



January 27, 2023

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

From: Chris Lee, Partner, Politico Group
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Re: State Advocacy Report and California Legislative, Budget and Administrative Outlook for 2023

Politico Group is pleased to provide the following report to the Sacramento Area Council of Governments on recent state advocacy efforts, as well as developments we anticipate in 2023 on state funding, legislation, and policy of interest to SACOG.

Sustainable Communities Strategy Update – SACOG-Sponsored Legislation

Assemblymember Aguiar-Curry has agreed to introduce legislation that would extend the timeline for SACOG's update of the Sustainable Communities Strategy (SCS) portion of its Metropolitan Transportation Plan (MTP). The draft legislative language is based on a similar bill that was passed to extend the timeframe for the update of the San Diego Association of Governments' MTP/SCS, although several provisions must be adjusted to accommodate the unique circumstances of the Sacramento region.

The extended timeline for the MTP/SCS would have multiple benefits, including closely aligning the timing of the regional planning processes in the SACOG region with its megaregional partners, particularly the Bay Area's Metropolitan Transportation Commission. Moreover, the new timeframe will allow the MTP/SCS update to be informed by SACOG's RAISE grant work, which will create a new model for community engagement on transportation planning, particularly to elevate the voices of disadvantaged communities.

The bill will be introduced and begin the legislative process in late winter/early spring. SACOG board members can play several key roles to help ensure the bill's success:

- Engage legislative delegation members to educate them on the bill and encourage support. Later in the legislative process, similar efforts with key contacts in the Newsom Administration will also be helpful.
- Work with your local jurisdiction to formally support the bill.
- Engage community groups to support the bill, including equity, environmental, and business groups, or any others with an interest in the RTP/SCS update.

Legislative Leadership & Committee Membership

A wave of retirements and term-limited members brought significant changes to the Legislature in the 2022 election. One quarter of the Senate's forty members are newly elected, and a freshman class of 24 new members in the Assembly gives that house a ratio of 30% new membership. Despite these significant changes, as well as a planned leadership transition from Assembly Speaker Anthony Rendon

(D-Lakewood) to Speaker-Designee Robert Rivas (D-Hollister) in July, there have been limited changes to the leadership of key budget and policy committees of greatest importance to SACOG.

New chairpersons were appointed to the following budget subcommittees:

- Assembly Budget Subcommittee No. 3 on Climate Crisis, Resources, Energy, and Transportation – Assemblymember Steve Bennett (D-Santa Barbara)
- Senate Budget Subcommittee No. 4 on State Administration and General Government (includes housing) – Senator Steve Padilla (D-Chula Vista)

Chairs of the following key committees remained the same:

- Senate Budget and Fiscal Review – Senator Nancy Skinner (D-Berkeley), Chair
- Senate Budget Subcommittee No. 5 on Corrections, Public Safety, Judiciary, Labor, and Transportation – Senator María Elena Durazo (D-Los Angeles), Chair
- Senate Environmental Quality – Senator Benjamin Allen (D-Santa Monica), Chair
- Senate Governance and Finance – Senator Anna M. Caballero (D-Merced), Chair
- Senate Housing – Senator Scott Wiener (D-San Francisco), Chair
- Senate Transportation – Senator Lena Gonzalez (D-Long Beach), Chair
- Assembly Budget - Assemblymember Phil Ting (D-San Francisco), Chair
- Assembly Budget Subcommittee No. 4 on State Administration (includes housing) – Assemblymember Wendy Carrillo (D-Los Angeles), Chair
- Assembly Housing and Community Development – Assemblymember Buffy Wicks (D-Oakland), Chair
- Assembly Local Government – Assemblymember Cecilia Aguiar-Curry (D-Winters), Chair
- Assembly Natural Resources – Assemblymember Luz Rivas (D-San Fernando Valley), Chair
- Assembly Transportation – Assemblymember Laura Friedman (D-Glendale), Chair

Locally, six of the twelve SACOG state legislative delegation members are newly elected, although one previously served in the State Assembly. The new members are:

- Senator Marie Alvarado-Gil (D-Jackson) – SD 4
- Senator Angelique Ashby (D-Sacramento) – SD 8
- Senator Roger Niello (R-Fair Oaks) – SD 6 (*prior Assemblymember*)
- Assemblymember Josh Hoover (R-Folsom) – AD 7
- Assemblymember Stephanie Nguyen (D-Elk Grove) – AD 10
- Assemblymember Joe Patterson (R-Rocklin) – AD 5

