



January 10, 2018

TO: Board Members, Transportation Agency for Monterey County
FROM: Gus Khouri, Principal
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RE: STATE LEGISLATIVE UPDATE – Governor’s FY 2018-19 State Budget

On January 10, Governor Brown released his proposed 2018-19 State Budget. The 2018-19 Budget is projected to have a healthy one-time surplus of \$8 billion. The state however the state will continue to face uncertain times, given that we are overdue for a recession, the volatility of our reliance on personal income tax and capital gains, and the ramifications of the recently enacted federal tax bill, which have not yet been factored into the Budget’s economic or revenue forecasts. Governor Brown mentioned that the state must continue to plan and save for the next recession. By the end of 2018-19, the expansion will have matched the longest in post-war history.

Governor Brown stated that the best way to buffer against uncertainty and protect against future cuts is to continue building the state’s Rainy Day Fund. Proposition 2, approved by California voters in 2014, established a constitutional goal of reserving 10 percent of tax revenues in a Rainy Day Fund. By the end of the current (2017-18) fiscal year, the state’s Rainy Day Fund will have a total balance of \$8.4 billion, or 65 percent of the constitutional target. The budget proposes a \$3.5 billion supplemental payment in addition to the constitutionally required transfer to the Rainy Day Fund for 2018-19. The two payments would bring the total Rainy Day Fund to \$13.5 billion.

Impact on Transportation

The budget reflects the first full year of funding under the [Road Repair and Accountability Act of 2017](#) (Senate Bill 1), which provides stable, long-term funding for both state and local transportation infrastructure. Over the next decade, the \$55 billion transportation package will provide \$15 billion for state highway repairs and maintenance, \$4 billion in state bridge repairs, \$3.3 billion for state trade corridors, and \$2.5 billion for the state’s most congested commute corridors. Local roads will receive more than \$15 billion in new funding for maintenance and repairs and \$2 billion in matching funds for local partnership projects. Transit and intercity rail will receive \$7.6 billion in additional funding, and local governments will have access to \$1 billion for

active transportation projects. For 2018-19, the budget includes \$4.6 billion in new transportation funding, which includes:

- A focus on “fix-it-first” investments to repair neighborhood roads, state highways and bridges (\$2.8 billion).
- Making key investments in trade and commute corridors to support continued economic growth and implement a sustainable freight strategy (\$556 million).
- Matching locally generated funds for high-priority transportation projects (\$200 million).
- Investing in local passenger rail and public transit modernization and improvement (\$721 million).

With voter approval of ACA 5 on the June ballot, all SB 1 revenues will be constitutionally dedicated to transportation. Implementation of SB 1 includes the following:

- **Efficiencies**—SB 1 requires Caltrans to achieve \$100 million in annual efficiencies that can be redirected back to capital projects and maintenance. Caltrans is currently implementing a range of efficiencies that are estimated to generate considerably more than \$100 million in cost avoidance and monetary savings. Some of these include reducing overhead costs, accelerating work, innovative contracting tools, value engineering, streamlining of environmental reviews, and implementing of new technologies. Caltrans will provide an interim report at the Commission’s January 2018 board meeting later this month detailing the status of these efficiency improvements.
- **Office of the Inspector General**—SB 1 established an Office of the Inspector General to provide verification and assurance that funds are being used optimally and as the Act intends. The Office will also oversee the Department’s compliance with the new contracting diversity goals in SB 1. The Governor has appointed the new Inspector General, and the 2017 Budget Act provided audit staff and funding to support the office’s efforts.
- **Local Streets and Roads**—The 2017 Budget provided \$451 million to cities and counties for projects that begin addressing their highest repair needs on local streets and roads. Cities and counties are expected to begin receiving the new revenues together with their base road maintenance funding by early February 2018. The Budget provides \$1.2 billion in new revenues to cities and counties to continue addressing the backlog of local road repairs.
- **Transit and Intercity Rail Capital Program**—The upcoming five-year program from new SB 1 revenues and existing Cap and Trade auction proceeds will provide \$2.4 billion in new transit project funding. CalSTA adopted guidelines for the program in October 2017, with project applications due January 12, 2018, and awards expected by April 30, 2018. The Budget provides \$330 million in SB 1 funds for these projects.

