

## MEMORANDUM

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

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

**DATE:** July 27, 2009

**SUBJECT:** Weekly Legislative Update: Week of July 20, 2009

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### **FEDERAL**

**SAFETEA-LU Reauthorization:** The Senate's plan to put off a long-term surface transportation authorization bill took another step forward as the Senate Commerce, Science and Transportation Committee approved its portion of an 18-month extension of current law. The Commerce Committee's work, which covers highway safety programs, will eventually be combined into a larger package with provisions being developed by several other Senate committees with jurisdiction over surface transportation issues.

The Senate Environment and Public Works Committee completed its part of the 18-month extension on July 15, which includes the necessary authorizations for federal-aid highway programs, but not any of the reforms sought by the Obama Administration. Next up is the Senate Banking, Housing and Urban Affairs Committee, which will handle the public transit portion of the short-term extension bill.

Meanwhile, Senate Finance Committee Chairman Max Baucus (D-MT) introduced legislation that calls for transferring \$26.8 billion from the General Fund to the Highway Trust Fund in order to keep the latter solvent through the 18-month extension period. However, the Baucus bill departs from President Barack Obama's recommendations in the following ways: (1) it provides more money than requested by the White House; and (2) it does not include any offsets. The Obama Administration suggested a \$20 billion transfer to be offset over 10 years, but offered little guidance as to what the offsets should be, saying only that "the administration would support a range of options, including international tax enforcement proposals the President included in his budget." Baucus justified the transfer without offsets by contending that the Highway Trust Fund has lost \$19.5 billion in interest payments and \$73 billion in emergency spending over the past 20 years.

**Sustainable Communities:** Transportation Secretary Ray LaHood, Housing and Urban Development Secretary Shaun Donovan, and Environmental Protection Agency Administrator Lisa Jackson announced an interagency Partnership for Sustainable Communities to help

improve access to affordable housing, provide more transportation options, and lower transportation costs while protecting the environment in communities nationwide. The partnership sets forth the following six principles that will act as a foundation for policy coordination between the three agencies:

1. Provide more transportation choices: Develop safe, reliable and economical transportation choices to decrease household transportation costs, reduce the nation's dependence on foreign oil, improve air quality, reduce greenhouse gas emissions, and promote public health.
2. Promote equitable, affordable housing: Expand location- and energy-efficient housing choices for people of all ages, incomes, races, and ethnicities to increase mobility and lower the combined cost of housing and transportation.
3. Enhance economic competitiveness: Improve economic competitiveness through reliable and timely access to employment centers, educational opportunities, services, and other basic needs by workers, as well as through expanded business access to markets.
4. Support existing communities: Target federal funding toward existing communities through such strategies as transit-oriented, mixed-use development and land recycling in order to increase community revitalization, improve the efficiency of public works investments, and safeguard rural landscapes.
5. Coordinate policies and leverage investments: Align federal policies and funding to: (a) remove barriers to collaboration; (b) leverage funding; and (c) increase the accountability and effectiveness of all levels of government to plan for future growth.
6. Value communities and neighborhoods: Enhance the unique characteristics of all communities by investing in healthy, safe and walkable neighborhoods.

**Climate Change**: If the Senate does not pass legislation to combat global warming, Sen. Barbara Boxer (D-CA) says there will be dire results: droughts, floods, fires, loss of species, damage to agriculture, worsening air pollution, and more. She points out that there is a huge upside if the Senate does act: millions of clean-energy jobs, reduced reliance on foreign oil and less pollution for the nation's children.

Getting the Senate to sign off on historic legislation to lower greenhouse gas emissions is one of the toughest challenges that Boxer has had to face in her lengthy congressional career. As the chair of the Environment and Public Works Committee, Boxer is the Senate's lead lawmaker on the development of climate change legislation. She is aiming to get her panel to pass a bill by the end of September.

For years, Boxer has been telling audiences that Congress must act to address climate change. After unsuccessfully battling with the Bush Administration, Boxer figures that with President Obama, she now has much a better chance of getting legislation signed into law. Last year, Boxer's stand-alone bill fell to defeat, but there is a new strategy this year that will make it

harder for senators to reject it. Six committees—Environment and Public Works, Finance, Commerce, Energy, Agriculture, and Foreign Relations—will have jurisdiction over some portion of the legislation. Those committee chairs have been meeting for months with Senate Majority Leader Harry Reid (D-NV), who will help combine their work into one massive bill. In addition, President Obama is expected to lobby hard on Boxer’s behalf.

