

From: Board.Secretary  
Sent: Monday, August 25, 2008 9:38 AM  
To: Board.Secretary  
Cc: Burns, Michael  
Subject: BART VTA Comprehensive Agreement

To VTA Board of Directors:

Attached is a letter addressed to Mr. Burns from the General Manager of the San Francisco Bay Area Rapid Transit District regarding the BART VTA Comprehensive Agreement.

Thank you.

Yolanda L. Cruz  
Assistant Board Secretary  
Voice: 408.321.5669 Fax: 408.955.0891

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT  
300 Lakeside Drive, P.O. Box 12688  
Oakland, CA 94604-2688  
(510) 464-6000

August 22, 2008

Mr. Michael Burns  
General Manager, VTA  
3331 North First Street  
San Jose, California 95134-1906

Dear Mr. Burns:

As you know, BART and VTA have been working closely on the Silicon Valley Rapid Transit BART Extension project. The 2001 Comprehensive Agreement between VTA and BART has provided guidance in our work on the project.

The Comprehensive Agreement clearly defines VTA's responsibility for meeting both the operating and capital costs for the BART Extension. The agreement specifies the methodology for calculating the operating costs and requires an annual contribution to a capital replacement fund, which will build over time. An annual payment of \$48 million, required by the agreement, is a "deposit" for meeting both of those obligations. At the end of each year, this deposit and VTA's actual annual obligations will be reconciled. AECOM, nationally recognized consultants, appear to have followed the outlined methodology contained in the agreement.

We will continue to work closely with VTA on delivering this significant regional project.

Sincerely,

Dorothy W. Dugger  
General Manager

To: VTA Board of Directors  
From: Kurt Evans, Government Affairs Manager  
Date: August 25, 2008  
Subject: General Information: Weekly Legislative Report

For your information, I am attaching the weekly legislative update for the week of August 18, 2008.

## MEMORANDUM

**TO:** Santa Clara Valley Transportation Authority  
Board of Directors

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

**DATE:** August 25, 2008

**SUBJECT:** Weekly Legislative Update: Week of August 18, 2008

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### **FEDERAL**

***Energy:*** The stance of congressional Democrats against offshore drilling has shifted, with House Speaker Nancy Pelosi (D-CA) signaling her willingness to consider opening up more coastal areas to oil and gas exploration. In her party's weekly radio address, Pelosi said opening portions of the Outer Continental Shelf for drilling would be a part of energy legislation that House Democrats intend to put forward in the coming weeks to address the nation's dependence on foreign oil and high gasoline prices.

Just weeks ago, Pelosi seemed resolved to block any vote in the House to allow more offshore drilling, in part because Californians have opposed drilling off the state's coast since the occurrence of an oil spill near Santa Barbara in 1969. New offshore drilling is currently allowed only in federal waters in the western Gulf of Mexico and off the coast of Alaska.

Pelosi's radio remarks were the latest to hint that the energy debate in Congress is still evolving, and that Democrats are budging on the issue. When lawmakers left for their August recess, they were deadlocked over how to address \$4-a-gallon gasoline. Democratic proposals to tap the nation's petroleum reserve, curb oil speculation and force oil companies to drill on already leased federal lands were blocked by Republicans trying to force a vote on offshore drilling. Yet any vote on drilling is likely to force the hand of the GOP, since it would likely be packaged with unpopular proposals to tap the petroleum reserve and recoup unpaid royalties from the late 1990s to pay for renewable energy projects.

The pressure to expand offshore drilling intensified last month when President George W. Bush lifted an executive prohibition on drilling for oil and gas on the Outer Continental Shelf, although a congressional ban still remains in place. Furthermore, recent polls have shown that voters have grown more supportive of increasing domestic oil production as fuel prices have climbed.

**War in Iraq:** During a speech to the annual convention of the Veterans of Foreign Wars (VFW), President Bush, nearing the end of two terms in office dominated by the war in Iraq, commented that his decision to increase U.S. troop levels early last year brought security to a now resurgent nation, and he criticized those who have contended that his plan was flawed. Although he did not mention his detractors by name, the President's remarks about Iraq were a slap at Democratic presidential nominee Barack Obama and a boost to the Republican candidate, John McCain. Obama and McCain are sharply divided over the war in Iraq. Obama voted against it in the Senate, and says he would bring American forces home immediately. Meanwhile, McCain is a strong supporter of the war and backed last year's surge in troop levels. He also opposes a quick pullout.

