

PLATINUM | ADVISORS

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TO: 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: **Budget Summary**

On January 10th, Governor Newsom unveiled his spending for the 2023-24 fiscal year. Unlike the revenue bonanza from the past two years, the Governor was forced to make difficult choices to bridge a \$22.5 billion deficit. The proposed plan appropriates \$297 billion and addresses the funding gap through a mix of funding delays, triggers, shifts, and cuts. More concerning is the LAO believes there is a 78% chance that the deficit projected by the Governor will grow and urges the legislature to plan for a larger budget problem.

Given the potential for a dour fiscal outlook and the threat of a recession, the Governor's budget does not dip into any of the budget reserves that will total \$35.6 billion. The spending plan relies on essentially redirecting the \$18 billion in budget surplus funds that were allocated in the 22-23 spending plan. Maintaining the following reserve amounts will be critical in the event of a recession where the deficit could quickly climb to \$50 billion.

- ▶ \$22.4 billion in the Budget Stabilization Account.
- ▶ \$8.5 billion in the Public School System Stabilization Account
- ▶ \$900 million in the Safety Net Reserve
- ▶ \$3.8 billion in the Special Fund for Economic Uncertainties

With the balance in the Budget Stabilization Account (aka The Rainey Day Fund) at its Constitutional max, the Budget Summary points out that \$951 million in excess Rainey Day Funds must be spent on infrastructure projects. *The proposed budget currently does not specify how those funds will be spent.*

As mentioned above the proposed budget relies on shuffling the surplus dollars appropriated in the 22-23 budget in order to address the \$22.5 billion deficit. In general terms this juggling includes the following maneuvers:

- ▶ **\$7.4 billion in Delays.** The Budget delays funding for multiple items across the 2021-22 through 2023-24 fiscal years and spreads it across multiple years. Kind of a cut since there are no guarantees of a future appropriation.
- ▶ **\$4.3 billion in Shifts.** The Budget shifts certain expenditures in the 2022-23 and 2023-24 fiscal years from the General Fund to other funds. This includes shifting certain Zero Emission Vehicle commitments to the Greenhouse Gas Reduction Fund. These shifts do not completely backfill the loss of the general fund dollars, but they do replace at least 70% of the funding cut.
- ▶ **\$3.9 billion in Triggers.** The Budget reduces funding for certain items in the 2020-21 through 2023-24 fiscal years and places them in a “trigger” that would restore the reductions if it were determined that sufficient funds will be available. This primarily consists of placing triggers on \$3.1 billion in transportation funding. The trigger decision would not be made until the release of the Governor’s budget in January 2024.
- ▶ **\$5.7 billion in Reductions/Pullbacks.** The Budget reduces spending for various items across the 2021-22 through 2023-24 fiscal years and pulls back certain items that were included in the 2022 Budget Act. This includes \$3 billion in the 2022 Budget as an inflationary adjustment, and a \$750 million Unemployment Trust Fund payment in the 2023-24 fiscal year.
- ▶ **\$1.2 billion in new revenue & borrowing.** The majority of the funds in this category are derived from loans from special funds and from the renewal of the Managed Care Organization Tax.

Transportation Impacts: The budget either delays for a future appropriations or triggers the reversal of the reduction based on revenue projections in January 2024. The budget proposal does try to maintain future funding commitments, but these cuts do add significant risk on whether future appropriations will occur or if the trigger will be pulled. The disproportionate impacts to transportation programs are rationalized in the budget summary by anticipating the award of federal funds to backfill these losses through the Infrastructure Investment and Jobs Act, the Inflation Reduction Act, and other federal programs.

The budget identifies several funding reductions that would trigger off – funds restored – if the fiscal outlook improves. Pursuant to the trigger language, if in January 2024 the administration estimates there are sufficient resources available to fund these expenditures, those programs would be restored halfway through the fiscal year.

The following outlines the delays, triggers, and shifts proposed for transportation programs:

Heavy-Duty Zero-Emission Vehicles and Supporting Infrastructure— The budget reduces funding for various zero emission vehicles programs by \$2.5 billion, which is partially offset by shifting \$1.4 billion in cap & trade auction revenue to these programs. For heavy-duty vehicle programs, the budget eliminates \$1.5 billion in general fund revenue and directs \$839 million in auction revenue to partially offset this change.

