



October 10, 2016

To: Nicholas E. Chiulos, Assistant County Administrative Officer

Fr: John E. Arriaga, JEA & Associates

Re: State Report

Budget Update

After four straight months of missed budget projections, California's August revenues of \$8.56 billion outpaced expectations by \$425.2 million, or 5.2 percent, based largely on the strength of personal income tax receipts, State Controller Betty T. Yee reported in mid-September.

Personal income tax (PIT) receipts of \$4.79 billion in August were \$373.4 million higher than predicted in the 2016-17 Budget Act signed by Governor Brown in June—a difference of 8.5 percent. For the first two months of the fiscal year, PIT receipts are on target—just 0.5 percent higher than expected.

Two months into the new fiscal year, total year-to-date revenues of \$13.98 billion are just \$166.1 million below projections, or 1.2 percent.

"Under our outdated tax structure, revenues fluctuate greatly from month to month," said Controller Yee, the state's chief fiscal officer. "After the lengthy period of sustained growth California has enjoyed, I would expect to see some degree of economic plateau."

Corporation tax receipts of \$72.8 million for August fell \$49.7 million short of projections—a difference of 40.6 percent. For the fiscal year-to-date, they are 24.9 percent lower than anticipated. Retail sales and use tax receipts of \$3.24 billion for August were just \$20.8 million—a negligible 0.6 percent—lower than expected. For the fiscal year-to-date, sales tax receipts are 5.6 percent lower than expected.

The state ended the month of August with unused borrowable resources of \$30.97 billion, which was \$2.45 billion more than predicted in the 2016-17 Budget Act. Outstanding loans of \$5.61 billion were \$421.4 million less than projected. This loan balance consists of borrowing from the state's internal special funds.

The future budget outlook will be heavily contingent on the outcome of elections, with Prop. 52 (hospital fee) and Prop. 55 (income tax extension). If Prop. 52 fails, the state will not be able to draw down those federal funds that it has relied on for the last six years, thus having to back-fill those Medi-Cal dollars from the General Fund. Likewise, if Prop. 55 fails, the state will lose anywhere from \$4 billion to \$9 billion a year that was currently funding schools, low-income programs and the state's rainy-day fund. The likelihood of the state backfilling these dollars completely is unlikely, and cuts should be expected when the Governor releases his January budget.

Legislative Update

On the last day of August, the Legislature adjourned with a faint whisper as many of the outstanding priorities, like transportation and tax reform, remains on the table.

The County has been active in taking positions on sixteen bills and recently added six budget items. Since the last legislative report, the County has taken a support position on SB 831 (Committee on Budget and Fiscal Review). In the last days of session, the appropriation in AB 1585 for the Tunnel Project was amended into this vehicle. The following are the County position bills that had action taken since the last Legislative Report:

- **AB 1585 (Alejo)** - Appropriates \$10 million from the General Fund (GF) to the Monterey County Water Resources Agency (MCWRA) for construction of a water conveyance tunnel between Lake Nacimiento and Lake San Antonio in Monterey and San Luis Obispo Counties. Location: This bill was recently amended into SB 831. **SUPPORT**
- **SB 547 (Liu)** - This bill creates the Statewide Aging and Long-Term Care Services and Coordinating Council (Council), chaired by the Secretary of the California Health and Human Services Agency (CHHS) and requires the Council to develop a state aging and long-term care services strategic plan to address how in 2020, 2025, and 2030 California will meet the needs of the aging population. Location: Vetoed. **SUPPORT**
- **SB 831 (Committee on Budget & Fiscal Review)** - Appropriates \$10 million from the General Fund (GF) to the Monterey County Water Resources Agency (MCWRA) for construction of a water conveyance tunnel between Lake Nacimiento and Lake San Antonio in Monterey and San Luis Obispo Counties. Location: Signed by Governor. **SUPPORT**
- **SB 879 (Beall)** – This bill enacts the Affordable Housing Bond Act of 2016, which authorizes the sale of \$3 billion in general obligation bonds, upon approval by voters at the November 8, 2016 statewide general election. The bill further creates the Affordable Housing Bond Act Trust Fund of 2016 (Fund), and states the Legislature's intent that all bond proceeds be deposited in the Fund. Location: Assembly Third Reading/Dead **SUPPORT**
- **SB 974 (Committee on Local Government)** - Would allow the congressmember, state senator, and state assemblymember whose districts include the majority of Fort Ord to appoint representatives to Fort Ord Reuse Authority's (FORA) board. Location: Signed by Governor. **SUPPORT**