With the White House, Majority Leader Reid and five other Senate committee chairs pushing to get the legislation passed, Boxer figures that she will have plenty of help achieving the 60 votes needed to overcome a Republican filibuster. Still, it will not be easy. While vote counts vary, it appears that the bill’s fate will lie with 15 or so moderate Democratic senators from farm and coal states, many of whom fear that a vote for climate change legislation could hurt their re-election chances.

While Boxer has yet to unveil the specifics of her bill, it is expected to build on the House measure that was recently approved by a tight 219-212 vote. The House bill sets the nation’s first-ever enforceable limits on greenhouse gas emissions, calling for a 17 percent reduction below 2005 levels by 2020 and 83 percent below 2005 levels by 2050. Among other things, it requires the United States to get 20 percent of its electricity from renewable energy sources by 2020, and establishes energy-saving standards for buildings, appliances and industries.

**U.S. Supreme Court:** Supreme Court nominee Sonia Sotomayor is on track for an early August confirmation vote, following four days of testimony that won her praise from even some of the Senate Judiciary Committee’s more conservative members. The lead Republican on the panel, Sen. Jeff Sessions of Alabama, commended Sotomayor for her humor and “direct” manner, and said he has no plans to block a vote on her nomination on the Senate floor. Sessions further commented that he believes the Senate will vote on Sotomayor before its summer recess, which is scheduled to begin on August 7. That could allow President Obama’s first high court appointee to be in place for a major case dealing with campaign regulations that is scheduled to be heard on September 9.

Sotomayor has solid support from Senate Democrats, who control a 60-vote majority. In addition, at least three Republicans have said publicly that they intend to vote for her. Still, GOP conservatives, including Sessions, remain strongly opposed to her confirmation.

**Economic Stimulus:** President Obama dismissed the idea that the nation might need a second stimulus to jolt the economy out of recession and urged Americans to be patient with his economic recovery plan. Faced with rising unemployment numbers and criticism from GOP lawmakers who have already labeled the \$787 billion stimulus a failure, the President used his weekly radio and Internet address to remind voters that reversing job losses takes time. The plan, he noted, “was not designed to work in four months; it was designed to work over two years.” He criticized Republicans for opposing the stimulus, but offering few alternatives to fight the worst recession to hit the country since the Great Depression. And he rejected talk of a second stimulus, an idea that has been discussed by Democrats and even famed investor Warren Buffett.

## STATE

***State Budget:*** It took a marathon session with a flurry of last-minute negotiations for the Senate and Assembly to approve a package of more than 30 bills that lawmakers hope will erase California's massive budget deficit. Against the backdrop of a severe economic recession that continues to choke off the state's revenues, legislators had to overcome deep misgivings about a wide spectrum of issues, including cuts to schools, human services, health programs, local governments, and prisons. The votes in the Senate and Assembly capped a six-month period during which lawmakers cut, in total, \$62 billion and wound up adopting a vastly slimmed-down \$80 billion budget for FY 2010. Hundreds of thousands of people who rely by state government funding and services—from college students and elementary school teachers to welfare-to-work recipients and ill children—are likely to feel the effects. Roughly \$15.5 billion of the budget "solutions" approved by the Legislature come by way of cuts, with education taking the biggest hit. The rest—about \$10 billion—consists mostly of one-time diversions of local government funding, the selling-off of state assets and accounting maneuvers.

The key elements of the package are as follows:

### Education:

- Cuts \$6 billion from K-12 schools and community colleges, some of which could be backfilled with federal economic stimulus money. Lawmakers used a retroactive \$1.6 billion cut to avoid suspending Proposition 98, while committing the state to pay an extra \$11.2 billion to schools when the economy rebounds as compensation for FY 2009 reductions and money owed for FY 2008.
- Authorizes local education agencies to reduce the school year by five days per year through FY 2013.
- Cuts nearly \$3 billion from the University of California and California State University systems, again some of which may be offset with federal stimulus dollars.
- Eliminates automatic cost-of-living increases for the University of California and California State University systems.
- Retains the Cal Grants Program.

