

Memorandum

To: Chair and Commissioners

Date: February 13-14, 2008

From: John F. Barna, Jr., Executive Director

File No: Item 4.7
ACTION

Ref: **2008-09 Governor's Budget for Transportation**

On January 10, 2008 the Governor released his proposed 2008-09 Budget. Below is a summary of Governor's 2008-09 Budget for transportation.

Overall Transportation Funding:

Transportation is not included in the ten percent across the board cuts being proposed by the Administration. However, the Governor's Budget forecasts major transportation revenue to be \$330 million below the levels assumed in the 2008 Fund Estimate for 2007-08 and 2008-09 (the differences are shown on Attachment 1). No short-term action is required because of the lower revenue forecasts, however staff recommends monitoring actual revenues and expenditures to determine if action may be warranted in the future.

Proposition 42:

The Budget proposes to fully fund Proposition 42. The Department of Finance forecasts 2008-09 Proposition 42 revenues of \$1.485 billion, which will be distributed as follows:

- \$594 million in the Transportation Investment Fund for the State Transportation Improvement Program (STIP),
- \$594 million for local streets and roads,
- \$297 million to the Public Transportation Account.

The Proposition 42 revenue projections in the 2008-09 Budget are lower than the levels assumed in the 2008 Fund Estimate. The Budget estimates Proposition 42 revenues to be \$42 million below the fund estimate forecast for 2007-08 and \$53 million below the fund estimate for 2008-09. This would result in reduced Transportation Investment Fund revenue for the STIP of \$36 million in 2007-08 and \$24 million in 2008-09. This revised forecast does not necessitate short-term action, however staff recommends monitoring actual Transportation Investment Fund revenues and expenditures to determine if action may be warranted in the future.

Proposition 1B Bonds:

The Budget proposes appropriating \$4.7 billion from Proposition 1B, including nearly \$4.3 billion for core transportation (all Proposition 1B programs except School Bus Retrofit/Replacement; the California Ports Infrastructure, Security & Air Quality Improvement Account; the Transit System Safety, Security & Disaster Response Account; and the Port and Maritime Security Account). This is seventeen percent more than was appropriated for core transportation in 2007-08. In total, the 2007-08 appropriations and the proposed 2008-09 appropriations account for forty-five percent of the total approved by the voters in Proposition 1B. The proposed 2008-09 Budget also includes two

programs that were not funded in 2007-08: \$200 million for State/Local Partnerships, and \$500 million for the Trade Corridors Improvement Fund. Attachment 2 is a list of the Proposition 1B appropriation amounts proposed in the 2008-09 Budget.

Public Transportation Account:

The Budget continues the diversion of Public Transportation Account STIP resources enacted in 2007-08. Senate Bill 79 (Chapters 173, Statutes of 2007) changed the on-going distribution of spillover revenue beginning in 2008-09 (spillover revenue is the transfer to the Public Transportation Account of revenues from 4.75 percent of all taxable sales less revenue from 5.0 percent of all taxable sales except gasoline). Beginning in 2008-09, fifty percent of spillover revenue is transferred to the Mass Transportation Fund to fund items previously funded from the General Fund (including debt service on general obligation bonds). The remaining fifty percent of spillover revenue will be deposited in the Public Transportation Account, with 66.66 percent apportioned to the State Transit Assistance program and 33.34 percent remaining in the Public Transportation Account. The spillover revenue remaining in the Public Transportation Account is available for the STIP if Public Transportation Account resources are available after funding other programs.

In a lawsuit filed by the California Transit Association, a Superior Court judge recently ruled that 2007-08 diversion of \$409 million directly from the Public Transportation Account to pay general obligation bond debt service was illegal. It appears that this ruling will not improve the long-term Public Transportation Account funding outlook because these funds may still be diverted to fund other general fund programs (such as the Regional Centers Transportation Program or Home-to-School program) and the Department of Finance Director Mike Genest indicated the Administration's intention "to ensure that this decision does not result in any additional costs to the general fund in the current year or in the future."

