SR 19-276
Attachment 2

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July 18, 2019

TO: Director Joe Wallace, President, and
Members of the Board
Michael Hursh, General Manager
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FR: Steve Wallauch
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RE: Legislative Update

Schedule: The Legislature is currently on Summer Recess and will reconvene on August 12th for the final month of session. The fiscal bill deadline requiring all bills to be out of the respective Appropriations Committees is August 30th, and then the final two weeks are dedicated to floor sessions.

LAO Review: The Legislative Analyst released it overview of the 2019-20 budget. The LAO's review includes the highlights below. The full report can be found at: https://lao.ca.gov/Publications/Report/4083?utm_source=laowww&utm_medium=email&utm_campaign=4083.

Revenues: The budget assumes $143.8 billion in General Fund revenues and transfers in 2019-20, a 4 percent increase over revised 2018-19 estimates. Altogether, the state's three largest General Fund taxes—the personal income tax (PIT), sales and use tax, and corporation tax—are projected to increase 3 percent.

Budget Commits $21.5 Billion in Discretionary General Fund Spending. The spending plan devotes this surplus to four major purposes. 1) $9 billion to pay down some state debts and liabilities, (2) $4 billion in new ongoing programmatic spending, (3) $6.5 billion in one-time programmatic spending, and (4) $2.1 billion in optional reserves.

Total Reserves Are $19.2 Billion Under Spending Plan. This consists of: (1) $16.5 billion in the Budget Stabilization Account (BSA), the state's constitutional reserve; (2) $1.4 billion in the Special Fund for Economic Uncertainties (SFEU), which is available for any purpose including unexpected costs related to disasters; (3) $900 million in the safety net reserve, which is available for spending on the state's safety net programs like California Work Opportunity and Responsibility to Kids (CalWORKs); and (4) $377 million in the state's school reserve.

Makes $5.9 Billion in Additional Unfunded Liability Payments. The spending plan allocates $5.9 billion General Fund to pay down unfunded pension liabilities on behalf of both the state and school districts. This includes $2.5 billion to pay down the state's CalPERS unfunded liability and $1.1 billion to reduce the state's share of the CalSTRS unfunded liability. In addition, $2.3 billion is devoted to reducing the school district's share of the unfunded liability.

Repays $4.9 Billion in Outstanding Budgetary Borrowing. The spending plan uses $2.2 billion to repay all remaining outstanding special fund loans, including $886 million to fully repay the state's outstanding "weight fee loans," which are loans to the General Fund from a fund receiving transportation weight fee revenues. With these actions, the state has addressed nearly all of its remaining "Wall of Debt." The remaining items on the Wall of Debt (as it was defined in the *2013-14 Governor's Budget*) include nearly $3 billion to undo all of the deferrals related to the Medi-Cal program and $1.5 billion in outstanding mandate costs to local governments and school districts.

Housing and Homelessness: In addition to expanding the affordable housing tax credit program by $500 million, the budget funds two major programs that facilitate the construction of affordable housing. The spending plan allocates $500 million to the California Housing Finance Agency's Mixed-Income Loan Program, and $500 million to the Infill Infrastructure Grant program. The budget also includes the following:

- The budget includes $650 million for one-time grants to local governments to fund a variety of programs and services that address homelessness.
- The budget provides $250 million for planning grants to local governments and regional planning entities.
- The budget package creates a new judicial process by which cities and counties can be fined for failing to comply with housing element law. Moreover, the courts could appoint an agent of the court to bring the jurisdiction's housing element into compliance.
- The budget package creates new incentives for cities and counties to adopt pro-housing policies. Cities and counties that adopt these policies would receive additional points in the scoring of their applications for certain state grant programs.

Legislation:

Feeder Buses: Last month the AC Transit Board adopted a "watch" position on SB 742 pending amendments. With the amendments now in print, the AC Transit Board may want to consider adopting a support position. In general, SB 742 would allow feeder bus operators to provide open door service that would not be limited to rail passengers if specified conditions are met.

As amended, SB 742 would require a JPA that operates intercity passenger rail service, such as Capital Corridors, to conduct the following prior to entering into a contract with a private motor carrier to provide feeder bus service:

- Consult with and consider relevant public transit operators to determine if an operator can provide the planned service and to avoid conflicts with existing public transit service;
- Make a good faith effort to coordinate with private motor carrier services, such as Greyhound, to provide timely connections with intercity rail services, including through agreements to fund modifications or expansion of service to better coordinate with existing rail service; and
- Document the differences between the proposed motor carrier service and existing service in communities served, including time of day.
- Requires the JPA to document these efforts and present them at a public meeting of the JPA for public comment.
- Requires the JPA, if it contracts for service with a private motor carrier to submit a report to the Legislature on or before January 1, 2023.

SB 742 also authorizes state agencies and departments, public and private transit operators, intercity motor carriers of passengers, Amtrak, and the JPAs to enter into revenue sharing and ticket selling agreements with each other to provide intercity transportation and connections at rail stations to and from local transit systems and intermodal and intercity motor carrier terminals.

Local Partnership: Senator Beall has significantly amended SB 277 to require 85% of SB 1 Local Partnership Program (LPP) funds to be allocated by formula, and 15% for a small county competitive program. This change should significantly increase AC Transit's share of LPP funds. Under current CTC guidelines half the LPP funds are allocated by formula and half are reserved for a competitive program. Current law provides the CTC administrative control over LPP funds. Starting with Cycle 3 of the LPP, SB 277 directs the CTC to adopt guidelines and implement the apportionment formula specified in the bill as follows:

- 15% of LPP funds is set aside in the Small Counties and Uniform Developer Fees Competitive Subaccount. This competitive program is for eligible entities located in a county with a population of less than 750,000, or entities that administer a voter approved uniform developer fee.
- 85% of LPP funds would be allocated to the Local Partnership Formula Subaccount. The funds would be split into a southern and northern California pots. The north-south split would be based on the proportional share of the statewide total of voter approved sales tax, parcel/property tax and toll revenue. The north-south categories are based on the STIP definition where all counties from Kern and San Louis Obispo Counties south are in the southern group, and all remaining counties are in the northern group.
    - The southern allocation formula distributes the funds to eligible entities with 75% of the funds allocated based on its proportional share of the southern population, and 25% distributed based on the entity's proportional share of voter approved transportation sales tax revenue.

- The northern allocation formula distributes the funds to eligible entities through two pots. Of the total amount of revenue in the northern share, eligible entities that administer voter approved bridge tolls and parcel/property taxes shall receive it proportional share of the northern fund. For eligible entities that administer a voter approved sales tax, these entities' proportional share is based on 75% of the entities proportional of the northern population and 25% based on the entity's proportional share of sales tax revenue.

SB 277 defines an "eligible entity" as an entity that administers a local voter approved transportation tax, and the CTC shall apportion the funds to eligible entities. SB 277 also outlines how an entity will receive its formula share by dictating to the CTC that each entity shall submit its list of projects and the CTC shall approve that list, unless a project is found not consistent with the eligibility requirements. This process is similar to how cities and counties get their SB 1 local streets and roads funds.