

Metropolitan Transportation Commission and Association of Bay Area Governments
Joint MTC Legislation Committee and ABAG Legislation Committee

February 14, 2020

Agenda Item 8a

State Budget Update

Subject: Update on the Governor's Fiscal Year (FY) 2020-21 Budget proposal.

Overview: Governor Newsom on January 10 released his proposed FY 2020-21 State Budget. The \$222 billion spending plan reflects a strong but slowing economy—the budget's projected \$5.6 billion surplus represents a significant drop from the \$21.5 billion surplus predicted for the current fiscal year in last year's budget. The budget proposes to build reserves, boosting the Rainy-Day Fund to \$18 billion in FY 2020-21, and to invest the majority of the surplus in one-time spending, including a new homelessness initiative.

This budget release is the beginning of a months-long negotiation between the Governor's Office and the Legislature. Lawmakers have until June 15 to pass a budget in time for the July 1 start of the FY 2020-21 fiscal year.

The housing and homelessness, transportation, and climate portions of the budget are summarized in Attachment A. Additionally, Attachment B shows Fiscal Year 2019-2020 and Fiscal Year 2020-2021 State Transit Assistance Related Programs.

Issues: None identified.

Recommendation: Information

Attachments: Attachment A: 2020-21 State Budget Summary
Attachment B: Fiscal Year 2019-2020 and Fiscal Year 2020-2021 State Transit Assistance Related Programs



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2020-21 State Budget Summary January 21, 2020

Governor Newsom on January 10 released his budget proposal for Fiscal Year (FY) 2020-21. The \$222 billion spending plan reflects a strong but slowing economy—the budget’s projected \$5.6 billion surplus represents a significant drop from the \$21.5 billion surplus predicted for the current fiscal year. The budget includes increased reserves, boosting the Rainy-Day Fund to \$18 billion in FY 2020-2021, and to invest the majority of the projected surplus in one-time investments, including a new \$750 million homelessness initiative. Summaries of the housing and homelessness, transportation, and climate portions of the budget follow.

This January budget proposal is the beginning of a months-long negotiation between the Governor’s office and the Legislature. Lawmakers have until June 15 to pass a budget in time for the July 1 start of the 2020-21 fiscal year.

Housing

The budget proposes \$6.8 billion in state and federal funds for housing-related investments, including \$500 million to match the FY 2019-20 supplement to the state’s Low-Income Housing Tax Credit (LIHTC) program, bringing the total proposed state LIHTC investment to \$602 million in FY 2020-21. The base state LIHTC program has been funded at approximately \$100 million in recent years (the annual state credit amount is capped at \$70 million (1987 dollars) plus inflation, plus any unused or returned credits from previous years). Housing-related investments would include:

- \$3.5 billion in California Housing Finance Agency home lending programs;
- \$897 million in state and federal LIHTCs, including the \$500 million state LIHTC supplement;
- \$868 million in voter-approved Veterans and Affordable Housing Bond Act (SB 3 (Beall, 2017)) funds;
- \$468 million for the Affordable Housing and Sustainable Communities Program, which is funded from continuously appropriated Cap-and-Trade revenues;
- \$400 million for the No Place Like Home Program, which funds permanent supportive housing for chronically homeless individuals using Mental Health Services Act (Proposition 63)-funded bonds;
- \$277 million in ongoing real estate transaction-fee revenues authorized by SB 2 (Atkins, 2017), 70 percent of which flows directly to local governments to invest in affordable housing, rental housing and homeownership for middle income workers, homelessness prevention, and a range of other housing-related investments; and
- \$422 million for other housing-related programs.

Of note, the budget also includes a commitment from the Administration to “working with the Legislature this year on additional actions to expedite housing production, including changes to local zoning and permitting processes, as well as adding predictability and reducing the costs of development fees.” The budget also emphasizes the Newsom Administration’s intention to continue to actively enforce housing element law, highlights the planned revamp of the Regional Housing Needs Assessment (RHNA) process before 2023, and notes that the state will continue to seek private sector contributions to help fund affordable housing production.

Homelessness

The budget includes more than \$1 billion for housing subsidies and health care for the homeless. Of this, \$750 million is proposed to seed the California Access to Housing and Services Fund (Fund)—which was established by Governor Newsom’s January 8, 2020 Executive Order N-23-20—to provide rental subsidies for those facing homelessness, to incentivize the development of new affordable housing units, and to keep “board and care” facilities open. Department of Social Services would administer the Fund; resources would flow through performance-based contracts between the state and regional administrators and would be subject to a 10 percent administrative cap. To the extent feasible, projects located on surplus state property would be prioritized for new homelessness housing capacity, which would build on the Governor’s Executive Order N-23-20 requiring state agencies to identify state properties that could be used for emergency shelters and homeless housing by January 31, 2020. The Legislature is requested to take early action to establish this Fund so resources could be deployed this summer.

