



May 25, 2022

TO: Director Elsa Ortiz, President, and
Members of the Board

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RE: Legislative Update

Governor Gavin Newsom presented the May Revision of his January budget proposal on May 13, and for the first time, the governor's budget has surpassed \$300 billion. The purpose of the Revision is to update revenues based on tax receipts and present any new administrative proposals or changes to the governor's January proposal. The summaries below primarily reflect changes or additions to the governor's proposed budget. Unless withdrawn, all the governor's proposals from January remain on the table. There were no significant changes to transportation funding proposals, other than increasing funding for Active Transportation Program funding from \$500 million to \$1 billion.

Revenues, Reserves, & Relief

Revenues: The governor's May Revision pegs the budget surplus at \$97.5 billion. After accounting for transfers, which includes loan repayments as well as deposits into the Rainy-Day Fund, baseline General Fund revenues at the May Revision exceed the Governor's Budget forecast by \$54.6 billion over the budget window. The surplus includes revenue increases over three years -- \$442 million in 2020-21, \$30.3 billion in 2021-22, and \$23.9 billion in 2022-23. \$37.1 billion is proposed for budgetary reserves and of the \$49.2 billion discretionary surplus, 94% is proposed for one-time projects.

A topic of much conversation over the last several months has been the Gann or State Appropriations Limit. In January, the administration estimated that the Gann limit was likely to be exceeded in both 2020-21 and 2021-22 by a total of \$2.6 billion. The May Revision projects the state will be under the limit for 2021-22 and will exceed it by a small amount in 2022-23. The LAO points out that the Governor leaves \$3.4 billion in unaddressed SAL requirements in 2022-23. The legislature can address this unaddressed SAL requirement by appropriating funds for capital expenditures that are outside the SAL calculation – such as member's request.

It is safe to anticipate that an exploration of long-term solutions to address the SAL limit will continue in the coming months. These solutions would require either reducing taxes to slow revenue growth or requesting that voters change the limit in some way.

LAO's Fiscal Cliff: While revenues are exceeding all expectations, the LAO warns that even continued growth will create budget problems in the coming years. According to the LAO, "...whether revenues trend upward or downward from here, the state likely faces budget deficits." This is due to an anomaly caused by interaction of Prop 98 and SAL requirements. For every dollar of tax revenue above the SAL, the state faces approximately \$1.60 in constitutional funding obligations -- \$1 must be spent to meet the SAL requirements and 60 cents must be allocated to Prop 98 requirements. Based on the LAO's analyses, if revenues exceed median expected growth, SAL requirements very plausibly could reach \$20 billion to \$45 billion by 2025-26.

To prepare for this scenario, the LAO urges the legislature to reject \$10 billion in proposed spending in the Governor's budget and set these funds aside for anticipated SAL obligations.

Reserves

- Prop 2 Budget Stabilization Account (Rainy Day Fund): \$23.3 billion - The Rainy-Day Fund is now at its constitutional maximum requiring \$476 million be dedicated to infrastructure investments in 2022-23.
- Public School System Stabilization Account: \$9.5 billion
- Safety Net Reserve: \$900 million
- Operating Reserve: \$3.4 billion

Economic Relief: The administration is proposing \$18.1 billion in direct relief to Californians including:

- \$11.5 billion to provide \$400 to vehicle owners, capped at two vehicles per household, with no income eligibility threshold, but excluding fleets and corporate owned vehicles and vehicles over a certain value.
- \$750 million in incentive grants to transit and rail agencies to provide free transit for Californians for three months. This proposal will provide an amount to agencies based on their 2019 fare revenues.
- \$327 million in 2022-23 and \$112 million in 2023-24 to exempt the General Fund (3.9375%) portion of sales tax on diesel fuel from October 1, 2022, to September 30, 2023.
- \$2.7 billion General Fund in 2021-22 for rental assistance through state and local programs.

