

MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Board of Directors

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

DATE: March 21, 2011

SUBJECT: Weekly Legislative Summary: Week of March 14, 2011

FEDERAL

President's Agenda: President Barack Obama returned to the White House after a six-day trip to Latin America that was intended to focus on jobs, trade and the economy, but events did not cooperate. A partial nuclear meltdown in Japan, a U.S. military operation in Libya, a looming budget showdown in Washington, and increasing fuel prices have upended the President's agenda, raised risks for the nation's economic recovery, and opened him up to criticism from not only the emerging GOP presidential field, but also from some congressional Democrats.

Just eight weeks ago, President Obama outlined his priorities for the year in his State of the Union Address. He coined the phrase "winning the future," called the challenges of the day "our generation's Sputnik moment," and endorsed both deficit reduction and increased investment in energy, education and infrastructure. He set goals to expand access to high-speed rail, increase college graduation rates and generate clean energy.

Since then, the administration's efforts to spotlight those initiatives through presidential trips, events by Cabinet members, conference calls with the media, and op-ed pieces in newspapers have been overshadowed by other events. In a sign of how quickly things have changed, the President's State of the Union Address did not mention Egypt—then ruled by Hosni Mubarak, a U.S. ally for decades who has since been ousted—nor did it refer to the safety concerns over nuclear power that are sparking headlines around the world. There was not a word about Libya or collective bargaining rights for public employees, issues that are now front and center.

Crisis has defined the Obama presidency from the start. At the time of his inauguration, the President faced the worst economic downturn since the Great Depression. After a bailout for automakers and a stimulus package, he pushed a health care overhaul through Congress that continues to split the public and energize his opposition. Now, global events are testing the President's leadership and making it difficult for him to stick to his promise to focus on reducing the nation's unemployment rate.

FY 2011 Appropriations: President Obama signed H.J.R. 48, a continuing resolution that funds federal government operations for another three weeks through April 8. This resolution also cuts another \$6 billion in federal spending from FY 2010 enacted levels. Among the \$6 billion in reductions is the elimination of FY 2011 funding for the Federal Railroad Administration (FRA) program that provides grant money for the implementation of positive train control. Congress authorized \$50 million for this program in FY 2011 in the Rail Safety Improvement Act of 2008, and funds have been appropriated at that level for the past two years. However, since the President failed to request funding for this program in his FY 2011 budget, it became an easy target for Congress. No other transportation programs were cut in the resolution.

H.J.R. 48 passed the Senate by a vote of 87-13. Nine of the votes against passage came from conservative GOP senators who argued that the measure did not cut spending enough. Three Democrats and an Independent provided the other four “no” votes. They contended that the cuts were excessive. In the House, the measure passed by a vote of 271-158, with 54 Republicans voting “no.”

H.J.R. 48 is the sixth short-term continuing resolution to be enacted for FY 2011. While the path toward a compromise on the remainder of FY 2011 spending remains unclear, House and Senate leaders, and the White House are continuing to negotiate.

STATE

State Budget: The Legislature’s passage of \$14 billion in spending cuts, internal borrowing and fund transfers means that lawmakers are a little more than half way toward adopting a balanced budget. What remains are the thorniest elements of Gov. Jerry Brown’s budget plan—eliminating redevelopment agencies, and asking the voters to extend temporary increases in sales, income and vehicles taxes for another five years. So far, Republicans have not been willing to cast the votes needed to place the tax extensions on the ballot. And even if they do make it to a special election in June, there is no guarantee that the voters would approve them. The alternative would be another \$11 billion to \$12 billion in cuts, starting with K-12 education, but extending to every level of state and local government.

The original goal was to wrap up action on all of the spending cuts and revenue proposals by the end of this week in order to meet all of the requirements in current law for holding a statewide special election on June 7. However, it appears that time may have run out, and legislative leaders are now looking at possibly June 14 as the date for the election. In the meantime, Gov. Brown and GOP lawmakers continue to negotiate big-picture changes to state government, including a hard spending cap, pension reform and regulatory relief for businesses. The Governor says he needs a two-thirds vote of the Legislature, including at least two Republicans in each chamber, to place the tax extensions on the ballot.