Additionally, \$695 million (including federal funds) is proposed to expand MediCal to provide homeless individuals with more preventative care and mental health services. This would grow to \$1.4 billion in FY 2021-22 and FY 2022-23. The budget also indicates the Governor’s intention to propose changes to the Mental Health Services Act (Proposition 63) to better focus its resources on early intervention and people with mental illness who are also experiencing homelessness or are involved in the criminal justice system.

Transportation

On the transportation side, the budget highlights the Governor’s continued commitment to High Speed Rail and reinforces the message from the Governor’s 2019 Executive Order N-19-19 on climate and transportation that the Administration intends to expend SB 1 (Beall, 2017) revenues in a way that is consistent with authorized uses—local street and road repair, state highway maintenance, transit investments, etc.—while also reinforcing the state’s climate goals. For example, the climate resiliency bond detailed below would invest in a new program to fund cool road surface investments in areas in the state experiencing extreme heat from climate change.

MTC’s population-based share of the State Transit Assistance (STA) program is projected to be \$67.5 million, \$400,000 and less than the November 2019 State Controller’s Office estimate for FY 2019-20, and Bay Area transit operators’ revenue-based STA are expected to total \$185 million, more than \$1 million less than FY 2019-20 estimates. MTC’s share of population-based State of Good Repair (SGR) funds are expected to increase by approximately \$300,000 to \$10.8 million in FY 2020-21 and the region’s Low Carbon Transportation Operations Program (LCTOP) population-based funds are expected to grow to \$12.2 million from \$11.1 million in FY 2019-20. Bay Area transit operators are expected to receive \$29.6 million in SGR revenue-based funds and \$33.4 million in LCTOP revenue-based funds, respective increases of nearly \$1 million and \$3 million over FY 2019-20 fund estimates. See Attachment B for additional details.

Climate and Emergency Preparedness

The budget proposes \$12.5 billion in climate investments over the next five years to fund transportation decarbonization, strategies to increase carbon sequestration and improve ecosystem resilience, and support regions and communities in improving climate resiliency. Nearly 80 percent of this funding would be generated from Cap-and-Trade revenues (\$4.8 billion over five years) and a proposed \$4.8 billion climate resiliency bond, both of which are summarized below. A new Climate Catalyst Fund (\$1 billion over five years) would provide low-interest loans to promote the deployment of green technologies. Other climate investments include \$1.4 billion over five years in existing bond funds for natural resource programs, \$344 million for targeted water resiliency investments and \$51 million in one-time funding for electric vehicle charging infrastructure.

Building on last year's \$1 billion for emergency response, the budget includes \$120 million (\$150 million ongoing) in funding for more full-time firefighters, \$110 million to harden homes in fire zones to make them more resilient to wildfires; and \$79 million for California Disaster Assistance Act disaster recovery activities, including local government reimbursement. The budget would also provide \$50 million in one-time community power resiliency funding to help local governments prepare for and mitigate the impacts of power outages, \$17 million in one-time resources to fund California's Earthquake Early Warning System and \$9 million to staff the newly-authorized Wildfire Forecast and Threat Intelligence Integration Center, which will serve as an organizing hub for state agencies—California Office of Emergency Services, CAL FIRE, the California Military Department (Calguard) and the California Public Utilities Commission—working on wildfire forecasting, weather information, threat intelligence gathering and analysis.

Cap-and-Trade Expenditure Plan

While always difficult to predict, given its nature of private bidding in an auction setting, the state's Cap-and-Trade program is projected to support a \$965 million expenditure plan for FY 2020-21—nearly \$400 million less than the \$1.4 billion discretionary expenditure plan for FY 2019-20—in addition to \$1.5 billion for the continuously appropriated Cap-and-Trade-funded transportation and housing programs. Expenditure plan highlights are bulleted below.

- \$400 million for low carbon transportation, including \$150 million for clean buses and trucks, reduced from FY 2019-20 levels of \$550 million and \$182 million, respectively;
- \$235 million to reduce exposure in communities most impacted by air pollution (AB 617 communities), reduced from \$275 million in FY 2019-20;
- \$208 million for wildfire prevention, reduced from \$220 million in FY 2019-20; and
- \$4 million combined for the California Coastal Commission and the San Francisco Bay Conservation and Development Commission (not funded last year from Cap and Trade)

The remaining funds would be directed to “climate smart” agriculture investments, waste diversion, research and workforce development.

Climate Resiliency Bond

The \$4.8 billion climate resiliency bond—which the Governor is proposing for the November 2020 ballot—would direct nearly 80 percent of the funds to investments that mitigate near-term risks (wildfire, floods and drought). The remaining funds would be reserved for reducing longer-term risks related to sea-level rise and extreme heat as well as building community resilience. Of note, the bond would provide resources for resiliency planning and for demonstration projects to protect critical infrastructure, but those resources are minimal (only \$75 million statewide) compared to the \$20 billion in estimated need for green and grey infrastructure improvements to protect the Bay Area's communities and transportation network from sea-level rise. Proposed bond revenue allocations are bulleted below.

