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Consulting and Governmental Relations

June 2, 2020

TO: Transportation, Water, and Infrastructure Committee

FROM: Mark Watts

SUBJECT: Legislative Report – June TWIC Meeting

This report provides a brief status update on legislative or specific state budget activities.

Legislature

The Assembly reconvened following their shelter-based recess on May 4. Upon their return, they conducted a series of modest policy committee hearings, with several more to go by the end of the month. The Transportation committee has rescheduled a long-awaited hearing to later this month that will cover the High-speed Rail Business Plan Update.

The Senate reconvened from its similar recess on May 11 and proceeded to conduct policy hearings, as well.

In both instances, each house has had their chairs work with bill authors to pare down the workload greatly; the intent is to leave time to focus work on COVID-19 response and recovery matters as a high priority.

Governor Newsom

The Governor released his new, updated state budget proposal on Thursday, May 14. The new budget reflects his plan for dealing with the \$54.3 billion budget deficit created by the ongoing pandemic crisis.

Overview

While the January 2020-21 State Budget was built on a nearly \$6 billion budget surplus with more than \$16 billion in the Rainy-Day Fund, the pandemic response has significantly reduced California's three main sources of revenue – sales tax, personal income, and corporate.

The Governor's May Revision proposes to close the gap between revenues and expenditures by (1) drawing down on reserves, (2) canceling new budget initiatives proposed as part of the January Budget, (3) reducing spending in the current year, and (4) borrowing from special funds

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and temporary revenue increases (but not transportation special funds, as emphasized by recent email communications from the Department of Finance).

Transportation Funding

The gasoline excise and other transportation taxes have been impacted by the reduced travel by motorists responding to strict stay at home orders. The May Revision reports that gas tax receipts will be reduced by \$1.8 billion in total over the next five years (budget year through 2024-25).

The Department of Finance reports the following more specific revenue and program impacts, over the January Budget:

- Gasoline excise taxes are projected to generate \$1.108 billion *less* during the remainder of the current year and 2020-21 and that is for all three increments of gas tax including the base, the sales tax replacement, and the SB 1 increment.
- Transportation Improvement Fee (TIF) levied by SB 1 is projected to *increase* over January estimates by \$275 million.
- In terms of programmatic impacts, the State Highway Operations and Protection Program (SHOPP) will see a reduction of \$556 million, cities and counties will lose \$282 million in local streets and roads revenues, and the State Transportation Improvement Program (STIP) which funds state highway improvements, intercity rail, and regional highway and transit improvements will see a reduction of \$91 million over the current and 2020-21 fiscal years.

Finally, it is worth noting that during a call with CalSTA after the release of the May Revision, agency staff reported that the proposal does assume \$160 million from supposedly, non-Article XIX-protected transportation funds are to be transferred to the General Fund. This specific proposal consisted of \$130million in State Highway Account (SHA) interest earnings, and \$30 million from unallocated TCRP funds.

In a most positive development regarding this proposed diversion of SHA interest earnings, the budget subcommittees found this to be an unpopular alternative revenue source and ultimately both Assembly Sub #3 and Senate Sub #2 took action to reject the proposal.

Transportation Tax Rate Increases

As a reminder, as a result of the special adjustment language in SB 1, beginning in 2020-21, any estimated decreases in fuel consumption will be partially offset by CPI-based increases in the

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fuel excise tax rates and the TIF, as required by SB 1. The projected increases, which will go into effect on July 1, and which have been revised slightly upward since January, are as follows:

Gasoline Excise Tax (3.2-cent increase)

- 12 cents added by SB 1 increases to 12.8 cents
- 17.3-cent increment increases to 18.5 cents
- 18-cent base increases to 19.2 cents

Cap and Trade

Given the reduction in economic activity and vehicle miles traveled related to the responses to the pandemic, it is quite possible that cap-and-trade revenues will be lower than assumed in the May Revision.

Additionally, the administration in the May Revision has withdrawn January proposals to (1) send to voters a \$4.8 billion climate bond and (2) provide \$250 million from the General Fund for a new Climate Catalyst Fund.