



MEMORANDUM

TO: Board of Directors

DATE: January 12, 2011

FROM: Celia McAdam, Executive Director

SUBJECT: STATE LEGISLATIVE PROGRAM FOR 2011

ACTION REQUESTED

Adopt the State Legislative Program for 2011 as shown in Attachment 2.

BACKGROUND

The State's dire financial situation continues to be the focus of activity in State government. Going into FY 2011/12, California is facing another \$25 billion shortfall, on top of the previous \$40 billion from FY 2009/10 and FY 2008/09, and every facet of government is feeling the pain. On January 10, Governor Brown released his budget proposal for FY 2011/12, which is summarized in Attachment 1.

In last year's effort to bridge the budget gap, the legislature enacted what is known as the "gas tax swap" in March 2010. This eliminated the sales tax on gasoline that, under Proposition 42, is the primary funding source for transportation projects in California. This was replaced with an equivalent excise tax on gasoline designated for streets and highway projects, and sales tax on diesel fuel designated for transit. While the funding amounts generated are equivalent, the purpose of this swap was to shift the responsibility for repaying transportation bonds from the General Fund to the transportation fund.

However, the passage of Propositions 22 and 26 in the November 2010 election have jeopardized key portions of the "gas tax swap". The resolution of those questions is a key portion of the proposed legislative program.

DISCUSSION

Fixing the Gas Tax Swap

Proposition 22, which protects local government and transportation revenues, does not allow debt service to be paid with gasoline excise taxes and the responsibility for this \$1.6 billion expense would revert to the General Fund. To offset this amount, the Governor is proposing to use truck weight fee revenues to pay the transportation bond debt service, and to backfill the transportation programs funded by weight fees with gasoline excise tax revenues. This new "weight fee" swap would essentially be a wash for transportation and, having garnered widespread support by key transportation, business, and labor groups, it appears likely to pass.

A larger challenge is the potential impact of Proposition 26, which requires all tax measures to be approved by a two-thirds legislative vote. Even though the excise tax on gasoline was a revenue-neutral exchange for the elimination of the sales tax on gasoline, it is still subject to the two-thirds requirement. Without legislative action by November 2011, this could mean that the replacement funding portion could be in jeopardy and, in a worst case scenario, there would be

no revenues at all for transportation projects. Amongst other things, that would mean no state funding for local streets and roads, no State Transportation Improvement Program, no state highway maintenance and safety funds, no state transit operating funds, and no funding to operate the Capitol Corridor.

Staff recommends that the focus of the State Legislative Program for 2011 be the resolution of the uncertainties surrounding the gas tax swap as quickly as possible by reaffirming the provisions by a two-thirds majority legislative vote, and the backfill of transportation bond debt service costs with truck weight fees.

Enhancing Flexibility in Funding and Project Delivery

With escalating transportation needs juxtaposed with diminished funding sources, we must work with the State to encourage creativity to get projects funded and delivered. One promising tool is using a design/build approach, which allows contractors to simultaneously design and build transportation projects as a way to encourage creativity, reduce timelines, and shift cost risk to the private sector. Another tool is public-private partnerships (P3), which include a wide range of contractual arrangements that allow for the private sector to share in the financing of transportation projects.

Staff recommends that the State Legislative Program for 2011 include support for expanded use of design/build activities and public-private partnerships.

Designation of the I-80/Sierra College Boulevard Interchange

In her 25 years of service on the Rocklin City Council and PCTPA Board, Kathy E. Lund provided the leadership and drive that has resulted in numerous and significant multi-modal transportation improvements to Placer County, including the I-80 Bottleneck improvements, SR 49 improvements, establishment of the Capitol Corridor rail service, commuter transit expansion, and the Lincoln Bypass. As noted at her retirement ceremony at your December 2010 Board meeting, the most notable of her achievements was the reconstruction of the I-80/Sierra College Boulevard Interchange. The Board further stated, by resolution, that PCTPA considers this interchange the Kathy E. Lund Interchange.

It is, however, the State that has the purview of making such designations of facilities on the State highway system. Staff therefore recommends the State Legislative Program for 2011 seek legislation to officially designate the I-80/Sierra College Boulevard Interchange as the Kathy E. Lund Interchange.

CM:ss

Smith, Watts & Company, LLC.

Consulting and Governmental Relations

MEMORANDUM

January 10, 2011

TO: SMITH, WATTS & COMPANY CLIENTS

FROM: MARK WATTS

SUBJECT: GOVERNOR BROWN'S PROPOSED 2011-12 STATE BUDGET

Governor Jerry Brown today revealed his budget proposal to deal with the state budget for the next 18 months, through the end of the 2011-12 Budget Year.

Overview

The spending plan eliminates an 18-month budget gap estimated at \$25.4 billion, comprised of a current year shortfall of \$8.2 billion and a budget year shortfall of \$17.2 billion. A combination of \$26.4 billion in actions is needed in order to also provide a \$1 billion reserve. In addition, the deficit will grow to \$26.6 billion if the proposed sale of state office buildings, blocked by court order, does not proceed, requiring \$27.6 billion in budget actions in order to have a reserve. **Overall, the** budget proposal includes \$12.5 billion in spending reductions, \$12 billion in revenue extensions and modifications, \$1.9 billion in other solutions to close the gap and provide for a \$1 billion reserve.

