



May 24, 2024

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

From: Chris Lee, Partner, Politico Group
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Re: State Advocacy Report for May 2024

Politico Group is pleased to provide the following report to the Sacramento Area Council of Governments on recent advocacy activities, as well as updates on the Governor's May Revision to the 2024-25 state budget, legislative budget hearings, and other policy matters.

May Advocacy Activities

Politico Group continued to work with SACOG staff and the California Association of Councils of Government (CALCOG) to advocate for restoration of REAP 2.0 funding in the 2024-25 state budget, including providing budget testimony and developing strategies for restoring funding.

Politico Group's ongoing advocacy to the Governor's Administration and the California Transportation Commission (CTC) work on behalf of SACOG in support of the Yolo Interstate 80 Corridor Project and formation of the Capital Area Regional Tolling Authority (CARTA) culminated in a successful series of votes to advance funding for the project and approve the tolling application at the CTC's May meeting.

Finally, Politico Group has been working with SACOG staff to review newly amended legislation, including bills to implement the Regional Housing Needs Allocation report discussed below, as well as two-year bills that are likely to resume moving through the Legislature. The deadline for bills to pass out of their house of origin was Friday, May 24. The next key legislative hurdle is the July 3 deadline for second house policy committees to hear and report bills.

State Budget: Legislature Holds Hearings on Governor's May Revision

Following Governor Newsom's May 10 announcement of the Administration's proposed changes to the FY 2024-25 proposed budget, the Legislature kicked off another round of budget subcommittee hearings where they reacted to new proposals and began to express their overall budget priorities.

Housing and Homelessness Budget Hearings

As discussed in further detail below, the May Revision included nearly \$800 million in additional reductions to housing programs, leaving little remaining one-time General Funding spending in the areas of housing and homelessness. While the Regional Early Action Program of 2021 (REAP 2.0) was spared from further reductions in the May Revision, the broader revenue picture and additional cuts make it increasingly difficult to restore funding for the program. Advocacy by SACOG, its member jurisdictions,

and regional partners from around the state, however, has elevated the profile of the program and put it among a short list of higher-priority items for ongoing budget negotiations in the housing space.

Assembly Budget Subcommittee No. 5, which has jurisdiction over REAP 2.0 and other housing and homelessness programs, held two hearings on the May Revision. Subcommittee Chair Quirk-Silva (D-Fullerton) expressed significant concern with the Administration's approach on homelessness and housing program cuts, using increasingly strident language to suggest that the proposals were out of alignment with the Assembly's priorities. In particular, the Subcommittee's [May 22 agenda](#) highlights that REAP 2.0, the Multifamily Housing Program, and the Housing Navigator Program for foster youth have risen as priorities for the Assembly.

Transportation Budget Hearings

While the May Revision included additional cuts and fund shifts in the transportation space, the Administration noted that 93% of one-time transportation spending is retained in the May Revision, including 98% of one-time support for transit purposes. Maintaining this spending was possible through approximately \$1.3 billion in fund shifts from the General Fund to the Greenhouse Gas Reduction Fund (cap and trade revenues) – a statistic that caught the attention of the subcommittees with oversight of the GGRF and natural resources programs. Members of those committees expressed concerns with the amount of discretionary GGRF supporting transit and transportation, noting that both highspeed rail and the Transit and Intercity Rail Capital Program already receive ongoing allocations from continuously appropriated cap and trade funds.

May Revision Summary

The May Revision contains a mix of additional budget solutions to close a gap that the Administration estimates has grown by \$7 billion due to lower-than-expected revenues since the January budget proposal. The January budget had identified a \$37.9 billion shortfall, which was partially offset by the \$17.3 billion “early action budget package” approved by the Legislature in April, which left a remaining budget problem of \$27.6 billion after considering the reduced revenues.

