



Memorandum

TO: Legislation Committee

DATE: February 2, 2018

FR: Executive Director

RE: FY 2018-19 State Budget Update: Transportation, Housing, Fire Recovery & Resiliency

Overview

The Governor's FY 2018-19 State Budget (Budget) proposes \$135 billion in expenditures. While this is the largest state budget on record, reflecting continued economic growth, the budget takes a cautious approach toward new spending. By the end of FY 2018-19, the current economic expansion will have matched the longest in modern history, according to the budget summary. Accordingly, the Governor recommends fully funding the Rainy Day Fund up to \$13.5 billion. In addition, the budget does not yet reflect changes to the federal tax code, which will be incorporated in the May Revise.

SB 1 Funding Provides Huge Boost in Transportation Investment in FY 2018-19

The Budget estimates an additional \$4.6 billion in state transportation funding in FY 2018-19, thanks to enactment of Senate Bill 1 (Beall, 2017). This includes the following major spending categories, among others:

- \$1.2 billion for local road repair funds for cities and counties
- \$1.2 billion for state highway maintenance and repair
- \$400 million for bridge and culvert improvements
- \$355 million for State Transit Assistance (STA)
- \$330 million for Transit and Intercity Rail Capital Program

The Budget notes delivery of SB 1 has been moving quickly. Guidelines for the competitive programs are complete and applications have either already been submitted or are due shortly. Project selection for most programs will be completed by spring 2018.

SB 1 required Caltrans to identify \$100 million in annual savings that could be redirected to capital projects and maintenance. The budget summary notes that Caltrans has been implementing a number of strategies that would save "considerably more than this," including reducing overhead costs, innovative contracting, and streamlining environmental reviews. The department is expected to provide an update to the California Transportation Commission at its January board meeting on these items. Nonetheless, given new workload from SB 1, the budget does propose 400 new maintenance staff positions at Caltrans at a cost of \$53 million.

State Transit Assistance Funding Keeps Climbing

The Budget estimates State Transit Assistance (STA) funding of \$659 million next year, an increase of \$71 million from the estimated amount in FY 2017-18 and an increase of \$390 million as compared to \$269 million in FY 2016-17. Of the total, \$355 million is attributable to increased STA funding provided by Senate Bill 1, including revenue from the new Transportation Investment Fund and an increase in the diesel sales tax rate of 1.75 percent. Since STA funding is highly dependent on diesel sales tax revenue generated during the fiscal year, this amount is an early estimate. The Department of Finance typically adjusts its forecast for the subsequent year's STA funds as part of the May Revision.

Based on the State Controller's Office (SCO) most recent reports on operator shares, we estimate the Bay Area would receive approximately \$198 million in STA funds, of which \$54 million would be for the population-based program and \$144 million would be distributed directly to operators from the revenue-based program. However, by early February, the SCO is expected to release an updated report that will affect the revenue-based amount. The Programming & Allocations Committee will receive an update on STA funding levels at its February meeting.

DMV Registration Database Upgrade

The Budget requests \$15 million for the first installment of what is estimated to be a \$89 million upgrade to the Department of Motor Vehicle's vehicle registration system software. This is a welcome development given the implementation of the state's new temporary license plate system in 2019, which will need to interface with the permanent registration system. An effective DMV registration system is critical to our ability to process bridge toll or express lane toll violations.

Housing and Homelessness

As expected, the Budget includes funding increases authorized by the 15-bill housing package approved last year, including the document recording fee authorized by SB 2 (Atkins) and the \$4 billion housing bond placed on the ballot in November 2018 by SB 3 (Beall). Additionally, the budget reflects growing Cap and Trade revenue in FY 2018-19, providing for a higher level of funding for the Affordable Housing and Sustainable Communities program, which is continuously appropriated 20 percent of the Cap and Trade revenues. Proposed funding levels in FY 2018-19 from these sources are as follows:

- \$245 million – Building Homes Jobs Fund Programs (SB 2)
- \$277 million – Veterans and Affordable Housing Bond Act (SB 3)
- \$455 million – Affordable Housing and Sustainable Communities Program

These programs account for most of the Governor's proposed increase in housing and homelessness funding. Another bit of good news is that federal Low Income Housing Tax Credit (LIHTC) funding – the largest affordable housing financing tool in the state – is expected to grow this year to \$259 million from the \$241 million projected in the FY 2017-18 January Budget. This could help offset some of the reduced market value of the federal tax credit as a result of the lower corporate tax rate enacted by Congress in December 2017.

Wildfire Response and Recovery

The Budget includes a stand-alone section for response and recovery to the devastating October and December 2017 wildfires. The Budget estimates total statewide costs in the billions of dollars, with many of the costs yet to be determined. The Budget includes an initial \$469 million 2017-18 augmentation for CAL FIRE and notes that the total General Fund impact will be further refined as part of the May Revision.

In response to the Northern California wildfires, the Budget includes \$23.7 million in General Fund revenues to backfill the property tax revenue losses that cities, counties and special districts will incur in 2017-18 and 2018-19 due to the October 2017 wildfires. Additionally, the Budget estimates that Northern California K-12 schools will incur \$24.5 million in property tax revenue losses in 2017-18 and 2018-19, which will be backfilled under the Proposition 98 school funding mechanism. The May Revision is expected to update this property tax backfill to cover losses from the Southern California wildfires in December 2017.

The Budget also includes \$11.5 million to invest in a more resilient emergency telecommunications system. This proposal to modernize the state's 9-1-1 system would in part addresses the issues that arose during the Northern California wildfires when the loss of telecommunications infrastructure hampered firefighting efforts, communications with impacted residents, and 9-1-1 capabilities.

Climate Resiliency and Adaptation

The Budget summary notes the extreme natural events of 2017, which underscored the need to prepare for and mitigate the effects of climate change. The Administration intends to undertake a number of actions in 2018 to provide a comprehensive response to help make California more resilient, including updates to California's Climate Adaptation Strategy and the Ocean Protection Council's Sea-Level Rise Guidance. Additional funding for this purpose is expected to be proposed as part of the Administration's 2018-19 Cap and Trade expenditure plan, to be released concurrent with the State of the State Address.

SB 1 Funds Support Upgrades to State Parks

Notably, the Budget includes an additional \$54 million for state parks from increased SB 1 gas tax revenue associated with off-highway vehicles and boats. These resources will be focused on facilities and maintenance, including clean water supplies, clean restrooms, trails, historic structures and roads.

Staff will track the Budget's progress as it moves through the subcommittees and keep you updated on any important developments.



Steve Heminger

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