Continuing delegation members are:

- Senator Brian Dahle (R-Bieber) – SD 1
- Senator Bill Dodd (D-Napa) – SD 3
- Assemblymember Cecilia Aguiar-Curry (D-Winters) – AD 4
- Assemblymember Megan Dahle (R-Bieber) – AD 1
- Assemblymember James Gallagher (R-Nicolaus) – AD 3
- Assemblymember Kevin McCarty (D-Sacramento) – AD 6

Governor's 2023-24 January Budget

The 2023-24 January Budget reflects significant revenue losses – to the tune of \$29.5 billion below estimates – and an estimated budget gap of \$22.5 billion. Tax receipts have underperformed for a few key reasons – high-inflation, multiple federal reserve bank interest rate hikes, and stock market declines. The stock market’s influence over California’s fiscal condition is oversized, with a large portion of tax revenues coming from capital gains and progressive personal income tax structures.

The Governor’s budget emphasizes the state’s ability to weather this fiscal storm given prudent planning, saving for a rainy day, and accelerated debt repayment over the last decade. The Governor’s budget proposes additional actions that will allow the state to avoid draconian cuts to priority programs as was the case during the Great Recession. Specifically, the Governor’s budget proposes funding delays (\$7.4 billion), reductions and pullbacks (\$5.7 billion), funds shifts (\$4.3 billion), trigger reductions (\$3.9 billion), and limited revenue generation and borrowing (\$1.2 billion). The fiscal picture remains uncertain; as such, the Governor does not propose to draw from its reserve accounts to close the budget gap. Depending on the revenue condition between now and the May Revision, the Governor may propose withdrawing from reserve accounts and make additional reductions if the situation worsens or may reconsider spending delays and reductions if the fiscal picture improves.

For the Assembly’s part, Assembly Budget Committee Chair Phil Ting previously shared Assembly Democrats’ budget priorities and outlined initial plans to approach the deficit in December. The Blueprint focuses on preserving funding to education, infrastructure, and social services by tapping into budget reserves, delaying or deferring spending plans over multiple years, and borrowing from special funds. Chair Ting indicated the Assembly wasn’t keen on the prospect of holding back funds that were allocated this past year, even if they haven’t been spent yet.

Finally, the Blueprint also suggested that the Assembly will seek to craft a modernized State Appropriations Limit (or “Gann” Limit) for voters to consider in 2024 that encourages building reserves and reducing debts, as well as revisiting the state’s reserve laws to encourage larger reserves in the future. As a reminder, capital spending on infrastructure, including transportation and housing, is currently “excluded” from the Gann limit.

Transportation

Due to projected revenue decreases, the Governor’s 2023-24 state budget includes \$2.7 billion in reductions from one-time General Fund allocations. These cuts would be partially offset by a \$500 million allocation from the State Highway Account, which would otherwise fund state highway maintenance, operations, and improvements, for a net reduction of \$2.2 billion.

Significant Budget Adjustments

- *Transit and Intercity Rail Capital* - \$2 billion reduction and delayed expenditures. The 2022-23 Budget included \$2 billion in 2023-24 and \$2 billion in 2024-25. The Governor’s Budget reduces this to \$1 billion in 2023-24, \$500 million in 2024-25, and \$500 million in 2025-26. The \$2 billion reduction would be subject to restoration in the 2024 Governor’s budget if sufficient revenue is available.
- *Active Transportation Program* - \$200 million net reduction. Last year’s transportation funding package allocated \$1 billion in 2021-22 from the General Fund. The Governor’s Budget reduces this amount by \$500 million with a \$300 million backfill from the State Highway Account that

allows the program to sustain all projects funded in the California Transportation Commission's 2023 grant cycle.

- *Railroad Grade Separations* – No net reduction and delayed expenditures. Last year's transportation funding package allocated \$350 million in 2021-22 from the General Fund for railroad grade separation projects, with anticipated expenditures in 2023-24. The Governor's Budget delays these expenditures until 2025-26.
- *Climate Adaptation Program* – No net reduction. The full \$200 million allocation in 2021-22 for regional and local transportation climate adaptation grants is retained in the Governor's budget, although funding would now be from the State Highway Account instead of the General Fund.

