
M E M O R A N D U M

To: Orange County Sanitation District
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Subject: Monthly Legislative Report

State Legislative Update

The month of January included renewed action on the state budget and legislative fronts after months of adjournment from the previous session. This included the release of the Governor's January Budget framework, the beginning of the Legislative Session and bill introductions, and other action items relating to severe storms and new wildfire maps. Below is an overview of pertinent legislative actions taken during the month of January.

State Legislature

January 4 marked the formal start of the 2023-24 Legislative Session. Throughout the month, new and incumbent lawmakers gathered in their respective chambers for brief floor sessions with little policy consideration. That is expected to change as the Legislature nears its bill introduction deadline and each house reviews and refers legislation to the appropriate policy committees.

As of January 31, the Legislature has introduced close to 700 bill vehicles – with roughly half split between the Assembly and the Senate. Nearly one third of the total bills introduced are vehicles designated to each house's budget committee to ensure there are enough bills for any and all budget and budget trailer bills. In addition, there is a significant number of "intent" and "spot" bills, which lack substantive implementing language, pending future amendments. Legislative trends point to public safety initiatives to curb controlled substance and fentanyl use, transportation planning and funding bills, and several bills geared toward increasing affordable housing production and providing support to the State's homeless population.

The deadline for bill introductions is February 17. While that will serve as a filter for the introduction of new bill vehicles, it does not prohibit the use of "gut and amend" tactics, which amend the previous scope of a bill in favor of an entirely new one. The Legislature typically introduces 2,000 or more bills each legislative session, which is roughly capped by a 50-bill introduction limit over the course of the current legislative cycle spanning two years. Introductions will continue to emerge as the Legislature nears the February 17 deadline, with most introduced in the final week.

Notable bills include the following:

- [AB 62 \(Mathis\)](#) would establish a statewide goal to increase above and below ground water storage capacity by a total of 3,700,000 acre-feet by the year 2030 and a total of 4,000,000 acre-feet by the year 2040. The bill would require the State Water Resources Control Board, in consultation with the Department of Water Resources, to design and implement measures to increase statewide water storage to achieve the statewide goal.
- [AB 66 \(Mathis\)](#) would require the Natural Resources Agency, and each department, board, conservancy, and commission within the Agency, to approve the necessary permits for specified projects within 180 days from receiving a permit application and would deem those permits approved if approval does not occur within this time period.
- [AB 246 \(Papan\)](#) would state the intent of the Legislature to enact legislation to eliminate PFAS from menstrual products.
- [ACA 1 \(Aguiar-Curry\)](#) lowers the necessary voter threshold from a two-thirds supermajority to 55 percent to approve local general obligation (GO) bonds and special taxes for affordable housing and public infrastructure projects.
- [SB 23 \(Caballero\)](#) would express the intent of the Legislature to enact subsequent legislation to expedite the regulatory permitting process for water supply and flood risk reduction projects.

Key Takeaways from the Governor's Proposed Budget Framework

On January 10, Governor Newsom released his budget proposal for the 2023-2024 fiscal year. Overall spending trends in the proposed budget reflect a more conservative and disciplined budget framework rooted in “strong fiscal planning” on account of projected shortfalls, compared to the 2022-23 Budget which held record surpluses. The 2023-2024 January Budget Proposal anticipates a \$22.5 billion budget shortfall, which aligns with previous projections from the Legislative Analyst’s Office. Notably, the Governor proposes refraining from using reserve funds to backfill revenue losses, and instead favors strategic spending cuts. Some key takeaways from the proposed budget include:

- ***Deferrals and Reductions in Spending:*** Despite a \$22.5 billion budget shortfall, the Governor’s Budget largely maintains spending levels across the board through addressing the shortfalls by using deferrals, special fund loans, and fund shifts. The Governor specifically announced the deliberate steps that the State was going to take in order to address the budget shortfall, including proposed funding deferrals, reductions, and trigger reductions, which means that funds will “trigger” back to previous levels if the state’s fiscal outlook improves.
- ***Local Government Accountability Emphasis:*** The Governor proposed adding contingencies to the receipt of funds related to housing and homelessness. Specifically, the legislature will look toward conditioning eligibility for any future homeless-related grants and competitive programs through the Business, Consumer Services and Housing Agency and the Health and Human Services Agency, on compliance with state housing law.