## **STATE**

**State Budget: Assembly Vote:** California lawmakers finally voted on a state budget on August 17, but it died a partisan death. The Assembly vote broke new ground only because it represented the first tally on a spending plan, 48 days after the start of the new fiscal year. But Assembly Democrats and Republicans remain divided over two key issues: increasing taxes and imposing a hard cap on state spending. Nearly 50 Assembly members spoke during the floor debate, which lasted more than four hours. The final vote was 45-30, nine votes shy of the 54-vote supermajority needed for passage. No Republicans supported the plan.

The plan, which was crafted by the Assembly Democratic leadership, would have generated \$6.7 billion in additional tax revenues. It called for boosting top income tax brackets to 10 percent on couples' income over \$321,000 per year, and 11 percent on couples' income over \$642,000 per year. The highest tax bracket now is 9.3 percent. The Assembly Democratic plan also would have increased corporate taxes, rolled back the dependent child income tax credit that was expanded in the 1990s, and allowed the state to borrow against profits from the California Lottery without adding new games. General Fund reserves would have been hiked to \$1.755 billion, and the state's "rainy day" fund would have been beefed up. The plan did not include an idea floated by Gov. Arnold Schwarzenegger to temporarily increase the state sales tax by 1 percent.

**State Budget: Governor's Proposal:** Blaming both Democrats and Republicans in the Legislature, Gov. Schwarzenegger released a "compromise" state spending plan on August 20 that he hoped would jump-start the passage of a budget that is nearly two months overdue. However, his plan got a cold reception from lawmakers from both sides of the aisle.

The centerpiece of Governor Schwarzenegger's new proposal is a three-year, 1-percent increase in the state's sales tax, after which the rate would drop by 1.25 percent. The Governor touted his sales tax proposal as a long-term cut, with consumers ultimately recouping their losses and saving money. The temporary tax would not apply to gasoline, diesel fuel and jet fuel. According to Department of Finance figures, it would raise approximately \$5 billion a year. When the decrease kicks in, state coffers would instantly lose about \$6.5 billion a year, but the Governor is banking on that hole being filled through economic growth.

The Governor's plan also calls for \$2 billion more in spending cuts than the amount recommended by the Assembly-Senate Budget Conference Committee. About half of the additional reductions, or \$1.1 billion, would come from public education. Another \$317 million would result from cutting Public Transportation Account funding from the conference committee level of \$624 million to \$306 million.

Other key elements of the Governor's plan are as follows:

- Requiring that 3 percent of General Fund revenues be deposited into a budget reserve each year until the total amount in the reserve hits 12.5 percent. These funds could be spent only for certain purposes and only after a two-thirds vote by the Legislature.
- Granting the Governor the authority to implement mid-year cuts to state operations by up to 7 percent if a deficit develops after the enactment of the budget.
- Revamping the California Lottery and borrowing against future profits to raise \$5 billion in FY 2010 to be used to pay down General Fund debt and augment the budget reserve.
- Providing an "economic stimulus" package that: (a) expedites the spending of billions in previously approved bond funds; (b) provides tax credits for Hollywood's film industry; and (c) relaxes workplace rules to allow employees to voluntarily work four 10-hour shifts per week without overtime pay.
- Suspends the ability of businesses to deduct their net operating losses against future earnings for tax years 2008 and 2009 for a General Fund savings of \$1.7 billion over two years.

The budget reform and lottery elements of Gov. Schwarzenegger's plan would have to be approved by the voters, and the deadline for making the November 4 ballot is rapidly approaching.

**State Budget: History:** Why does California seem to struggle with its budget every year? Is state spending really out of line, as Republicans suggest, or are the Democrats right when they say we need more revenue? Here is a summary of how the state budget situation has evolved over the past 30 years.

**1978:** Before 1978, fashioning a state budget each year was a fairly routine task. But the passage of Proposition 13 in June 1978, which slashed local property taxes, began a radical budgeting make-over. General Fund spending jumped as the state assumed greater responsibility for public schools and local services.

