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June 30, 2020

TO: Director Joe Wallace, President, and
Members of the Board
Michael Hursh, General Manager
Beverly Greene, Executive Director, External Affairs, Marketing & Communications

FR: Steve Wallauch
Platinum Advisors

**RE: Legislative Update**

***Done Deal:*** Governor Newsom signed the budget agreement and nearly all the trailer bills into law yesterday. The 2020-21 Budget provides for a $202 billion spending plan that addresses a $54 billion deficit caused by the COVID-19 recession. There are three budget trailer bills pending in the legislature that will be addressed when the Senate and Assembly return after summer recess. These include a measure on public safety, paid family leave, and a measure to exempt solar facilities from the pending split-roll initiative.

The Assembly is currently on their summer recess, and the Senate is scheduled to being recess on July 2nd – both houses will reconvene on July 13th.

The following summarizes the budget agreement:

- Reserves—The Budget draws down $8.8 billion in reserves from the Rainy Day Fund ($7.8 billion), the Safety Net Reserve ($450 million), and all the funds in the Public School System Stabilization Account.
- Triggers—The Budget includes $11.1 billion in reductions and deferrals that will be restored if at least $14 billion in federal funds are received by October 15, 2020.
- Federal Funds—The Budget relies on $10.1 billion in federal funds that provide General Fund relief, including $8.1 billion already received.
- Revenues—The Budget suspends the use of net operating losses for medium and large businesses and temporarily limits to $5 million the amount of business incentive credits a taxpayer can use in any given tax year. These short-term limitations will generate $4.4 billion in new revenues in the 2020-21 fiscal year.
- Borrowing/Transfers/Deferrals—The Budget relies on $9.3 billion in special fund borrowing and transfers, as well as other deferrals for K-14 schools.

***Transportation Trailer Bill:*** AB 90 (Chapter 17, Statutes of 2020) was enacted and takes effect immediately. This bill contains changes to transportation statutes, in particular relief for public transit operators. The bills include the following provisions:

- Institutes hold harmless provision for calculation and allocation of State Transit Assistance (STA) Program, STA-State of Good Repair, and Low Carbon Transit Operations Program allocations (Local Revenue Basis Only) for the 2020-2021 and 2021-2022 budget years. Specifically, this change directs the State Controller to "freeze" for the 2020-21 and 2021-22 budget years the local revenue allocation factors used most recently before the pandemic; and, to allocate to transit agencies funds under these three programs using those same allocation factors, as opposed to updating the factors each year.
- Temporarily suspends the financial penalties associated with the Transportation Development Act's requirements that transit agencies obtain specified fixed percentages of their operating budgets from passenger fares for the 2020-2021 and 2021-2022 budget years. As transit ridership has declined due to the COVID-19 pandemic, this language would prevent agencies from being penalized due to the ongoing public health crisis.
- Temporarily suspends, for the 2020-2021 and 2021-2022 budget years, the financial penalties associated with the State Transit Assistance Program's requirement that transit agencies' operating cost per revenue vehicle hour may not exceed operating cost per revenue vehicle hour adjusted by regional CPI, year over year. Suspending this requirement would prevent transit agencies from being penalized for increasing maintenance and sanitation spending during the ongoing public health crisis.
- Requires retailers of aircraft jet fuel to report quarterly to the California Department of Tax and Fee Administration on their sales of aircraft jet fuel. This bill makes failure to comply with this requirement subject to a fine. It would further require CDTFA to post the information from these reports online on a quarterly basis to comply with applicable Federal Aviation Administration policy.
- Delays until no later than December 15, 2020 the business plan that the High-Speed Rail Authority was required to submit by May 1, 2020 and requires the independent peer review group to review the plan prior to the authority adopting the plan. Also, eliminates the requirement that the authority provide a project update report to the Legislature on or before March 1, 2021.
- Appropriates $1,705,000 from the Air Pollution Control Fund for the Department of Motor Vehicles to implement the requirements of SB 210 (Leyva), Chapter 298, Statutes of 2019. The requested funds will allow the DMV to develop an IT system that will receive data from the California Air Resources Board regarding heavy-duty truck smog violations to assist the Board in improving its emissions control program for heavy-duty vehicles.

***Transportation:*** Over the next 5 years gasoline excise tax revenue is expected to drop by $1.8 billion, with $1.2 billion of the hit being to the 19-20 and 20-21 fiscal years. This shows DOF is assuming a fairly quick economic rebound. The budget year is also forecasting a drop in diesel sales tax revenue, which will impact transit operating funds. However, other funding sources, such as SB 1 vehicle registration fees, are so far stable.

***Transit Funds:*** The Budget adjusts downward the funds allocated to public transit operators via the State Transit Assistance formula from $806 million in January to $528 million. However, the Low Carbon Transit Operations Program funds remain at $115 million. The primary source of the drop in STA is the forecast drop in the value of diesel fuel sales. LCTOP was considered stable as the funding source for this program are cap & trade auction revenue; however, the dismal results from May 20th auction raises concerns about the stability of the LCTOP funds in 2020-21.

***Cap and Trade Expenditure Plan:*** Adoption of the cap & trade expenditure plan has been deferred until August. *The budget does appropriate $200,000 to CARB to begin a rule making process to adopt a 2022 Scoping Plan. Included in this update will be the review and identification of any policies, including the cap & trade auction program, that need to be changed in order to ensure that the 2030 reduction targets are met.*

***Climate Catalyst Fund:*** AB 78 was enacted create the framework to for the Climate Catalyst Revolving Loan program. This could be a potential funding source to finance zero emission vehicles and fueling infrastructure.

While the budget trailer bill would create the Climate Catalyst Revolving Loan Fund Account, the budget does not appropriate any funds for this program. However, AB 78 allows the I-Bank to accept outside funding for this program, which could allow the I-Bank to use private funds to finance projects. The trailer bills include the following provisions:

- Defines "climate catalyst project" as any building, structure, equipment, infrastructure, or other improvement within California, or financing the general needs of any sponsor or participating party for operations or activities within the state that are consistent with, and intended to, further the purposes of the act.
- Requires the IBank to administer the fund and provides how the IBank is to administer the moneys, such as authorizing the bank to pledge moneys in the fund as security for the payment on an issuance of bonds for purposes of this act.
- Requires the Strategic Growth Council (SGC), in consultation with the Labor and Workforce Development Agency, to advise the Legislature of potential categories of climate catalyst projects that focus on the state's key climate mitigation and resilience priorities and inform IBank of the advice provided to the Legislature.
- Requires the IBank to prepare and submit a report, as specified, regarding the fund's program activities for the preceding fiscal year to SGC, the Governor, and the Legislature.