

To: VTA Board of Directors
From: Kurt Evans, Government Affairs Manager
Date: April 8, 2008
Subject: General Information: Weekly Legislative Report

For your information, I am attaching the weekly legislative update for the week of March 31, 2008.

MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Board of Directors

FROM: Kurt Evans, Government Affairs Manager
Santa Clara Valley Transportation Authority

DATE: April 7, 2008

SUBJECT: Weekly Legislative Update: Week of March 31, 2008

FEDERAL

Global Warming: The U.S. Environmental Protection Agency (EPA) made it clear that it would not be rushed into deciding whether to regulate emissions linked to global warming as the Supreme Court directed nearly a year ago. According to Stephen Johnson, the head of the agency, such action “could affect many emission sources beyond just cars and trucks,” and needs to be examined broadly as to other impacts. Johnson said he has decided to begin by seeking public comment on the implications of regulating carbon dioxide, a leading greenhouse gas, on other EPA rules that cover everything from power plants and factories to schools and small businesses. That could take months and led some of his critics to suggest that he was shunting the sensitive issue to the next Administration.

The Supreme Court ruled in April 2007 that carbon dioxide from burning fossil fuels is a pollutant subject to the federal Clean Air Act. The court directed the EPA to determine if carbon dioxide emissions endanger the public health and welfare. If that is the case, the court said, the EPA must regulate the emissions.

Sen. Barbara Boxer (D-CA), who chairs the Senate Environment and Public Works Committee, commented that Johnson has had nearly a year to respond to the court and that “now, instead of action, we get more foot-dragging.” She added, “Time is not on our side when it comes to avoiding dangerous climate change. And it is clear that Mr. Johnson and the Bush Administration are not on our side either.”

Housing: A legislative effort to address the nation’s home foreclosure crisis moved forward in the Senate as Democratic and GOP leaders defused a potential filibuster. Majority Leader Harry Reid (D-NV) and Minority Leader Mitch McConnell (R-KY) agreed to bring a bipartisan bill to the floor instead of a Democratic plan that stalled a month ago. The major sticking point with the Democratic plan is a provision that would give bankruptcy judges the authority to cut interest rates and principal on troubled mortgages. That provision is strongly opposed by Republicans and President George W. Bush.

The compromise is likely to draw on some elements of the Democratic plan, such as: (a) letting the states issue \$10 billion in tax-exempt bonds to refinance sub-prime loans; (b) permitting homebuilders and other money-losing businesses to reclaim previously paid taxes; (c) having the Federal Housing Administration guarantee hundreds of billions of dollars worth of refinanced loans if lenders reduce loan amounts to reflect reduced home values; (d) providing new money for debt counselors to help homeowners negotiate with lenders; and (e) forcing banks to make less money on the loans, but reducing their credit exposure at the same time. Republicans, meanwhile, are pushing an amendment to award tax credits to people who buy and move into foreclosed homes as a way to boost demand.

The recent developments in the Senate do not guarantee a successful result, but both parties are under great pressure to produce legislation that can pass this year. Senate Democratic and GOP leaders, however, are optimistic that there is enough common ground for a bill, even though difficult negotiations remain on several fronts.

Financial Reform: The Federal Reserve's role in monitoring the health of the nation's financial institutions would dramatically expand under a plan that the Bush Administration unveiled to overhaul financial regulatory oversight. The plan capped a year-long process that began with a desire to help U.S. financial players compete globally by streamlining their oversight and ended amid fears of a meltdown fed by lax regulation. Treasury Secretary Henry Paulson, who unveiled the 218-page plan, declared, "A strong financial system is vitally important—not for Walls Street, not for bankers, but for working Americans."

The Bush Administration's plan drew criticism, however, from Democratic congressional leaders, who said it does not go far enough to deal with abuses in mortgage lending and securities trading that were exposed by the current credit crisis. Some state officials also criticized what they saw as unwanted federal intrusion on their turf. The White House said it planned to work with Congress to have constructive conversations, but would not predict when any aspects of the proposal could be enacted into law.

The plan seeks to trim a hodge-podge collection of overlapping regulatory jurisdictions that date back to the Civil War. It would: (a) give the Federal Reserve more power to protect the stability of the entire financial system while merging day-to-day bank supervision into one agency, down from five at present; (b) create one super agency in charge of business conduct and consumer protection, performing many of the functions of the current Securities and Exchange Commission; (c) establish a federal Mortgage Origination Commission to set recommended minimum licensing standards for mortgage brokers, many of whom now operate outside of federal regulation; and (d) take a first step toward federal regulation of the insurance industry by creating an Office of Insurance Oversight.

