

PLATINUM | ADVISORS

June 24, 2024

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**

Done: A budget agreement was announced over the weekend. The budget bill juniors and trailer bills are in print, the Senate Budget Committee will hear the package of bills on Wednesday, and both houses will vote on Thursday, June 27th. This pivotal date not only marks the final opportunity for the Legislature to place or remove measures from the November ballot but also serves as the deadline for Governor Gavin Newsom to sign or veto the budget approved on June 13th.

The budget agreement allocates \$297.9 billion in total expenditures, with \$211.5 billion sourced from the General Fund. The final agreement not only closes a budget shortfall of nearly \$47 billion for the 2024-25 fiscal year, but also close the \$30 billion gap forecast for the 2025-26 fiscal year.

The agreement centers on significant spending cuts, reserve withdrawals, and revenue enhancements. The plan includes a sweeping \$16 billion reduction in spending, targeting various programs to achieve necessary savings. Key reductions involve slashing \$1 billion from affordable housing programs and implementing a near 8% cut to state department budgets. To further bolster revenues, the budget suspends numerous tax breaks, including the Net Operating Loss (NOL) carry forward, and increases the Managed Care Organization (MCO) tax. This and other revenue adjustments total \$13.6 billion in new revenue. In addition, the spending plan withdrawals \$22 billion from the Rainy-Day Account, with \$5.1 billion being used in 2024-25 and \$7.1 in 2025-26. These measures aim to balance the budget for the fiscal years 2024-25 and 2025-26.

Despite the substantial cuts, critical sectors like education and healthcare receive protected or slightly increased funding, and the funding to public transit is maintained. The following highlights the funding proposed for transportation and transit programs.

- **Active Transportation** – Rejects the proposed cut to the Active Transportation Program, and instead provides \$600 million over six years, subject to annual appropriations after two years.
- **TIRCP Formula** -- TIRCP Formula allocation that was enacted in the early action bill is maintained in the budget agreement. The TIRCP formula funds will spread the second allocation of TIRCP formula funds over two years -- \$1 billion allocated in 2024-25 and \$1 billion allocated in 2025-26.
- **TIRCP Competitive** -- Rejects the proposed \$148 million cut to the Competitive Transit and Intercity Rail Capital Program. The plan would also spread the allocation of \$2 billion in Cycle 6 funds over 4 years, which should match the cash flow needs for those projects and supplant general fund dollars with \$507 million in greenhouse gas auction revenue over the same time period.
- **ZETCP Funds** – The budget agreement delays the allocation of \$220 million from the current fiscal year to 2024-25, pushes the allocation of \$230 million from 2024-25 to 2027-28, and push \$230 million from fiscal year 2025-26 to 2027-28.
- **Grade Separations** – Preserves \$150 million for targeted grade separation projects. The January budget proposed to cut the entire \$350 million that had been awarded to grade separation projects. The \$150 million in general fund revenue would be spread out over two years, with \$75 million allocated in 2025-26, and \$75 million in 2026-27. In addition, budget trailer bill language directs CalSTA to prioritize funding the remaining \$200 million from existing programs.
- **Highways to Boulevards** – Provides \$75 million for the Highways to Boulevards program at the California Department of Transportation.

Transportation Trailer Bill: The budget package includes SB/AB 178, which contains several statutory changes related to implementing the budget agreement. The trailer bill contains the following transportation related provisions:

- **Port and Freight Infrastructure Program.** Authorizes local agencies to apply to the Secretary of Transportation for a letter of no prejudice that would allow an applicant to expend its own moneys on a project. This allows the project sponsors to move forward on a project while awaiting reimbursement from the state for the funds awarded to the project.
- **Transit Accountability.** Expands requirements of the accountability program to the distribution of funds appropriated to the Transportation Agency from the Greenhouse Gas Reduction Fund for the Formula Transit and Intercity Rail Capital Program. This change states a regional transportation agency may only receive funding if it submits and the Agency approves an annual updated short-term regional transit financial plan and updated transit operator data. The trailer bill makes other technical changes to this code section.
- **Highways to Boulevards.** Requires up to 25 percent of available funding to be set aside for planning and remainder for implementation.
- **Grade Separations.** Requires the Secretary of Transportation to work with Caltrans and the California Transportation Commission to identify available funding in state transportation

programs that may be used to support grade separation projects that were previously awarded funding. CalSTA shall prioritize funding for grade separation projects that are at risk of losing or failing to secure federal and local funding commitments, or that are at risk of approved project schedule delays, or both. CalSTA must also submit a report to the Legislature, on or before April 30, 2025, on any funding that the secretary identified for impacted grade separation projects.

- **Active Transportation Program.** Appropriates \$100 million from the General Fund to the Department of Transportation for the Active Transportation Program.

November Ballot: June 27th is also the deadline for placing or removing items from the November ballot. With the initiative process becoming the go to option for deep pockets negotiating with the legislature, there are a lot moving pieces. The following is a quick synopsis of what will and will not appear on the November ballot.

- The California Supreme Court removed the Taxpayer Protection and Government Accountability Act, also known as the Business Roundtable Measure, from the November ballot. The court ruled that the measure constituted a revision of the constitution, which requires a more rigorous process than an amendment.

The initiative, sponsored by the California Business Roundtable, aimed to make it more difficult to raise taxes by requiring legislative approval and increasing the voter threshold for special taxes at the local level to two-thirds from a simple majority. It also proposed restricting administrative agencies' abilities to levy fees and reclassifying some fees as taxes, thereby limiting local governments' and agencies' fiscal autonomy. It was retroactive as well.

- Governor Gavin Newsom and Democratic leaders are pressuring supporters to withdraw a ballot measure aimed at enhancing criminal penalties and rolling back parts of Proposition 47, which reduced sentences for some drug and property crimes. The measure's proponents argue it is necessary to address rising crime rates, while opponents claim it would lead to over-policing. Negotiations are heating up on reaching a legislative solution to this initiative.
- In 2022 a new law was enacted to prohibit the placement of oil or gas wells within 3,200 feet of homes, schools, and hospitals. Oil and gas interests initiated a referendum on this new law that qualified for the November 2024 ballot. Rumors abound that the proponents will pull this referendum from the ballot in exchange for a legislative solution.

###