

MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Board of Directors

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

DATE: January 30, 2012

SUBJECT: Weekly Legislative Summary: Week of January 23, 2012

FEDERAL

State of the Union Address: President Barack Obama opened the last year of his current term in office by presenting an economic agenda designed to “create millions of needed jobs and an America built to last.” In his State of the Union Address delivered to a joint session of Congress on January 24, the President outlined initiatives to boost manufacturing, develop new energy sources, train workers, and use money saved by winding down the wars in Iraq and Afghanistan to invest in the nation’s infrastructure. He also embraced the principle that millionaires and billionaires should pay an effective income tax rate of 30 percent.

At the heart of President Obama’s State of the Union Address was a theme that he began articulating in his public appearances late last year—framing the defining societal challenge as one of economic fairness. In his speech, the President emphasized the importance of figuring out how to keep alive “the basic American promise that if you worked hard, you could do well enough to raise a family, own a home, send your kids to college, and put a little away for retirement.” He told lawmakers: “We can either settle for a country where a shrinking number of people do really well, while a growing number of Americans barely get by. Or we can restore an economy where everyone gets a fair shot, everyone does their fair share, and everyone plays by the same set of rules. What’s at stake are not Democratic values or Republican values, but American values. We have to reclaim them.”

Some of the proposals that President Obama outlined in his State of the Union Address could appeal to congressional Republicans, who have blocked most of his agenda since gaining control of the House and narrowing the Democratic majority in the Senate in the 2010 midterm elections. Those proposals include tax cuts for manufacturers; incentives for “insourcing” jobs, rather than sending them overseas; and a major effort to boost the development of natural gas.

However, the tone of President Obama’s State of the Union Address was aimed at his political base. In his speech, the President spent some time citing the causes of the nation’s current economic challenges, reminding lawmakers that he inherited them from his predecessor, George W. Bush. “In 2008, the house of cards collapsed,” he commented. “We learned that mortgages had been sold to

people who couldn't afford or understand them. Banks had made huge bets and bonuses with other people's money. Regulators looked the other way, or didn't have the authority to stop the bad behavior. It was wrong. It was irresponsible. And it plunged our economy into a crisis that put millions out of work, saddled us with more debt, and left innocent, hard-working Americans holding the bag." He then sent a message to Republicans: "I intend to fight obstruction with action, and I will oppose any effort to return to the very same policies that brought on this economic crisis in the first place." Instead, he called for "an economy built on American manufacturing, American energy, skills for American workers, and a renewal of American values."

Here are some of the highlights from President Obama's State of the Union Address:

Manufacturing: The President summarized a series of tax reforms designed to "stop rewarding businesses that ship jobs overseas, and start rewarding companies that create jobs right here in America." He called for establishing tax breaks for companies that manufacture their products in the United States and locate new facilities in communities that were hard-hit by the recession. The President also proposed requiring multinational corporations to pay "a basic minimum tax" and ending any tax advantages for businesses that choose to outsource jobs.

Training: In his State of the Union Address, President Obama laid out the goal of training two million Americans with skills that will lead directly to a job. He proposed: (a) providing community colleges with the resources they need to "become community career centers—places that teach people skills that local businesses are looking for right now;" (b) consolidating federal training programs, so that job seekers have "one program, one website, and one place to go for all the information and help they need;" and (c) reforming the federal unemployment system to turn it into "a re-employment system that puts people to work."

Energy: In his State of the Union Address, President Obama announced that he has directed his Administration to open up at least 75 percent of the nation's potential offshore oil and gas resources to exploration and production. However, given that the United States has only 2 percent of the world's oil reserves, he said the nation cannot rely solely on oil, but rather "needs an all-out, all-of-the-above strategy that develops every available source of American energy—a strategy that's cleaner, cheaper and full of new jobs." The President not only pointed out that his Administration is committed to increasing the supply of natural gas, but he also suggested that the country cannot walk away from the promise of clean energy. He urged Congress to pass legislation that ends subsidies for oil companies, provides tax credits for the clean energy industry, and incentivizes businesses to reduce their energy usage.

Infrastructure: President Obama called on Congress to rebuild the nation's infrastructure by using federal dollars that would be freed up as military efforts in Iraq and Afghanistan wind down. "We've got crumbling roads and bridges; a power grid that wastes too much energy; an incomplete high-speed broadband network that prevents a small business owner in rural America from selling her products all over the world," the President commented. "Take the money we're no longer spending at war, use half of it to pay down our debt, and use the rest to do some nation-building right here at home." In response, House Transportation & Infrastructure Committee Chairman John Mica (R-FL) said he agrees that the country needs to rebuild its infrastructure, but does not support "what appears to be the President's plan to finance that effort by downsizing the military." Mica and the House GOP

leadership are continuing to push a proposal that calls for boosting funding for federal surface transportation through royalties and fees from increased domestic oil and gas drilling.

