

Overview of Governor Newsom's Fiscal Year Budget Proposal - January 12, 2023

On January 10, 2023, Governor Newsom released his fiscal year (FY) 2023-24 Budget Proposal (budget), which reflects that the state's fiscal outlook has taken a rapid downturn relative to recent years. Instead of a massive surplus that was the focus of much of MTC/ABAG's state advocacy last year, the budget projects a \$22.5 billion budget deficit. Rather than dipping into reserves, Governor Newsom proposes to address the shortfall – which is slightly less than the \$25 billion budget deficit estimated by the Legislative Analyst's Office (LAO) in November – through spending cuts, shifting certain expenditures from the general fund to other fund sources, and deferring FY 2023-24 spending commitments made in prior year budget deals.

Despite the dire fiscal situation facing many of the state's public transportation systems and the unprecedented storms that have been hammering much of California in recent weeks, the budget proposes transportation and climate programs shoulder the bulk of the spending reductions. Of note, Governor Newsom indicates these issues continue to be important priorities, proposes offsetting cuts by pursuing transportation and climate funds authorized through the 2021 Bipartisan Infrastructure Law and the 2022 Inflation Reduction Act, and proposes a “trigger” policy that if state receipts rebound, funding cuts could be restored *next year* (in 2024).

Regarding housing, it's encouraging that the proposed budget would maintain most of the state's recent affordable housing and homelessness commitments, indicating a continued strong commitment to addressing the state's affordable housing and homelessness crisis.

Key budget takeaways related to transportation, climate, and housing are summarized below.

Newsom Proposes Pulling Back FY 2022-23 Appropriations

In an unusual move, the Governor proposes to claw back *previously appropriated* funds from the FY 2022-23 transportation, climate and resilience budget packages and scales back future year commitments that were proposed for FY 2023-24 in recent budget trailer bills.

Budget Would Slash Transportation Investments

The Budget would cut the anticipated Transit and Intercity Rail Capital Program (TIRCP) augmentation commitments for FY 2023-24 and FY 2024-25 in half, bringing the commitments down to a total of \$2 billion (\$1 billion in FY 2023-24 followed by \$500 million in the following two fiscal years) versus \$4 billion over two years. This would reduce the Bay Area's estimated share of future year TIRCP augmentations to \$400 million with funds spread out over three years (\$200 million in FY 2023-24, and \$100 million the following two years).

Encouragingly, the budget *does not* propose pulling back TIRCP augmentations made in FY 2022-23. That's not the case for the Active Transportation Program and Rail Grade Crossings programs, which would be cut by \$200 million and \$350 million reductions, respectively. Of note, the California State Transportation Agency (CalSTA) has an active call for projects open for the grade separation funds. The budget would also swap \$500 million in FY 2021-22 general fund commitments for various programs in the transportation package with State Highway Account funds.

Zero Emission Vehicles (ZEVs) Prioritized for Cap and Trade Funds; Community Air Protection is Second Priority

ZEV transition (passenger vehicles, buses, other heavy-duty vehicles and boats) had somewhat unusually received \$10 billion in general funds in FY2021-22 and FY2022-23 budgets. The Governor is proposing to reduce the General Fund contribution by \$2.5 billion but partially offset those cuts with \$1.4 billion from the Greenhouse Gas Reduction Fund (GGRF).

Additionally, the budget directs any additional Cap and Trade auction proceeds towards ZEV programs.

The budget also directs \$250 million in Cap and Trade funds to partially offset a proposed \$300 million reduction in General Fund support for the Community Air Protection Program (established pursuant to AB 617 (Garcia, 2017)). In total, the January budget proposes \$1.65 billion in Cap and Trade expenditures.

Deep Cuts to Regional Climate Resilience, San Francisco Bay, and Seismic Resilience

The 2021 climate resilience package funded a new regional climate adaptation planning and implementation program housed at the Governor's Office of Planning & Research. Over the last two years the program has received \$150 million and was slated for an additional \$100 million in

FY 2023-24 as part of the Integrated Climate Adaptation and Resiliency Program (ICARP). The Governor's budget proposes to pull back \$25 million of previously appropriated funds and zero out FY 2023-24 investments. Unfortunately, the budget also proposes to eliminate in full the \$10.4 million FY 2022-23 funds dedicated for San Francisco Bay wetlands and proposes major cuts to State Coastal Conservancy commitments for coastal protection and adaptation; \$175 million is proposed to be cut from the current year and roughly \$300 million is proposed for cuts FY 2023-24. Based on staff's preliminary review, this would zero out FY 2023-24 funds for this purpose.

Regarding earthquake preparedness, last year's budget created a new Seismic Retrofitting Program for Soft Story Multifamily Housing and included legislative intent to appropriate \$250 million for this program in FY 2023-24. This intended appropriation is not included in the budget.

Housing and Homelessness Cut, Albeit Less Sharply than Transportation, Climate & Resilience

The 2022 budget deal committed some \$3 billion for MTC/ABAG affordable housing priorities programs over FY 2022-23 and FY 2023-24. The budget proposes to maintain the vast majority of these commitments – pulling back only \$350 million in the affordable housing space (\$300 million from various homeownership programs and \$50 million for an accessory dwelling unit financing program).

In good news regarding homelessness assistance, the Governor's budget proposes retaining \$3.1 billion of the \$3.35 billion in FY 2022-23 and FY 2023-24 funding commitments. The budget proposes funding in full the \$1 billion that was committed in FY 2023-24 funds for the local Homeless Housing, Assistance and Prevention Program (HHAPP) and the full commitment of \$400 million in FY 2023-24 to augment the Encampment Resolution Grants. The Newsom Administration plans to introduce "homeless accountability" legislation that will condition local governments' eligibility for these funds on compliance with "state housing law" and modify HHAPP to prioritize housing unsheltered populations, in addition to potential inclusion of undefined "streamlining" provisions. Lastly, the budget proposes augmenting by \$250 million the Behavioral Health Bridge Housing program – which was funded at \$1 billion in FY 2022-23 – instead of a \$500 million augmentation, as was proposed in the 2022 housing package.