Transportation Funding Projections

The Governor's budget projects an increase in special transportation fund revenues, with a 4.3-cent inflationary adjustment to the gasoline excise tax and a 3.3-cent inflationary adjustment to the diesel excise tax, both effective July 1, 2023. Revenues from the SB 1 Transportation Improvement Fee, which is charged along with vehicle registrations, will grow by 8.9% year-over-year. The SB 1 Road Improvement Fee for zero emission vehicles still comprises a tiny component of total revenues, but it is projected to nearly double from \$43 million in 2022-23 to \$81 million in 2023-24.

Zero-Emission Vehicles (ZEV) Acceleration

The Governor's 2023-24 budget includes \$2.5 billion in General Fund reductions across various ZEV programs, which are partially offset by approximately \$1.4 billion from Cap-and-Trade program Greenhouse Gas Reduction Funds (GGRF).

Significant Budget Adjustments

- *Equitable Zero-Emission Vehicles and Infrastructure* – a \$745 million reduction; partially offset with \$535 million from GGRF. This maintains \$2.1 billion.
- *Heavy-Duty Zero-Emission Vehicles and Supporting Infrastructure* – a \$1.5 billion reduction for heavy-duty ZEVS and supporting infrastructure, partially offset by \$839 million from GGRF. This maintains \$5.3 billion.
- *Community-Based Zero-Emission Mobility* – a \$184 million reduction; partially offset by \$25 million from GGRF. This maintains \$180 million.
- *Aviation, Off-Road, Maritime, Rail and Hydrogen* – a \$133 million reduction; partially offset by a \$40 million from GGRF. This maintains \$1.3 billion.

Housing

The Governor's 2023-24 state budget proposal continues to focus on state oversight of local housing planning and approval, with continued investments in technical assistance from the recently created Housing Accountability Unit in the Department of Housing and Community Development (HCD). Moreover, the Governor proposes making eligibility for any future homelessness-related grants under the Business, Consumer Services and Housing Agency and the Health and Human Services Agency contingent on local government compliance with state housing law, including housing element compliance.

Weakening revenues have also led to proposed cuts in housing programs that received one-time allocations in the 2022-23 Budget. Grant funding for infill infrastructure, adaptive reuse, and multifamily

housing remains intact, but the Governor's Budget proposes a \$350 million cut from the \$2.85 billion in one-time housing allocations in 2022-23 and 2023-24. Specifically, a \$200 million cut from the \$500 million California Dream for All Home Ownership Program, a \$100 million cut from the CalHome first-time homebuyer assistance program, and elimination of the \$50 million one-time allocation to subsidize the development of accessory dwelling units (ADUs). These cuts could be restored in the 2024 Governor's budget if sufficient revenues are available.

Homelessness represents one policy area where the Governor avoided cuts and instead proposed to make significant additional one-time revenues. The 2023-24 budget includes \$1 billion for another round of grants to counties, continuums of care, and large cities under the Homeless Housing, Assistance and Prevention (HHAP) Program and \$400 million for homeless encampment resolution grants. Building on the theme of accountability, the HHAP funding proposal is contingent on statutory changes related to state oversight of local homelessness planning and expenditure of the grant funds.

2023 Legislative Agenda – Transportation Policy and Funding Issues

The intersection of climate change and transportation policy will continue to be a key theme in the State Capitol in 2023, as the Administration continues implementation of initiatives under the California Air Resources Board (CARB) Scoping Plan and the Governor's Climate Action Plan for Transportation Infrastructure (CAPTI). State budget headwinds threaten the reduction or delay of significant one-time funding for transit capital and active transportation, and the exhaustion of federal relief funding for transit agencies will create hardship for operators. Finally, legislative proposals seeking to address a perceived misalignment of state, regional and local transportation project selection with climate goals will return in modified form.

- **Transportation Funding and Transit Fiscal Cliff**

Capital and operational needs for all transportation modes in the face of budget deficits will be a key issue in 2023. The \$10.8 billion transportation funding package in the 2022-23 budget included investments of \$5.4 billion in 2021-22, \$2.7 billion in 2023-24, and \$2 billion in 2024-25. First-year investments were dedicated largely to high-speed rail, active transportation project grants, transit, and climate adaptation. As noted above, a changing budget picture has put these investments at risk, especially the out-year investments devoted almost entirely to transit capital. Separately, changing commute patterns and dwindling federal relief funding is poised to create a "fiscal cliff" for transit operations—an issue already generating significant legislative interest.

