



METROPOLITAN
TRANSPORTATION
COMMISSION

Agenda Item 4

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Memorandum

TO: Legislation Committee

DATE: Jan. 9, 2009

FR: Executive Director

RE: FY 2009-10 Governor's Budget Proposal

Budget Proposes Elimination of State Transit Assistance

On December 31, 2008, the Governor released an early summary of his proposed FY 2009-10 State Budget. It contains few surprises for transportation, continuing the proposal announced in November to eliminate state funding for transit operations through the State Transit Assistance (STA) program. Specifically, the budget proposes cutting the remaining \$153 million in the current year and eliminating the program in FY 2009-10 and thereafter. Public Transportation Account funds that would otherwise go to the STA program would, in turn, be shifted to the state's General Fund (GF) for transit-related expenses, including school buses (for about \$400 million) and transportation services for the developmentally disabled at "Regional Centers" administered by the Department of Developmental Services (for about \$140 million).

The budget also proposes to permanently shift all spillover funds to the GF, but it should be noted that spillover is only projected to generate about \$90 million in FY 2009-10. For the current year, the spillover is also estimated to fall by about \$390 million, generating approximately \$1.0 billion instead of \$1.4 billion. Lastly, the budget proposes to shift about \$101 million in tribal gaming revenues that were supposed to go to the State Highway Operation and Protection Program (SHOPP) and the Traffic Congestion Relief Program to the GF.

Proposition 42 – Projections Down But Sales Tax Rate Increase Would Compensate

For the current year, the budget estimates that Proposition 42 will fall by \$81 million and another \$234 million in the budget year due to the drop in gasoline prices. This reduction is offset by a proposed temporary 1.5 percent increase to the state sales tax which would go into effect on March 1, 2009 and run through December 2011. The additional sales tax is estimated to generate approximately \$356 million in FY 2009-10 above the baseline Proposition 42 revenues. In addition, the proposal to broaden the overall sales tax base to include services would reduce the size of the spillover by \$45 million which, in turn, would increase Proposition 42 by a like amount, for a total of \$1.7 billion statewide. Without these changes, the projected Proposition 42 amount for FY 2009-10 is \$1.3 billion.

The proposed elimination of STA raises a question as to what would happen with transit's share of the voter-approved funds. Under the State Constitution, transit receives 20 percent of Proposition 42 funds. Of that amount, current statute distributes 75 percent of the funds to the STA program, with the remainder available for Caltrans overhead, intercity rail, and transit projects in the STIP. The budget would presumably transfer all but a very small portion of these funds (for intercity rail and Caltrans overhead) to the GF for school buses and transportation of the developmentally disabled. Unless the California Transit Association prevails in its appeal against the state's use of transit funds for these purposes, this does appear to be allowable under current law.

Advancement of Bond Funds & Other Policy Proposals

The budget also proposes to advance Proposition 1B funds with the objective of providing economic stimulus, including \$800 million for transit capital improvements in the current year and another \$350 million in FY 2009-10. In addition, it proposes advancing \$700 million in Proposition 1B local street and road funds for projects that can expend the funds by the end of 2009. Given that there is scarcely a market for California bonds at the moment, this proposal seems unlikely to result in any additional project funding in the short term. Indeed, approximately \$1 billion in Bay Area bond-funded projects has been frozen due to the Pooled Money Investment Board's decision last month to stop reimbursing projects funded with state bonds. This bond freeze affects about 90 projects region-wide – including the San Francisco Central Subway, the fourth bore of the Caldecott Tunnel and I-580 Eastbound HOV lanes – with a total estimated cost of \$3.5 billion (see attached list).

Other policy proposals contained in the budget include exemption from the California Environmental Quality Act (CEQA) for a number of Proposition 1B, Proposition 42, and other projects to bring forward \$1.2 billion in FY 2009-10, and expanded authority for design-build and public/private partnerships.

We will keep you updated as budget negotiations continue.

Steve Heminger