Realignment – State and Local Government relationship

The budget also proposes to change the role that state and local governments play in local development activities by eliminating state tax benefits for enterprise zones and phasing out the current funding mechanism for redevelopment agencies. This will return billions in property tax revenues to schools, cities and counties and help pay for public safety, education and other services.

Revenue Component - Tax Extensions

The revenue component of the budget calls for an election this coming June where voters will be asked to continue current personal income and sales taxes, as well as the Vehicle License Fee rate, for five years. Brown said revenue from the sales tax and the vehicle license fee will be transferred directly to local governments to finance the first phase of his realignment plan.

Transportation Programs – Key Proposals, General Fund Related

Truck Weight Fees

Weight fees on trucks, which total between \$900 million and \$1 billion annually, are not subject to the same restrictions as excise fuel taxes and may be used to pay for the cost of debt service. The Budget proposes to use these and other unrestricted funds to restore the General Fund solutions in the 2010-11 budget, while using the new excise tax revenues from the tax swap to continue funding transportation programs at the same level as the 2010 Budget Act.

There are two aspects to this proposal, which is similar to the Schwarzenegger proposal to generate State General Fund relief:

- (1) Debt Service—The proposal would use \$262.4 million in truck weight fee revenues in 2010-11 and \$700 million in 2011-12 to reimburse the General Fund for debt service payments made on transit and highway general obligation bonds.

Additionally, the Governor seeks a new means to provide debt service relief through the use of \$77.5 million in revenues that are not restricted by the California Constitution, such as revenue from the rental of state property (non-Article XIX funds). These funds will be used in 2011-12 to reimburse the General Fund for debt service payments made on Proposition 116 transit bonds.

These transfers are intended to allow the state to continue funding transportation projects and programs at current budgeted levels while achieving the same level of General Fund relief provided for in the 2010 Budget Act (how this is offset is discussed in more detail below).

- (2) Special Fund Loans— The budget proposes loans of \$494 million in weight fee revenues to the General Fund in 2010-11 and \$166.3 million in 2011-12.

Proposition 26

The Governor has heard the transportation industry advocacy position to relieve the vulnerability of state transportation programs through his new proposal to reenact the 2010 Fuel Tax Swap in response to passage of Proposition 26 in November 2010. Proposition 26 requires a two-thirds vote threshold for any tax measures occurring after October of 2009.

Transit Funding

In a disappointing move, the Governor has proposed to redirect the proceeds from non-Article XIX transportation funds away from transit to aid the general fund. In response to passage of Proposition 22 in November 2010, which provided for 50 percent of diesel sales tax revenues to go to local transit agencies in the State Transit Assistance program, the Budget proposes trailer bill language appropriating additional funds from the Public Transportation Account fund balance to ensure that local transit agencies continue to receive the equivalent of 75 percent of diesel sales tax revenues, as

well as the \$23 million in 2011-12 and \$12 million in 2012-13 that local transit agencies were to have received from non-Article XIX revenues as part of the 2010 tax swap.

This augmentation from the Public Transportation Account fund balance will offset the effect on local transit of shifting of \$77.5 million in non-Article XIX revenues to fund debt service in 2011-12. Given lower diesel sales revenues, the total amount of state funding for local transit agencies from Public Transportation Account resources is estimated to be \$329.6 million.

Transportation Programs – Non General Fund Related

Proposition 1B Bond Fund – Governor Brown proposes an appropriation of \$2.3 billion for capital funding of bond projects including \$631.2 million for corridor mobility, \$972.3 million for trade corridors, \$117 million for public transit modernization, \$200 million for state local partnership projects, \$22 million for local bridge seismic safety, and \$391.9 million for State Route 99.

Planning Program Project Initiation (PID's) — The Governor continues to pursue the policy of shifting PID development costs to locals. Although the budget proposes an increase of \$2.4 million and 18 positions to complete PIDs for state and locally funded projects on the state highway system, this is accomplished through a reduction of \$4.9 million in State Highway Account resources, offset by an increase of \$7.2 million in reimbursements from locals to complete PIDs on locally funded projects.



State Legislative Program for 2011

- Resolve the Proposition 22/26 uncertainties surrounding the “gas tax swap” enacted in March 2010 as soon as possible, including
 - Reaffirm the provisions of AB8x6 by 2/3 vote
 - Reenact a revised version of AB8x9 (allocation formulas) that allows the new 17.3 cent excise tax (for STIP and local roads), the 1.75 sales tax (for transit), and the truck weight fees to be allocated for their intended uses to achieve the same financial results as would be under Proposition 42, as anticipated in the swap
- Support expanded use of design/build and public-private partnerships to expedite projects and minimize public costs
- Seek State legislation to officially rename the I-80/Sierra College Boulevard IC as the Kathy E. Lund Interchange
- As a general principle, support efforts to increase amount, flexibility, and local control for use of transportation funds