




MEMO

January 10, 2024

To: Members of the Board of Directors

From: Darrell E. Johnson, Chief Executive Officer 

Subject: **Governor's Fiscal Year 2024-25 State Budget Proposal**

This morning, Governor Gavin Newsom released his fiscal year (FY) 2024-25 budget proposal to the Legislature. For FY 2024-25, the Governor's proposal estimates General Fund revenues at approximately \$222.7 billion, with expenditures at approximately \$208.7 billion. The State has a projected budget deficit of \$37.9 billion. This deficit is significantly lower than what was projected by the Legislative Analyst's Office, a \$68 billion deficit.

The budget deficit is attributed to a substantial decline in the stock market and delay in income tax collections. Because of the unprecedented tax filing and payment delay, the full scope of the estimated revenue decline was unclear until all the delayed tax returns and payments were received by the extended November 16, 2023 deadline, which was only two months before the 2024 budget proposal was due to the Legislature.

The Governor's budget proposal includes \$18.4 billion in total budgetary reserves, which includes \$11.1 billion in the Budget Stabilization/Rainy Day Fund, \$3.9 billion in the Public School System Stabilization Account, \$900 million in the Safety Net Reserve, and \$3.4 billion in the State's operating reserve known as the Special Fund for Economic Uncertainties. These total reserve withdrawals represent about \$17.2 billion, almost half of the \$35.6 billion of total reserves proposed in the previous January budget proposal.

At this time, the Governor's budget economic forecast does not project a recession; however, if a recession were to occur, the forecast states it would be relatively mild and begin toward the end of 2024. To address the current budget shortfall, the Governor's proposed budget includes a variety of funding shifts, decreases, and delays, including \$5.1 billion in funding delays, \$8.5 billion in reductions, \$3.4 billion in fund shifts, \$2.1 billion in deferrals, and \$5.7 billion in limited revenue generation and borrowing.

## Transportation Investments in the Governor's Budget

The Governor's budget includes \$13.6 billion for transportation programs and projects. To achieve this, the budget includes \$200 million in General Fund reductions, \$791 million in fund shifts, and \$3.1 billion in delays across various programs. Furthermore, the Governor's budget notes that California has secured \$45.3 billion in Infrastructure Investments and Jobs Act formula funding and \$7.9 billion in competitive funding for transportation infrastructure, broadband, and climate resilience projects. As part of the Administration's effort to close the current budget gap, there are several proposals that would impact transportation funding, including:

- The formula Transit and Intercity Rail Program (TIRCP) is proposed to delay \$1 billion of the remaining \$2 billion from FY 2024-2025 and FY 2025-2026. As a reminder, last year's budget approved \$4 billion for this program, to be distributed through a population-based formula, over five years. The Orange County Transportation Authority (OCTA) is expected to receive \$380 million in formula TIRCP if the entire \$4 billion in funding were allocated.
- The competitive TIRCP grant program is proposed to shift \$529.7 million from the General Fund to the Greenhouse Gas Reduction Fund (GGRF). Additionally, a delay is proposed of \$2.1 billion from FY 2021-22 to as late as FY 2027-28 to align the budget with expenditure schedules. There is not expected to be any programmatic impacts.
- The Active Transportation Program (ATP) is proposed to be reduced by \$200 million, with \$850 million of the \$1 billion remaining from the original one-time funding proposal. To ensure no impact to previously awarded projects, the \$200 million reduction will be backfilled from ATP funding that was anticipated to be available for allocation in future cycles.
- The Climate Adaptation and Resilience Planning Grant is proposed to revert \$5 million in General Fund dollars. The proposed budget maintains \$20 million previously allocated to this program.
- For the Highway to Boulevards program, a delay of \$150 million in General Fund dollars is proposed from FY 2021-22 to align the budget with expenditure schedules. This should not have a programmatic impact.
- For the Port and Freight Infrastructure Program, a delay of \$100 million General Fund money is proposed from FY 2021-22 to align the budget

with expenditure schedules. This should not have a programmatic impact.

- A reduction of \$96 million is proposed from FY 2021-22, leaving \$184 million in General Fund dollars for Port of Oakland improvements.

#### Zero-Emission Vehicle Funding

Both the 2021 and 2022 enacted budgets committed \$10 billion over five years in investments for zero-emission vehicles (ZEV) as well as infrastructure. The Governor's budget maintains the \$10 billion investment by extending the funding over seven years instead of six. To achieve this, there are also reductions, shifts, and funding delays proposed. Specifically, the Governor's budget includes:

- \$38.1 million in General Fund reductions, which impacts various programs such as the Drayage Trucks and Infrastructure Pilot Project and ZEV Manufacturing Grants. The budget maintains the \$477 million previously allocated for these programs.
- Shifting \$475.3 million of General Fund dollars to GGRF, which impacts programs such as the \$28.5 million for Transit Buses and Infrastructure and \$71.3 million for Clean Trucks, Buses and Off-Road Equipment.
- Delay \$600 million GGRF from FY 2024-25 to FY 2027-28 across various programs including \$120 million for ZEV Fueling Infrastructure Grants, \$98 million for Drayage Trucks and Infrastructure, and \$100 million for Community-Based Plans, Projects and Support/Sustainable Community Strategies.

