

Fiscal Year 2022-23 State Budget Update

Subject:

Update on the state budget with a focus on transportation, housing, and climate adaptation.

Transportation Deal Finally Reached

The Legislature and the Governor have finally reached an agreement on transportation funding that includes \$4.2 billion for High Speed Rail from the remaining Proposition 1A bond authorization plus \$10.8 billion in other transportation funding, including \$5.6 billion *this year* for a variety of transportation improvements, including public transit, active transportation, grade crossings, and climate resilience. As a condition of funding, additional oversight and reporting requirements are required of the California High Speed Rail Authority. In addition to the \$5.6 billion appropriated this year, the proposal includes \$5.2 billion in future year funding, including \$1.2 billion for port-related infrastructure improvements split evenly between fiscal year (FY) 2022-23 and FY 2023-24 and \$4 billion for public transit capital improvements split evenly between FY 2023-24 and FY 2024-25.

Affordable Housing

The final budget agreement includes a \$2 billion multi-year housing and homelessness package with funding provided to a variety of multifamily housing production and housing preservation programs as well as a new homeownership program and funding for seismic retrofit of multifamily housing.

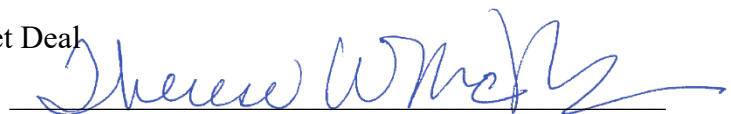
Climate Adaptation

The budget includes significant funding for climate adaptation and establishes a new Transportation Infrastructure Climate Adaptation Project Program modeled on Senate Bill 1049 (Dodd), which MTC sponsored.

Recommendation: Information

Attachments:

- Attachment A: Summary of Final Budget Deal



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Summary of Final Budget Deal

Governor Newsom and legislative leaders reached an agreement over the weekend on a budget deal that includes a \$17 billion inflation relief package and a significant transportation infrastructure package that includes \$4.2 billion for High Speed Rail for the Central Valley segment and \$10.8 billion for other transportation improvements. A transportation portion of the budget agreement is contained in three bills:

- AB/SB 180, amending the current year's budget (fiscal year (FY) 2021-22)
- AB/SB 178 for the FY 2022-23 State Budget and future years
- AB/SB 198, a trailer bill providing further details and establishing new programs, such as the Local Transportation Infrastructure Climate Adaptation Project Program, the Reconnecting Communities: Highways to Boulevards Pilot Program and a new Port Infrastructure Program

Topline Overview

The final agreement includes \$4.2 billion for High Speed Rail for the Central Valley segment (with various oversight strings attached) and a \$10.8 billion transportation package for public transit, active transportation, port infrastructure, and transportation-related climate adaptation. Of this amount, \$5.6 billion is provided in FY 2021-22 across various categories, \$1.2 billion for port-supportive infrastructure in FY 2022-23 and FY 2023-24 and \$4 billion included as a legislative "goal" for appropriation in FY 2023-4 and FY 2024-25. On the inflation relief side, the package includes direct payments to households and waives the state portion of the sales tax on diesel fuel but includes language requiring that the General Fund backfill this reduced transportation revenue.

Distribution of Transit Funds from FY 2021-22 Appropriation

The budget provides \$3.6 billion in supplemental funds to the Transit and Intercity Rail Capital Program (TIRCP) in an amendment to the FY 2021-22 State Budget. As originally proposed by Governor Newsom, a portion of these funds is reserved for Southern California defined as the counties of Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. Specifically, \$1.8 billion will be reserved for high priority projects in those counties. Additionally, \$300 million is reserved for rail realignment for high priority intercity rail corridors in the coastal zone at risk of sea-level rise, which appears designed to address a known at-risk

rail segment on the Del Mar bluffs in San Diego County. The remainder, \$1.5 billion, or 41 percent, is available for the rest of the state, including the Bay Area. Of this amount, *a minimum* of \$900 million is reserved for multi-year grants to support the delivery of capital projects that have previously received grants from TIRCP and that can demonstrate that a supplemental state grant would leverage or maintain an identified source of significant local or federal investment, including through the federal Capital Investment Grant Program, Expedited Project Delivery Program, or other such federal funding source. This provides a maximum of \$600 million available for other Bay Area priorities (in competition with the rest of the state, other than Southern California).

