

Smith, Watts & Company, LLC.

Consulting and Governmental Relations

June 19, 2020

TO: Transportation, Water, and Infrastructure Committee Meeting

FROM: Mark Watts

SUBJECT: Legislative Report – July TWIC Meeting

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

Legislature

Both Houses faced parliamentary deadlines as of June 19; in the Assembly, they were required to pass bills introduced in their house by that date, while the Senate adjusted their deadline for this date to apply to consideration by fiscal committees of Senate bills. The Senate extended until June 26 the deadline to move Senate bills out of their house.

Meeting their “house of origin” deadline allowed the Assembly to take begin their summer recess, adjourning on June 19 until July 13, while the Senate will continue to work until their adjournment date, scheduled for June 26. Likewise, they will return on July 13, as well; both houses will then be in synch.

With respect to the budget, as of this writing, the budget bill and major trailer bills are pending consideration by Governor Newsom (see below). As discussions ensue between the three parties, it is anticipated by both houses that they will have one day of Floor Session in the coming week; if so, the Assembly members have been cautioned to be prepared to be called back to consider budget trailer bills to make necessary policy changes to the budget act.

Finally, the Assembly Rules Committee is expected to meet at the end of the month to make bill referrals for measures that came over from the Senate.

Governor Newsom

On Friday, June 19th, Governor Newsom made 2 appointments to the CTC, bringing to nine the requisite number of gubernatorial appointees as authorized under statute.

Jon Rocco Davis, 61, of Rocklin.

Davis has been vice president and regional manager of Laborers’ International Union of North America (LIUNA) since 2001. He is chairman of the LiUNA Pacific Southwest Regional Organizing Coalition, National Alliance for Fair Contracting, Laborers-Employers Cooperation and Education

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Trust Southwest and International Accreditation Service. Rocco is a trustee of a number of affiliated entities.

Lee Ann Eager, 64, of Fresno.

Eager has been president and chief executive officer at the Fresno County Economic Development Corporation since 2009. She is a board member of the California Workforce Development Board, California Partnership for San Joaquin Valley and the California International Trade and Investment Council and a number of organizations affiliated with central valley economic interests. Eager earned a Juris Doctor degree from the University of California, Davis School of Law.

State Budget

On June 15 the Legislature acted to approve the balanced, but somewhat incomplete, 2020 State Budget. This action allowed the Legislature to meet the requirement in the State Constitution to pass a balanced State Budget by June 15th of every year.

Although the bill provides \$143 billion in General Fund appropriations for the continued functioning of the state government, legislative leaders openly acknowledged that the Budget Bill they passed, [SB 74 \(Mitchell\)](#), does not represent a final agreement with Governor Newsom and does not signify the end of state budget negotiations.

As a reminder, the initial January Budget proposal sought \$220 million in State expenditures. However, the COVID-19 pandemic responses at the state and federal levels have greatly affected state revenues and the present working “budget shortfall” was estimated to be \$54 billion. The Governor used the annual May Budget Revision to strike some of his earlier budget requests and to recommend a series of revenue actions, budgetary transfers, and other actions to form a fiscal pathway forward to meet the deficit.

In addition to the budget bill, the legislature also passed [AB 76 \(Budget\)](#), a budget trailer bill that was necessary for providing current-year funding to schools; the bill also included provisions related to victim restitution. [AB 85 \(Budget\)](#), the so-called tax revenue budget trailer bill, makes several changes to state taxes that would raise about \$4 billion. This measure was somewhat controversial, although both houses met the super majority requirement to successfully pass the measure to the governor.

The major differences that remain total billions of dollars and include whether to make deeper cuts to state programs like In Home Supportive Services (IHSS) or rely more on deferrals and borrowing, how much school funding to provide, and how to structure trigger cuts related to a possible federal aid package. The size of the unresolved issues makes it hard to predict a final

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outcome on items important to counties, even where the Governor and Legislature seem to be in agreement.

Deferred Budget Actions

The Legislature and the Governor will continue to negotiate, though their timeline is unclear on items for which agreement can be reached. Rumors have it that Legislative Leaders have indicated to their members that there may be developments during the week of June 22nd and to be prepared to consider these emerging proposals.

The next practical deadline is the beginning of the fiscal year on July 1, which has not been missed since California voters gave the Legislature authority to pass a budget with a majority vote. Major budgetary actions that may eventually be agreed upon will be incorporated into what has become known as the “Budget Bill Junior” in recent years.

Budget Trailer bills

Other important policy changes necessary to ensure that the budget bill appropriations are correctly applied will follow in the coming weeks. Included among these will be a Transportation Trailer Bill that for many interested transportation agencies will contain several policy modifications and policy deferrals applicable to transit funding programs.

These will include:

- 1 – More flexibility for Good Repair and LCTOP funds.
- 2 – Temporary elimination of TDA/STA compliance penalties.
- 3 – Allocation factor language for use by Controller in calculating STA/LCTOP Good Repair programs.

Transportation Tax Rate Increases

SB 1 requires the State to adjust the gas tax rate for inflation on an annual basis, including the base 18-cents, the 17.3-cent rate that replaced the sales tax on gas in 2010, and the 12-cent SB 1 increment. The Department of Finance provides the calculation, based on the Consumer Price Index, to the Department of Tax and Fee Authority who will implement the new rate on July 1 of every year (please see attached memo for more detail on the July 1, 2020 rate increase). In total, the inflationary adjustment to all increments of the gas tax that will take effect on July 1, 2020 is 3.2-cents. The tax rate for a gallon of diesel fuel will also be adjusted for inflation, by 2.5-cents.