



January 24, 2024

To: James Corless, Executive Director, Sacramento Area Council of Governments

From: Chris Lee, Partner, Politico Group
Kiana Valentine, Partner, Politico Group

Re: **January State Advocacy Report**

Politico Group is pleased to provide the following report to the Sacramento Area Council of Governments (SACOG) on recent advocacy activities, as well as statewide budget and legislative updates.

January Advocacy Activities

In January, Politico Group continued to work closely with SACOG staff to prepare for the upcoming legislative session, which we anticipate will include significant legislative activity on the intersection of transportation infrastructure, housing, and climate change, including SB 375 sustainable communities strategies. Politico Group is also working to schedule briefings with new policy committee chairs and briefings with new and returning members of the SACOG legislative delegation.

State Budget

Overview of the Governor's 2025-26 Budget Proposal

On January 10, the Department of Finance released the Governor's 2025-26 Proposed Budget, showcasing a relatively status quo state budget, especially for transportation programs. Due to the final budget agreement for 2024-25 that spread the state's \$45 billion deficit over a two-year period, the 2025-26 proposed budget brings the state back to a more stable fiscal footing, with a modest \$363 million surplus. Unlike last year, when the Governor's revenue estimates and projected deficit differed dramatically from those of the Legislative Analyst's Office, the Legislature's non-partisan fiscal advisor has only slightly different estimates from the Department of Finance this year, projecting an approximately \$2.2 billion deficit.

Major fiscal uncertainty remains, however, as the impacts of January's devastating fires in Southern California were not contemplated when the budget was prepared. Governor Newsom quickly expanded his existing special session declaration to encompass response and recovery costs for the LA fires. The Legislature responded by approving two budget bills providing up to \$2.5 billion state funding for these purposes. While legislators have discussed potentially tapping the recently approved \$10 billion Proposition 4 climate bond for Southern California fire recovery costs, the budget bills defer decisions about using these funds until later in the budget process in April.

We anticipate that the May Revision will have a more robust evaluation of the budgetary impacts of these emergencies, including the availability of federal emergency aid and the impacts to revenue estimates based on the extension until October 15, 2025, of state and federal income tax payments due from taxpayers in Los Angeles County between January 7, 2025, and that date.

Transportation Budget Proposals

The January budget was uneventful for transportation funding, with no additional cuts and limited new General Fund spending proposals beyond what was included in last year's budget deal. The Governor's budget maintains existing General Fund commitments to multimodal transportation programs and projects, totaling approximately \$14.2 billion, and maintains all special funds for their intended transportation purposes. This includes multi-year funding for the competitive and formula Transit and Intercity Rail Capital Program, the Zero Emission Transit Capital Program, and other previously awarded programs. The budget also maintains a \$100 million supplement to the Active Transportation Program in 2025-26, but this funding is only sufficient to maintain the current Cycle 7 funding commitments.

Finally, the transportation budget includes \$2.3 million to support regulatory work at the California Air Resources Board to increase ethanol content in gasoline from 10 percent to 15 percent in California as a strategy to further increase gasoline supply and reduce gasoline prices, and \$25 million for the Clean California Program. The latter investment would allow Cities and counties with a "Clean California Community" designation to access a "Community Cleanup and Employment Pathways Grant Program" as a matching grant for litter remediation and job creation.

Housing Budget Proposals

The Governor's budget does not propose housing-related funding reductions or augmentations in 2025-26, instead highlighting a proposed reorganization plan, which would create a new Housing and Homelessness Agency, and continued policy changes to promote increased housing production. While the budget summary does not include any specific housing policy proposals, the Administration is advancing three key policy principles:

- Reducing costs through streamlining processes, including reconsidering existing laws that increase housing costs and development risks.
- Ensuring that local governments comply with housing element obligations and existing laws, including the Permit Streamlining Act and the Housing Accountability Act.
- Removing barriers to infill housing near transit, including enhancing the ability to mitigate the impacts of infrastructure projects through infill housing investments—an effort previously announced in the Governor's Executive Order N-2-24 on infill housing.

The summary also previews policies that the Administration will propose, whether through future trailer bill language or policy bills sponsored by legislators, including expanding CEQA exemptions for infill housing, "updating housing programs to promote affordability," and enhancing the Department of Housing and Community Development's ability to recycle funding.