- **SB 1188** (McGuire) – Requires, instead of authorizes, the Department of Fish and Wildlife (department) to pay annual in lieu payments and specified assessments to counties in which wildlife management areas are located. Location: VETOED **SUPPORT**

Transportation –

In the last week of session, both Transportation Chairs unveiled a \$7.4-billion transportation, the latest effort to break through a yearlong logjam over the state's funding woes. The plan, highlighted by an increase of 17 cents per gallon in the gas tax, comes from Assemblyman Jim Frazier (D-Oakley) and Sen. Jim Beall (D-San Jose) in an attempt to unify the disparate proposals the pair had previously introduced in their respective houses.

The combined plan is more than double the Governor's \$3.6-billion proposal, which calls for a 6-cent gas tax hike. Last summer, the Governor called a special session of the Legislature to highlight the \$130-billion backlog in state and local road repairs, as well as the billions more in other transportation budget deficits. But lawmakers have made little progress, especially with gas tax hikes - which would require a bipartisan supermajority vote - on the table.

Republican lawmakers have previously shown little appetite for a tax increase, instead pitching a plan that would eliminate vacant state worker positions and reallocate existing dollars - including from the state's climate change programs - toward transportation spending.

The specifics of the deal are:

- A \$7.4 billion annual funding package to repair and maintain our state and local roads, improve our trade corridors, and support public transit and active transportation.
- A \$706 million repayment of outstanding transportation loans for state and local roads.
- Eliminates the BOE “true up” that causes funding uncertainty and is responsible for drastic cuts to regional transportation projects.
- Indexes transportation taxes and fees to the California CPI to keep pace with inflation.
- Reforms and accountability for state and local governments to protect taxpayers.
- Streamlines transportation project delivery to help complete projects quicker and cheaper.
- Protects transportation revenue from being diverted for non-transportation purposes.
- Helps local governments raise revenue at home to meet the needs of their communities.

New Annual Funding

- State -- \$2.9 billion annually for maintenance and rehabilitation of the state highway system.
- Locals -- \$2.5 billion annually for maintenance and rehabilitation of local streets and roads.
- Regions -- \$534 million annually to help restore the cuts to the State Transportation Improvement Program (STIP).
- Transit -- \$516 million annually for transit capital projects and operations.

- Freight -- \$900 million annually for goods movement.
- Active Transportation -- \$80 million annually, with up to \$150 million possible through Caltrans efficiencies, for bicycle and pedestrian projects. help locals raise funding at home by lowering the voter threshold for transportation tax measures to 55 percent.

Constitutional

Reforms and Accountability

- Restores the independence of the California Transportation Commission (CTC).
- Creates the Office of Transportation Inspector General to oversee all state spending on transportation.
- Increases CTC oversight and approval of the State Highway Operations and Protection (SHOPP) program.
- Requires local governments to report streets and roads projects to the CTC and continue their own funding commitments to the local system.

Streamlining Project Delivery

- Permanently extends existing CEQA exemption for improvements in the existing roadway.
- Permanently extends existing federal NEPA delegation for Caltrans.
- Creates an Advance Mitigation program for transportation projects to help plan ahead for needed environmental mitigation.

