

MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Board of Directors

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

DATE: March 30, 2009

SUBJECT: Weekly Legislative Update: Week of March 23, 2009

FEDERAL

Obama's Prime-Time News Conference: President Barack Obama used the second prime-time news conference of his presidency to outline the progress that his administration has been making in opening up the nation's credit markets, but he acknowledged that more remains to be done. "We will continue to do whatever is necessary in the weeks ahead," the President said. The 57-minute, question-and-answer forum in the East Room of the White House came six weeks after the President's first prime-time news conference. Since then, he has signed the \$787 billion economic stimulus package, unveiled his \$3.6 trillion budget, and announced his plans to withdraw most U.S. troops from Iraq and to deploy additional forces in Afghanistan.

President Obama commented that he believes the economy has begun to show signs of a turnaround. The President noted that his administration has in place "a comprehensive strategy designed to attack this crisis on all front." This strategy includes stimulus spending to create jobs, bank bailouts to unlock lending and housing plans to help homeowners avoid foreclosure. "We've been in office a little more than 60 days," he pointed out. "What I am confident about is that we're moving in the right direction."

The President described himself "as angry as anybody" about the \$165 million in bonuses that were handed out by the American Insurance Group (AIG) to its executives at a time when the company is being propped up by billions in federal rescue funds. He warned bankers and Wall Street executives against "enriching themselves on the taxpayers' dime." However, at the same time, he urged Americans to keep their focus on the big picture, saying "we will recover from this recession, but it will take time, it will take patience."

President Obama defended his proposed \$3.6 trillion budget against attacks from both Democrats and Republicans in Congress, who are questioning the size and scope of the plan. "I realize there are those who say these plans are too ambitious to enact," he commented. "To that I say that the challenges we face are too large to ignore. I didn't come here to pass on our problems to the next president or the next generation; I came here to solve them." The President said that while

the details may change, any budget passed by Congress must meet his four priorities. Those priorities are: (1) cutting the deficit; (2) reforming health care; (3) investing in education; and (4) reducing U.S. dependence on foreign oil. His budget plan includes proposals to boost investments in clean energy technologies, including wind and solar power; increase funding for childhood education programs; make college more affordable; set higher standards for schools; reform the nation's health care system in order to lower costs; and provide a higher level of scrutiny for domestic spending in a way that would lead to a reduction in the deficit.

Financial Markets: Treasury Secretary Timothy Geithner proposed a sweeping overhaul of the nation's financial system in an effort to prevent a repeat of the crisis that toppled once-mighty institutions and wiped out trillions of dollars in investor wealth. Speaking before the House Financial Services Committee, Geithner told lawmakers that the changes are needed to fix flaws exposed by the current financial crisis, the worst to hit the United States in seven decades. The goal is to repair a system that has proven "too unstable and fragile," he commented.

The Obama Administration's proposal, which requires congressional approval, represents a major expansion of federal authority over the financial system. Specifically, the plan imposes tougher standards on financial institutions judged to be so big that their failure would represent a risk to the entire system. It extends federal regulation for the first time to all trading in hedge funds and financial derivatives, such as credit default swaps. Finally, the plan gives the federal government expanded powers to take over major non-bank financial institutions, such as insurance companies and hedge funds, that are teetering on the brink of collapse, a move that is aimed at preventing a repeat of the problems surrounding AIG.

AIG Bonuses: Senate Republicans are applying the brakes to Democratic attempts to quickly tax away most of the bonuses paid to executives at AIG and other companies receiving federal bailout funds. They successfully blocked Democratic efforts to bring up the Senate version of legislation that would recoup most of the \$165 million in bonuses paid out by AIG. The House had swiftly approved its version of the bill earlier.

In February, the Senate voted to block the AIG and other bonuses as part of the \$787 billion federal economic stimulus bill, but Democrats watered down the measure to allow them to occur after Treasury Department officials warned that the move could trigger lawsuits against the federal government. Last week, when Treasury Secretary Geithner could not talk AIG out of paying the bonuses, Republican lawmakers were quick to blame Democrats, pointing out that they were in charge of Congress and the Treasury Department when the decision was made about bonuses and the stimulus bill. Democrats are seeking to regain the offensive—and stem the political damage—with promises to tax the bonuses away.

The House bill, which passed 328-93, imposes a 90 percent tax on bonuses paid after December 31, 2008, by companies that have received more than \$5 billion in federal government bailout money. The tax would not affect workers with adjusted gross incomes below \$250,000.

The Senate version is much broader, affecting bonuses paid after January 1, 2009, by firms receiving more than \$100 million in federal government bailout money. It imposes a 35 percent excise tax on companies that pay bonuses, and a 35 percent excise tax on employees who receive

them. Those taxes would be in addition to the 25 percent now withheld by the IRS on bonuses up to \$1 million, and the 35 percent withholding on bonuses above that amount.

STATE

State Budget: The budget plan that Gov. Arnold Schwarzenegger recently signed contains a lengthy menu of measures to fix the state's \$40 billion deficit. But part of the menu is subject to conditions. Almost \$3 billion in tax increases and spending cuts would be scrapped if California receives enough money from the federal economic stimulus package to offset \$10 billion in General Fund spending through mid-2010. While two recent estimates peg the total that the state would receive at just \$8 billion, the matter is far from settled.

It is true that the federal economic stimulus package will actually deliver much more than \$10 billion to California. Some believe the figure could be as high as \$50 billion. But much of that money is earmarked for specific purposes, such as unemployment and health benefits, and would not help plug the state's General Fund deficit.