Cap-and-Trade Budget Discussion

California's cap-and-trade program expires in 2030. While the Governor acknowledged the need to extend the program to achieve the state's carbon neutrality goals, the January budget did not include a specific proposal related to cap-and-trade reauthorization to kick-off negotiations with the Legislature, but it does list the Governor's priorities for the investment of cap-and-trade auction proceeds in the Greenhouse Gas Reduction Fund, including investments in "programs that deliver effective pollution

reduction results, support clean transportation and communities, and help address energy affordability.”

Since its inception, the cap-and-trade program has reduced GHG emissions by 109.2 million metric tons and generated \$28 billion from auction proceeds (commonly referred to as GGFR, for the Greenhouse Gas Reduction Fund which holds revenues from the auctions). Sixty-five percent of GGRF is continuously appropriated and the other thirty-five percent is subject to annual appropriation. GGRF continuous appropriations fund the following programs (thirty-five percent of all GGRF must be directed to disadvantaged and low-income communities):

- California High-Speed Rail (25%)
- Affordable Housing and Sustainable Communities (20%)
- Transit and Intercity Rail Capitol Program (10%)
- Low Carbon Transit Operations Program (5%)
- Safe and Affordable Drinking Water (5%)

The Newsom Administration and Legislature are looking to extend the program in 2025, in large part to give regulated business certainty in long-term plans and state administrators similar assurances that the programs funded by cap-and-trade revenue and the recipients of those funds can plan for long-term investments. It is unclear whether the budget language means the Governor will wait for the Legislature to develop an initial proposal or if he will outline a plan later this year in his May Revision.

Legislative Updates

Legislative Committee Assignments

President pro Tempore McGuire announced the chairs and membership of Senate policy and fiscal committees in early January. Speaker Rivas had previously announced committee chairs in late December and full committee memberships on January 17. SACOG’s legislative delegation members continue to serve in variety of key positions relevant to regional transportation and housing issues, including:

- **Assemblymember Aguiar-Curry** – Member, Transportation Committee
- **Assemblymember Flora** – Vice-Chair, Budget Committee
- **Assemblymember Gallagher** – Member, Housing & Community Development Committee
- **Assemblymember Hoover** – Member, Local Government Committee and Transportation Committee
- **Assemblymember Patterson** – Member, Housing & Community Development Committee
- **Assemblymember Wilson** – Chair, Assembly Transportation Committee
- **Senator Cabaldon** – Chair, Budget Subcommittee No. 4 (includes oversight of housing budget issues), and Member, Housing Committee and Local Government Committee
- **Senator Dahle** – Member, Transportation Committee
- **Senator Niello** – Vice-Chair, Budget and Fiscal Review Committee, and Member, Budget Subcommittee No. 4

There were limited leadership changes across the broader transportation policy and budget area. Senator Laura Richardson (D-San Pedro, Los Angeles County), who previously served in both the

Assembly and in Congress, is the new chair of Senate Budget Subcommittee No. 5, which includes transportation in its jurisdiction. Assemblymember Steve Bennett (D-Ventura) retained his chairmanship of Assembly Budget Subcommittee No. 4 on Climate Crisis, Resources, Energy and Transportation, while Senator Dave Cortese (D-San Jose) continues as Chair of the Senate Transportation Committee. As noted above, Assemblymember Lori Wilson (D-Suisun City), who represents about 1,000 people in unincorporated Sacramento County, continues as the chair of the Assembly Transportation Committee.

Housing-related committees saw a more significant shake-up, with Assemblymember Matt Haney (D-San Francisco) assuming the chairmanship of the Assembly Housing & Community Development Committee and Senator Aisha Wahab (D-Hayward) taking over as chair of the Senate Housing Committee. Assemblymember Quirk-Silva retains her role as Chair of Budget Subcommittee No. 5 (includes oversight of housing spending). As noted above, Senator Cabaldon will chair the corresponding Senate budget subcommittee.

The Local Government Committees in both houses retain the same leaders as last year: Senator María Elena Durazo (D-Los Angeles) and Assemblymember Juan Carrillo (D-Palmdale).

Contact

Email: Chris Lee (cleee@politicogroup.com) or Kiana Valentine (kiana@politicogroup.com)

Phone: (916) 444-3770