

From: Board.Secretary
Sent: Wednesday, November 19, 2008 8:06 AM
To: Board.Secretary
Cc: Burns, Michael
Subject: FW: Weekly Legislative Update for the Week of November 10

Good Morning,

Here is the Legislative Update for the week of November 10th.

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MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Board of Directors

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

DATE: November 17 2008

SUBJECT: Weekly Legislative Update: Week of November 10, 2008

FEDERAL

Obama's First News Conference: In his first news conference as President-elect, Barack Obama pledged to quickly seek an economic stimulus plan and made it clear that he would like to see Congress act on it even before he takes office. In order to boost the economy, he noted that such a plan should include extending unemployment benefits; helping states provide health insurance; and creating jobs by building roads, bridges and other infrastructure.

The President-elect also pledged to provide relief to struggling small businesses and signaled his intention to move decisively to preserve the domestic auto industry. He called the auto industry "the backbone of American manufacturing and a critical part of our attempt to reduce our dependence on foreign oil." During his presidential campaign, Obama repeatedly said he wants the next generation of alternative vehicles to be developed and built in the United States, "not in South Korea or Japan."

Although he emphasized that President George W. Bush remains the nation's chief

executive until Inauguration Day, Obama indicated that his transition team will be examining the management of the \$700 billion financial rescue plan with a critical eye. His advisors “will review the implementation of this administration’s financial program to ensure that our government’s efforts are achieving their central goal of stabilizing financial markets, while protecting taxpayers, helping homeowners and not unduly rewarding the management of financial firms that are receiving government assistance,” he commented.

Obama noted that another one of his priorities will be repealing some of President Bush’s more controversial executive orders, including those restricting federal money for embryonic stem cell research, and making certain public lands in Utah available for oil and gas drilling.

Obama/Bush White House Meeting: President Bush and President-elect Obama met privately in the Oval Office, taking the initial public steps in the transition to a new administration. It was Obama’s first visit to the White House since his election on November 4 and his first visit ever to the Oval Office. The soon-to-be commander-in-chief also got his first look at the Situation Room.

The traditional get-acquainted ritual follows a long, bitter presidential campaign during which Obama hammered the “failed policies” of the Bush Administration. Beforehand, the White House dismissed worries that such political attacks might chill the meeting. In a statement, the White House noted that President Bush and Obama have political differences, but are proceeding with a “tone of cooperation” and a “spirit of partnership” when it comes to the overall running of the federal government.

Presidential Transition: For months, President Bush pledged that he will “sprint to the finish.” Now he wants to ensure that President-elect Obama can “hit the ground running.” With his popularity at an all-time low and his successor determined to reverse many of his policies, President Bush nonetheless has ordered his staff to make the transition from one administration to the next as smooth as passing a baton in a relay race. Speaking to hundreds of employees of the Executive Office of the President, he said, “Over the next 75 days, all of us must ensure that the next President and his team can hit the ground running. In the coming weeks, we will ask administration officials to brief the Obama team on ongoing policy issues, ranging from the financial markets to the war in Iraq. I look forward to discussing those issues with the President-elect.”

Financial Markets: Treasury Secretary Henry Paulson said the \$700 billion federal government rescue plan will not be used to purchase troubled assets as originally planned. He noted that the Bush Administration will continue to use \$250 billion of the program to buy stock in banks as a way to bolster their balance sheets and encourage them to resume more normal lending. Paulson also announced a new goal for the program to support financial markets that supply

consumer credit in such areas as credit card debt, auto loans and student loans. He pointed out that 40 percent of U.S. consumer credit is provided through selling securities that are backed by pools of auto loans and other such debt. Paulson said these markets need support.

The announcement marked a major shift for the Bush Administration, which had talked only about purchasing troubled assets as it lobbied Congress to pass the massive bailout bill. Paulson said the administration is exploring other options, including injecting more capital into banks on a matching basis in which federal government funds would be supplied to banks that are able to raise capital on their own. The bailout money also should be used to support efforts to keep mortgage borrowers from losing their homes because of soaring default levels, he said.

Auto Industry: The heads of Detroit's automakers asked congressional leaders for "immediate and necessary funding" to help the troubled auto industry weather an economic crisis. The chief executives of General Motors, Ford and Chrysler, as well as the president of the United Auto Workers Union (UAW) met with House Speaker Nancy Pelosi (D-CA) and Senate Majority Leader Harry Reid (D-NV) to discuss billions of dollars more in financial help for the companies. In a statement, General Motors said the companies would work with Pelosi and Reid "to ensure immediate and necessary funding to keep the auto industry viable and its transformation on track during this critical time." General Motors commented that federal government support would "enable a competitive U.S. auto industry to contribute to our nation's economic revival."

Automakers are asking for an additional \$25 billion in federal loans for future health care payments for retirees. This money would help them make required payments to health care trust funds that were created as part of a 2007 labor deal. Under that deal, the companies are required to provide \$15 billion in January 2010 and an additional \$15 billion by 2012. Auto executives claim that \$25 billion from Congress would give the companies a better chance of immediately lining up other financing because most of the health care trust fund payments would have been covered. In addition, automakers want help from Congress in accessing money from the U.S. Treasury Department under the \$700 billion financial rescue plan and low-rate emergency borrowing from the Federal Reserve's discount window, which is used in normal times by banks.

Last month, Congress approved \$25 billion in low-interest loans for domestic automakers and suppliers to retool their plants to build fuel efficient vehicles. But congressional allies of the industry have said the money will not be available fast enough to help the companies.