- **State Transit Assistance**—For 2017-18, in addition to the transit capital project funding, SB 1 also provided an additional \$280 million for operations for local transit agencies in addition to the \$500 million in other base annual funding. Funds are expected to flow to local transit agencies beginning in early February 2018, and will permit local agencies to improve service for transit riders. The Budget provides an additional \$355 million for local transit operations, bringing the 2018-19 total to \$855 million.
- **New SB 1 Resources for Intercity and Commuter Rail Program**—\$36 million Public Transportation Account from increased diesel sales tax revenues to be allocated by the Agency for operations and capital improvements of intercity and commuter rail services. Allocation requests were received on December 15, 2017, for the three-year period ending 2019-20. Rail operators indicate this funding will expand rail service, be used to purchase or rehabilitate train sets, and improve track and signal infrastructure.
- **Local Partnerships**—SB 1 provides \$200 million per year as matching funds for local projects in jurisdictions that generate local transportation revenues. The Commission completed guidelines for this revised program on October 18, 2017, with local agencies proposing projects by January 30, 2018, and with project selection completed by May 16, 2018. This program will function similarly to the State-Local Partnership program, which received \$1 billion from Proposition 1B in 2006.
- **Active Transportation Program**—SB 1 provides \$100 million per year for bicycle and pedestrian facility projects such as the Santa Ana City First Street Pedestrian Improvement in Orange County, the Palm Drive Bicycle and Pedestrian Improvement in Riverside County, and the Boron to Desert Lake Pedestrian Path in Kern County. These projects provide viable transportation alternatives to the traveling public, improve links to transit, and support other policy objectives such as reducing greenhouse gas emissions. As a result of additional SB 1 funding, the Commission was able to advance 22 existing projects and fund 71 additional projects in both the current and budget years. Selection of state-sponsored projects has already been completed, and final selection of locally-sponsored projects is expected to be complete by the end of January 2018.
- **Repair and Maintenance of the State Highway System**—With the \$451 million provided in the 2017 Budget, Caltrans was able to accelerate 117 projects with a value totaling \$993 million. Maintenance efforts are projected to fix 67,000 potholes, 5,400 lane miles of cracking and 7,000 spalls along with 765,000 feet of guardrail and 32,000 miles of striping. More highway repair projects will be added and accelerated as part of the proposed 2018 State Highway Operation Protection Program due to be adopted in March 2018. The Budget provides \$1.2 billion to continue addressing the state's highest repair and maintenance needs.

- **Bridge and Culvert Repairs**—SB 1 provides \$400 million per year to fund repairs and maintenance on the state's bridge and culvert infrastructure. More bridge projects will be added and accelerated as part of the proposed 2018 State Highway Operation Protection Program due to be adopted in March 2018.
- **Commuter Corridors**—SB 1 provides \$250 million per year for projects to improve capacity in the state's most congested commuter corridors. The Commission completed guidelines for this revised program on December 6, 2017, and projects are due by February 2018, with project selection expected by May 16, 2018. Typical projects include highway widening, high occupancy vehicle lanes, and improved on-ramp and off-ramp construction. This program will be similar to the Corridor Mobility Improvement Account program, which received \$4.5 billion from Proposition 1B in 2006.
- **Trade Corridor Enhancements**—The 2017 Budget provided \$203 million for projects that address bottlenecks and improve throughput on the state's most economically important trade corridors. Of this amount, \$50 million was appropriated to the Air Resources Board for its competitive Zero/Near-Zero Emission Warehouse Program, which will fund projects that reduce emissions from freight-related sources. For the remainder of these funds, the CTC completed guidelines for this revised program on October 18, 2017, and proposed projects are due by January 30, 2018, with project selection expected by May 16, 2018. This Budget provides \$306 million to fund new projects to meet the state's current and future freight needs. Typical projects include port improvements, highway railroad grade separations, highway widening, and double tracking for freight rail. This program will be similar to the Trade Corridors program, which received \$2 billion from Proposition 1B in 2006.
- **Freeway Service Patrols**—SB 1 provides \$25 million per year on top of the existing \$25 million in base funding for local transportation agencies to fund freeway service patrols that help clear incidents that cause temporary congestion, such as flat tires or vehicles that have run out of fuel. Studies have shown that disabled vehicles cause up to a third of the state's traffic delays.

Combating Climate Change

California continues to work towards a state goal to reduce greenhouse gas emissions 40 percent below 1990 levels by 2030. In July, Governor Brown [signed legislation](#) to extend California's landmark cap-and-trade program through 2030. Since then, auction proceeds have stabilized and revenues have increased, resulting in \$1.25 billion in cap-and-trade funds available for appropriation in 2018-19. The plan for these funds will be announced in conjunction with the Governor's State of the State Address.