### Health and Human Services:

- Cuts \$1.3 billion from Medi-Cal, the state's health care program for low-income individuals and families.
- Cuts \$528 million from CalWORKs, the state's welfare-to-work program. As part of the budget package, lawmakers also passed legislation that would alter how long grant recipients could stay in the program, tighten eligibility procedures, and increase sanctions on those who fail to meet program requirements.
- Cuts \$124 million from Healthy Families, a program that provides health insurance for 930,000 low-income children. Lawmakers are hoping that non-profit organizations, foundations and other groups will come forward and fill in some of the losses.
- Cuts \$226 million from the In-Home Supportive Services Program for the elderly and disabled. In addition, the budget package makes various changes to the program to combat fraud, including requiring background checks for providers and fingerprinting for clients.

- Requires the Departments of Health Care Services and Social Services to develop a plan for centralizing the eligibility functions under Medi-Cal, CalWORKs and the Food Stamps Program at the state level. These functions currently are performed by counties.
- Eliminates the cost-of-living adjustments for CalWORKs and SSI/SSP.

#### Natural Resources and Environmental Protection:

- Cuts \$8 million from the Department of Parks and Recreation, which would result in the closure of roughly 50 state parks.
- Eliminates the Integrated Waste Management Board, which has been criticized by the Governor as being a haven for termed-out legislators.
- Allows limited expansion of oil drilling off the Santa Barbara Coast, bringing in \$100 million in revenues.

#### Corrections:

- Cuts \$1.2 billion from the Department of Corrections. Republicans initially balked at this proposal out of concern that they would be seen as favoring a plan to release 27,000 inmates early. After back-and-forth negotiations, a compromise was reached under which the budget package would include language that treats these cuts as “unallocated,” meaning the specifics would be worked out when lawmakers return in August after their summer recess.

#### General Government:

- Achieves \$1.3 billion in cost savings by retaining three unpaid furlough days per month for state workers.
- Defers the June 2010 monthly paychecks for state employees by one day for a savings of \$1.2 billion in FY 2010. In essence, this proposal shifts the cost to FY 2011.
- Rejects the Governor’s recommendation to cut state employee compensation by an additional 5 percent.
- Assumes \$1 billion in revenues from the sale of part of the State Compensation Insurance Fund, a quasi-governmental agency that is California’s largest writer of workers’ compensation insurance.
- Authorizes the Department of General Services to sell the Orange County Fairgrounds, as well as to enter into sale/leaseback agreements for 11 other state-owned office buildings and properties, including the Public Utilities Commission Building in San Francisco and the Ronald Reagan State Office Building in Los Angeles.

#### Local Governments:

- Takes \$2 billion in local government property tax revenues. Pursuant to Proposition 1A, these funds must be repaid to local governments with interest within three years. One of the budget trailer bills includes an “extreme hardship provision” that would allow local agencies in danger of bankruptcy or unable to provide core services to apply to the Department of Finance for a reduction or elimination of this property tax suspension.
- Takes \$1.7 billion from local redevelopment agencies.
- Allows redevelopment agencies to extend their tax authority for 35-40 years if they agree to transfer 10 percent of their tax increment revenues to the state.
- Rejects an earlier proposal to divert \$1 billion in gas tax subventions for local streets/roads to the General Fund.

### Transportation:

- Uses more than \$500 million in unanticipated Public Transportation Account “spillover” revenues that are projected to accrue in FY 2010 to pay debt service on transportation bonds. These spillover dollars, which are over and above the January revenue forecast, have materialized because of higher gas prices.
- Appropriates \$134 million in Proposition 1A bond funds to the California High-Speed Rail Authority.
- Deletes prior language that would have required the High-Speed Rail Authority to study alignments other than the Caltrain Corridor for the San Jose-San Francisco segment of the state’s high-speed rail project.
- Suspends \$4 million in local airport grants.

### Revenues:

- Accelerates \$1.7 billion in personal income tax revenues into FY 2010 by increasing withholdings from paychecks by 10 percent, effective January 2010.
- Accelerates \$600 million in personal income and corporate tax revenues into FY 2010 by changing the amounts owed by taxpayers who make quarterly estimated payments.

Gov. Schwarzenegger and lawmakers came under immense pressure to get a budget deal done when California began issuing interest-laden IOUs to pay contractors and others owed money to avoid completely running out of cash. To worsen matters, the state’s credit rating plunged amid warnings that further delays in adopting a new budget for FY 2010 could exacerbate California’s economic difficulties by bringing state-funded infrastructure projects to a halt.

