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MEMORANDUM

To: Mayor Libby Schaaf
Council President Lynette Gibson McElhaney and Members of the City Council

From: Townsend Public Affairs, Inc.

Date: September 6, 2016

Subject: Ongoing update of the 2016-2017 State & Federal Budgets

State Update

The Legislature wrapped up the two-year legislative session early in the morning on September 1. They will reconvene for the first year of the next two-year session on January 2, 2017. All bills that were sent to the Governor's office will need to be signed or vetoed by September 30. In the final days of the legislative session, the Legislature focused on hot topics including climate change, Cap and Trade, overtime pay for farmworkers, and tributes for outgoing members of the Legislature.

One of the main hot topics that the Legislature failed to address this session was the passage of a comprehensive transportation funding package. Senator Beall and Assembly Member Frazier, chairs of their respective Transportation Committees, released a new \$7.4 billion transportation funding proposal a few weeks before the end of session. Although it was unable to pass the Legislature, it will likely become the basis for future discussions regarding transportation funding. While it is unclear if the Governor supports this funding package, it is possible that he will call the Legislature back into a special session on transportation after the November elections. It is important to note that since this funding proposal will raise certain taxes, a two-thirds vote will be required for passage, which will require some Republican support. Highlights from the transportation package are below:

- A 17 cent per gallon increase to the gasoline excise tax;
- A 30 cent per gallon increase to the diesel excise tax;
- A \$38 per year increase to the vehicle registration fee;
- \$300 million from unallocated cap and trade funds; and
- Indexing all fees and taxes, including current gas taxes, for inflation every three years.

Climate Change and Cap and Trade

On August 23, SB 32 (Pavley) passed the Assembly Floor and moved to the Governor's desk. SB 32 would require the California Air Resources Board (CARB) to ensure that

statewide greenhouse gas emissions are reduced to 40% below the 1990 level by 2030 and is seen as a vital step toward the extension of the Cap and Trade program. The Administration has been expecting pushback regarding the extension of the Cap and Trade program, with opponents of the program citing poor auction proceeds in May's quarterly auction as a sign of the program ineffectiveness. The next quarterly auction, held on August 16, also produced poor auction results according to preliminary auction data. The final report from the August 16 auction will not be available until next month, however it is expected that the revenue from the auction will be even less than the \$10 million raised in the May auction.

Additionally, the legality of the program has been questioned as many state that the program is an unlawful tax on carbon and should be subject to a two-thirds vote in the Legislature instead of the simple majority vote as was required of SB 32. The Governor has stated he is committed to the Cap and Trade program (see below) and that he will work to extend the program past 2020. Currently, it is unclear whether or not the Cap and Trade program will be extended administratively, legislatively, or through a ballot initiative.

As part of a package with SB 32, legislators also passed AB 197 (Garcia) which increases the transparency and oversight of the CARB. This bill would create the Joint Legislative Committee on Climate Change Policies and require the Chair of the CARB to report to this committee once a year. The legislation also requires voting board members to be appointed to six year staggered terms, however it does not set term limits on their appointment. Perhaps most importantly, AB 197 requires the CARB to prioritize direct emission reductions and consider social costs when adopting regulations to reduce greenhouse gas emissions. This is a change from currently policy, and will transform the way CARB creates and enforces regulations.

Cap and Trade Spending Proposal

On the last day of the legislative session, the Legislature gutted and amended two bills, SB 830 and SB 859, to include language that appropriates \$900 million from the Greenhouse Gas Reduction Fund for a variety of programs. The funding was widely focused on transportation, as transportation is known for being the leader in greenhouse gas emissions. Examples of appropriations within the funding proposal are below:

- \$150 million for the Heavy Duty and Off-Road Investments to help develop and pilot cleaner industrial vehicles, buses, and port equipment with new low or zero emissions;
- \$140 million for the Transformative Climate Communities program to allow for a community-wide approach for disadvantaged communities specified in statute to implement an integrated transportation, housing, and green space development plan to reduce pollution and improve local quality of life;
- \$135 million for the Transit and Intercity Rail Capital program, helping fund essential local capital projects to keep Californians moving by bus and commuter rail;
- \$133 million for a reformed Clean Vehicle Rebate Project, which help low and middle income families purchase the newest, cleanest vehicles available;
- \$80 million for the Enhanced Vehicle Fleet Modernization program to provide low income families help in replacing their existing polluting vehicle with a newer, cleaner vehicle;

- \$80 million for the Urban Greening program, to create green spaces and parks in communities in California that lack green space;
- \$10 million for the Active Transportation Program to fund bicycle and pedestrian programs that make walking or biking to school and work safer and easier;

Included within the bills is \$80 million for the Urban Greening program. This pre-existing program was previously funded through Proposition 84 and supported the development of green space and parks in underserved communities. The Assembly version of SB 830, AB 1613, was ultimately the bill that the Legislature passed to appropriate money from the Greenhouse Gas Reduction Fund. AB 1613 and SB 859 will now go to the Governor who has until September 30 to sign or veto the proposals.

Affordable Housing Trailer Bill

Despite an enthusiastic push from the Governor, the Administration and the Legislature were unable to agree on an affordable housing package this session. Labor and environmental groups who opposed the proposed package were the first to walk away from the table over language that would ease barriers to construction. The Assembly, led by Speaker Anthony Rendon, were the next to walk away, stating that the Governor's decision to link his local land-use proposal to \$400 million dollars in the budget for affordable housing has backed the Legislature into a corner. It is likely that this proposal will be re-negotiated next session and will be given a thorough policy vetting process.

Federal Legislative Update

Over the last two weeks, federal focus has been on presidential and congressional campaigns. Congress will soon be back from recess, returning the date of this memo.