Major Projects Project Development Reserve

Of the \$3.6 billion total, up to \$150 million total (across both categories) shall be set aside for a “Major Projects Project Development Reserve” available for multiyear grants to support the delivery of capital projects and programs of projects that have entered or have applied to enter federal project development processes for at least a portion of the project or program of projects, and that expect to receive federal funding in the future once complete with project development. Contingent awards that provide the match necessary to leverage federal planning funds shall be encouraged. The California State Transportation Agency (CalSTA) shall amend its program guidelines to establish an application review and prioritization process that is separate and apart from the prioritization of program funds not set aside under this provision.

Future Year Transit Funding

AB/SB 198 indicates the Legislature’s goal to provide \$2 billion in both FY 2023-24 and FY 2024-25 for transit and intercity rail projects via allocations to regional transportation planning agencies (RTPA) (i.e., MTC in the Bay Area) on the basis of each RTPA’s population-based share after a minimum of \$300,000 is provided per agency statewide. As such, the Bay Area would receive an estimated 19.5 percent of these funds. While this is much lower than the Bay Area typically receives on a competitive basis in TIRCP or via state transit assistance (STA) funds (36 percent), there is value in funding certainty that comes with a formula share and future advocacy can focus on a formula that is more aligned with the region’s share of transit ridership statewide (about 40 percent of the state in 2019, currently about 33 percent).

Active Transportation Funding Boosted & New Reconnecting Communities Pilot Program Established

AB/SB 180 appropriates \$1.05 billion to the Active Transportation Program, and \$149 million to a new Reconnecting Communities: Highways to Boulevards Pilot Program under Caltrans, for planning or implementing the conversion or transformation of underutilized state highways into multimodal corridors that serve residents of underserved communities whose provisions are included in AB/SB 198. Of the state Reconnecting Communities funds, 25 percent is reserved for planning and 75 percent for implementation. In addition to meeting other goals, the new state program is designed to serve as matching funds for the federal Reconnecting Communities Pilot Program authorized in the 2021 federal Bipartisan Infrastructure Law. The new state program restricts funds to projects that demonstrate a direct and meaningful benefit to an underserved community and be adjacent to or directly located in an underserved community, which it requires Caltrans to define. Importantly, AB/SB 198 notes the definition *may include, but need not be limited to*, the CalEnviroScreen definition as well as census tracts considered low-income.

New Transportation Infrastructure Climate Adaptation Project Program

Building on SB 1049 (Dodd), sponsored by MTC, AB 198 establishes new local and state transportation climate adaptation programs. SB 180 allocates \$198 million from the General Fund towards local transportation climate adaptation planning and projects. The bill would provide \$50 million for planning to be distributed through a new Transportation Infrastructure Climate Adaptation Strategy competitive grant program and \$148 million for local projects to be distributed through a new California Transportation Commission-administered Local Transportation Infrastructure Climate Adaptation Project program. The new State Transportation Infrastructure Climate Adaptation Program established by AB 198 would be administered by Caltrans. SB 178 allocates \$200 million from the Federal Trust Fund to the state adaptation program for FY 2022-23. AB 198 further provides that new federal PROTECT resilience program funds may be directed to the local and state resilience programs.

New Port Infrastructure Program Administered by CalSTA

AB/SB 178 provides \$600 million in FY 2022-23 and \$600 million in FY 2023-24 for a new port infrastructure program established in AB/SB 198. The program requires 70 percent of the funds to be used for infrastructure projects, each supporting goods movement related to the Port of Los Angeles, the Port of Long Beach, or both, and 30 percent to be used for other high-priority projects supporting ports and goods movement infrastructure in the rest of the state, including inland ports. Projects eligible for funding include port-specific projects, including port electrification, goods movement capacity projects along railway corridors and high-priority grade separations.

Grade Separations

AB/SB 180 dedicates \$350 million for grade separation projects. Of this, \$100 million shall be administered as a General Fund set-aside for High-Priority Grade Crossing Improvement and Separation Projects. Such funds shall be available for multi-year grants to support the delivery of projects that maximize safety benefits and reduce or eliminate conflicts between road users and railroads, including those anticipated with future rail service growth. Such projects may benefit existing or proposed rail passenger services. Contingent awards that provide the match necessary to leverage federal funds shall be encouraged. CalSTA shall amend its program guidelines to establish an application review and prioritization process that is separate and apart from the prioritization of program funds not set aside under this provision.