**Tax Reform:** The blue-ribbon commission charged with overhauling California’s tax system is heading for an ideological clash that could stall any meaningful recommendations to Gov. Schwarzenegger and the Legislature. The commission, headed by Southern California businessman Gerald Parsky, was charged with reforming a revenue system that has been widely criticized for its volatile reliance on income taxes on high-income Californians and its disconnect from 21st century economic realities. The Governor and legislative leaders have said they hope tax reform would smooth out the boom-and-bust cycles associated with the state budget.

At Parsky’s behest, the commission, which has been meeting since January, was moving toward endorsing a plan that would: (a) put in place a flat rate income tax system that would shift more of the burden to middle-income taxpayers; (b) eliminate the corporate income tax; and (c) replace the sales tax with a broader, European-style tax on all “net business receipts.” But the more liberal members of the commission—those appointed by the Legislature—balked. Instead, they have offered their own “blue plan,” which would retain the progressivity of the current system, as well as:

- Create a “rainy day fund” to smooth out revenue dips.
- Direct a third of the taxes on capital gains into the “rainy day fund” and another third into one-time spending, while allowing the final third to be used to finance ongoing expenditures.

- Study the net receipts tax; however, in the meantime, extend the sales tax to services and eliminate the sales tax on business purchases.
- Create a “split roll” so that property taxes on commercial property would be based on current values, thereby removing commercial property from Proposition 13’s limits.
- Allow cities and counties to raise local sales taxes by up to 1½ cents per \$1 of sales with simple majority voter approval, rather than the two-thirds now required.
- Reduce the corporate income tax rate, change the allocation formula for taxing multi-state corporations and eliminate some corporate tax loopholes.
- Impose a new tax on carbon-based fuels such as gasoline to reduce their use.
- Make tax loopholes more transparent and subject them to automatic repeal unless renewed by legislation.

The commission missed one deadline for action on April 15. And during a recent meeting in San Francisco, its members declared that they would not be able to meet another deadline of July 31. They will now ask for another extension, while attempting to merge the competing proposals into something approaching unanimity.

## **REGIONAL**

**Metropolitan Transportation Commission (MTC):** At its July 22 meeting, the commission approved a list of four Bay Area projects to submit as part of the statewide request for federal economic stimulus funding through the Transportation Investment Generating Economic Recovery Program (TIGER). Included on this list is the expansion of the Hayward BART Maintenance and Storage Yard. This project is a critical first step in bringing BART to Silicon Valley because it would provide the tracks needed to stage and store the new train sets that would be required for expanded BART service.

In addition, the commission voted 10-3 to approve \$140 million in regional funding for BART to help build a 3.2-mile elevated tramway between the Oakland Coliseum Station and the Oakland Airport. The total cost of the project is \$522 million, and BART anticipates that the service will begin in 2013. During the public comment period, many union members and BART supporters testified that the project would provide much-needed jobs for Oakland, as well as a valuable new service for BART riders. Opponents suggested that BART should pursue a bus rapid transit alternative instead, which they said could be built and operated at a much lower cost.

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

## MEMORANDUM

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

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

**DATE:** July 30, 2009

**SUBJECT:** Highway Account

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By a vote of 363-68, the House approved legislation that calls for transferring \$7 billion from the General Fund to the Highway Account in order to allow funding to continue to flow to the states for federal-aid highway programs through the remainder of the current federal fiscal year. The Senate is expected to act on the bill sometime next week, if not sooner.

With the House and Senate scheduled to begin a month-long summer recess on July 31 and August 7, respectively, pressure on lawmakers to pass this legislation has been building all week. Without an immediate infusion from the General Fund, the Highway Account is expected to run out of money sometime in August, while Congress is out of session.

Meanwhile, the House and Senate remain at odds over how to handle the authorization of federal surface transportation programs. The current law governing highways, public transit, passenger rail, and highway/motor carrier safety—the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU)—is set to expire on September 30. The Senate and the White House have been pushing for an 18-month extension of SAFETEA-LU. In fact, three Senate committees with jurisdiction over surface transportation issues have already approved such a bill. In the House, however, Democrats and Republicans are lining up behind a \$500 billion, six-year authorization bill that has been introduced by the leadership of the House Transportation and Infrastructure Committee. So far, House leaders have been reluctant to embrace any extension of current law in order to keep the heat on lawmakers to act on a long-term authorization bill.