

# Metropolitan Transportation Commission

May 24, 2023

Agenda Item 11b - 23-0571

## Fiscal Year (FY) 2023-24 State Budget Update

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### **Subject:**

Update on FY 2023-24 State Budget Negotiations.

### **Background:**

On May 12, Governor Newsom released the May Revision to his January Budget Proposal for Fiscal Year (FY) 2023-24. This marks the start of intensive budget negotiations between the Administration and the Legislature, which must pass its budget by June 15 for the fiscal year that begins on July 1. The May Revision anticipates a \$31.5 billion deficit in FY 2023-24, \$9.1 billion higher than forecast in January. Like in the January Budget Proposal, the Newsom Administration largely avoids tapping into state reserves to fill the shortfall, citing future economic uncertainty. Instead, the Administration proposes \$1.1 billion in *additional* spending cuts, additional deferrals of FY 2023-24 spending commitments made in prior years, and further shifting expenditures from the General Fund to special funds and general obligation bonds.

Encouragingly, the May Revision acknowledges transit operators have “significant operating challenges” stemming from pandemic-era ridership changes and extends an invitation to the Legislature to discuss “near and long-term solutions to support the viability of transit.” At the same time, the revision continues the \$2 billion transit capital funding cut proposed in the January Budget. The Governor also would tap more Greenhouse Gas Reduction Fund (GGRF) revenues and “new” state highway revenues (i.e., federal highway funds from the Infrastructure Investment and Jobs Act) to offset prior year General Fund commitments for zero-emission vehicle (ZEV) programs and other transportation investments, leaving less room in these funds to potentially address the transit fiscal cliff.

Reflecting policymakers’ continued focus on addressing housing affordability, housing and homelessness programs emerged mostly unscathed in the revision. The Newsom Administration maintained its January funding levels for most production, preservation, and other related programs, but did propose clawing back funds appropriated in prior years.

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

**May Revise Nods to Transit Operations; Maintains Transit Capital Funding Cut & Shifts Prior Year Transportation and Climate Commitments Away from General Fund**

While indicating a willingness to work with the Legislature on the transit fiscal cliff, the May Revise maintains the Administration's January proposal to cut the anticipated Transit and Intercity Rail Capital Program funding for FY 2023-24 and FY 2024-25 in half. The cut would bring funding levels down to a total of \$2 billion over three years versus \$4 billion over two years and reduce the Bay Area's estimated share to \$400 million (\$200 million in FY 2023-24 and \$100 million for each of the following two years).

The May Revise also proposes to shift \$650 million in FY 2023-24 General Fund commitments from the 2022 transportation package to the State Highway Account (SHA). This reflects an additional shift of \$150 million as compared to the Governor's budget proposal in January. Though the budget document itself doesn't go into detail, the Legislative Analyst's Office (LAO) February brief outlined that this SHA shift could be accommodated from the roughly \$1 billion/year increase in federal highway funds that Caltrans received from the 2021 Infrastructure Investment and Jobs Act.

Regarding ZEVs, the May Revise proposes to appropriate an additional \$500 million of FY 2023-24 GGRF revenues and \$135 million in two subsequent years. The GGRF funding would replace General Fund dollars previously appropriated for this purpose. This brings the total proposed funding shift for ZEVs and AB 617 community air protection programs to \$1.4 billion in FY 2023-24 and \$963 million over the following two years. The LAO in March estimated Cap and Trade auctions would generate sufficient revenues to support approximately \$1.6 billion in discretionary GGRF expenditures in FY 2023-24.

**Core Housing and Homelessness Programs Still Intact**

With respect to housing and homelessness programs, the May Revise largely maintains the funding levels called for in the January budget, including \$500 million for the state Low Income Housing Tax Credit, \$400 million to augment Encampment Resolution Grants, \$225 million each for Multifamily Housing Program and the Infill Infrastructure Grant Program, \$250 million

for adaptive reuse, \$100 million to preserve apartments with expiring deed restrictions, and \$75 million to support building housing on excess state property. Additionally, the Newsom Administration continues to propose \$1 billion for the local Homeless Housing, Assistance and Prevention Program, along with statutory changes to focus the funding on reducing unsheltered homelessness through supportive housing, Homekey, and the Community Assistance, Recovery and Empowerment Act.

In a reversal from January, the May Revision no longer proposes reducing the Behavioral Health Housing Program by \$250 million out of the \$1.5 billion committed in the 2022 housing package. Instead, the Administration would tap the Mental Health Services Fund for the \$250 million (plus cover another \$250 million of program costs out of the special fund instead of the General Fund).

Two housing programs with funds appropriated in prior years are newly slated for claw-backs: the Foreclosure Intervention Housing Prevention Program (\$295 million from the FY 2021-22 budget) and Downtown Rebound Program (\$17.5 million from FY 2000-01).

### **Revision Proposes Funding Regional Climate Resilience with Bonds, But Not San Francisco Bay or 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. The program was proposed to be funded at \$250 million over two years, with \$150 million already appropriated and an additional \$100 million planned in FY 2023-24. The Governor's January budget proposed to zero out the FY 2023-24 investment and pull back \$25 million of previously appropriated funds. The May Revision instead proposes appropriating \$100 million to the program from a 2024 climate bond currently under discussion between the Administration and Legislature.

Unfortunately, the May Revision appears to retain January's proposed elimination of the full \$10.4 million in FY 2022-23 funds for San Francisco Bay wetlands and major cuts to State Coastal

Conservancy commitments for coastal protection and adaptation; \$175 million would be cut from the current year and the full \$300 million from FY 2023-24.

For 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 May Revise.

**Issues:**

None identified.

**Recommendation:** Information



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