



METROPOLITAN
TRANSPORTATION
COMMISSION

Agenda Item 4a

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Memorandum

TO: Legislation Committee
FR: Deputy Executive Director, Policy
RE: FY 2011-12 State Budget Update

DATE: July 1, 2011
W. I. 1131

Overview

On Thursday, June 30, Governor Brown signed the FY 2011-12 State Budget that was adopted on a party line vote two days earlier. The \$86 billion budget closes the remaining shortfall by assuming \$4 billion in higher revenue projections than contained in the budget the Legislature adopted several weeks ago. Since January, legislators have closed the state's original \$26.6 billion deficit with \$11.8 billion in unexpected revenue, more than \$12 billion in cuts, and about \$3.5 billion in fund shifts and internal borrowing. The budget includes a \$500 million reserve.

In the event that the \$4 billion in additional revenue does not materialize, the budget deal contains triggers that would go into effect next January. These would shorten the K-12 school year by a week and impose \$100 million in additional cuts each to the University of California and California State University systems. Democratic leaders also announced that they would pursue a ballot initiative to bring tax increases before voters in November 2012.

Budget Postpones Over \$1.3 Billion in Transportation Loan Repayments

Despite passage of Proposition 22 last November to prevent, once and for all, diversion of transportation funds to the General Fund, AB 115, a budget trailer bill adopted as part of the final budget, postpones until June 30, 2021 the repayment date of \$1.3 billion in State Highway Account (SHA) loans and \$29 million in Public Transportation Account loans that were made prior to Proposition 22's passage and were originally due to be repaid in 2014. AB 115 also effectively eliminates repayment of an earlier SHA loan of \$443 million by labeling the original funds as vehicle weight fees — the sole source of SHA funding that may be loaned or used for bond debt service — and authorizing the repayment funds to be used solely for those purposes. Additionally, AB 115 provides that any vehicle weight fees not used for transportation bond debt service shall be loaned to the General Fund. Depending on how CTC and Caltrans apportion the reduced funds, staff estimates between \$64 million to \$128 million in fewer funds available for transportation capital projects in the 2012 State Transportation Improvement Program (STIP).

Governor Brown Cuts \$147 Million in High-Speed Rail Connectivity Funds

Using his line-item veto authority, the Governor reduced the appropriation of high-speed rail connectivity funds from \$154 million to \$7 million, restricting the remaining funds to positive train control safety projects. The veto message was almost identical to that used by Governor Schwarzenegger in his reduction of the same item in last year's budget, namely that the projects that were proposed to be funded "appeared unrelated to the high speed rail project or an

integrated rail plan.” However, the project eligibility provided for in Proposition 1A is very broad and does not require the funds to be limited to projects that provide enhanced connectivity to the state’s high-speed rail system. For the Bay Area, the reduction translates to a cut of at least \$27 million in funding for the San Francisco Municipal Transportation Authority’s Central Subway Project and a \$32 million cut in funding for Phase 1 of the Bay Area Rapid Transit District’s (BART) rail car replacement project.

State Transit Assistance Left Intact

The good news for transportation is that State Transit Assistance funding was left untouched. It is estimated to bring in \$416 million statewide, including \$150 million to the Bay Area, as reported last month. This is more than double the funding level provided last year, when \$400 million was appropriated to cover both FY 2009-10 and FY 2010-11.

Indirect Impacts

The budget also has some other indirect impacts on transportation funding. On the positive side, changes to rules related to collection of sales taxes for on-line purchases (applicable to businesses such as Amazon.com and Overstock.com, which have historically refused to collect sales taxes) could result in higher sales tax revenue dedicated to transportation through the county-based sales tax measures, as well as the statewide 0.25 percent Transportation Development Act (TDA) funding. While the budget assumes \$200 million from this change, it appears premature to estimate the local revenue that could be realized given recent announcements by Amazon that they intend to close aspects of their business within California that would subject them to the tax. On the negative side, the budget’s diversion of approximately \$1.7 billion in funds that would otherwise go to redevelopment agencies — a major source of revenue for infrastructure improvements in the region’s priority development areas — will reduce local funding available for transit-oriented development. This element of the budget is expected to be challenged in court.



Ann Flemer