

PLATINUM | ADVISORS

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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**

May Revise: The Governor released his May Revise, indicating that California's budget deficit has increased by \$9.3 billion to \$31.5 billion, a significant jump from the initial estimate of \$22.5 billion in January. However, when compared to past budget crises, this year's deficit is not as severe. For instance, in 2009, the state faced a budget deficit of \$59.5 billion, which was a much larger proportion compared to the current situation.

Governor Newsom asserts that he is not merely anticipating a recession but rather employing a comprehension of a relatively subdued economic downturn. He said that even a moderately sized recession has the potential to yield a \$40 billion impact on the budget, surpassing the entirety of the current deficit.

Compounding the budgetary challenge is the delayed arrival of a significant portion of state income tax revenue. Due to an extension granted by the IRS and Franchise Tax Board, a substantial share of income tax revenue is now expected to reach California as late as October. This extension has introduced an element of uncertainty into the revenue forecast, casting shadows on the accuracy of the underlying budget projections.

The Legislative Analyst Office (LAO) has expressed concerns about the revenue forecast used for the May Revise. Based on the LAO's projections the "big three" revenue (income tax, corporate tax & sale tax revenue) will be \$11 billion lower than forecast by the Administration. According to the LAO, "the state faces operating deficits throughout the multiyear window, meaning revenues would need to come in above our projections for the budget to be balanced." The LAO points out that in 2021-22 and 2022-23, the Legislature committed to future one-time and temporary spending in 2023-24 and beyond, and most of this spending no longer appears to be affordable. To address the shortfall the LAO suggests the legislature consider reducing the \$11 billion in onetime spending to \$4 billion and eliminate entirely out year commitments.

Transit: The May Revise did not propose any significant changes to the transportation funding plans outlined in the January Budget. While there have been numerous budget subcommittee hearings regarding the fiscal cliff facing transit operators, the growing deficit compounds the difficulty in addressing the fiscal cliff.

The Revise, also, did not include any transit relief proposals; however, it included a statement that the Administration welcomes discussions with the legislature on potential near and long-term solutions that support public transit operations.

Since the release of the May Revise both the Senate and Assembly Budget Committees adopted several less controversial items that will assist transit operators. The package will be added to the transportation trailer bills as part of the June budget, and includes the following:

- Reject the proposed reductions to the Transit and Intercity Rail Capital Program (TIRCP).
- Adopt trailer bill language that allows for some flexibility to use TIRCP funds for *operations, contingent on meeting specific accountability and reform requirements*.
- Extend existing provisions that temporarily eliminate financial penalties for noncompliance with transit funding efficiency measures in the Transportation Development Act and the State Transit Assistance Program.
- Extend existing provisions that allow for increased flexibility in the use of funds transit operators receive from the State Transit Assistance - State of Good Repair program and the Low Carbon Transit Operations program.
- Create a Task Force to examine ways to improve transit and increase ridership in the long term, including reforming the Transportation Development Act Staff. This Task Force trailer bill would incorporate the content of AB 761 (Friedman).

Continuing to Fight: While the transit measures above are helpful, they fall short of providing the fiscal relief needed by transit operators. The fight for assistance is not over.

Today, Senator Scott Wiener organized a “emergency press conference” to continue to sound the alarm for financial assistance for public transit. Senator Wiener was joined at the event by Senators Ben Allen and Dave Cortese, as well as Assembly members Buffy Wicks and Damon Connolly. The message at the event was to express support for the actions adopted, but stressed that more needs to be done. This press event and more like them in the future will be critical to keep the need to address the fiscal cliff front and center in the legislature.

While a budget will be adopted by the June 15th deadline, the budget process will continue for the rest of session and will include numerous budget trailer bills and budget bill juniors.

Accelerating Infrastructure: Last Friday, Governor Newsom announced a plan, through 11 budget trailer bills and 1 executive order, to expedite hundreds of billions of dollars’ worth of large-scale infrastructure projects by curtailing the duration which opponents can legally challenge these projects under the California Environmental Quality Act (CEQA).

While construction unions and industry groups lauded the action taken by the Governor, environmental groups and environmental justice groups expressed concerns, with the Sierra Club stating, “it needs a lot of work.” The trailer bills will need to be negotiated with the Legislature through the budget process.

This package of changes has not been adopted as part of the June budget package, and the Senate and Assembly have directed these changes to be reviewed by the appropriate policy committees for consideration.

Main Objectives:

- Speed Up Construction: Methods offer a streamlined process for project delivery to reduce project timeframes and costs.
- Expedite Court Review: Authorize expedited judicial review to avoid long delays on the back end and advance projects without reducing the environmental and government transparency benefits of CEQA.
- Streamline Permitting: Accelerate permitting for certain projects, reducing delays and project costs.
- Address cumbersome CEQA processes across the board: Streamlines procedures around document retention and review.
- Maximize Federal Dollars: Allow state to leverage federal dollars for climate projects that cut pollution, with an emphasis on projects that benefit low-income and disadvantaged communities.

Implications for State Projects: Newsom's executive order specifically outlines several areas of spending: "transportation, energy, hydrogen, environmental remediation, broadband, water, the CHIPS and Science Act (for semiconductor development), and zero-emission vehicles."

Legislation: At this point in the session, we are nearing the house of origin deadline on June 2nd. This means all bills introduced in the Senate or Assembly must be moved to the second house in order to remain active in this session. All bills that remain in their house of origin become 2-year bills and will not be considered until January of 2024.

At the press conference to release the May Revise, Governor Newsom urges the legislature to show restraint in moving legislation forward that contain significant costs. Governor Newsom stated, “... I'm the backstop. I want a little expression of a deeper understanding of budgetary constraints. We just, we have to be more disciplined in that.”

While the Suspense File hearing is the opportune time to practice that discipline, over 70% of the measure on the Suspense File were moved forward. In the Senate Appropriations Committee 326 of the 412 bills on file were approved, and in the Assembly Appropriations Committee 535 of the 755 bills were approved. While bills held on Suspense File are technically not dead, in reality they are dead.

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