- \$3 billion for drinking water, flood and drought risk mitigation, including \$340 million for Army Corps of Engineers flood control projects and \$270 million for multi-benefit flood risk reduction and ecosystem restoration;
- \$750 million for wildfire resilience, including \$500 million for hardening community infrastructure (e.g. projects that harden drinking water infrastructure, emergency shelters and public medical facilities);

- \$500 million for sea-level rise risk reduction, including \$320 million for coastal wetland restoration, \$130 million for nature-based ocean ecosystem resilience projects, and \$50 million to fund demonstration projects to protect critical infrastructure (roads, railways, power plants, etc.) from sea-level rise;
- \$325 million to combat extreme heat, including \$200 million for urban greening;
- \$250 million for community resilience, including \$225 million to fund community evacuation and emergency response facilities and \$25 million for resiliency planning; and
- \$125 million for a new program to incentivize the use of “cool materials” in paving and other projects in vulnerable communities.

	Fiscal Year 2019-20 Based on November 2019 State Controller's Office (SCO) Estimate			Fiscal Year 2020-21 Based on January 2020 State Budget		
	STA Revenue-Based	SGR Program Revenue-Based	LCTOP Revenue-Based	STA Revenue-Based	SGR Program Revenue-Based	LCTOP Revenue-Based
ACCMA						
Corresponding to ACE	\$290,259	\$44,850	\$47,549	\$288,482	\$46,151	\$52,091
Caltrain	\$8,496,363	\$1,312,844	\$1,391,829	\$8,444,325	\$1,350,915	\$1,524,790
CCCTA	\$789,680	\$122,020	\$129,361	\$784,843	\$125,558	\$141,719
City of Dixon	\$7,403	\$1,144	\$1,213	\$7,357	\$1,177	\$1,328
ECCTA	\$415,004	\$64,126	\$67,984	\$412,462	\$65,985	\$74,478
City of Fairfield	\$163,554	\$25,272	\$26,793	\$162,553	\$26,005	\$29,352
GGBHTD	\$8,540,790	\$1,319,709	\$1,399,107	\$8,488,481	\$1,357,979	\$1,532,763
LAVTA	\$349,728	\$54,039	\$57,291	\$347,586	\$55,606	\$62,764
Marin Transit	\$1,668,066	\$257,747	\$273,254	\$1,657,849	\$265,221	\$299,357
NVTA	\$116,000	\$17,924	\$19,002	\$115,288	\$18,444	\$20,818
City of Petaluma	\$49,382	\$7,630	\$8,090	\$49,080	\$7,852	\$8,862
City of Rio Vista	\$7,458	\$1,152	\$1,222	\$7,412	\$1,186	\$1,338
SamTrans	\$8,121,101	\$1,254,860	\$1,330,355	\$8,071,361	\$1,291,249	\$1,457,444
SMART	\$1,695,538	\$261,992	\$277,754	\$1,685,153	\$269,589	\$304,288
City of Santa Rosa	\$160,210	\$24,755	\$26,245	\$159,229	\$25,473	\$28,752
Solano County Transit	\$351,963	\$54,385	\$57,657	\$349,807	\$55,962	\$63,165
Sonoma County Transit	\$225,725	\$34,879	\$36,977	\$224,342	\$35,890	\$40,509
City of Union City	\$116,445	\$17,993	\$19,075	\$115,731	\$18,515	\$20,898
Vacaville City Coach	\$29,292	\$4,526	\$4,798	\$29,112	\$4,657	\$5,257
VTA	\$23,249,042	\$3,592,405	\$3,808,533	\$23,106,649	\$3,696,581	\$4,172,363
VTA						
Corresponding to ACE	\$216,633	\$33,474	\$35,487	\$215,305	\$34,444	\$38,878
WCCTA	\$504,435	\$77,944	\$82,634	\$501,346	\$80,205	\$90,528
WETA	\$2,314,946	\$357,702	\$379,222	\$2,300,768	\$368,075	\$415,449
SUBTOTAL	\$57,879,017	\$8,943,373	\$9,481,429	\$57,524,521	\$9,202,720	\$10,387,192
AC Transit	\$24,264,960	\$3,749,383	\$3,974,956	\$24,116,345	\$3,858,111	\$4,354,684
BART	\$40,698,461	\$6,288,661	\$6,667,004	\$40,449,195	\$6,471,025	\$7,303,904
SFMTA	\$63,386,127	\$9,794,323	\$10,383,575	\$62,997,906	\$10,078,347	\$11,375,521
SUBTOTAL	\$128,349,548	\$19,832,368	\$21,025,535	\$127,563,446	\$20,407,483	\$23,034,109
TOTAL	\$186,228,565	\$28,775,741	\$30,506,964	\$185,087,967	\$29,610,203	\$33,421,301
	Fiscal Year 2019-20 Based on November 2019 State Controller's Office (SCO) Estimate			Fiscal Year 2020-21 Based on January 2020 State Budget		
	STA Population-Based	SGR Program Population-Based	LCTOP Population-Based	STA Population-Based	SGR Program Population-Based	LCTOP Population-Based
TOTAL - MTC REGION	\$67,889,961	\$10,490,248	\$11,121,369	\$67,474,153	\$10,794,453	\$12,183,796