

PLATINUM | ADVISORS

December 20, 2023

TO: Joel Young, President, AC Transit Board of Directors
Members of the AC Transit Board of Directors
Michael Hursh, General Manager
Beverly Greene, Executive Director, External Affairs, Marketing & Communications

FR: Steve Wallauch
Platinum Advisors

RE: Legislative Update

New Chairs: Speaker Rivas showed who he was thankful for by announcing new chairs and leadership changes the day before Thanksgiving. This was an announcement that has been long awaited and was preceded by a flurry of rumors about who was in and who was out. The only real surprise was the demotion of Assemblyman Isaac Bryan who was relieved of his duties as Majority Leader only five months after being named to the post. The following are some of the other changes announced:

- Assemblymember Jim Wood has been named Speaker Pro Tempore
- Assemblymember Cecilia Aguiar-Curry has been named Majority Leader
- Assemblymember Matt Haney has been named Majority Whip
- Assemblymember Buffy Wicks has been named chair of Appropriations
- Assemblymember Jesse Gabriel has been named chair of Budget
- Assemblymember Lori Wilson has been named chair of Transportation
- Assemblymember Mia Bonta has been named chair of Health
- Assemblymember Liz Ortega has been named chair of Labor & Employment
- Assemblymember Rebecca Bauer Kahan has been named chair of Privacy & Consumer Protection

New Pro Tem: With Senate President Pro Tem Toni Atkins being termed out in 2024, the Senate Democrat Caucus in August elected Senator Mike McGuire to be the next Senate leader. However, this election did not specify a transition date. On December 4th, it was announced Senator McGuire will be sworn in as the next President Pro Tempore of the Senate on February 5th.

Senator McGuire will take the helm at fiscally turbulent time. The state budget deficit could potentially reach \$68 billion according to the LAO. While the new Pro Tem will have to make difficult decisions, this early transition date will enable Senator McGuire to have his team in place to meet this challenge.

Deficit Looms: The LAO released its fiscal outlook report and estimates over the three-year budget window the state is facing a potential \$68 billion deficit. Because the income tax filing deadline was extended for most of the state to November 16th, the 2023-24 budget relied on revenue estimates instead of actual receipts from the 2022 tax year. Breaking down this large deficit is always confusing. The LAO has lowered the revenue estimate by \$58 billion over the 2023-24 through 2024-25 budget window, and adjusts downward the 2021-22 ending fund balance to reach this shortfall. Nearly half of the \$58 billion revenue reduction is attributable to revenues in 2022-23 being 25% lower than projected, or \$26 billion below the target.

While the release of the Governor's budget in January will shed more light on how dire the outlook may be, the LAO's report lists the following areas for the legislature to consider in order to balance the budget.

- **Withdraw Reserves.** The LAO estimates, the state would have about \$24 billion in reserves to help address the budget problem.
- **Reduce Proposition 98 Spending.** Over the three-year budget window, the state could reduce General Fund costs by \$16.7 billion by lowering school spending in accordance with Proposition 98, including the use of existing Proposition 98 reserves.
- **Reduce Other One-Time Spending.** The LAO estimates the state has at least \$8 billion in one-time and temporary spending slated for 2024-25 that could be pulled back to help address the budget problem. This includes spending of \$2.2 billion in transportation, \$1.9 billion in natural resources and environment, and \$1.8 billion in various education programs. In addition, the LAO points out there are potentially billions of dollars more in spending from prior years that has been committed but not yet distributed.

Following the release of the LAO's revenue outlook, the Department of Finance (DOF) sent a letter for all state agencies and departments directly them to limit spending. The directed all agencies and departments to limit spending on new goods and services contracts, reducing information technology costs, limiting vehicle replacements, limiting office supply purchases, reducing non-essential travel, and cancelling some leave buy-back programs, to name a few. It's going to be a bumpy ride.

Session Resumes: The second half of the two-year session begins on January 3rd. The second half always starts fast as legislators rush to get all two-year bills out of their house of origin by the end of January. With this rush, bills languishing in policy committees are gutted and amended and many new proposals pop up without notice.

One new proposal on the horizon is SB 397. Senator Aisha Wahab has drafted language that directs CalSTA to develop a plan to consolidate ALL transit agencies located within the Bay Area. While there are many practical and political issues with this proposal, it is the first step by Senator Wahab to re-examine transit service in the region and explore ways to improve service. SB 397 should be "in print" on January 3rd and could be heard by the Senate Transportation Committee as early as January 9th.

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