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*Memorandum*

TO: Partnership Board

DATE: June 20, 2007

FR: Randy Rentschler

W. I.

RE: FY 2007-08 State Budget

At the time this memo was prepared, the state budget conference committee had not yet resolved the key transportation items in the budget — namely, how much Public Transportation Account (PTA) funding would be shifted to offset costs in the state's General Fund. As a reminder, the Administration had proposed to divert \$1.3 billion. The Senate rejected this proposal in its entirety, while the Assembly approved a \$469 million diversion. Latest reports from the Capitol indicate that the final amount to be diverted may end up being somewhere between the Administration's amount and the Assembly's amount. In addition, it appears that the Assembly's proposal to allow a diversion this year, in exchange for long-term protection for the spillover (by rolling the spillover into Proposition 42 and subsequently changing the shares for the overall program) has fallen flat. Instead, discussions are focusing on a three-year deal that would be enacted as a budget trailer bill that would split future spillover funds between the PTA and the General Fund.

A diversion above \$469 million in PTA funds will create some difficult choices. The Assembly arrived at this number because it allowed PTA projects in the State Transportation Improvement Program (STIP) to be fully funded next year, while also providing the State Transit Assistance Program its full share of spillover funds (estimated to be \$413 million). With fewer PTA funds available, the Legislature will have to balance how much PTA funding to give the STIP, how much to STA, and lastly, how much to give the High Speed Rail Authority, which is seeking about \$50 million in PTA funds to keep right-of-way purchases and route-specific engineering work on schedule.

Negotiations are also underway on budget trailer bills that would provide a statutory framework for a number of Proposition 1B and 1C programs, including the State-Local Partnership Program, the Transit Security & Emergency Response Program and the Regional Planning, Housing and Infill Account Program. It is unknown at this time whether the budget will contain trailer bills for these and other bond programs, but it appears likely that at least a few of the bonds' program guidelines will be settled as part of the budget.

Staff will provide a revised update on the status of the budget at your meeting.