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TO: Board Members, Madera County Transportation Commission
FROM: Gus Khouri, Principal
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RE: STATE LEGISLATIVE UPDATE – GOVERNOR’S FY 2022-23 STATE BUDGET

On January 10, Governor Newsom released his proposed FY 2022-23 State Budget. The 2022-23 Budget, which contains \$213.1 billion in General Fund spending (\$286.4 billion with special funds) is projected to have a healthy one-time surplus of \$45.7 billion (\$28.7 billion higher than projected from FY 20-21 through FY 22-23). Of this amount, \$16.1 billion is required to go to education per Proposition 98 for K-14, \$5.1 billion must go towards reserves, and \$3.9 billion for pension obligations (\$12.7B over four years). There is \$34.6 billion in reserves which includes: \$20.9 billion from the Proposition 2 Rainy-Day Fund; \$900 million from the Safety Net reserve; \$9.7 billion from the Public School System Stabilization Account; and \$3.1 billion from the state’s operating reserve. The Rainy-Day Fund is now at its constitutional maximum (10 percent of General Fund revenues), requiring \$2.4 billion to be dedicated for infrastructure investments in 2022-23.

The Budget projects the State Appropriations Limit, or "Gann Limit" will likely be exceeded in the 2020-21 and 2021-22 fiscal years by \$2.6 billion. Any funds above this limit are constitutionally required to be allocated evenly between schools and a tax refund. An updated calculation of this limit, and proposals to address it, will be included in the May Revision. The economic forecast, finalized last November, does not consider the surge of the Omicron variant, making the ongoing COVID-19 Pandemic a risk to the forecast. Strong stock market performance has generated a significant increase of volatile capital gains revenue (\$25 billion) that is approaching its prior peak levels (as a share of the state's economy) in 2000 and 2007. Personal income tax is up \$2.5 billion, sales tax is up \$6.1 billion, and corporation tax is up \$23.2 billion as well. A stock market reversal could lead to a substantial decrease in revenues. Given the state's history of boom-and-bust cycles, additional deposits into the state's reserves would further prepare the state for future economic slowdowns. Deposits into the reserves however count towards the State Appropriations Limit. Therefore, any additional deposits would have to be carefully balanced against other spending priorities.

Impact on Transportation

With the Congressional passage of The Infrastructure Investment and Jobs Act last November, 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. This

measure could also provide billions in additional funds for clean drinking water, clean energy, toxic cleanup, broadband, and other infrastructure investments.

The Budget includes an additional \$9.1 billion (\$4.9 billion General Fund and \$4.2 billion Proposition 1A bond funds), for a total of \$14.9 billion, to support the continued development of a high-speed rail system in California, regional transit and rail projects, bicycle and pedestrian projects, and climate adaptation projects, with a particular focus on aligning the state's transportation system with its climate goals.

The Budget includes an increase to base Federal Highway Administration transportation funding levels for California of \$1.8 billion in 2021-22 and \$1.9 billion 2022-23. In addition, Federal Transit Administration base transit funding will increase by \$385 million in 2021-22 and \$423 million in 2022-23. This funding will flow directly to local transit authorities and does not require any state budget changes. California is also anticipating a \$14.2 million annual increase to the National Highway Traffic Safety Administration grant program, administered by the Office of Traffic Safety. The additional funds will help address traffic fatalities and serious injuries on California roads. Here is breakdown of the proposed expenditures:

- **High-Speed Rail**—\$4.2 billion to complete electrified high-speed rail construction in the Central Valley, perform advance work for service between Merced and Bakersfield, and complete advance planning and project design for the entire project. This is in addition to the funds available for this program in Cap and Trade.
- **Statewide Transit and Rail Projects**—\$2 billion to invest in high-priority transit and rail infrastructure projects. These projects will improve rail and transit connectivity between state and local/regional services, including projects on shared corridor routes.
- **Southern California Transit and Rail Projects**—\$1.25 billion to deliver local and regional projects focusing on mobility and greenhouse gas reduction.
- **Port Infrastructure and Goods Movement**—\$1.2 billion for port-related high-priority projects that increase goods movement capacity on rail and roadways serving ports and at port terminals, including railyard expansions, new bridges, and zero-emission modernization projects.
- **Zero-Emission Equipment and Infrastructure**—\$875 million for zero-emission port equipment, short-haul (drayage) trucks, and infrastructure. See the Climate Change Chapter for additional details.
- **Active Transportation and Projects to Connect Communities**—\$750 million to transform the state's active transportation networks, improve equity, and support carbon-free transportation options, including:
 - \$500 million for Active Transportation Program projects, 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 will improve equity and remove transportation barriers by investing in the conversion of key underutilized highways into multi-modal corridors that serve existing residents by developing affordable housing and complete streets features in disadvantaged communities.
- **High Priority Grade Separation Projects**—\$500 million to support critical safety improvements throughout the state.
- **Climate Adaptation Projects**—\$400 million for state and local climate adaptation projects that support climate resiliency and reduce risks from climate impacts.
- **Zero-Emission Vehicles**—\$3.9 billion (\$2.9 billion General Fund) over three years (\$10 billion over six years) or investments in zero-emission vehicles and infrastructure to

accelerate the state's progress toward meeting its climate and transportation goals established in Executive Order N-79-20 and advance California's Zero-Emission Vehicle Market Development Strategy.