- **Maximizing Spending Impact:** As typical with constricted budget capabilities, the Governor and the Legislature will look to maximize the impact of funding within various spending programs and direct allocations. This will include a keen focus on regional impacts, rather than hyper-targeted spending practices.

While the budget proposal includes various spending reductions and deferrals, it is important to note that the budget situation will continue to evolve over the next few months before its enactment. The Governor's proposal will be updated in May to reflect changes to tax returns, inflationary pressures, and federal monetary policy that could result in additional spending cuts or the restoration of spending programs.

Below is a high-level overview of proposed expenditures, organized by issue area:

Budget Reserves

- Total of \$35.6 Billion
- Rainy Day Fund: \$22.4 Billion
- Public-School Rainy-Day Fund: \$8.5 Billion
- Special Fund for Economic Uncertainties: \$3.8 Billion
- Safety Net Reserve: \$900 Million

Retirement Liabilities

- \$9.7 Billion: Paid Down within the past four years (2019-2022)
- \$7.1 Billion: Allocated for the next four years.
- \$1.9 Billion: Proposed spending in upcoming budget year

Homelessness

- Maintains prior budget commitments of \$3.4 billion and \$1 billion for HHAP Round 5:
 - Proposed statutory reconfiguration of HHAP program to reduce direct flexibility and instead fund programs such as the encampment resolution grant program, CARE Act, Homekey, etc.
- Maintains CARE Act funding for county start up programs totaling \$88.3 million.
- Delays \$250 million of behavioral health care infrastructure capacity grants.
- Conditions receipt of homelessness related grants on housing element compliance.

Housing

- Funding stabilized for accountability and streamlining like the Housing Accountability Unit and CEQA reform.
- New statewide housing production goal jumped from 2.2 million to 2.5 million units, with at least 1 million units in qualified affordable housing.
- \$350 million proposed spending cut to programs related to new home buying programs.
 - Dream for All first time Homebuyers program reduced from \$500 to \$300 million.
 - CalHome Program for local assistance for first time homebuyers program removed (\$100 million).
 - Accessory Dwelling Unit production program removed (\$50 million).

Environmental Sustainability

- Maintains 89 percent of \$54 billion dedicated to climate resiliency over 5 years.
- Includes budget forecast improvement triggers to restore funding to previous levels.
- Wildfires: Maintains all wildfire prevention funding with a \$10 million reduction for defensible space and monitoring funding.
- Water and Energy bill relief: Winds down program for arrearage support by shifting \$400 million from the program back into the General Fund.
- Waste Management: Maintains \$180 million dedicated to local implementation support of SB 1383 regulations.
- \$202 million in new investments:
 - \$136 Million: Urban flood risk reduction
 - \$41 Million: Delta levees
 - \$25 Million: Central valley flood protection

Public Safety

- Maintains funding for existing crime prevention and law enforcement support programs
- Emphasis on fatal drug overdose prevention:
 - \$79 million for statewide distribution of Narcan products to first responders and community organizations
 - \$10 million in fentanyl education and prevention grants
 - \$3.5 million for statewide distribution of Narcan products to middle and high schools
 - \$4 million for innovative approaches to fentanyl test strip technology

Transportation

- \$17.7 billion in overall proposed transportation spending (\$9.7 billion from the Highway User Tax).
- \$2 billion reduction in Transit Intercity Rail Capital Program over 3 years.
- \$200 million reduction in funding for the Active Transportation Program (ATP).
- Reductions in general fund spending on zero emissions vehicle programs partially offset by shifts from the Greenhouse Gas Reduction Fund totaling \$1.1 billion.