Deficit Reduction: In attacking the deficit, President Obama reiterated the position that he staked out during last year's debate over raising the federal government's debt limit. "I'm prepared to make more reforms that rein in the long-term costs of Medicare and Medicaid, and strengthen Social Security, so long as those programs remain a guarantee of security for seniors," he stated. "But in return, we need to change our tax code." He expressed his opposition to extending the Bush-era tax cuts for wealthy Americans and noted that any tax reform should follow the so-called Buffett rule (named after Warren Buffett), meaning "if you make more than \$1 million a year, you should not pay less than 30 percent in taxes." In addition, the President called for limiting the number of deductions that households making more than \$1 million can take.

Federal Regulations: While President Obama indicated that his Administration remains committed to eliminating federal regulations that are "outdated, unnecessary or too costly," he sent a message to Republicans that he is willing to go only so far. "I will not back down from making sure an oil company can contain the kind of oil spill we saw in the Gulf two years ago," the President pointed out. "I will not back down from protecting our kids from mercury pollution, or making sure that our food is safe and our water is clean. I will not go back to the days when health insurance companies had unchecked power to cancel your policy, deny you coverage, or charge women differently from men."

Homeownership: In his State of the Union Address, President Obama told lawmakers that he will be sending them a plan to expand previous federal efforts to help homeowners refinance their mortgages at lower interest rates. He said the plan will include a fee on the largest financial institutions to ensure that it would not add to the federal deficit.

In a hard-hitting GOP response to the speech, Indiana Gov. Mitch Daniels contended that the President is promoting class warfare and stoking the politics of envy. "No feature of the Obama Presidency has been sadder than its constant efforts to divide us, to curry favor with some Americans by castigating others," Daniels said. He commented that Republicans "do not accept that ours will ever be a nation of haves and have-nots. We must always be a nation of haves and soon-to-haves." In outlining the Republican agenda, Daniels called for a simpler tax system and "a pause in the mindless piling-on of expensive new regulations that devour dollars that otherwise could be used to hire somebody."

President Obama's State of the Union Address and the critical reaction of GOP leaders seem to reflect more than the typical partisan divide. Their divergent views about the causes of the nation's problems and the solutions to them are part of a fundamental debate over what the federal government can and should do at a time of economic hardship. In many ways, the divide between the two parties overshadowed the traditional role of the State of the Union as an account of the legislative priorities that a president will pursue during the year. Instead, with limited prospect of major legislation passing, President Obama's speech and the GOP reaction were more akin to election-year arguments that each side hopes will persuade voters to endorse its view.

Aviation: Congress sent President Obama legislation to provide the Federal Aviation Administration (FAA) with the authority to continue to operate until February 17. The President is expected to sign the bill, which is the 24th short-term extension of current law for federal aviation programs.

Meanwhile, lawmakers are still grappling with the one major issue that continues to hold up final passage of a long-term FAA reauthorization bill: a controversial labor provision in the House version of the legislation that would make it more difficult for airline workers to unionize.

STATE

Legislators' Pay: Senate President Pro Tempore Darrell Steinberg (D-Sacramento) and Assembly Speaker John Perez (D-Los Angeles) filed a lawsuit against Controller John Chiang, alleging that he illegally intervened in legislative matters when he docked lawmakers their pay during last year's budget negotiations. Steinberg and Perez said they are not asking for back earnings in their Sacramento Superior Court complaint. Instead, they want a judge to decide whether Chiang can punish lawmakers in the future for budgets he deems are unconstitutional.

Last June, Chiang used new authority granted under Proposition 25, which was approved by the voters in November 2010, in conjunction with a 2004 initiative requiring a balanced budget to cut off legislators' pay. Proposition 25 not only allows for a budget to be passed with a simple majority vote of the Legislature, but it also included a provision that prohibits lawmakers from getting paid for every day the budget is late after the June 15 constitutional deadline. Majority Democrats sent Gov. Jerry Brown an on-time budget last June, but the Governor vetoed the plan. Lawmakers thought sending Gov. Brown a budget was sufficient to receive their pay, but Chiang said their plan ran afoul of the state Constitution because it was unbalanced. The Governor and the Legislature ultimately reached an agreement on June 27, costing lawmakers 12 days' worth of pay and expense money.

In their lawsuit, Steinberg and Perez contended that the Controller's Office has a ministerial role to pay lawmakers, not an interpretative one. They further argued that it is the Legislature, not the Controller's Office, that has the power to determine whether a budget is balanced under the state Constitution. Aside from a governor's normal veto powers, Steinberg and Perez said "neither a governor nor any member of the executive branch may brandish the threat of withholding legislative pay because they disagree with the decisions made by the legislative branch."

Redistricting: On January 27, the California Supreme Court ruled that the state Senate districts drawn by the Citizens Redistricting Commission must be used for this year's elections. The issue came before the high court after Fairness & Accountability in Redistricting (FAIR), a GOP-backed group, collected more than 711,000 signatures for a referendum to overturn the Senate maps drawn by the commission. County elections offices are currently determining whether enough of the signatures are valid to allow the initiative to qualify for the November ballot. With 20 Senate seats up for grabs, the court's decision to use the commission's maps, regardless of whether FAIR's ballot measure qualifies, has political implications. The new districts give Democrats a strong chance of picking up two additional seats in the Senate, which would be enough to gain a two-thirds supermajority.

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