November 8, 2023

TO: Board Members, Madera County Transportation Commission
FROM: Gus Khouri, President
Khouri Consulting LLC

RE: STATE LEGISLATIVE UPDATE – NOVEMBER

General Outlook
The legislature is on recess until January 3, 2024. Both houses will have a full legislative year with new leadership: Assembly Speaker Robert Rivas (D-San Benito), sworn in on June 30, and Senate President pro-Tempore Mike McGuire (D-Sonoma), who will begin his leadership position in January. Over one-third of the legislature will be terming out as the first 12-year class under the new terms limits reaches their tenure. Under current rules, members can serve for 12 years in any house, rather than the prior rules of two four-year terms as Senators and three two-year terms as Assembly members (14 years total).

State Budget Outlook
The state and federal tax collection deadline was extended from October 16 to November 16. The Governor's May Revision anticipated $42 billion in tax collections from capital gains and corporate and personal income tax filings. According to the State Treasurer's Office, only $18 billion has been collected thus far, leaving uncertainty about whether the FY 2023-24 State Budget deficit will grow beyond the $31.5 billion the Legislature addressed this summer. Early indications suggest that the Legislature may need to address a $14 billion deficit for FY 2024-25. Governor Newsom will release the proposed FY 2024-25 State Budget by January 10.

State Budget Impact on Transportation- Challenges and Opportunities
The State General Fund has not funded transportation since 2009, with few exceptions. State transportation revenue relies upon special funds, such as the imposition of gas and diesel excise taxes (commonly referred to as the gas tax), sales tax on diesel, and vehicle registration fees. The gas tax provides each county with formulaic funding for local streets and roads, flexible funds to address multimodal county and regional infrastructure priorities, and Caltrans with resources to maintain the state highway system. The sales tax on diesel primarily funds public transportation through the State Transit Assistance program. The vehicle registration fee supplements funding for the Senate Bill 1 competitive grant programs. However, reliance on petroleum (gas tax and sales tax on diesel) to address our infrastructure needs is inconsistent with the state's goals of reducing greenhouse gas

emissions. Zero-emission vehicle car sales comprise 24 percent of all vehicle sales, resulting in reduced gas tax revenue that will impact project delivery. Efforts are underway to consider a successor source to the gas tax.

Due to the FY 2022-23 state budget surplus of $97.5 billion, the Legislature provided unprecedented General Fund proceeds for transit through Senate Bill 125 ($5.1 billion statewide) and the $3.6 billion Cycle 6 Transit and Intercity Rail Capital Program (TIRCP). TIRCP is expected to revert to approximately $800 million for Cycle 7. Funds in Cycle 7 could potentially assist Madera County with expanding its multimodal network. There may also be opportunities to access sustainable funding, particularly for transit operating needs, by recalibrating existing state programs, such as the Cap and Trade program. The Cap and Trade Program will need to be extend beyond 2030 to continue providing resources for transit capital and operatings needs.

In the proposed FY 2023-24 budget released in January 2023, Governor Newsom stated that since the Rainy Day Fund is at capacity, $951 million must be spent on infrastructure. That number increased to $2.3 billion with the release of the May Revision. The $2.3 billion balance still exists, but legislative leadership is cautious about expending those funds until they receive an accurate accounting of tax receipts. This could represent an opportunity to fulfill some of MCTC's funding needs when the Legislature reconvenes in January. However, the budget uncertainty for FY 2023-24 and FY 2024-25 may put that opportunity at risk.