The proposed overhaul comes at a time when the financial system faces its most severe credit crisis in two decades—one that has resulted in billions of dollars of losses for big banks and investment houses, and the near-collapse of Bear Stearns, the country's fifth-largest investment bank. The rising tide of bad debt has made it harder for consumers and businesses to get credit,

further weighing on an economy struggling with a prolonged housing slump and soaring energy prices. In fact, many economists believe the country is already in a recession.

War in Iraq: Marking a grim milestone, a determined President Bush declared that the lives of 4,000 U.S. military men and women who have died in Iraq “were not lost in vain” and that “there is an outcome that will merit the sacrifice.” While the 4,000 number of military deaths in Iraq pales compared with those of other lengthy U.S. wars, it is much higher than many Americans, including the President, ever expected after the swift invasion of Iraq five years ago. The President proclaimed the end of major combat operations in Iraq in May 2003. Almost all of the U.S. deaths there have happened since then.

President Bush is expected to reveal the next steps in the war sometime this month. One option that has found favor in the Pentagon is for the President to announce a relatively brief pause in troop reductions beyond July 2008, without saying when or at what pace further cuts would be made. During the pause, Gen. David Petraeus, his top commander in Iraq, would make yet another assessment of conditions in Iraq, possibly in September, before recommending specific troop reductions for the final months of 2008. One factor arguing against a quick resumption in troop cuts after July is the likelihood that Iraq will hold provincial elections in October 2008, an event that probably will require heightened security.

Meanwhile, Democrats in Congress and on the presidential campaign trail continued to push for a faster end to the war. “Americans are asking how much longer must our troops continue to sacrifice for the sake of an Iraqi government that is unwilling or unable to secure its own future,” said House Speaker Nancy Pelosi (D-CA). She said the cost to the nation’s reputation is immense, and the threat to the economy at home is unacceptable. Senate Majority Leader Harry Reid said the death toll is a reminder that the nation must get out of an “endless civil war and make America more secure.”

STATE

Zero Emission Vehicles: Acknowledging that development of air-pollution-free vehicle technologies such as hydrogen fuel cells is lagging, the California Air Resources Board (CARB) moved instead to require major automakers to produce more low-emission cars such as plug-in hybrids. The board’s decision will play a key part in its mandate to meet California’s ambitious goal of reducing air pollution and cutting greenhouse gas emissions as required by landmark legislation that was enacted more than a year ago. Representatives of environmental groups and automakers lined up on opposite sides of the hot debate over how CARB should change parts of its program for zero-emission vehicles, which had been in place since 1990.

With the promise of hydrogen fuel cells not materializing, CARB directed its staff last year to come up with changes to its rules. The seven largest automakers—Chrysler, Ford, General Motors, Honda, Nissan, Toyota, and Volkswagen—had been required to produce and sell 25,000 vehicles that emit no tailpipe emissions between 2012 and 2014, followed by 50,000 of these vehicles between 2015 and 2017. CARB staff recommended changing the rules to allow manufacturers to make just 2,500 such vehicles in the first phase and 25,000 in the second. But

they would have to compensate by making more than 180,000 low-emission vehicles, such as plug-in hybrids, which use electric and gasoline engines.

But CARB Board members said the recommendations were too lenient and instead adopted the following formula—a minimum of 7,500 zero-emission vehicles along with 58,000 low-emission vehicles between 2012 and 2014. Requirements for the following three-year period were not established. CARB also agreed that the state’s Zero-Emission Vehicle Program has become tangled by complicated rules and needs an overhaul. CARB directed its staff to come up with recommendations by the end of next year to make wholesale changes. Chairwoman Mary Nichols instructed staff to consider three main goals for the program: “to reduce smog-forming pollution, to limit the state’s contribution to global warming ... and our dependence on petroleum.”

The Zero-Emission Vehicle Program began in 1990 with a reduction in smog as its main objective. The program’s initial goal was to require 10 percent of vehicles sold in California to be air pollution free by 2003, but that goal was never met. Over the years, CARB made changes to accommodate the technological challenges that automakers faced. CARB said that while only a few thousand zero-emission vehicles are on the road today, state regulations have helped encourage automakers to look at new technologies to eliminate air pollution. But smog is not the only motivating factor for the program anymore. California’s commitment to reducing greenhouse gas emissions by a third in 2020 and by 80 percent by 2050 will also play a role in overhauling the Zero-Emission Vehicle Program.