There are conflicting views about which federal dollars would actually boost the General Fund. In fact, the Governor and legislative leaders purposely left lots of room for interpretation in the budget package. The decision ultimately rests with Finance Director Mike Genest and Treasurer Bill Lockyer, who must decide by April 1 if the federal funding that is on its way to California will be sufficient. And the stakes are high. If they decide that the state would not clear the \$10 billion hurdle, it would mean an extra surtax for Californians at every income level. As it now stands, personal income tax rates are slated to increase by 0.25 percentage points for two or four years, depending on the outcome of a May 19 ballot measure to curb state spending. But that figure would be cut in half—to 0.125 percent—if Genest and Lockyer determine that the federal economic stimulus package will deliver \$10 billion to California. Furthermore, nearly \$1 billion in program cuts are riding on the outcome. Those cuts include:

- Eliminating dental and other benefits for people enrolled in Medi-Cal.
- Reducing monthly stipends by an additional 2.3 percent for 1.1 million blind, disabled and elderly people enrolled in the Supplemental Security Income Program.
- Cutting the monthly stipend for CalWORKS recipients by about 4 percent.
- Trimming an additional \$100 million from the state university system.

Genest and Lockyer are framing the decision about whether to trigger the extra tax hike and spending cuts as a “just-the-facts” calculation. But heavy political pressure is being brought to bear, and their decision is far from simple mathematics. There may be a strong incentive for Genest and Lockyer to play it conservative. With revenues continuing to deteriorate, California may well need the \$3 billion that would be generated from the extra tax hike and spending cuts. As the recent protracted budget standoff within the Legislature demonstrated, generating that kind of money later through the legislative process could be a tall order. Genest and Lockyer

also may be mindful of a recent report from the Legislative Analyst's Office, which indicates that the newly signed budget is already \$8 billion short.

Economic Stimulus Money for Transportation: Among its many provisions, the federal economic stimulus package will apportion \$2.6 billion in funding to California for highway infrastructure investments to be distributed as follows:

- 30 percent (\$771 million) suballocated to the regions based on population.
- 67 percent (\$1.7 billion) allocated to the state. Under current state law, these funds would be available for the State Highway Operation and Protection Program (SHOPP) and the State Transportation Improvement Program (STIP).
- 3 percent (\$77 million) for transportation enhancement (TE) activities, which include bicycle and pedestrian facilities; storm water mitigation; safety education; historic preservation projects; landscaping, streetscape and beautification projects; and transportation information kiosks.

The federal economic stimulus bill also includes a series of “use-it-or-lose-it” provisions. For instance, states have 120 days to obligate half of the funds that are not suballocated to the regions, with any unobligated money being redistributed to other states. In California's case, this equates to approximately \$900 million. Also, one year from the date of apportionment, any unobligated balances would be redistributed.

Recently, the Legislature passed and Gov. Schwarzenegger signed into law AB 20xxx, which changes the method for distributing the \$2.6 billion in federal economic stimulus highway investment dollars that would come to California. This legislation seeks to strike a balance among the following goals: (1) maximizing the amount of federal funds that California would receive by meeting all obligation deadlines; (2) providing a significant spending boost to the SHOPP; (3) providing a short-term, cash-flow loan to eligible Proposition 1B projects that have been halted due to delayed bond sales; and (4) geographic balance to ensure that jobs and transportation improvements occur in all regions of the state. Specifically, AB 20xxx does the following:

- Revises current law to direct \$1.6 billion of the \$2.6 billion in federal economic stimulus funds for highway investments to the regions. As a result, the regional share would grow from 30 percent to 62.5 percent. It is believed this shift would aid California in meeting the federal obligation deadlines because the regional process is quicker and more flexible than the STIP process.
- Includes legislative intent language stating that at least 40 percent (about \$640 million) of the funds apportioned to the regions should be suballocated to cities and counties for local streets and roads. This suballocation would also speed up obligation and expenditure, given that cities and counties say they have numerous federally eligible projects that are ready to go.

- Allocate \$935 million for SHOPP projects. However, because the national and state fiscal situations have made it difficult for the Treasurer’s Office to sell general obligation bonds, resulting in the stoppage of some Proposition 1B projects, up to \$310 million of this \$935 million could initially be available as a cash-flow loan to keep federally eligible Proposition 1B projects moving. When Proposition 1B bonds are eventually sold, the proceeds would repay this loan through a transfer to the SHOPP.
- Allows federal economic stimulus funds that are allocated to the regions to be used for federally eligible Proposition 1B projects, with the locals being “repaid” with future Proposition 1B dollars directed to other projects in the same region.
- Splits the \$77 million in TE money 62.5 percent to the regions and 37.5 percent to the state. The legislation also requires priority to be given to TE projects that commit to employ members of a conservation corps program, and that improve facilities for pedestrians and bicyclists.

REGIONAL

Metropolitan Transportation Commission (MTC): At its March 25 meeting, MTC released an updated version of Transportation 2035, the long-range, regional transportation plan for the nine-county Bay Area. The plan was revised to include new revenue assumptions for VTA’s 2000 Measure A Program, as well as changes in funding for transit operations resulting from the recently enacted multi-year cuts to the State Transit Assistance Program (STA). In addition, the plan includes a new section on transit sustainability. Holding up VTA’s Comprehensive Operations Analysis (COA) as a model for the region, the plan recommends conducting a regionwide study to: (a) analyze the entire Bay Area transit system as a single network; (b) evaluate travel markets; (c) identify overlapping transit services; (d) identify cost-effective alternatives to unproductive transit services; (e) identify infrastructure improvements to reduce travel times on high volume routes; (f) address duplication of basic customer service functions that could be delivered more cost-effectively through consolidation; and (g) develop ways to simplify fare policies and service information.

The public comment period for Transportation 2035 will run through April 8. The plan then will come before MTC’s Planning Committee for approval on April 10 and the full commission on April 22.

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.