Climate-Energy Package

Overall, the budget includes \$19.3 billion in General Fund related to climate change and energy, including \$9.7 billion in the current year and FY 2022-23 and \$9.6 billion in future years. Details are to be determined in future legislation. SB 180, which appropriates funds for FY 2021-22 includes \$619 million for investments that support the transition to zero emission vehicles and associated infrastructure, \$534 million for investments that support drought and water resilience and \$30 million for investments that support wildfire and forest resilience.

\$4.2 Billion in High Speed Rail Funds Appropriated, With Strings

The Governor's longstanding \$4.2 billion budget request for the Central Valley segment (dating back to 2021) is finally approved in AB/SB 178. However, AB/SB 198 makes several major adjustments to the High Speed Rail Authority's (HSRA) statutory direction and authority and imposes conditions for full release of the funds. Specifically, it provides that the Legislature's intent is for the High-Speed Rail Authority to prioritize the completion of the Merced to Bakersfield segment as an important step in delivery of the full Phase 1 system envisioned by voters when they approved Proposition 1A. The bill defines the Merced to Bakersfield segment as the delivery of a useable high-speed rail line between those two cities, as well as existing federal and local commitments as of June 1, 2022 - such as the delivery of improvements to Los Angeles Union Station.

The bill sets aside \$2.2 billion of the \$4.2 billion total appropriation, and requires the HSRA to meet certain requirements, including the development of project milestones and review of the necessity of the additional funds by the Office of the Inspector General, before that \$2.2 billion is made available to HSRA via the Joint Legislative Budget Committee.

The bill would require HSRA to notify the chairpersons of the relevant committees of both houses of the Legislature before submitting a federal grant application for funding for implementation of the high-speed rail project and before releasing a request for proposals after June 1, 2022, for contracts relating to specified aspects of the high-speed rail system.

Office of the Inspector General for High Speed Rail Established

This bill would establish an independent Office of the Inspector General to provide oversight and external audits of the Authority's practices. Commencing with a project update report due on or before March 1, 2023, the Inspector General will conduct independent fiscal estimates and reviews of the High-Speed Rail Authority's plans and estimates for project advancement and make findings of the reasonableness of those plans and estimates. The bill would require the Governor to appoint the High-Speed Rail Authority Inspector General to a four-year term from a list of 3 qualified individuals nominated by the Joint Legislative Audit Committee. The bill would authorize the Inspector General to initiate audits and reviews related to the delivery of the high-speed rail project and the selection and oversight of contractors, as provided.

Miscellaneous Policy Changes in AB/SB 198 Trailer Bill

The bill expands the number of design-build projects Caltrans may use in FY 2022–23 and FY 2023–24 by six from the current cap of ten.

Housing & Homelessness

The final budget bills includes significant resources for affordable housing, including the following:

- \$500 million for state Low Income Housing Tax Credits
- \$500 million for a new homeownership program—California Dream for All—to make homeownership more achievable for first-time homebuyers.
- \$425 million over two years for the Infill Infrastructure Grant Program
- \$410 million over two years for adaptive reuse
- \$350 million over two years for the CalHome program
- \$325 million over two years for the Multifamily Housing Program
- \$250 million for the Housing Accelerator Program
- \$50 million for accessory dwelling unit (ADU) financing
- \$150 million over two years for affordable housing preservation
- \$100 million over two years for affordable housing on state surplus land
- \$250 million for seismic retrofit for multifamily housing in FY 2023-24.

With regard to homelessness, the budget includes \$1 billion in FY 2023-24 for the Homeless Housing, Accountability, and Prevention Program (HHAPP), \$1.5 billion over two years for bridge housing for individuals experiencing homelessness who also have serious behavioral health conditions, and \$700 million over two years for Encampment Resolution grants to help local governments transition individuals into permanent housing.

Legislative Priority Projects

The final agreement includes \$2 billion in funding for specific projects in AB/SB 178 and AB/SB 180 for various categories, including transportation to parks to education. Staff is compiling a list of transportation, housing and park related earmarks and will make available before your meeting.