Transportation Funding Proposals

The Budget proposes investing \$9.6 billion in the transportation programs. This includes \$5.4 billion General Fund and \$4.2 billion Proposition 1A High Speed Rail bond funds. The funding is allocated as follows:

- \$4.2 billion in bond funds for High-Speed Rail

- \$2 billion for transit and rail infrastructure projects that will be allocated through the Transit and Intercity Rail Capital Program (TIRCP)
- \$1.25 billion for Southern California transit and rail projects. This year the funds are not limited to projects needed to host the Olympics.
- \$1.25 billion for Active Transportation Projects, divided as follows:
 - \$1 billion for Active Transportation Program projects. These funds will likely be used to fund the bicycle and pedestrian projects that were not funded in the last round. , which encourage increased use of active modes of transportation such as walking and biking, and increase the safety and mobility of non-motorized users.
 - \$150 million to establish the Reconnecting Communities: Highways to Boulevards Pilot Program, which is intended for projects that remove transportation barriers by investing in the conversion of underutilized highways into multi-modal corridors.
 - \$100 million for bicycle and pedestrian safety projects, allocated through the Highway Safety Improvement Program.
- \$500 million for High Priority Grade Separation Projects.
- \$400 million for state and local Climate Adaptation Projects that support climate resiliency and reduce risks from climate impacts.

Zero Emission Vehicle Funding

The Governor's January Budget proposed \$6 billion over four years for zero emissions vehicles (ZEV) and charging infrastructure. In the Spring, the Governor announced accelerating \$1.75 billion of the January ZEV package (\$1.5 billion) and the 2021 Budget act ZEV package (\$250 million) in the 2021-22 fiscal year. These adjustments were related to passenger vehicles and community-based options. The May Revision proposes to accelerate the following items from the January ZEV package:

- \$160 million for ZEV Drayage Trucks and Infrastructure Grants to deploy approximately 330 trucks with supporting infrastructure.
- \$100 million for ZEV Transit Buses and Infrastructure Grants to deploy approximately 370 buses with supporting infrastructure.
- \$150 million for ZEV School Buses to deploy approximately 340 school buses with supporting infrastructure.
- \$100 million for ZEV Clean Trucks, Buses, and Off-Road Equipment infrastructure to support approximately 1,000 vehicles.
- \$20 million for emerging opportunities focused on transformational and innovative demonstration and pilot project(s) focused on hard-to-decarbonize sectors including zero emission aviation, marine, and locomotive and vehicle-to- grid solutions. The January budget proposed a total allocation of \$200 million for this program for the 2022-23 fiscal year.

2022 Scoping Plan: The California Air Resources Board (CARB) released its draft 2022 Scoping Plan Update. The previous update was adopted in 2017. The release of the draft 2022 Scoping

Plan Update starts the 45-day public comment period. The Board will hear a presentation of the draft plan in June at which time the Board and staff will consider public comments and make amendments to the plan. Comments should be submitted no later than June 24th. Another public comment period will follow the June meeting, before the Board considers adopting the 2022 Scoping Plan later this year.

Some environmental groups have initially expressed concern that CARB's draft plan does not go far enough, fast enough, in reducing GHG emissions by selecting Alternative 3 with the goal of reaching carbon neutrality by 2045. This alternative relies heavily on carbon capture and sequestration methods using natural and working lands, and mechanical methods to be employed at refineries and other industrial facilities. Alternative 3 also allows vehicles to be used until the end of their useful life. Other more aggressive alternatives proposed reaching carbon neutrality by 2035 which contained significant costs in order transition to ZEVs at a much quicker rate. CARB's EJ Advisory Committee has expressed concerns that mechanical CCS could leak, concerns with the viability of existing CCS technology, and the use of mechanical CCS would merely delay the phase out of fossil fuels.

The section on transportation sustainability relies on existing programs and policies aimed at transitioning all new vehicle sales to ZEV by 2035 for light duty vehicles and 2040 for heavy-duty vehicles. This includes continued pursuit of the Innovative Clean Transit Rule, Advanced Clean Tracks, Advanced Clean Fleets, In-use Locomotives and Commercial Harbor Craft regulations. The strategy for success includes prioritizing incentive funding for heavy-duty ZEV technology deployment in regions of the state with the highest concentrations of harmful criteria and toxic air contaminant emissions.

Reducing vehicle miles traveled (VMT) was the most interesting piece in the transportation section. Scoping Plan's strategies for reducing VMT relies heavily on improving public transit and investing in public transit infrastructure and active transportation projects. It also continues to call for better alignment of land use, housing, and transportation plans. As stated in the Plan, "Sustained VMT reductions have been difficult to achieve for much of the past decade, in large part due to entrenched transportation, land use, and housing policies and practices."