- **Sustainable Communities Strategies and Regional Planning Legislation**

Assemblymember Laura Friedman, Assembly Transportation Committee Chair, has introduced intent legislation (AB 6) to prioritize regional transportation projects that contribute to meeting Sustainable Communities Strategies and state climate goals. The other intent bill (AB 7), states legislative intent to "eliminate single occupancy vehicle freeway capacity projects," while allowing for maintenance, transit, active transportation, and projects that "significant add safety" or "significantly reduce congestion." Additional SCS-related legislation is expected in the Senate, where a 2022 working group was convened to discuss SCS implementation. Throughout this ongoing debate, regional agencies have reiterated the importance of land use changes and housing-supportive infrastructure in achieving climate goals.

- **Transportation Funding & Equity**

The Legislature is likely to consider a broad proposal that would require equity “carve-outs” from state and federal transportation funding for the benefit of communities that meet specified equity criteria. We anticipate a proposal that tiers from California’s requirement to allocate cap and trade revenues to disadvantaged communities, as well as the Biden Administration’s Justice40 initiative, which also seeks to direct funding for climate-friendly projects.

- **The Climate Action Plan for Transportation Infrastructure (CAPTI) Implementation**

Recent updates to competitive transportation grant programs, including those under the purview of the California Transportation Commission (CTC), have already sought to align state investments with climate change goals. In 2023, the Administration will continue these efforts, including through changes to the interim “Caltrans Strategic Investment Strategy” (CSIS), which was developed to align state highway projects nominated or sponsored by Caltrans, as well as projects on which Caltrans partners with a local or regional agency, with the CAPTI investment framework.

- **Fuel Taxes, Zero Emission Vehicles & Transportation Funding**

Ongoing efforts to reduce reliance on fossil fuels for transportation, including the adoption of the Advanced Clean Cars II rule by CARB last summer, will put increasing pressure on the state to develop alternative revenue streams for transportation. Advanced Clean Cars II is a CARB regulation that aims to reduce vehicle emissions from light-duty passenger cars, trucks, and SUVs by phasing out gas-powered vehicles. The adopted rule took a phased in approach starting with the 2026 model year, reaching zero emissions by 2035, with limited exceptions. The state continues to study a mileage-based road charge as a replacement measure, with a forthcoming report that will analyze rural issues, including travel on public versus private roads.

2023 Legislative Agenda - Housing Policy and Funding

The availability and affordability of housing will continue to be an issue at the top of the legislative agenda in Sacramento, with a particular focus on the role that regional and local governments play in setting the stage for the private sector to build homes. Local policies that impact housing, including zoning and impact fees, will continue to be under the microscope, but unlike recent years, reduced state revenues will likely mean less new funding available to build subsidized housing or provide state grants for infill infrastructure. At the same time, the state is taking an increasingly strident oversight role over local housing planning and project approvals as it implements numerous state housing laws.

- **State Focus on Local Zoning and Fees**

Following the passage of two bills in 2022 that override conflicting local zoning to allow housing development on commercial zones, Senate Housing Chair Wiener has reintroduced a bill to provide similar zoning overrides for affordable housing projects on church properties. Unlike prior iterations of the bill, it is supported by carpenter labor groups. Despite a significant overhaul of laws governing development impact fees in 2021, we also expect additional focus from the Legislature on policies to reduce or defer local impacts fees on housing projects.

- **Long-Term RHNA Reforms**

Budget legislation from 2020 directed the Department of Housing and Community Development (HCD) and the Governor’s Office of Planning and Research to engage stakeholders and report back

to the Legislature for recommendations to better align the Regional Housing Needs Assessment/Allocation process to align with state environmental goals. The report is due at the end of the year and presents an opportunity for regional agencies to highlight issues such as infrastructure limitations that affect regional and local housing production.

- **Housing Element Enforcement**

Dozens of laws passed since 2017 have dramatically reshaped the housing planning and approval process and provided the HCD with additional oversight. In the current housing element cycle, an HCD-approved element is a prerequisite for several funding programs, including SB 2 permanent local housing allocation funding, Affordable Housing and Sustainable Communities grants, and Infill Infrastructure grants. On the other hand, the implementation of the Pro-Housing Policy Designation program provides incentives for local agencies that adopt policies to support housing at all income levels—a program where jurisdictions in the Greater Sacramento Region have excelled. We anticipate a continued focus on oversight from the Administration in 2023, as well as legislative proposals to expand HCD's oversight function to additional areas, including local environmental review of housing projects.

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