



January 10, 2020

TO: Board Members, Transportation Agency for Monterey County
FROM: Gus Khouri, Principal
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RE: STATE LEGISLATIVE UPDATE – Governor’s FY 2020-21 State Budget

On January 10, Governor Newsom released his proposed FY 2020-21 State Budget. The 2020-21 Budget, which contains \$153 billion in General Fund spending (up \$6 billion from last year) is projected to have a healthy one-time surplus of \$21 billion.

The Budget assumes an additional \$1.8 billion transfer in the budget year and an additional \$1.4 billion over the remainder of the forecast period, leaving a reserve of \$21 billion, bringing the Rainy Day Fund to \$18 billion in 2020-21 and \$19 billion by 2022-23. The state will continue to face uncertain times, given the volatility of personal income tax and capital gains, and the as yet unknown ramifications of the recently enacted federal tax bill.

2020 Five-Year Infrastructure Plan

The Governor proposes a 5-year \$53 billion 2020 Infrastructure Plan focused on how the state’s investment in infrastructure, which underpins economic activity, can be leveraged to create a sustainable and resilient California. The Plan uses SB 1 (\$41 billion) and a new \$12 billion Climate Resilience Plan and builds upon the Governor’s Executive Order issued last September (N-19-19) directing state agencies with primary responsibility over major state-owned or operated assets to align investments with the state’s climate goals. This Infrastructure Plan includes the state’s responsibility to reduce risks from climate change while transitioning to a carbon-neutral economy. Most of the proposed funding in the Plan is dedicated to the state’s transportation system, which makes up 40 percent of the state’s carbon emissions and is a central focus of the Administration’s Climate Budget.

Climate Resilience

The Budget proposes a comprehensive approach to California’s investments to protect the state’s environment, address the effects of climate change, and promote resiliency. The “Climate Budget” includes \$12 billion over the next five years. Three key areas of the Climate Budget are a proposed climate resilience bond, Cap and Trade expenditures to continue the transition to a carbon-neutral economy, and a new Climate Catalyst Fund to promote the deployment of new technologies, especially by small businesses and emerging industries.

The Climate Catalyst Fund will finance investments in low-carbon transportation, sustainable agriculture, and waste diversion. The Budget proposes to capitalize the Fund with \$1 billion General Fund over the next four years.

A priority of the Governor is decarbonization in the state's largest sector of emissions by providing clean vehicles, clean fuels, low-carbon transportation options, and transit-oriented development, with enhanced prioritization on short-term environmental and public health benefits in disadvantaged and vulnerable communities.

The Administration is proposing a \$4.75 billion climate resilience bond for the November 2020 ballot to support investments over the next five years to reduce specific climate risks across California through investment in natural and built infrastructure, especially in the state's most climate-vulnerable communities. The bond is structured based on climate risks, and approximately 80 percent of the funds are allocated to address immediate, near-term risks (floods, drought, and wildfires), while the remaining funds lay the groundwork for addressing long-term climate risk (sea level rise and extreme heat). The Climate Resilience Bond would dedicate funding as follows: \$2.925 billion for drinking water, flood, drought; \$750 million for wildfire prevention; \$500 million for sea level rise to address coastal wetland protection; \$325 million to combat extreme heat through using cooler materials and urban greening and forestry; and \$250 million for community resilience.

Transportation Funding

SB 1 generates about \$5.2 billion annually. Over the next five years, \$22 billion will be available for new state highway repair and rehabilitation projects in the State Highway Operations and Protection Program (SHOPP). As the state invests in ongoing road maintenance, it is critical that the state does so in a way that is resilient in the face of physical climate impacts like floods, fires, extreme heat, and sea level rise.

Over this same five-year period, \$3.3 billion will be available for the State Transportation Improvement Program (STIP), which provides funding for future multi-modal transportation improvements throughout California. This program supports the implementation of regional Sustainable Community Strategies, as well as interregional travel. This could curb investments made to expand highway projects on the state highways system. Public transportation is expected to receive \$5 billion over the five-year period, and \$1.1 billion for active transportation. \$1 billion for partnerships with local transportation agencies is also included.

Housing

Over the next five years, the state will invest approximately \$17 billion to continue to bolster housing production, including an estimated \$2 billion from Cap and Trade proceeds for affordable housing and sustainable communities as well as \$1.75 billion one-time General Fund from the 2019 Budget Act to promote the production of housing as follows:

- \$250 million for planning grants
- \$500 million for grants for infrastructure that support higher-density affordable and mixed-income infill housing
- \$500 million to provide loans for mixed-income developments
- \$500 million for state tax credits for new affordable housing