U.S. auto sales declined to their lowest level in more than 17 years last month, prompting some auto executives to predict dire consequences if the economy does not improve. The companies are hoping that House and Senate leaders will

include funding for the industry in an economic stimulus package during a lame-duck session of Congress. Meanwhile, President-elect Obama expressed support for an additional \$25 billion in loans on the condition that the money would go toward helping the industry build fuel efficient cars. Obama said he would meet with industry leaders and the UAW to talk about helping them.

War in Iraq: The Bush Administration's hopes for sealing a security deal with Iraq while in office are fading as Iraqis demand changes to a draft text that some U.S. officials consider to be unacceptable. Those amendments include broader Iraqi jurisdiction over American forces and the elimination of a clause that would let them stay after a tentative 2011 deadline. Even if compromises can be found on those issues, there is still no guarantee that the Iraqi Parliament will approve the so-called Status of Forces Agreement. Failure to bridge the gaps would leave two options: (1) extending the U.N. mandate beyond its December 31 expiration date; or (2) suspending all U.S. operations in Iraq.

STATE

State Budget: According to the Legislature's non-partisan budget analyst, California will face massive budget shortfalls through at least 2014 without immediate action by lawmakers and Gov. Arnold Schwarzenegger. In the midst of high unemployment, shaky consumer confidence and plummeting investments, the state needs a slew of tax increases and spending cuts to resolve a \$27.8 billion problem over the next 20 months, Legislative Analyst Mac Taylor said. Those budgetary actions also would help narrow annual deficits of about \$22 billion in subsequent years.

Taylor's shortfall estimate of \$27.8 billion is greater than the \$24.2 billion figure that the Governor recently cited. But the legislative analyst said the Governor's budget proposal, with its extensive cuts and tax increases, is reasonable and ambitious. Taylor also disputed claims that the budget gap could be bridged by cuts or taxes alone. He acknowledged concerns raised by Republican lawmakers that taxes would hurt an already struggling economy, though he suggested that the state's greatest concern should be finding a permanent solution to its budget problems. "Because the state's economy totals more than \$1.7 trillion in economic activity each year, spending reductions or tax increases totaling between \$20 billion and \$30 billion would have a relatively small impact on the overall economy," Taylor noted.

Taylor suggested a number of changes to Gov. Schwarzenegger's budget plan. While the Governor has proposed a \$2.5 billion mid-year cut in education spending, Taylor said the reduction should be just \$1 billion because school districts already have locked in year-long decisions on staffing and class size. He called for eliminating school cost-of-living adjustments, while suspending professional development fees and raising community college fees. In addition, Taylor recommended that the Legislature consider a 1 percent sales tax hike,

rather than a 1.5 percent increase as proposed by the Governor, and an increase in the state's vehicle license fee from its current 0.65 percent rate to 1 percent, the same rate used for other property. Finally, he warned about imposing taxes on services without serious consideration about which ones to tax. Taylor commented that extending the sales tax to services would break new ground, and the idea warrants more extensive deliberation.

California's Tax System: An important part of the budget discussions in Sacramento involves the evolution of the state's taxation system over the past three decades. It began with the 1978 passage of Proposition 13, which severely curtailed local government's property taxes. The measure's practical effect was to shift the primary burden of financing schools and, to a lesser extent, local government services to state government and its major revenue sources—sales taxes and property taxes.

As the state shouldered that burden, amounting to billions of dollars a year, two other socioeconomic factors came into play. One was a rapid aging of the large baby boom generation, which created a distinct shift in retail buying patterns. Retirees and empty-nesters have been spending ever-smaller portions of their incomes on taxable goods, such as clothes and cars, and ever-larger shares on untaxed services and investments, including their homes. As a result, taxable retail sales flattened out, dropping from well over 50 percent of Californians' personal income to about 40 percent. This trend affected not only state revenues, but also those of local governments, which had become inordinately dependent on sales taxes as their property tax revenues shrank due to Proposition 13.

The second major factor was a progressive income tax system that extracted an ever-larger share of the revenue stream from a relatively few high-income taxpayers. California also saw a marked shift in those taxpayers' incomes—from salaries to capital gains on stock and property transactions. As a result, the state became much more dependent on income taxes, especially as sales taxes flattened. Although revenues soared when the economy boomed, they dropped sharply when the economy declined, thus creating more volatility even though the spending side of the ledger became more rigidly fixed.

“It's time for us to change that old tax system, and to stop the insanity once and for all,” Gov. Schwarzenegger said in announcing that he and the Legislature would establish a new blue-ribbon commission to weigh an overhaul of California's tax system. According to the executive order that was issued by the Governor creating the Commission on the 21st Century Economy, the goal of the new panel will be to “make recommendations to bring our tax system into better alignment with our modern economy and to improve the state's economic competitiveness.” The commission will consist of 12 members appointed by the Governor and the legislative leadership.

REGIONAL

Metropolitan Transportation Commission (MTC): At its November 12 meeting, the MTC Programming and Allocations Committee approved a memorandum of understanding with the Golden Gate Bridge, Highway and Transportation District, and the San Francisco County Transportation Authority for the Doyle Drive Project. Doyle Drive serves as the connector to the Golden Gate Bridge from San Francisco. The purpose of the construction project is to seismically retrofit Doyle Drive and improve traffic safety. Doyle Drive has been in operation for more than 70 years and is approaching the end of its useful life. The total cost for the project is estimated at \$1.04 billion. Through the memorandum of understanding, MTC is committing \$80 million toward the project in bridge toll funds.

At its November 14 meeting, the MTC Planning Committee discussed a number of ways to increase transportation funding in the region. Along these lines, the commission plans to develop a “Building Momentum” strategy that reflects input from the Bay Area Partnership Board and other stakeholders. The strategy will be included in the regional transportation plan, which is scheduled to be adopted by the commission in March 2009.

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.