OCTA

January 21, 2010

To: Legislative and Communications Committee

From: Will Kempton, Chief Executive Officer

Subject: State Legislative Status Report

Overview

The fiscal year 2010-11 state budget proposal was released on January 8, 2010. A summary and analysis of the state budget is provided in this report. In addition, an update on a potential ballot initiative is provided.

Recommendation

Receive and file as an informational item.

Background

On January 8, 2010, Governor Schwarzenegger released the fiscal year (FY) 2010-11 state budget proposal. The budget proposal attempts to resolve an estimated $19.9 billion General Fund deficit over the next 18 months. Specifically, the General Fund deficit encompasses a $6.6 billion shortfall for the current fiscal year, a $12.3 billion shortfall for FY 2010-11, and maintenance of a $1 billion reserve. A number of variables have contributed to the growing deficit figure including, but not limited to, declining revenue estimates ($3.4 billion), federal and state court decisions ($4.9 billion), erosions in previously enacted budget solutions ($2.3 billion), and increased caseload expenditures ($1.4 billion). The budget proposal attempts to close this $19.9 billion gap through series of expenditure reductions ($8.5 billion), fund shifts ($4.5 billion), and an increase in federal assistance ($6.9 billion), with no proposed revenue increases.

For FY 2010-11, the Governor's proposal estimates General Fund revenues will be $85.4 billion and expenditures will total $82.9 billion, including a $1 billion General Fund reserve. Debt service on General Obligation bonds will total an estimated $5 billion or approximately 6 percent of General Fund expenditures. While the current enacted budget proposal provides sufficient cash resources to cover the repayment of revenue anticipation notes, the

FY 2010-11 budget proposal acknowledges a potential cash resource issue arising in March 2010 unless corrective action is taken by the State Legislature.

Additionally, Governor Schwarzenegger used the authority granted under Proposition 58 (2004) to declare a fiscal emergency, which requires the Legislature to address the budget shortfall within 45 calendar days. The Legislature cannot take action on any other legislation if the body fails to act within this period.

Federal Assistance

The budget proposal assumes the state will receive $6.9 billion in FY 2010-11 from the federal government for a variety of expenditures. For FY 2010-11, the state will be seeking reimbursements for expenditures including Medi-Cal, In-Home Supportive Services (IHSS), medical costs associated with inmates in the state corrections system, and costs associated with the incarcerations of undocumented immigrants. If these reimbursements are not achieved, the budget proposal would trigger a series of expenditure and program reductions to mental health services, Medi-Cal eligibility, a total of 15 percent reduction in employee compensation (including compensation, benefits, and pension contributions), and the elimination of the IHSS and state welfare programs. The proposal would further trigger the extension of several tax expenditure provisions enacted in the FY 2009-10 state budget, including the net operating loss deferment for businesses, the "single sales" tax factor for corporations, and the extension of dependent credit reduction on personal income tax claims.

Transportation Component of the Governor's Budget

The Governor's budget proposes to provide additional General Fund relief by permanently modifying several transportation revenue sources and as a result, further reduces the state's financial obligations for transit. The Governor's budget eliminates the state's portion of the sales tax on gasoline (Proposition 42 revenues) and instead the state gas excise tax (gas tax) will increase by 10.8 cents, dedicated to specifically outlined programs.

Currently, the gas tax is levied at 18 cents per gallon of gasoline and would increase to 28.8 cents. The elimination of the state sales tax on gasoline would eliminate the state's obligation to fund Proposition 42 expenditures and also eliminate "spillover" revenue (a calculation of the difference between a portion of the state sales tax on all goods and the sales tax on gasoline). Furthermore, this complex revenue swap would also eliminate the two base revenue sources for the Public Transportation Account (PTA): the sales tax on diesel and

Proposition 111 sales tax. The Administration maintains that the revenue swap will result in a net five cents per gallon decrease at the pump.

The programmatic effect of this revenue swap is that it will remove any state obligations to transit and permanently realigns funding for other transportation programs. The new transportation funding allocation for FY 2010-11 is shown below:

- $2 billion State Highway Account (SHA)
- $629 million Local Streets and Roads
- $629 million State Transportation Improvement Program (STIP)
- $675 million Transportation Debt Service
- $976 million in savings at the pump

Essentially, this proposal holds non-transit Proposition 42 programs harmless, such as the STIP and Local Streets and Roads programs. The revenues that were previously dedicated to the PTA for transit purposes are being allocated to debt service and a per gallon decrease at the pump.

With respect to the remaining revenues in the PTA, the budget proposal shifts $254 million to additional debt service retirement in FY 2010-11 and diverts $72 million in SHA revenue which was previously obligated for PTA expenditures to cover Proposition 116 debt service in the current fiscal year. Total transportation revenues dedicated to debt service would be $929 million under the Governor's proposal. Moreover, repayment of Proposition 1B bonds would now be covered under the gas tax increase with annual appropriations fluctuating with required bond payments.

