



January 10, 2023

TO: Board Members, Madera County Transportation Commission
FROM: Gus Khouri, Principal
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RE: STATE LEGISLATIVE UPDATE – GOVERNOR’S FY 2023-24 STATE BUDGET

On January 10, Governor Newsom released his proposed FY 2023-24 State Budget. The 2023-24 Budget, which contains \$223.6 billion in General Fund spending (\$297 billion with special funds), is projected to have a deficit of \$22.5 billion. This is a sharp turn from the past few years following surpluses in the FY 22-23 State Budget (\$97.5 billion) and the FY 21-22 State Budget (\$76 billion) surplus, which were predominantly used for one-time expenditures rather than long-term obligations.

Thankfully, the Governor is not predicting a recession. The FY 23-24 State Budget has a \$35.6 billion reserve to help address the shortfall and stave off deep cuts. This includes \$22.4 billion from the Proposition 2 Rainy-Day Fund; \$900 million from the Safety Net reserve; \$8.5 billion from the Public School System Stabilization Account; and \$3.8 billion from the state’s operating reserve. The Rainy-Day Fund is at its constitutional maximum (10 percent of General Fund revenues), and a total of \$951 million must be dedicated to infrastructure investments in 2023-24.

Funding For Climate Change

The 2021 and 2022 Budget Acts allocated approximately \$54 billion over five years to advance the state’s climate agenda. The Budget maintains 89 percent of these investments (roughly \$48 billion) and continues to prioritize equity and investments in populations facing disproportionate harm from pollution and the climate crisis. Given the projected decline in General Fund revenues, the Budget includes reductions across several climate programs, partially offset by shifts to other fund sources. Additionally, the state will pursue additional federal funding through the Inflation Reduction Act and the Infrastructure Investment and Jobs Act. Most of the climate reductions are included in the trigger, so if there is sufficient General Fund in January 2024, these reductions will be restored.

The Budget sustains a multi-year commitment of \$44 billion in state funds for various statewide infrastructure investments. This includes funding to accelerate the transition to zero-emission vehicles, modernize the state’s transportation system, promote energy innovation and reliability, provide greater access to broadband connectivity, advance the state’s housing goals, reduce wildfire risk to communities, and support drought resiliency and response.

The 2021 and 2022 Budget Acts committed \$10 billion over five years in investments to the state's ZEV agenda—ranging from cleaning up drayage trucks and school buses to accelerating equitable electrification of passenger vehicles—coupled with infrastructure and incentives for in-state manufacturing. Below is a list of where adjustments are being made.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Equitable Zero-Emission Vehicles and Infrastructure**—A \$745 million General Fund reduction partially offset by a shift of \$535 million to the Greenhouse Gas Reduction Fund. This maintains approximately \$2.1 billion (91 percent) for programs that expand affordable and convenient ZEV infrastructure access in low-income neighborhoods.
- **Heavy-Duty Zero-Emission Vehicles and Supporting Infrastructure**—A \$1.5 billion General Fund reduction partially offset by a shift of \$839 million to the Greenhouse Gas Reduction Fund. This maintains approximately \$5.3 billion (89 percent) for programs supporting drayage, transit, school buses, port ZEVs, and infrastructure.
- **Zero-Emission Mobility**—A \$184 million General Fund reduction partially offset by a shift of \$25 million to the Greenhouse Gas Reduction Fund. This maintains approximately \$180 million (53 percent) for sustainable community-based transportation equity projects that increase access to zero-emission mobility in low-income communities.
- **Emerging Opportunities and Federal Programs**—A reduction of \$133 million General Fund, which is partially offset by a shift of \$40 million to the Greenhouse Gas Reduction Fund. This maintains approximately \$1.3 billion (93 percent) to invest in demonstration and pilot projects in high carbon-emitting sectors, such as maritime, aviation, rail, and other off-road applications, as well as support for hydrogen infrastructure and vehicle grid integration at scale.

Impact on Transportation

With the Congressional passage of The Infrastructure Investment and Jobs Act in November of 2021, California will receive more than \$40 billion of new formula-based transportation funding over the next five years and billions of dollars in additional funding from new competitive grants.

The 2022 Budget Act included \$13.8 billion for transportation programs and projects aligned with the state's climate goals. Given the projected decline in General Fund revenues for FY 23-24, the January Budget includes \$2.7 billion in General Fund reductions, partially mitigated by an additional \$500 million from state transportation funds, to maintain \$11.6 billion (84 percent) of these investments. Below is a list of where adjustments are being made.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Transit Intercity Rail Capital Program**—A planned funding reduction in 2023 and 2024 from \$2 billion annually to \$1 billion in 2023-24 and \$500 million each in 2024-25 and 2025-26. These funds are set to be allocated proportionally, by region, based on population. This maintains approximately \$5.7 billion (74 percent) of the original \$7.7 billion planned additional funds for local transit capital infrastructure projects. This reduction will be restored if there is sufficient General Fund revenue in January 2024.

- **Active Transportation Program**—A reduction of \$500 million in General Fund revenues, with \$300 million of the decline being restored from State Highway Account funds, for a net decrease of \$200 million. This will allow the program to sustain all the programming capacity approved in the 2023 programming cycle. This maintains approximately \$850 million (81 percent) of the original \$1.05 billion of additional funds for projects that increase the proportion of trips accomplished by walking or biking and increase the safety and mobility of non-motorized users.
- **Climate Adaptation Program**—A shift of \$200 million General Fund with \$200 million State Highway Account funding, leaving unaffected the project funding that supports climate resiliency and reduces infrastructure risk.
- **Safety Grade Separations**—A delay of \$350 million of funding originally planned to be available in 2023-24, which will be made available in 2025-26. Given the multi-year nature of these projects, this shift should not significantly impact the ability to deliver the same number of originally planned projects that improve safety for people walking, biking, and driving at rail crossings.