The Administration proposes closing the additional budget shortfall through \$8.2 billion in additional budget solutions in 2024-25. Notably, the Governor also proposes \$28.4 billion in solutions in 2025-26 to ensure a net positive operating reserve. Specifically in 2024-25, \$10.7 billion in new reductions, \$2 billion in new borrowing, \$520 million in new delays, and \$3.9 billion in new fund shifts. These items are offset by an \$8.9 billion reduction in use of reserves, which the Administration now proposes to draw down from the Budget Stabilization Account in 2025-26.

Key items in the areas housing and transportation include:

- **Housing Programs:** Approximately \$793 million in additional housing and homelessness-related General Fund reductions, with \$500 million coming from the current budget year. While the Regional Early Action Planning Grants Program of 2021 (REAP 2.0) was spared from further cuts, these additional reductions leave few General Fund dollars on the table to potentially be redirected to restore REAP. Specifically, of the approximately \$1.2 billion in one-time General Fund that potentially remains available for housing-related purposes, \$840 million is currently dedicated to the Homeless Housing, Assistance and Prevention Grant Program.

- **Transportation and Transit:** While the \$4 billion in Transit and Intercity Rail Capital Program (TIRCP) Formula Funding and the SB 125 Zero Emission Transit Capital Program remain intact, the May Revision includes an additional \$400 million reduction to the Active Transportation Program, a \$350 million reduction to fund high priority grade separations, and \$148 million reduction in unused competitive TIRCP funding.

The Governor's May Revision continues to characterize the budget problem differently than recent estimates from the Legislative Analyst's Office, with key differences in shortfall estimates attributed to about \$13 billion in differences in revenue projections and \$15 billion in differences in assumptions about K-14 education funding.

Additional details on the newly proposed FY 2024-25 budget solutions from the May Revision are included below.

Energy, Transportation, Housing, Labor, and Local Government

The May Revision proposes several budget solutions in the energy, transportation, housing, labor, and local government areas, including:

- **Active Transportation** – Reduces \$300 million in 2025-26 and \$99 million in 2026-27 General Fund for the Active Transportation Program (ATP) in addition to the \$200 million reduction in the Governor's Budget.
- **Transit** – Shifts an additional \$555.1 million General Fund to GGRF for a total of \$1.3 billion in fund shifts for transit. The May Revision reduces \$148 million in unused Competitive Transit and Intercity Rail Capital Program (TIRCP). The May Revision states that the fund shifts are not expected to have any program impact and that the May Revision maintains \$4 billion for the Formula TIRCP and \$1.1 billion for the Zero Emission Transit Capital Program.
- **Grade Separations** – Reduces \$350 million General Fund for the Grade Separations Program, which will impact the projects programmed in July 2023.
- **Highways to Boulevards** – Reduces \$75 million General Fund to the Highways to Boulevards Program. The May Revision maintains \$75 million total for the program from GGRF.
- **Homeless Housing, Assistance, and Prevention (HHAP) Round 5 Grant Program** – reduces \$260 million one-time in 2025-26 for HHAP Round 5 supplemental grant funding and
- **Multifamily Housing Program** – Eliminates the remaining \$75 million in 2023-24 in addition to the \$250 million proposed in the Governor's Budget.
- **Infill Infrastructure Grant Program** – Eliminates \$35 million in 2023-24.
- **Veteran Housing and Homeless Prevention** – Eliminates \$26.3 million in 2023-24
- **Adaptive Reuse** – Reduces \$127.5 million in 2023-24, which would eliminate the program.
- **Foreclosure Intervention Housing Preservation Program** – Eliminates the remaining \$236.5 million in 2023-34 in addition to the \$237.5 million proposed in the Governor's Budget, which would eliminate the program.
- **Clean Energy Reliable Investment Plan** – Shifts the remaining \$900 million to GGRF over multiple years starting in 2025-26.
- **California Jobs First** – Reduces \$150 million for the California Jobs First Program (\$50 million annually from 2024-25 through 2026-27).