PROPOSED ZEV INVESTMENTS FOR FY 2023-24				
Purpose	General Fund Cut	Greenhouse Gas Reduction Fund Backfill	Net Adjustment	Balance of Remaining Funds
Equitable Zero-Emission Vehicles and Infrastructure	\$745 million	\$535 million	-\$210 million	\$2.1 billion
Heavy Duty Zero-Emission Vehicles and Infrastructure	\$1.5 billion	\$839 million	-\$661 million	\$5.3 billion
Zero-Emission Mobility	\$184 million	\$25 million	-\$159 million	\$180 million
Emerging Opportunities and Federal Programs	\$133 million	\$40 million	-\$93 million	\$1.3 billion
TOTAL	\$2.562 billion	\$1.439 billion	-\$1.123 billion	\$8.8 billion

Source: California Transit Association

Transit Intercity Rail Capital Program – The budget reduces the general fund commitment to TIRCP by \$2 billion. This action reduces the amount of funding available in the 2023-24 fiscal year from \$2 billion to \$1 billion, and funding in the 2024-25 and 2025-26 fiscal year would be \$500 million each year. These reductions would be allocated proportionately by region. This action would leave \$3.6 billion to be awarded this year, with the balance pending trigger determination. If sufficient revenues are available this cut would be restored in January 2024.

Active Transportation Program – The budget reduces the general fund appropriation by \$500 million. The budget would use \$300 million in State Highway Account funds to partially backfill this reduction. This backfill is estimated to be sufficient to sustain the programming capacity approved as part of the 2023 funding cycle.

Port Infrastructure Fund – The 2022-23 budget includes a \$1.2 billion appropriation for port infrastructure projects. The current budget would allocate \$600 million in the current year and \$600 million in 2023-24. The proposed 2023-24 budget would delay allocating \$400 million for this program. Under the budget proposal \$200 million would be appropriated annually over the next three years. The intent is to fully award the entire \$1.2 billion this year.

State Transit Assistance – Total funding allocated through STA will decrease by about \$102 million for a total amount of \$1.06 billion in 2023-24.

REVENUE ESTIMATES FOR FY 2022-23 & 2023-24 @ GOVERNOR'S BUDGET (JAN. 10)			
FUNDING SOURCE	FY 2022-23 (CY)	FY 2023-24 (BY)	CHANGE (CY → BY)
STA			
Base Rate (2.375%)	\$333,353	\$299,948	-\$33,405
Incremental Rate (1.75%)	\$235,174	\$210,560	-\$24,614
SB 1 Rate (3.5%)	\$470,348	\$421,120	-\$49,228
STA SOGR (30% of TIF)	\$120,613	\$125,619	\$5,006
<i>Subtotal</i>	<i>\$1,159,488</i>	<i>\$1,057,247</i>	<i>-\$102,241</i>
Intercity & Commuter Rail			
Base Rate (2.375%)*	\$333,353	\$299,948	-\$33,405
SB 1 Rate (0.5%)	\$67,193	\$60,160	-\$7,033
<i>Subtotal</i>	<i>\$400,546</i>	<i>\$360,108</i>	<i>-\$40,438</i>
TIRCP			
Cap & Trade (10% of GGRF)**	\$259,000	\$210,000	-\$49,000
SB 1 (70% of TIF)	\$281,431	\$293,111	\$11,680
<i>Subtotal</i>	<i>\$540,431</i>	<i>\$503,111</i>	<i>-\$37,320</i>
LCTOP			
Cap & Trade (5% of GGRF)**	\$130,000	\$105,000	-\$25,000
LTF			
Local Sales and Use Tax (.25%)	\$2,010,539	\$2,097,525	\$86,986
TOTAL	\$4,241,003	\$4,122,991	-\$118,012
<i>*Funds used for additional Caltrans purposes</i>			
<i>**Amounts reflect anticipated auction revenues for each FY</i>			

Source: California Transit Association