

**Metropolitan Transportation Commission
MTC Legislation Committee**

July 10, 2020

Agenda Item 4c

Fiscal Year (FY) 2020-21 State Budget Update

Subject: Update on the transportation and housing aspects of the FY 2020-21 State Budget

Overview: On June 22, 2020, Governor Newsom and legislative leaders announced an agreement on an interim state budget for FY 2020-21 in a manner that prevents the steep cuts to education (roughly \$8 billion restored) and safety net programs that the Governor originally proposed in the May Revise. Nonetheless, the budget does include \$2.9 billion in cuts to state salary expenses and deferrals of educational funding for future years. Rather than relying on additional Rainy Day Funds, Safety Net Reserve Funds, or the retirement payment deferral that were included in the Legislature's version of the budget, the final agreement updates the revenue and expenditure forecast to bring the budget into balance by postponing steeper cuts into future years. It also outlines the prioritization for budget restoration if Congress approves another substantial aid package of at least \$14 billion by October 15, 2020, referred to as funds subject to the "federal trigger." If Congress provides less than \$14 billion, but more than \$2 billion, then each of the items listed as beneficiaries of the trigger will be adjusted proportionally.

In a joint statement, with Assembly Speaker Rendon and Senate President Pro Tempore Atkins the officials noted "This agreement reflects our shared commitment to supporting schools, and is built on a foundation of equity – allocating billions of dollars for students most affected by learning loss and continuing our state's leadership toward reforming the criminal justice system."

Transportation With respect to transportation, the final deal makes no changes to what was reported at your June meeting. Of note, the budget incorporates budget bill language requiring that Caltrans exempt project initiation documents (PIDs) and oversight services from what is known as "full cost recovery" for reimbursement of state expenses and directs the department to streamline the cooperative work agreement process as it relates to PIDs and oversight. This should help lower costs and accelerate locally-sponsored projects on the state highway system.

Local Government The final agreement includes \$1 billion to support counties and \$500 million for cities. Of the \$1 billion for counties, \$750 million is provided directly and \$250 million is dependent upon the state receiving additional federal COVID-19 relief. For counties, these funds are to be used for health and human services programs, entitlement programs, and programs that serve vulnerable populations. The budget agreement also includes just over \$100 million for the increased costs to counties of the November election as a result of the requirement to conduct it entirely by mail.

With respect to the city funding, which comes from the federal CARES Act, funding will be distributed as follows:

- \$275 million to cities with a population less than 300,000 on per capita basis relative to the population of the cities in this category.
- \$225 million to cities with a population greater 300,000 that did not receive a direct allocation from the CARES Act on a per capita basis relative to the population of the cities in this category.
- No city will receive less than \$50,000.
- No additional funding for cities that already received funds directly from the CARES Act.

These funds are to be used towards public health, public safety, homelessness, and other services to combat COVID-19. Further details on eligible uses are forthcoming, but to-date the budget does not restrict use of these funds further than the CARES Act guidance issued by the U.S. Treasury Department. To be eligible for the funds, cities must receive certification by the Department of Finance that they adhere to state and federal public health guidance issued in response to COVID-19, including executive orders issued by the Governor. Following certification, the State Controller will remit funds to the city. If funds are not spent by **September 1, 2020**, the Director of Finance may reallocate the funds, ahead of the federal December 30, 2020 expenditure deadline.

Housing The final budget agreement augments by \$50 million funding for the acquisition, conversion, rehabilitation, and operating subsidies for hotels, motels, and other properties to provide housing for individuals and families who are experiencing homelessness or who are at risk of homelessness. Unfortunately, the agreement cuts \$250 million from the Mixed-Income Program administered by the California Housing Finance Authority (CalHFA) that Governor Newsom proposed as part of the May Revise. This program provides long-term subordinate financing for new construction of multifamily housing projects which restrict units at a mix between 30% and 120% of the Area Median Income. The program will continue to receive revenues from real estate transaction fees and would also see up to \$205 million in funding restored if the state receives the full \$14 billion in federal funds.

Attachments: None


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