

## MEMORANDUM

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

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

**DATE:** April 6, 2009

**SUBJECT:** Weekly Legislative Update: Week of March 30, 2009

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### **FEDERAL**

***Financial Markets:*** At a hearing before the House Financial Services Committee, Treasury Secretary Timothy Geithner laid out the Obama Administration's plan to overhaul the nation's tangled web of financial regulations. The plan consists of the following five key elements:

1. Creating an independent body with regulatory authority over "systemically important" firms—i.e., large, interconnected financial companies whose downfall could have a broad ripple effect through the economy, such as Lehman Brothers and the American Insurance Group (AIG).
2. Giving the federal government the authority to take over failing, non-bank financial firms just as the Federal Deposit Insurance Corporation can take over failing banks.
3. Toughening regulations for money market funds to reduce the risk of rapid withdrawals by nervous investors. Money market funds are considered to be extremely safe investments, and are frequently used by investors to park money when moving between investments. But last year's collapse of the Reserve Fund shook investors' faith in money market funds, and forced the federal government to implement a temporary insurance program to restore confidence.
4. Regulating credit default swaps and other derivatives. These instruments are designed to protect investors against default of corporate bonds, subprime mortgages and other financial products. They have been cited as a major reason for the downfall of AIG, which found itself unable to pay investors when last year's credit-market freeze led to a sharp rise in defaults.
5. Requiring large hedge funds—pools of private investment money used by wealthy investors and institutions—to register with the federal government.

**Fuel-Efficiency Standards:** The Obama Administration plans to raise fuel-efficiency standards for new cars and trucks in the 2011 model year, marking the first such increase in more than two decades. Under the proposed changes, new passenger cars would need to meet 30.2 mpg for the 2011 model year, while pick-ups, sport-utility vehicles and minivans would need to reach 24.1 mpg. The new fuel-efficiency rules are the first step in meeting the 2007 energy law that requires carmakers to reach a fleetwide standard of at least 35 mpg by 2020, a 40 percent increase over the current standard of about 25 mpg.

Future standards would need to be squared with a pending ruling on a request from California to reverse a Bush-era decision that prevents the state from setting its own limits on greenhouse gas emissions from motor vehicles. President Barack Obama has asked the U.S. Environmental Protection Agency (EPA) to reconsider its March 2008 denial of California's request for a waiver from the federal Clean Air Act that would allow the state to enforce its own regulations. A decision on California's request is expected within weeks.

**Health Care:** Groups representing consumers, businesses, insurers, doctors, nurses, and hospitals said they have reached an agreement on how they would like to see the nation's health care system overhauled. Calling themselves the Health Reform Dialogue, the 18 participating groups have been meeting for six months. Although their long-awaited report avoids most of the contentious issues, it could serve as a starting point for lawmakers trying to craft a plan that would win broad support in Congress this year.

The groups are calling for a two-prong strategy to cover the nation's estimated 48 million uninsured. First, the Medicaid Program should be expanded to cover all adults earning up to the federal poverty level. Then, subsidies or tax credits should be offered to help the middle class.

The groups avoided the issue of whether to create a government insurance plan to compete with private companies. President Obama has called for such an approach, and many Democratic lawmakers see it as an essential element of any final health care compromise. However, the insurance industry considers it to be a deal breaker. The groups also failed to tackle the thorny issue of how to pay for expanded coverage in what is already the world's costliest health care system. The options under consideration include taxing some health insurance benefits as if they were income and limiting tax deductions for high earners, both of which are seen as being highly controversial. Independent estimates of the costs range as high as \$1.5 trillion over 10 years.

**Auto Industry:** General Motors (GM) and Chrysler must "fundamentally restructure" their companies in order to qualify for more federal aid, President Obama warned. The President point out that his auto task force does not believe the plans that GM and Chrysler delivered in February can result in viable companies and he is giving the two automakers more time, along with an aggressive set of conditions. "Our auto industry is not moving in the right direction fast enough to succeed," the President commented. He said it will require "hard choices" and "painful concessions" by the companies, unions, workers, and creditors in order for GM and Chrysler to meet the requirements for more federal government help.

