

**Metropolitan Transportation Commission and Association of Bay Area Governments
Joint MTC ABAG Legislation Committee**

June 14, 2024

Agenda Item 3c

Fiscal Year 2024-25 State Budget Update

Subject:

Status update on the Regional Early Action Program (REAP 2.0) and state transit funding in the fiscal year (FY) 2024-25 State Budget.

Background:

In January, Governor Newsom released a FY 2024-25 State Budget proposal that predicted a \$38 billion budget shortfall, which was substantially smaller than the roughly \$70 billion deficit projected by the Legislative Analyst's Office. The Governor's proposal would close the budget gap through the use of reserves, delays or deferrals of spending authorized in earlier years – including delaying a portion of last year's \$5.1 billion Senate Bill (SB) 125 transit package – and spending cuts, including clawing back half of the REAP 2.0 program, which had been approved in the 2021 budget cycle. MTC's letter detailing Bay Area impacts from the proposed REAP 2.0 cuts is provided as Attachment A.

In April, the Governor and Legislature struck a deal on an "[early action plan](https://www.gov.ca.gov/wp-content/uploads/2024/04/Early-Action-Agreement-Overview-.pdf)" (https://www.gov.ca.gov/wp-content/uploads/2024/04/Early-Action-Agreement-Overview-.pdf)" to reduce the shortfall by \$17 billion. Assembly Bill (AB) 106, the early action plan budget trailer bill, was silent on the proposed REAP 2.0 cuts but affirmed the Governor's proposal to delay a portion of the SB 125 funds. Specifically, the early action delayed \$1 billion in Transit and Intercity Rail Capital Program (TIRCP) formula grants from FY 2024-25 to FY 2025-26. Shortly after April tax receipts came in at lower levels than projected, the Governor instituted a discretionary spending freeze (authorized by the Legislature in the above-mentioned AB 106). This halted the pending release of the Bay Area's SB 125 transit funds to MTC. As a reminder, SB 125 provided the Bay Area roughly \$1.1 billion over five years, but funds are still subject to appropriation each year. The Commission has committed to use those funds to support BART Core Capacity and BART Silicon Valley Phase 2 (\$725 million) and transit operating costs (\$445 million plus about \$28 million from anticipated interest earnings). MTC was informed of

the spending freeze on the same day we had anticipated receiving the Bay Area's "year one" resources (approximately \$530 million).

Encouragingly, the May Revise largely left the SB 125 deal intact, proposing delays and fund shifts rather than any cuts. MTC and transit agencies sent a cautionary note to Governor Newsom detailing that while a short freeze in the funds will not cause an immediate cash flow issue for the capital projects or transit service in the region, a prolonged freeze or actual cuts would have a broader impact (see Attachment B).

On May 29, 2024, Assembly and Senate legislative leaders released a Joint Legislative Budget Plan, summarized in Attachment C. The plan scales back the Governor's proposed REAP 2.0 budget cut from \$300 million to \$50 million, equivalent to a loss of about \$10 million or 10 percent for MTC instead of \$50 million. As of the writing of this memo, it is not yet clear if the plan includes the additional SB 125 fund delays proposed in the May Revise.

Staff will provide a verbal update at your committee meeting.

Recommendation:

Information

Attachments:

- Attachment A: MTC Letter on REAP 2.0
- Attachment B: Bay Area Transit Coalition Letter on SB 125
- Attachment C: Joint Legislative Budget Plan Summary



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