



Date: October 7, 2016
To: Mayor and Members of the City Council
From: Patrick H. West, City Manager *T. West*
Subject: **FY 17 State Budget Analysis**

Introduction

The State's FY 17 Budget uses limited new spending to support essential one-time activities such as repairing and replacing aging infrastructure, building affordable housing, and addressing the effects of the drought. The budget includes \$125.1 billion in General Fund resources available and \$122.4 billion in expenditures. In line with the Governor's priority in planning for the next recession, the budget transfers \$3.3 billion to the State's Rainy Day Fund.

The two primary issues driving the State's FY 17 Budget were an affordable housing proposal introduced by the Governor in May, and debate over the State's authority to extend California's Cap-and-Trade Program beyond 2020. Complicating the budget process were low revenues from two consecutive Cap-and-Trade allowance auctions prior to the end of the State's legislative session.

Cap-and-Trade

In August of 2016, the California Air Resources Board released quarterly allowance auction results for the State's Cap-and-Trade program. While demand rose compared to the previous auction in May 2015, a majority of allowances went unsold due to the uncertainty of the program's future past 2020. Though the State has reserved one-third of the total amount of proceeds for future allocations, there remains limited funding for the Cap-and-Trade program. On September 8, 2016, the Governor signed into State law AB 32 (Pavley) and AB 197 (Garcia), which require the State to cut emissions at least 40 percent below 1990 levels by 2030, thus extending the Cap-and-Trade program.

Following the adoption of SB 32 and AB 197, and consistent with the Cap-and-Trade expenditure framework established by SB 862 (2014), the State's FY 17 Budget allocates 60 percent of FY 17 auction proceeds to public transit, affordable housing, sustainable communities, and high-speed rail.

Cap-and-Trade funds that may be applicable to the City include:

- \$10 million for the Active Transportation Program to fund bicycle and pedestrian programs;
- \$40 million to the Department of Resources Recycling and Recovery for waste diversion and greenhouse gas reduction financial assistance;

- \$140 million for the Transformative Climate Communities Program to fund a community-wide approach for disadvantage communities to implement an integrated transportation, housing, and green space development plan;
- \$80 million for the Urban Greening Program to fund green spaces and parks in local communities;
- \$15 million for the Urban Forestry Program to assist disadvantage communities with tree planting and care; and,
- \$2 million for the Strategic Growth Council to assist disadvantage communities and local governments with developing climate.

Other Cap-and-Trade funds are allocated as follows:

- \$135 million for the Transit and Intercity Rail Capitol Program to fund essential local capital projects for bus and commuter rail;
- \$133 million for the Clean Vehicle Rebate Program to assist with the purchase of clean vehicles;
- \$150 million for the Heavy Duty and Off-Road Investments to help develop and pilot cleaner industrial vehicles; and,
- \$80 million for the Enhanced Vehicle Fleet Modernization program to provide low-income families assistance with replacing old vehicles with new, cleaner vehicles.

Transformative Climate Communities Program

The Transformative Climate Communities Program is a new community-oriented program funded by Cap-and-Trade proceeds. It was established by AB 2722 (Burke), which the City of Long Beach supported. Long Beach has already met with the Governor's Office and California Environmental Protection Agency (CalEPA) to discuss projects the State may fund through this new Cap-and-Trade program. The State expressed an interest in large scale projects, and gave the example of electrifying the I-710 freeway. Long Beach shared its West Long Beach Livability Plan as a realistic and viable means of improving local communities, and provided feedback on the proposed program.

The Transformative Climate Communities Program will be administered by the Strategic Growth Council (SGC), and fund the development and implementation of neighborhood-level transformative climate community plans that include greenhouse gas emissions reduction projects. In FY 17, \$140 million will be available for this effort.

Transportation

While statewide transportation funding was a priority for cities, the Assembly and Senate Transportation Committees, and a number of stakeholders, the Legislature could not agree on a funding package by the end of the State Legislative session. Numerous funding proposals were introduced in the 2015 legislative session, in the Special Session, and in the current legislative session. The final \$7.4 billion annual funding proposal, which was jointly released by the Assembly and Senate Transportation Committees, would have required the following new annual funding sources:

- Gasoline Excise Tax -- \$2.5 billion (17 cents per gallon increase)
- End the Board of Equalization "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 second year)
- Truck Weight Fees -- \$1 billion (return to transportation over five years)
- Diesel Sales Tax -- \$216 million (3.5 percent increase)
- Cap-and-Trade -- \$300 million (from unallocated Cap-and-Trade funds)
- Miscellaneous transportation revenues -- \$149 million

As the 2016 State legislation session came to a close, this statewide transportation funding proposal was not brought forth for a vote.

A few changes to transportation funding impacting cities were adopted in the FY 17 budget. However, there will be a \$10 increase in the Motor Vehicle Fee statewide. This change was adopted to address the structural imbalance in the Department of Motor Vehicles Account.

Affordable Housing

As part of his January budget, the Governor released an ambitious housing proposal. While the majority of the proposals failed to advance due to diverse disagreements on the technical components of the proposal, several bills affecting housing planning and approvals were adopted by the Legislature and signed into law:

- AB 1934 (Santiago) – This bill would create a development bonus for commercial developers that partner with an affordable housing developer to construct a joint project or two separate projects encompassing affordable housing. Long Beach supported this bill.

- AB 2299 (Bloom) – This bill would provide that local governments may adopt an ordinance allowing accessory dwelling units in single-family and multifamily residential zones; and require ministerial, nondiscretionary approval of an accessory dwelling unit under existing ordinance.
- AB 2442 (Holden) – This bill would require a local agency to grant density bonus, when an applicant for a housing development agrees to construct housing for transitional youth, disabled youth, or homeless persons.
- AB 2556 (Nazarian) – This bill would require, in cases where a proposed development is replacing affordable housing units, a local agency to apply a rebuttable presumption regarding the number and type of affordable housing units necessary for density bonus eligibility.
- SB 1069 (Wieckowski) – This bill would require an ordinance for the creation of accessory dwelling units to include specified provisions regarding areas where accessory dwelling units may be located, standards, and lot density. This bill would also revise requirements for the approval or disapproval of an accessory dwelling unit application when a local agency has not adopted an ordinance.

No Place Like Home Program

The FY 17 State Budget establishes a new housing program to assist local governments in preventing and addressing homelessness. Through the No Place Like Home Program, \$2 billion will be distributed among counties as deferred payment loans to finance capital costs of permanent supportive housing for persons who are eligible for services under Proposition 63 (2004) and are homeless, chronically homeless, or at risk of chronic homelessness. The Legislature intends that the loans will not have to be repaid.

The budget provides \$267 million one-time, first-year funding for the Program, which will primarily be funded by a \$2 billion bond secured by a portion of future Proposition 63 mental health revenues. Allocation of Proposition 63 funds are as follows:

- \$1.8 million for a competitive grant program that will be based on a county and developer's ability to use the funds to develop and operate permanent supportive housing; and,
- \$200 million to be distributed to counties for construction or preservation and capitalized operating costs or permanent supportive housing.

Redevelopment

The budget does not include any new changes to the redevelopment dissolution process.

Medical Marijuana Regulation and Safety Act

The budget contains \$3.4 million to carry out the regulatory responsibilities of implementing the Medical Marijuana Regulation and Safety Act, which was adopted in the 2015 State Legislative Session.

If you have questions or comments, please contact Diana Tang, Manager of Government Affairs, at (562) 570-6506.

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