#### State Transit Assistance (STA)

The budget proposes \$931 million in STA funding for FY 2024-25, a decrease of approximately \$4 million from last year's \$935 million. Orange County is expected to receive \$50.4 million in STA funding in FY 2024-25, which represents the same amount we were expected to receive in last year's January Budget Proposal. As part of this year's STA funding, OCTA is expected to receive approximately \$7 million for the SB 1 (Chapter 5, Statutes of 2017) State of Good Repair, a slight increase over last year's funding level of \$6.7 million. The budget proposal also provides an anticipated \$182 million of funding for the Low Carbon Transit Operations Program in FY 2023-24. Orange County's share is expected to be approximately \$9.8 million, compared to \$5.7 million last year.

Since STA is based on actual fuel receipts, these initial estimates are subject to change.

#### Other Budgetary Items of Interest

The Governor's budget proposal includes a host of additional measures to reduce costs that are of interest:

- The Office of Planning and Research (OPR) develops long-range state goals and policies to address land use and planning, climate risk and resilience, sustainable economic development, and targeted long-range research needs. The Governor's budget includes a reorganization of OPR to a more traditional department and streamlines efforts to enable OPR to focus on its core responsibilities. The Administration highlights its plan to review certain programs within OPR to evaluate if other state departments may be better suited to administer those programs. Since OPR oversees the California Environmental Quality Act (CEQA), it is possible the Administration may choose to move the oversight of CEQA to another state department. Furthermore, the budget highlights a significant budget adjustment specific to CEQA judicial streamlining due to legislation last year that required such. The budget proposes \$2.3 million in ongoing General Fund money to implement the newly adopted and renewed judicial streamlining provisions in the Public Resources Code for certain infrastructure and environmental leadership development projects.
- The Regional Early Action Planning Grants 2.0 (REAP 2.0) is a state grant program to help regions with planning activities to accelerate infill housing development, reduce vehicle miles traveled, increase housing supply across affordability levels, and facilitate the implementation of adopted local and regional plans to help achieve these goals. REAP 2.0 is proposed to have a reversion of \$300 million in General Fund dollars.
- A reversion of \$200 million in General Fund money for the Infill Infrastructure Grant program, which leaves \$25 million for this purpose. This program provides gap funding for infrastructure improvements essential to both residential and mixed-use infill development, which refers to building within underutilized lands within existing development patterns, typically in urban areas.
- The Governor's budget maintains \$3.4 billion in General Fund money in to continue the State's efforts toward homelessness. Specifically, this includes previously budgeted amounts of \$1 billion for a fifth round of

Homeless Housing, Assistance, and Prevention grants. The proposed budget includes a significant adjustment to these grants, including transitioning which department administers the program, delays to align funding for when the funds will be available, and reverting \$100 million in an administrative set aside. The Administration asserts that as part of the spring budget process, it will commit to working closely with the Legislature on additional funding to support local governments' response to the homelessness crisis. This program was amended last year to ensure that applicants for this program took homelessness occurring on transit into account.

- The Governor's budget largely maintains previous investments for workforce training. However, the Governor's General Fund budget includes a reduction of \$45 million for the High Road Training Partnerships program at the California Workforce Development Board. Additionally, the Governor's budget proposes a delay of \$40 million in General Fund for a Goods Movement Workforce Training Facility in Southern California. The proposed budget includes \$20 million General Fund for this purpose in both FY 2025-26 and FY 2026-27.
- The Governor's budget also addresses statewide broadband network implementation. Specifically, SB 156 (Chapter 112, Statutes of 2021) established the California Department of Technology (CDT) Office of Broadband and Digital Literacy. SB 156 requires CDT to develop a statewide open-access middle-mile network to expand access to high-speed broadband across the State. This proposed budget includes a significant adjustment to the broadband implementation project. The budget proposes an additional \$1.5 billion in General Fund money over two years, \$250 million in FY 2024-25 and \$1.25 billion in FY 2025-26, for CDT to complete the development of the statewide middle-mile network. The Administration acknowledges that additional funding will be necessary to complete the project by December 31, 2026, due to changes in scope and inflation costs.
- \$6 billion is provided for the High-Speed Rail Property Fund for the reinvestment of excess property sale revenues to offset future costs related to right-of-way acquisitions for the California High-Speed Rail Authority's Central Valley Segment.

Staff will continue to analyze budget documents and provide further agency impacts of the Governor's budget proposal as data is reviewed. An update on the proposed budget will be presented at the Legislative and Communications

Committee meeting on February 15, 2024. For additional information, please visit <http://www.ebudget.ca.gov/>.

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c: Executive Staff