held in February resulted in all credits being sold at a record price of \$41.76 each. This auction alone resulted in generating \$1.3 billion for state programs. These red-hot auctions will generate a needed source of revenue for various zero emission vehicle programs that are facing cuts due to the deficit. These high prices will also push revenues upward for formula allocations, such as the Low Carbon Transit Operations Program (LCTOP).

It is speculated that the demand for more credits is the result of CARB's intention to update the cap & trade regulations and potentially accelerate the reduction of the number of credits available for sale at each auction. Reducing the number of credits available may be necessary to meet the state's 2030 GHG reduction goals. The rule-making process on amending the cap & trade regulations is expected to start later this year.

Deficit Grows: While the scope of the deficit will not be known until the release of the May Revise, the Legislative Analyst's Office (LAO) has updated its fiscal outlook. Based on the LAO's fiscal outlook the deficit has grown by \$15 billion for a total shortfall of \$73 billion. This is based on the LAO's outlook of weaker cash receipts from corporate tax collections in December and January, and income tax withholding falling below projections.

However, February receipts appear to provide some sunshine over the deficit gloom. February withholding exceeded estimates by over \$1 billion. It is unclear if this bump is a trend, or a one-time bump caused by tech company equity compensation payouts.

To address the growing budget problem, the LAO points out to the legislature that nearly \$16 billion in one-time and temporary spending could be pulled back or reduced to help bridge this gap. This includes nearly \$2 billion in transportation funding, which primarily consists of general fund dollars committed to the Transit and Intercity Rail Program (TIRCP).

LAO's Take on Transportation Spending: The Legislative Analyst's Office (LAO) released its review of the Governor's proposed spending on transportation. Overall, the LAO recommends that the legislature adopt the Governor's proposed changes, and consider additional solutions given the potential for a worsening fiscal outlook.

The Governor's budget proposal includes \$4.3 billion in solutions from transportation programs. However, of the \$4.3 billion in solutions, the Governor's plan relies heavily on delaying funding commitments so that about \$3.3 billion is restored in future budget years. This includes:

- \$2.8 billion in cash flow adjustments, which revert General Fund that has already been awarded to projects with the intent to restore the funding in a future year when it would be needed to cover expenditures,
- \$1 billion in program expenditures are delayed, which reduces costs in 2024-25 with the intent of restoring the funding in 2025-26
- \$796 million in expenditures is shifted from the General Fund to the Greenhouse Gas Reduction Fund (GGRF); and
- \$296 million in program reductions.

The LAO recommends that the legislature adopt all the changes proposed by the Governor. Considering the growing deficit, the LAO urges the legislature to also consider additional solutions and lists the following as areas where cuts could be made:

- *Reduce Rather Than Delay \$1 Billion for Formula-Based TIRCP* – This could entail reducing rather than delaying the \$1 billion the Governor proposes providing in 2025-26 instead of 2024-25, and additionally reducing the \$1 billion the Governor proposes to retain in the budget year.
- *Redirect GGRF for Other Activity, Reduce Formula-Based TIRCP* – The Legislature could opt to shift less than the proposed \$261 million GGRF to formula-based TIRCP—or none at all—reducing overall support for the program instead. The Legislature could then utilize the freed-up GGRF to support another activity—transportation or otherwise—that might face reductions given the General Fund condition.
- *Shift Funds From Transportation Accounts to Replace General Fund* – The Legislature could consider shifting funding for certain programs from the General Fund to state transportation funds such as SHA or the Road Maintenance and Rehabilitation Account (RMRA). The Legislature took a similar action last year when it shifted \$500 million of the one-time General Fund augmentations for transportation to SHA.

- *Use Future Base Funding to Replace General Fund Augmentations for Competitive TIRCP --* Competitive TIRCP receives an annual base amount of funding from GGRF and transportation improvement fee revenues, which is provided through a continuous appropriation. CalSTA currently is in the process of starting its 2024 competitive TIRCP grant cycle, with plans to award about \$800 million from these base funds this fall to support new projects over the next five years. Instead of selecting new projects to support with these funds, the Legislature could statutorily direct CalSTA to use them to fulfill the state's commitments to some of the projects already awarded funds from the one-time General Fund augmentations to competitive TIRCP.

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