May 10, 2024

TO: Board Members, Transportation Authority of Marin
FROM: Gus Khouri, President
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RE: STATE LEGISLATIVE UPDATE – GOVERNOR'S FY 2024-25 STATE BUDGET-MAY REVISE

On May 10, Governor Newsom released his May Revision to the proposed FY 2024-25 State Budget, citing a $27.6 billion General Fund deficit. Governor Newsom identified a $37.9 billion deficit in January. The legislature took corrective action by passing AB 106 and SB 106 to find $17.3 billion in solutions (borrowing, delays, reductions, and shifts), but lackluster receipts increased the deficit by $7 billion. A $28.4 billion structural deficit is also identified for FY 2025-26. Governor Newsom proposes a total of $44.7 billion in solutions for FY 2024-25 ($4.2 billion in reserves, $3 billion in efficiencies, $15.2 billion in reductions, $14.8 billion in expansion pauses and shifts, and an additional $7.5 billion in borrowing) to close the gap. For FY 2025-26, $8.4 billion in Rainy Funds are used to balance the budget, leaving $22.8 billion in reserves.

How Did We Get Here?

The May Revise cites $201 billion in General fund spending, down from $208.7 billion in January and $288.1 billion overall when factoring in special funds ($291.5 billion in January). This is a sharp turn from the past few years, following surpluses in the FY 22-23 State Budget ($101.4 billion) and the FY 21-22 State Budget ($74.3 billion) surplus, predominantly used for one-time expenditures rather than long-term obligations. This was attributable to a 55% increase in revenue from personal income tax, corporate tax, and capital gains revenue during the pandemic.

A portion of the deficit is attributable to the 33% reduction in capital gains, which contributed to the collection of only $18 billion of the $42.9 billion expected in tax receipts. Due to severe storms in 2022, the Internal Revenue Service delayed tax collection to November 16 in 55 of 58 counties, impacting 99% of all state taxpayers and the late estimates. Had the tax collection delay not been in place, most of the $31.7 billion deficit for FY 23-24 would have been more significant due to lower tax receipts reflected in the May Revision and a smaller shortfall for FY 24-25. While the stock market rebounded and received nearly all its losses by the end of 2023, cash receipts for the year remained weak due partly to increased capital loss carryovers from 2022. New data for 2022 shows those losses grew by 62 percent, exceeding the 58 percent realized during the Great Recession in 2008.

Poor Forecasting

There is a disparity between forecasted and realized revenues. The “Big Three” revenues—personal income tax, corporate tax, and capital gains—were projected at $210 billion in FY 2022-23 and $220.9 billion in FY 2023- 24 but are now estimated at $170.1 billion and $177.7 billion, respectively. This represents a whopping $83.1 billion difference ($39.9B + $43.2B) in revenue projection over actual.

Impact on Transportation

The 2022-23 Budget Act included $13.8 billion for transportation programs and projects aligned with the state’s climate goals. The Budget maintains $13.6 billion of these investments but includes $200 million in reductions, $791 million in fund shifts, and $3.1 billion in delays across various programs.

Significant Budget Adjustments

- **Transit Intercity Rail Capital Formulaic Program**—A delay, from FY 24-25 to 25-26, of $1.3 billion of formulaic Transit and Intercity Rail Capital Program funds provided in SB 125, leaving $1 billion for this program in FY 24-25. Additionally, the Budget proposes to shift $261.4 million of the remaining $1 billion in FY 24-25 from the General Fund to the GGRF. This fund shift will have no programmatic impact.

- **Transit Capital and Intercity Rail Capital Program** – A reduction of $148 million in unused funds from Cycle 6, which is from the $1.8315 billion balance dedicated to projects in Southern California, including the counties of Orange, Imperial, Los Angeles, Riverside, San Bernardino, San Diego, and Ventura.

- **Active Transportation Program**—A reduction of $399 million ($300 million scored in FY 24-25 and $99 million scored in FY 26-27), in addition to the $200 million proposed in January, leaves $451 million for Cycle 7, which is a 57 percent cut (originally $1.05 billion). Cycle 7 covers programming capacity between FY 2025-26 and FY 2028-29. CalSTA Secretary Toks Omishakin noted that $980 million dollars over the next four years is programmed for biking and walking infrastructure improvements using SHOPP despite the cuts.

- **Grade Separation Funding—**$350 million in one-time General Fund revenues will be eliminated to fund seven projects statewide ($251 million) and six port infrastructure projects ($98.5 million). Secretary Omishakin stated that these high-priority investments would be a priority to backfill with federal funds from the Federal Rail Administration or the Federal Transit Administration, if possible.

- **Highways To Boulevards—**The program will receive a $75 million reduction (a 50 percent cut). Secretary Omishakin stated that federal funds could be used to backfill the program.

TAM SB 1031 Ad Hoc Committee

Priority Points for Senator McGuire

May 13, 2024

TAM SB 1031 Ad Hoc Committee convened for the first time on April 30, 2024 to discuss the status of SB 1031 and consider potential bill amendments to convey to Senator McGuire, including the following:

- Add language to ensure regional measure does not conflict with SMART Measure Q renewal in 2026.
- Allow each county to participate in expenditure plan development before ballot placement unless a codified (legislated) expenditure plan is developed with specific projects like RM3.
- Ask for return to source of higher than 70%.
- Include an amount equivalent to ¼ cent distribution for SMART if Measure Q renewal fails.
- Add safe routes to school eligibility to safe streets pot.
- Add active transportation eligibility to the connectivity pot.
- Ensure that the connectivity pot goes out by formula directly to CTAs.
- Support to engage in conversations about Marin Transit facility.
- Adding SMART to Cloverdale to Plan Bay Area 2050+. This item was not discussed by the Ad Hoc Committee but requested by SMART as a North Bay priority.