If the revenue components of Gov. Brown’s budget plan do not garner enough votes in the Legislature, it appears that he may proceed with an initiative to enact the tax extensions and other items that he still needs to balance the budget. This strategy would require gaining the necessary signatures and qualifying the measures within a relatively short period of time in order to permit the voters an opportunity to consider them on the November ballot.

If the Governor elects to pursue the initiative approach, the temporary taxes would expire on June 30 and would, in essence, become tax increases, not extensions, if placed on the November ballot. In addition, the state would be confronted with a number of other challenges. Despite the approval of \$14 billion in cuts and other solutions, the state would not have a balanced budget. This situation would make it difficult for the state to undertake the traditional cash flow borrowing that it needs in the summer of each year to better match revenue receipts with state expenditures. It also would be hard for the state to market general obligation bonds in the fall for Proposition 1B and others programs.

Transportation Budget Trailer Bill: On March 24, Gov. Brown signed AB 105, the transportation budget trailer bill. This legislation makes the following changes to address the impacts of Propositions 22 and 26 on last year's transportation funding swap:

1. Re-enacts the transportation funding swap's increases in both the gas tax and the diesel sales tax in order to prevent Proposition 26 from eliminating billions in revenues for state highways, local streets/roads and public transit.
2. Transfers vehicle weight fee revenues from the State Highway Account to the General Fund in order to achieve the General Fund savings that were anticipated for FY 2011 and FY 2012 from the transportation funding swap. This shift is necessary because Proposition 22 prohibits the use of gas tax revenues for general obligation bond debt service, a key element of the swap. Under the provisions of AB 105, all of the revenues from the 17.3-cent increase in the gas tax resulting from the swap would be used for transportation programs to backfill for the shifting of vehicle weight fee money to the General Fund.
3. Makes the necessary statutory revisions to ensure that the distribution of revenues from the 17.3-cent gas tax increase will achieve the same fiscal results that were anticipated for state highways and local streets/roads when the transportation funding swap was enacted.
4. Addresses the impact on public transit funding resulting from provisions in Proposition 22 that require diesel sales tax revenues to be split 50 percent to the State Transit Assistance Program (STA) and 50 percent to other miscellaneous state-funded transit programs, such as intercity rail. These Proposition 22 provisions negate the 75/25 split favoring STA embodied in the transportation funding swap. AB 105 makes several structural changes to ensure that STA reaches a minimum funding level of \$350 million per year as contemplated by the swap.

Other provisions included in AB 105 that are not related to the transportation funding swap are as follows:

1. Provides additional General Fund relief by using non-Article XIX revenues for transportation bond debt service. Each year, Caltrans receives about \$78 million in revenues primarily from the sale and rental of state property. The use of these revenues is not restricted by Article XIX of the state Constitution.

2. Pushes back the repayment of \$230 million in FY 2009 transportation loans to the General Fund scheduled for this year to FY 2012.
3. Defers the repayment of another \$135 million that was borrowed in FY 2010 from FY 2012 to FY 2013.
4. Provides cities and counties with a one-year extension to expend Proposition 1B local streets/roads funds for any year in which Highway User Tax Account (HUTA) revenues for local transportation projects are borrowed, deferred or shifted.
5. Clarifies that cities and counties are not subject to the Proposition 42 maintenance-of-effort requirements when they are apportioned gas tax revenues.
6. Allows the Governor to appoint six management-level positions to the California High-Speed Rail Authority.
7. Requires the High-Speed Rail Authority to report to the Legislature on its community outreach efforts, the implementation of its strategic plan, the performance of its program-manager contractor, and actions taken to address the issues raised in the Bureau of State Audits report. In addition, AB 105 requires the authority to submit an updated financial plan for the high-speed rail project to the Legislature. Under the provisions of the bill, 25 percent of the authority's budgeted funding is contingent on completion of these reporting requirements.

NOTE: Also contributing to this report were Steve Palmer with Van Scoyoc Associates; Mark Watts with Smith, Watts & Company; and Scott Haywood, VTA's Policy and Community Relations Manager.