New Annual Funding Sources

- Gasoline Excise Tax -- \$2.5 billion (17 cents per gallon increase)
- End the BOE "true up" -- \$1.1 billion
- Diesel Excise Tax -- \$900 million (30 cents per gallon increase)
- Vehicle Registration Fee -- \$1.3 billion (\$38 per year increase)
- Zero Emission Vehicle Registration Fee -- \$16 million (\$165 per year starting in 2nd year)
- Truck Weight Fees -- \$1 billion (Return to transportation over five years)
- Diesel Sales Tax -- \$216 million (3.5% increase)
- Cap and Trade -- \$300 million (from unallocated C&T funds)
- Miscellaneous transportation revenues -- \$149 million

Keeping Promises and Protecting Revenues

- One-time repayment of outstanding loans from transportation programs over two years. (\$706 million)
- Return of truck weight fees to transportation projects over five years. (\$1 billion)
- Constitutional amendment to ensure new funding cannot be diverted for non-transportation uses.

Due to the inaction of the Legislature on this issue before the end-of-session, advocates are hoping that this might get passed by a “lame-duck” session. The Legislature’s four caucuses always return two-days after a general election for internal affairs; therefore it is plausible that they could vote on something on November 10th prior to the new members being sworn in. The extraordinary session for transportation will end on November 30th, therefore, either the Governor or both legislative leaders will have to convene another special session and both ABx1 26 and SBx1 1 will have to be reintroduced. JEA & Associates have reached out to CSAC and expressed the County’s support and willingness to participate and/or advocate for a vote to be taken next month.

Cap-and-Trade

Late September, the Governor signed SB 859 by the Committee on Budget and Fiscal Review provides statutory provisions for the \$900 million 2016 cap-and-trade expenditure appropriation in AB 1613 by the Committee on Budget, and a plan to produce more biomass energy in the face of California's tree mortality epidemic:

- \$368 million to the Air Resources Board, including:
 - \$133 million to the Clean Vehicle Rebate Program.
 - \$80 million to the Enhanced Fleet Modernization Program, Plus-Up Pilot Project and up to \$20 million of this amount may be used for other light-duty equity pilot projects.
 - \$150 million for heavy-duty vehicles and off-road equipment investments.
 - \$5 million for black carbon wood smoke programs.
- \$140 million to the Office of Planning and Research for the Strategic Growth Council to provide transformative climate communities grants.
- \$135 million to the Transportation Agency for the Transit and Intercity Rail Program.
- \$80 million to the Natural Resources Agency for the Urban Greening program.
- \$65 million to the Department of Food and Agriculture, including:
 - \$50 million for the early and extra methane emissions reductions from dairy and livestock operations.
 - \$7.5 million for the Healthy Soils Program.
 - \$7.5 for the State Water Efficiency and Enhancement Program (SWEEP).
- \$40 million to the Department of Forestry and Fire Protection, including:
 - \$25 million for the Healthy Forest Program.
 - \$15 million for urban forestry programs.
- \$40 million to the Department of Resources Recycling and Recovery for waste diversion and greenhouse gas reduction financial assistance.
- \$20 million to the Department of Community Services and Development for weatherization and renewable energy projects.
- \$10 million to the Department of Transportation for the Active Transportation Program.
- \$2 million to the Office of Planning and Research for the Strategic Growth Council to provide technical assistance to disadvantaged communities.

Cap-and-trade investments in California, including expenditures in today's agreement, total \$3.2 billion.

Given the uncertainty associated with recent auctions of carbon allowances, the state has prudently reserved one-third of the total amount of proceeds for future allocation. Cap-and-trade investments in California, including expenditures in today's legislation, total \$3.2 billion.

The Governor also signed AB 2722, which creates the Transformative Climate Communities Program, a grant program administered by the Strategic Growth Council, for broad-based greenhouse gas emission reduction projects that provide local economic, environmental and health benefits to disadvantaged communities.

Legislative/Issues Track

Currently, the County has positions on sixteen (16) bills and six (6) budget items. As mentioned in the Legislative Update, the County continues to work with JEA & Associates on monitoring legislative introductions and amendments that directly impact the County and bring them forth to the Legislative Committee.