

Date: July 31, 2006

Committee Meeting Date: August 17, 2006

Board Meeting Date: August 31, 2006

BOARD MEMORANDUM

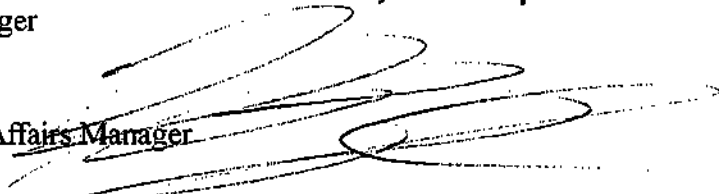
ACTION X DISCUSSION INFO

TO: Administration and Finance Committee
Santa Clara Valley Transportation Authority
Board of Directors

THROUGH: Michael T. Burns
General Manager



FROM: Kurt Evans
Government Affairs Manager



SUBJECT: State Legislative Positions: Proposition 1A

RECOMMENDATION:

Adopt a support position for Proposition 1A, which amends the California Constitution to limit the conditions under which the Proposition 42 transfer of gasoline sales tax revenues for transportation uses could be suspended by the Governor and the California State Legislature. Proposition 1A appears on the November 2006 general election ballot and requires a majority vote in order to be approved.

BACKGROUND:

In May 1999, the California Transportation Commission (CTC) published a 10-year needs assessment of the state's transportation network. This assessment identified unfunded rehabilitation needs for the state highway system, local streets and roads, and public transit. It also identified high-priority transportation capital improvement projects that must be completed in the short term. The CTC's assessment suggested that the magnitude of California's unfunded transportation needs over 10 years was close to \$120 billion.

In response, former Governor Gray Davis and the Legislature worked together to enact the Traffic Congestion Relief Act of 2000. This act provided \$6.8 billion in funding for transportation over a six-year period by transferring revenues generated by the state's sales tax on gasoline from the General Fund to the Transportation Investment Fund (TIF). Historically, these revenues were used to support general state government programs. The Traffic Congestion Relief Act also included a method for distributing these revenues

among the following four categories: (a) approximately 140 so-called Traffic Congestion Relief Program (TCRP) projects, which were specifically listed in the act; (b) the State Transportation Improvement Program (STIP); (c) local streets and roads; and (d) the Public Transportation Account.

In March 2002, Californians approved Proposition 42 by a 70 percent majority, a legislative constitutional amendment that permanently dedicated gasoline sales tax revenues to transportation infrastructure needs. However, Proposition 42 also included provisions that allow the transfer of such revenues from the General Fund to the TIF to be suspended in any given fiscal year if: (a) the Governor declares that the transfer would negatively impact general state government programs; and (b) two-thirds of both houses of the Legislature concur.

DISCUSSION:

Because of persistent state budget deficits that occurred following the enactment of the Traffic Congestion Relief Act and the passage of Proposition 42, only a small amount of the gasoline sales tax revenues promised for transportation was transferred from the General Fund to the TIF between FY 2001 and FY 2005. As a result, California found itself in the throes of a transportation funding crisis that impacted all state transportation programs.

In December 2002, the CTC was put in the position of having to suspend all new allocations for TCRP projects. Six months later, the commission was forced to: (a) suspend all new allocations for programmed STIP projects; (b) sharply reduce allocations for state highway rehabilitation projects under the State Highway Operation and Protection Program (SHOPP); and (c) cut back on issuing any new Grant Anticipation Revenue Vehicle (GARVEE) bonds for STIP projects. The impact of these actions was immense. Numerous transportation capital improvement projects around the state were delayed. In some cases, projects were canceled altogether.

The situation improved in FY 2006 and then again in FY 2007, when Governor Arnold Schwarzenegger and the Legislature agreed not to suspend Proposition 42 for two consecutive fiscal years, thereby allowing approximately \$2.7 billion in gasoline sales tax revenues to flow to the TIF. In addition, as part of the FY 2007 state budget, the Governor and lawmakers agreed to repay roughly \$1.4 billion of the \$3.3 billion in outstanding transportation loans that were made to the General Fund in prior fiscal years. These actions have allowed the CTC to resume making STIP, SHOPP and TCRP allocations.

Despite this positive trend, it is essential that a constitutional amendment be enacted to place tighter restrictions on the ability of the Governor and the Legislature to divert Proposition 42 dollars to non-transportation uses, and to ensure that these dollars get used for their intended purpose—addressing California’s critical mobility needs. Proposition 1A would accomplish that purpose in a number of ways. First, this constitutional

amendment requires all future Proposition 42 suspensions to be treated as loans to the General Fund that must be repaid in full, with interest, within three years. Second, it allows suspensions to occur only twice in any 10 consecutive fiscal years. Third, a second suspension could not occur unless the first suspension has been repaid in full.

In addition, Proposition 1A provides a constitutional guarantee with regard to the repayment of the Proposition 42 suspensions that occurred in FY 2004 and FY 2005. Specifically, the suspended amounts must be paid back in full and dedicated to transportation no later than June 30, 2016, at a specific minimum annual rate of repayment.

We recommend that the Board of Directors support Proposition 1A.

ALTERNATIVES:

The Board of Directors could decide to oppose Proposition 1A or to take no position on this constitutional amendment at this time.

FISCAL IMPACT:

There is no immediate fiscal impact associated with this recommendation.

Prepared by: Kurt Evans, Government Affairs Manager