- **Women in Construction** – Reduces \$10 million on an ongoing basis in addition to the proposed \$5 billion reduction in the Governor’s Budget, which would result in elimination of this program.

Resources, Environment, and Capital Outlay

The May Revision proposes several budget solutions in the resources, environment, and capital outlay areas, including:

- **Cap and Trade Fund Shifts** – Shifts \$1.7 billion General Fund to the Greenhouse Gas Reduction Fund (GGRF) in 2024-25 for various climate programs. In total, the May Revision proposes to shift \$3.6 billion General Fund to GGRF over five years.
- **Water Storage** – Reduces \$500 million one-time in 2025-26 to support water storage facilities.
- **Outdoor Equity Grants** – Reduces \$50 million one-time in 2023-24 for outdoor environmental education and access programs administered through the Outdoor Equity Grants Program. The May Revision maintains \$40 million for the program in total.
- **Vulnerable Community Toxic Clean-Up** – Reduces \$136 million in 2023-24 for the Department of Toxic Substances Control’s Cleanup in Vulnerable Communities Initiative Program. The May Revision, through a GGRF fund shift, maintains \$65 million for the program.
- **Habitat Conservation Fund** – Reverts \$45 million one-time in 2023-24 and reduces \$20 million ongoing starting in 2024-25 for the Habitat Conservation Fund by accelerating the sunset date which is currently scheduled for 2023.
- **Capitol Annex Project** – Shifts \$700 million over two years from the State Project Infrastructure Fund to the General Fund and includes statutory changes that would provide lease revenue bond authority to help fund and construct the project.
- **Air Pollution Control Fund Loan** – Provides a loan of \$300 million from the fund balance in the Air Pollution Control Fund to the General Fund.

Policy Updates

Bills Amended to Implement HCD Regional Housing Needs Allocation Report

Following the release of a [long-awaited report](#) recommending legislative changes to the Regional Housing Needs Allocation (RHNA) process, members of the Legislature began to amend some of the recommendations into legislative bills.

- Assembly Housing and Community Development Committee Chair, Chris Ward, amended [AB 3093](#) to implement the Administration’s highest-priority change from the report. As discussed below, this bill would establish new extremely- and acutely-low income categories in RHNA in an attempt to better align homelessness and housing planning.
- Senator Becker amended [SB 721](#) to include suite-style student housing developments in city and county housing production reports.

RHNA Report Background

The “California’s Housing Future 2040: The Next Regional Housing Needs Allocation (RHNA)” report was required by a housing-related budget trailer bill in 2019 and discussed at a recent press conference, where the Governor highlighted efforts to increase state oversight over local homelessness spending.

The report includes numerous recommendations for the Legislature, policy considerations, and changes that the Department plans to implement under its existing authority. The Administration has stated that it is most focused on a proposal related to planning for the housing needs of households under 30% of area median income. Specifically, HCD has recommended creating two new income categories within the current very low-income category:

- Extremely low-income (ELI) households based on federal Department of Housing and Urban Development definitions, or below 30% of area median income (AMI), and
- Acutely low-income (ALI) households with incomes of 15% of AMI.

Other key recommendations with potentially significant impacts to regions include:

- Giving HCD additional oversight of regional RHNA methodologies, including requiring changes to proposed methodologies that HCD finds do not meet statutory criteria.
- Moving up the timing for providing regions with the Regional Housing Needs Determination to better align the Housing Element and Sustainable Communities Strategies/Regional Transportation Plan process and requiring additional policy alignment between the growth projections in the RTP/SCS and the RHNA.
- Changing processes for providing local data to inform regional allocation methodologies and clarifying the appeals process.
- Removing the “comparable regions” analysis in favor of a comparison with the national average for vacancy rates and focusing the RHNA on the Department of Finance’s household projections.

The full report and related documents are [available on HCD’s RHNA website](#).

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