**1979-1990:** After Proposition 13 passed in 1978, its co-author, Paul Gann, sponsored a 1979 measure to limit state government spending increases to inflation and population growth, with excess revenues being rebated to the taxpayers. This ballot measure limited state spending increases in the 1980s and mandated one rebate, but it was loosened in 1990 as part of a deal

between Republican Gov. George Deukmejian and Democratic legislators to increase the state gas tax. Since then, the so-called Gann Limit has never been a factor in the state budget, but Republicans are now demanding that it be revived.

1988: The budget continued to balloon as the state assumed more burdens previously borne by property taxes. In 1988, a coalition led by the California Teachers Association persuaded voters to pass Proposition 98, which was aimed at giving public schools a guaranteed portion—40 percent or more—of the state’s revenues.

1991: The end of the Cold War and the rapid drop in military spending plunged California into its worst recession in a half-century. General Fund spending was virtually frozen at about \$40 billion for several years as GOP Gov. Pete Wilson battled with Democrats and the education community. The budget was eventually balanced by raising income and sales taxes, cutting some state spending, and forcing local governments to shoulder some of the impact. A temporary sales tax increase was later made permanent with the approval of the voters to make up some of the losses to local governments.

1999-2000: A new economic surge, centered on the high-tech industry, flooded the state’s coffers. Revenues—mostly income taxes—skyrocketed to \$75.7 billion in FY 2001. Under Wilson and then-Democratic Gov. Gray Davis, spending also jumped sharply for public schools, and health care for low-income individuals and families. Republicans demanded and got billions of dollars in corporate and individual tax cuts, including a two-thirds cut in property taxes that motorists paid on their cars, known as vehicle license fees or the car tax.

2001: The surge in revenues from high-tech stock transactions was a one-time windfall. As the dot-com bubble burst, revenues dropped to \$62.7 billion in FY 2002, leaving the state with a \$14 billion operating deficit that year. Thus began a cycle of deficits that has plagued California ever since. The gap narrowed somewhat mid-decade as the state’s economy picked up again, but it has worsened since the housing industry’s meltdown.

2003: As the state’s deficit worsened, Davis reinstated the car tax to ease the impact on the General Fund. The move added fuel to a drive to recall him. Schwarzenegger made restoring the tax break a cornerstone of his campaign, a promise he fulfilled in his first act as Governor, even as he promised to end “crazy deficit spending.”

2004: Gov. Schwarzenegger persuaded voters to approve \$15 billion in bonds to cover the state’s budget shortfall. Repaying those bonds has become a multibillion-dollar bite on the General Fund, worsening the deficit. The Governor’s aides contend that the repayments should not be counted as spending increases on his watch, since they covered deficits run up during the Davis years. Overall, however, General Fund spending has outstripped population growth and inflation during Schwarzenegger’s five years as Governor. Gaps have been covered largely by borrowing, including raids on special funds, and accounting maneuvers, such as shifting liabilities to the next fiscal year.

2008: Gov. Schwarzenegger has pegged the FY 2009 deficit at \$15.2 billion, plus another \$2 billion that he says the state needs as an emergency reserve. He initially proposed borrowing

against the California Lottery's future profits, as well as making some spending cuts and accounting maneuvers to close the gap. More recently, he has proposed a temporary 1-percent increase in the state sales tax, which would raise about what the car tax cut costs the state on an annual basis.

**Medi-Cal:** A federal judge has ordered a temporary halt in the state's 10 percent reduction in Medi-Cal reimbursement rates, improving access to care for 6.5 million low-income patients, but throwing a new wrench in already difficult budget negotiations. The U.S. District Court decision forces the state to reimburse most Medi-Cal providers at rates prior to the 10 percent cut, which lawmakers and Gov. Schwarzenegger made effective July 1. The move increases reimbursement rates that the state pays to doctors, dentists, pharmacists, adult day-care centers, and other providers who serve Medi-Cal patients.

But the injunction comes as lawmakers remain divided over whether to bridge the state's budget gap with new taxes, borrowing or spending cuts. If the state ultimately loses the Medi-Cal reimbursement case, it could face an additional \$575 million hole on top of the \$15.2 billion deficit, according to the Department of Finance.