Governor Newsom proposes an additional one-time investment of \$6.1 billion over five years (\$3.5 billion General Fund, \$1.5 billion Proposition 98, \$676 million Greenhouse Gas Reduction Fund, and \$383 million Federal Funds) in zero-emission vehicles and infrastructure. This would result in a total of \$10 billion when factoring in the \$3.9 billion proposed for zero-emission vehicle infrastructure.

- **Low-Income Zero-Emission Vehicles and Infrastructure** - \$256 million for low-income consumer purchases, and \$900 million to expand affordable and convenient ZEV infrastructure access in low-income neighborhoods.
- **Heavy-Duty Zero-Emission Vehicles and Supporting Infrastructure** - \$935 million to add 1,000 zero-emission short-haul (drayage) trucks and 1,700 zero-emission transit buses; \$1.5 billion Proposition 98 to support school transportation programs, including advancing electric school buses in a coordinated effort between educational, air pollution, and energy agencies. \$1.1 billion for zero-emission trucks, buses, and off-road equipment and fueling infrastructure; and \$400 million to enable port electrification.
- **Zero-Emission Mobility** - \$419 million to support sustainable community-based transportation equity projects that increase access to zero-emission mobility in low-income communities. This includes supporting clean mobility options, sustainable transportation, and equity projects, and plans that have already been developed by communities that address mobility.
- **Emerging Opportunities**: \$200 million 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 vehicle grid integration at scale.

The Governor does propose to “pause” the annual inflation adjustment to the per gallon fuel excise tax rate, scheduled for July 1, 2022. This mechanism was approved as part of SB 1 in 2017 to protect against inflation and has an impact on funding made available to fund maintenance and congestion management on highways and repairing local streets and roads. California State Transportation Agency David Kim stated that this is only a pause and not a repeal, and that the purpose is to provide a relief to consumers at the pump (stave off price increase of gasoline and diesel fuel) with skyrocketing gas prices that have exceeded \$5 per gallon. If enacted, this action is expected to decrease fuel tax revenues by \$523 million in FY 2022-23, but the amount would be backfilled by the State Highway Account.

Transit and Rail Funding

The State Transit Assistance (STA) program is projected at \$854 million in FY 2022-23. Intercity and Commuter Rail would receive an estimated \$283 million in FY 2022-23, and Low Carbon Transit Operations Program is expected to provide \$182 million. Lastly, the Transit and Intercity Rail Capital Program is expected to receive approximately \$473 million in FY 2022-23.

Clean California Initiative

Launched in 2020-21, the Clean California initiative invests \$1.1 billion over three fiscal years for state and local governments to clean up trash and debris statewide, beautify community gateways and public areas along highways, streets and roads while providing jobs to thousands of Californians. The Budget proposes \$100 million in General Fund revenues to continue the

Clean California Local Grant Program into 2023-24, which provides grants to cities, counties, transit agencies, tribal governments, and other government agencies to beautify their communities and remove trash and debris.

Broadband

The 2021 Budget provided \$6 billion over three years as part of a statewide plan to expand broadband infrastructure, increase affordability, and enhance access to broadband for all Californians. Broadband investments have been an integral strategy to promote remote work and reducing vehicles miles traveled.

The 2021 Budget Act included \$3.25 billion State Fiscal Recovery Fund to the California Department of Technology (CDT) for the purpose of building an open-access middle-mile network in unserved and underserved areas of California. Estimates produced by CDT, the Department of Transportation (Caltrans), and the California Public Utilities Commission (CPUC) indicate a need for approximately 8,100 miles of middle-mile broadband infrastructure for unserved and underserved communities.

- In November 2021, CDT announced the selection of 18 initial projects identified by the CPUC to begin building the open-access middle-mile network. The initial list of locations was developed by CPUC and the third-party administrator (TPA) and included public comment.
- In December 2021, CPUC provided updated mapping information to CDT, including updated data for unserved communities and public comment received by CPUC.
- CDT will continue to build and develop the statewide open-access middle-mile broadband network in collaboration with the TPA and Caltrans as CPUC recommends additional locations for middle-mile buildout.

To complement the middle-mile network, the 2021 Budget provided \$2 billion over three years for CPUC to build last-mile infrastructure to provide Californians with access to high-speed broadband service, and \$750 million for a Loan Loss Reserve Fund to support costs related to the financing of local broadband infrastructure development. CPUC anticipates making new last-mile project grants available in 2022 utilizing both state funding from the California Advanced Services Fund and federal funds. CPUC also anticipates releasing a staff proposal related to the Loan Loss Reserve Fund in the first quarter of 2022.