Global Warming: With the enactment of AB 32 (Nuñez), the Global Warming Solutions Act of 2006, California has begun to implement policies to reduce greenhouse gas emissions. The law requires California’s aggregate greenhouse gas emissions to return to 1990 levels by 2020. The AB 32 Scoping Plan, to be developed by CARB, will contain the main strategies for reducing greenhouse gas emissions that cause climate change. CARB is working closely with the Climate Action Team, which was designated by Gov. Arnold Schwarzenegger, to develop the Scoping Plan. The team is composed of the secretary of the Business, Transportation and Housing Agency, the secretary of the Department of Food and Agriculture, the secretary of the Resources Agency, the chairperson of CARB, the chairperson of the Energy Commission, the president of the California Public Utilities Commission, and the secretary of the California Environmental Protection Agency. The draft Scoping Plan will be released for public review and comment in June 2008, and the final plan is scheduled to be released in October of this year. The plan would then go to the CARB Board for adoption in November 2008.

Political Reform: Could late and unbalanced budgets, along with partisan gridlock, disappear from Sacramento? That is the goal of a new bipartisan political foundation that unveiled its campaign to improve state government, bringing along a three-year, \$15.9 million budget and high hopes for overhauling the way the state does business. The group, called California Forward, will be directed by a 13-member bipartisan board, including six former elected officials, and a group of business, civil rights and political activists. “California cannot be a leader in the 21st century if its government is not functioning effectively and efficiently for the people of this state,” said the group’s co-chairman, Leon Panetta, a Democrat who has served in Congress and as chief of staff to former President Bill Clinton. Thomas McKernan, a wealthy

Republican activist in Orange County and CEO of the Automobile Club of Southern California, is the other co-chairman.

California Forward will operate a political fund—fueled by private donors and separate from the non-profit’s three-year, \$15.9 million budget—to make its voice heard on more overt political matters, such as ballot measures. The coalition is already backing one such measure, aimed for the November 2008 ballot, that would strip state lawmakers of the power to draw their own legislative districts. Gov. Schwarzenegger and California Common Cause are among the other backers. Overhauling how California’s state budget is crafted is another priority. But the foundation has not embraced any specific reforms yet, as Panetta said the foundation would be “judicious” about which policy changes it chooses to push.

REGIONAL

Peninsula Corridor Joint Powers Board (JPB): At its April 3 meeting, the Caltrain Joint Power Board (JPB) authorized an application for Regional Measure 2 funds for its Regional Rail Right-of-Way Project and received an update on the Caltrain Bicycle Master Plan. The JPB also was informed that staff is projecting a budget deficit for the coming year. More information will be forthcoming as staff continues its analysis to estimate the size of the projected deficit.

Bay Area Water Emergency Transportation Authority: On March 31, a new Bay Area public transit agency came into existence. The Bay Area Water Emergency Transportation Authority will oversee ferry services that were previously operated by the cities of Alameda and Vallejo, and will have the authority to marshal the area’s ferries if a natural disaster or terrorist attack disables San Francisco Bay crossings or their approaches.

Bay Area Economic Profile: The Bay Area Council Economic Institute released its sixth biannual Bay Area Economic Profile. The report takes a detailed look at the factors that drive the region’s economy. It revealed that the cost of doing business in the Bay Area is comparable to other cities in the United States, but that the cost is generally higher than international locations. In addition, housing remains expensive, and residents suffer long commutes and delays from traffic congestion. While local universities are well respected, K-12 students perform at lower standards than other areas in the United States and the world. Finally, the report notes that recent immigration restrictions in the United States have hurt the region’s ability to attract the best and brightest students and workers from around the world. To address these challenges, the report recommends that the Bay Area encourage public-private partnerships. These partnerships should extend to various areas of the region’s infrastructure, including transportation. It also recommends that commuters be encouraged to choose public transit over driving alone, and that the region continue its national leadership in the area of reducing carbon emissions.

NOTE: Also contributing to this report were Susan Lent with Akin, Gump, Strauss, Hauer & Feld; Mark Watts with California Strategies; and Scott Haywood, VTA’s Policy and Community Relations Manager.