In February, the Governor and lawmakers enacted a series of emergency spending cuts, which included the reduction in Medi-Cal reimbursements. Groups representing health-care providers filed lawsuits against the state, charging that the cut violated federal law and would cause irreparable harm to Medi-Cal patients because it would reduce access to care. Democrats agreed to the Medi-Cal reduction back in February, but have insisted that the Assembly-Senate Budget Conference Committee's proposed spending plan for FY 2009, which includes tax increases for high-income earners, would allow for the cut to be rescinded if enacted.

**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.

From: Board.Secretary  
Sent: Monday, August 25, 2008 6:11 PM  
To: Board.Secretary  
Cc: Burns, Michael  
Subject: Transportation Recommendations in the 2007 Integrated Energy Policy Report

To VTA Board of Directors:

Attached is a letter addressed to Board Member Casas from the California Energy Commissioner regarding transportation recommendations in the 2007 Integrated Energy Policy Report.

Thank you.

Yolanda L. Cruz  
Assistant Board Secretary  
Voice: 408.321.5669 Fax: 408.955.0891

CALIFORNIA ENERGY COMMISSION  
JEFFREY D. BYRON, COMMISSIONER  
1516 NINTH STREET, MS-32  
SACRAMENTO, CA 95814-5512  
Telephone (916) 654-3992  
Telefax (916) 653-3478

August 6, 2008

Honorable David Casas  
Councilman, City of Los Altos  
476 Benvenue Avenue  
Los Altos, California 94024

Dear Councilman Casas,

I am a Los Altos resident. I am also a California Energy Commissioner who is keenly aware of the critical energy issues facing California and the important role of public transportation.

We need alternative and low carbon transportation fuels. We must address land use planning issues with a more integrated approach. And we need to invest in public transportation. I would be happy to meet with you to discuss these and other key transportation recommendations in our 2007 Integrated Energy Policy Report, or you may want to look at them yourself at:

<http://www.energy.ca.gov/2007publications/CEC-100-2007-008/CEC-100-2007-008-CMF.PDF>

I understand that there will be a key vote this Thursday to consider placing a BART-tax on the November ballot. I am in favor of allowing voters to make this crucial decision.

Please call my office if I may be of assistance in your decision making.

Regards,

Jeff Byron  
COMMISSIONER

cc: Liz Kniss, Chairperson  
Santa Clara Valley Transportation Authority

From: Board.Secretary

Sent: Friday, August 29, 2008 4:40 PM

To: Board.Secretary

Cc: Burns, Michael

Subject: Response to Board Referral: 1/8 Sales Tax Impact on Average Household in Santa Clara County

To VTA Board of Directors:

At the August 7th Board of Directors meeting, Board Member Chuck Reed requested staff to calculate the yearly cost of the 1/8 sales tax increase on the average household in Santa Clara County. Attached is the response from the Chief Financial Officer to his request.

Thank you.

Yolanda L. Cruz

Assistant Board Secretary

Voice: 408.321.5669 Fax: 408.955.0891



## MEMORANDUM

Writer's Direct Telephone: (408) 321-5630

**TO:** Santa Clara Valley Transportation Authority  
Board of Directors

**FROM:** Joseph T. Smith  
Chief Financial Officer

**DATE:** August 29, 2008

**SUBJECT:** 1/8 Sales Tax Impact on Average Household in Santa Clara County

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At the August Board of Directors meeting, Director Chuck Reed requested that staff calculate the yearly cost of the 1/8 sales tax increase on the average household in Santa Clara County.

MuniServices L.L.C. which provides sales tax analysis services for VTA did an estimate for sales tax per household. Based on their methodology the present value of an increase of a 1/8 percent in the sales tax would annually impact the average Santa Clara County household approximately \$38.63. MuniServices L.L.C. extracted the number of households in the county (as published by State of California Department of Finance) and taxable sales in the county. Only segments tied directly to household purchases were included in the analysis. The analysis also assumed approximately 2.967 people per household with a population of 1.8M countywide. Their estimate does not differentiate between sales generated by residents of the county versus visitors to the county.

Should you have any questions or require further assistance, please feel free to contact me at (408) 321-5630 or Kim Koenig at (408) 321-5768.

c: Michael Burns  
Board Secretary's Office