Intercity Rail

The Governor's budget proposes to utilize the previously diverted funds that were ordered to be repaid as a result of the lawsuit filed by the California Transit Association (CTA) to fund intercity rail at $131 million and transportation planning expenditures for the California Department of Transportation (Caltrans) at $19 million for FY 2010-2011. Intercity rail funding will continue until the PTA becomes insolvent in FY 2011-12. At this point, the Governor's budget states that intercity rail will need to find an alternative funding source.

Funding to Attract Creation of Public-Private Partnerships

The budget proposes the expenditure of $3.5 billion over the next 30 years (about $115 million per year) to be used to attract private partners and investors in the creation of public-private partnership (P3) lease agreements for transportation projects. This funding will be used to compliment the authority granted under SBX2 4 (Chapter 2, Statutes of 2009-10 Second Extraordinary Session) for the creation of unlimited P3 transportation projects until 2017. The proposed budget language specifies that the funding will be used to pay private partners for a portion of costs to construct or maintain new or rehabilitated portions of the state highways system, under terms dictated by SBX2 4. However, the Governor's proposal does not specify a funding source for this expenditure at this point.

High-Speed Rail

The budget proposes that $581.4 million in Safe, Reliable High-Speed Passenger Train Bond Act (Proposition 1A, 2008) be allocated for the development of the state high-speed rail system. In addition, the budget proposes $375 million in federal American Recovery and Reinvestment Act (ARRA) funding for the high-speed rail system. However, with multiple states competing for this funding, there is no guarantee that California will officially receive these ARRA funds.

According to the proposed budget, these funds will be used primarily on the Los Angeles-Anaheim, San Francisco-San Jose, and Fresno-Bakersfield segments. The budget also assumes that these segments will have grade separations, electrification, and maintenance and testing facility construction projects beginning in FY 2011-12, using yet-to-be allocated ARRA funding.

Proposition 1B

Overall, the proposed budget estimates that there will be about $4 billion available for Proposition 1B projects. Of this total amount, $350 million will be allocated for the Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA). With the passage of AB 1072 (Chapter 271, Statutes of 2009) last year, the same formula used in past years will again be used to distribute the funds allocated this year. However, as with all programs funded pursuant to Proposition 1B, these allocations will be dependent on the state's ability to sell bonds.

Grant Anticipation Revenue Vehicles Bonds to Accelerate Specified Projects

Another budget proposal is the issuance of $680 million in Grant Anticipation Revenue Vehicles (GARVEE) bonds to accelerate the delivery of the following three State Highway Operation and Protection Program (SHOPP) projects:

- Doyle Drive in San Francisco
- The Santa Monica Freeway (Interstate 10) and the San Gabriel Freeway (Interstate 605) interchange in Los Angeles
- The Long Beach Freeway (Interstate 710) rehabilitation in Los Angeles

It is expected that debt service costs will be paid over the next 12 years, $185 million of which will be by federal funds.

Impacts on Orange County

The elimination of Proposition 42 funding and its resulting impacts on the PTA and "spillover" will create even greater cost pressures for transit operators. Under current law, Proposition 42 revenue would generate $315 million and $897 million in "spillover" for the PTA. Under these provisions, the Orange County Transportation Authority (OCTA) would have expected to receive $13.9 million from Proposition 42 and $13.2 million from "spillover" totaling approximately $27.1 million respectively. This $27.1 million does not include the revenue loss associated with five-year suspension of base PTA revenue for the State Transit Assistance Program (STA) which, if included, would total an estimated $45 million loss for FY 2010-11.

STIP highway funding would remain the same under both current law and the proposed tax swap, granting OCTA $30.6 million for FY 2010-11.

Although the Governor's budget proposes to allocate $581.4 million in Proposition 1A (bonds), staff is unable to accurately calculate the amount appropriated for the Anaheim to Los Angeles segment until further details are released and contingent on the state's ability sell bonds.

OCTA's apportionment of the PTMISEA funds allocated this year is estimated to be about $20.6 million. These funds are eligible to be used for transit capital projects and are also subject to the state's ability to sell bonds.

Local Taxpayer, Public Safety, and Transportation Protection Act of 2010

The CTA, in partnership with the League of California Cities, the California Alliance for Jobs, and other public safety, local government, transportation, business, labor, and public transit leaders, announced that the signature gathering effort began on December 23, 2009, for the Local Taxpayer, Public Safety, and Transportation Protection Act of 2010.

This measure aims to prevent further state diversions from local government, transportation, and public transit funds. While the CTA's recent court victory affirmed that previous state diversions of such funds were unconstitutional, the court decision does not immediately restore funding and prevent future diversions. The state's ongoing budget problems will continue to cause burdens, absent the establishment of stronger protections for these transportation programs, for agencies that are also coping with diminishing local funds. If approved, this measure would restore the funding sources for these services back to October 2009, essentially invalidating any diversions that may be approved during the 2010 legislative session.

In order to qualify the measure for the November 2010 ballot, the initiative's proponents must collect more than 1.1 million signatures to ensure it meets the required 694,354 valid signatures needed to qualify a constitutional amendment for the statewide ballot.

Summary

On January 8, 2010, the Governor released the FY 2010-11 state budget proposal. A summary and analysis of the state budget impacts are provided in this report. Information related to a potential ballot measure is also provided.

Attachment

None.

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