GM and Chrysler are operating on a combined \$17.4 billion in federal government loans approved by the Bush Administration last December. They had until March 31 to prove that

they were viable to qualify for more loans. The two automakers have asked for another \$21.6 billion.

The President's auto task force said Chrysler needs to partner with the Italian car company Fiat, which has committed to building new fuel-efficient cars and engines in the United States. The President gave Fiat and Chrysler 30 days to reach an agreement and said the federal government would provide Chrysler with "adequate capital" to operate in the meantime. In the case of GM, President Obama said the federal government will offer enough "adequate working capital" over the next 60 days for the company to come up with a new business plan, working with his auto task force. Both companies may also need to file for bankruptcy "as a mechanism to help them restructure quickly and emerge stronger," he noted. Ford, the third member of the Detroit Three, has not requested federal bailout funds, and was not included in the President's remarks.

President Obama also announced several steps to reassure consumers, and to improve the chances that U.S. automakers would be able to sell their cars and trucks. He pointed out that the federal government would now stand behind warranties issued by the carmakers, a new guarantee that some in Congress had sought. The President also noted that the federal economic stimulus legislation that he recently signed into law allows purchasers of new domestic cars to deduct the cost of any sales and excise taxes, a provision that could save families hundreds of dollars and lead to as many as 100,000 new car sales.

## **STATE**

**State Budget:** California will face \$948 million in additional spending cuts and \$1.8 billion in higher income taxes after fiscal leaders announced that the state will not receive enough budget relief through the federal economic stimulus legislation to avoid those measures. As part of the \$40 billion February budget deal, Gov. Arnold Schwarzenegger and state lawmakers made those cuts and taxes contingent upon how much direct federal budget relief California would get. To avoid them, the state would need to pull in at least \$10 billion.

However, Treasurer Bill Lockyer and Finance Director Mike Genest estimate that California will receive only \$8.17 billion that qualifies under the criteria in the state budget agreement. As a result, the state will charge taxpayers a 0.25 percentage point higher rate on personal income taxes for 2009, rather than the 0.125 percentage point that would have been levied. The higher rate means an additional \$1.8 billion in tax revenues for the state. The \$948 million in cuts includes the elimination of adult dental care and optometry services for Medi-Cal patients, as well as lower state wage contributions to caretakers for patients living at home.

**Infrastructure Bonds:** Investors purchased \$6.5 billion in state infrastructure bonds, surpassing the \$4 billion that the Treasurer's Office had planned to sell. Nearly \$2.7 billion of the bond proceeds will be used to fund previously allocated infrastructure projects. The remaining \$3.8 billion will be used to repay the Pooled Money Investment Board (PMIB) for past loans made to projects. In addition, the PMIB agreed to make available another \$500 million for new loans for projects.

Projects were prioritized based on their impact on health and safety, potential for job stimulus, project shutdown costs, and other financial factors including the ability to leverage non-state funding. The \$2.7 billion of bond proceeds and \$500 million in new PMIB loans will be distributed as follows:

- \$1 billion toward voter-approved transportation, water and flood control, and school construction bond projects.
- \$1 billion toward the unpaid bills for projects and grants that are waiting for reimbursement for completed work.
- Nearly \$700 billion to start or restart projects flagged for shutdown because of a lack of bond funding due to the economy and a freeze in financing.
- \$500 million in PMIB loans that would support high-speed rail, corrections, veterans affairs, and other construction projects.

## **REGIONAL**

***Peninsula Corridor Joint Powers Board (JPB):*** At its April 2 meeting, the JPB approved a cooperative agreement with the California High-Speed Rail Authority that is intended to put in place a partnership for rail projects on the Caltrain right-of-way. Specifically, the agreement establishes an initial organizational framework under which the High-Speed Rail Authority and Caltrain would work together to plan, design and construct improvements in the Caltrain corridor. The goal is to incorporate high-speed rail into the Caltrain corridor on a phased basis.

**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.