Senate Bill 717 (Chapter 733, Statutes of 2007) also diverted Public Transportation Account revenues from the STIP. This law reduces the amount of Proposition 42 revenue retained in the Public Transportation Account for the STIP beginning in 2008-09. Prior to Senate Bill 717, the Public Transportation Account received twenty percent of the revenue deposited in the Transportation Investment Fund and transferred fifty percent of those funds to the State Transit Assistance program. Starting in 2008-09, seventy-five percent of Public Transportation Account funding from the Transportation Investment Fund will now be transferred to the State Transit Assistance program.

The Budget also proposes to continue the diversion of Public Transportation Account resources to fund the Department of Developmental Services' Regional Centers Transportation Program. It is worth noting that the Public Transportation Account funding for this program is nearly thirty percent greater than the Public Transportation Account funding for intercity rail operations.

Additionally, Public Transportation Account sales tax revenue projections in the Budget are \$100 million below those assumed in the 2008 Fund Estimate, including \$88 million lower than forecast for 2007-08. The Administration is proposing to address the short-term impact of lower Public Transportation Account revenues with a \$60 million loan from the Traffic Congestion Relief Fund. In the long-term, this will likely impact the STIP or the Department of Developmental Services' Regional Centers Transportation Program.

State Transit Assistance:

The Budget proposes nearly \$1.1 billion in funding for State Transit Assistance, including \$350 million from Proposition 1B bonds (the Public Transportation Modernization, Improvement and Service Enhancement Account). This is twenty percent greater than the 2007-08 funding level, and seventy-five percent greater than the funding in 2006 07.

Highway Maintenance and Rehabilitation:

The Budget includes a pre-Proposition 42 loan repayment of \$100 million from tribal gaming revenue. This repayment will be deposited in the Traffic Congestion Relief Fund and then transferred to the State Highway Account for the SHOPP.

Additionally, the Budget estimates major State Highway Account revenues to be about \$50 million lower than the annual levels assumed in the 2008 State Highway Operation and Protection Program (SHOPP) Fund Estimate. This represents a small percentage change in revenue and does not require and short-term actions.

As we have noted previously, California is continues to under-invest in the rehabilitation and maintenance needs of the state highway system. The state's gas tax can now only cover between fifty and sixty percent of the annual rehabilitation need in the SHOPP. In 2001-02, the amount of distressed lanes miles was approximately 10,400, and by 2006-07 that number had climbed to approximately 12,900. Pavement rehabilitation is not the only area of the SHOPP in need of increased funding. Safety, mobility, safety roadside rest stops, landscaping, mandates (such as storm water run-off) all need significantly enhanced funding to meet the state's needs.

The tremendous SHOPP needs are matched by equally large and important rehabilitation and maintenance needs at the city and county levels. The historic and chronic under-investment in transportation has created a situation in California in which neither capacity nor maintenance needs can adequately be met at all levels of government. The rehabilitation needs underscore the need for stable, dedicated transportation funding that grows with economic activity and transportation use.

Local Streets and Roads:

The Governor is proposing special session legislation to allow the Highway User Tax Account (HUTA) apportionments for local streets and roads to be deferred from April 2008 through August 2008 (payment in September) to use this money to meet General Fund cash flow needs. The HUTA apportionments, which are the local share of the state fuel excise tax, average approximately \$180 million per month.

Changes to Major Transportation Revenues (\$ millions)		2008		2008-09		Difference	
		Fund Estimate		Governor's Budget			
		2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
SHA	Fuel excise tax	\$2,212	\$2,252	\$2,173	\$2,212	-\$39	-\$40
	Weight fees	\$1,027	\$1,059	\$1,018	\$1,049	-\$9	-\$10
PTA	Sales tax - diesel	\$357	\$381	\$344	\$366	-\$12	-\$16
	Sales tax - gas excise tax	\$69	\$70	\$67	\$69	-\$2	-\$1
	Sales tax - spillover (gross) ¹	\$827	\$935	\$746	\$909	-\$81	-\$25
	Total PTA sales tax ²	\$630	\$918	\$536	\$889	-\$94	-\$30
TIF	Sales tax - gas	\$1,481	\$1,538	\$1,439	\$1,485	-\$42	-\$53

Programs Impacted by Revenue Changes (\$ millions)		SHOPP		STIP		STA		Local Roads		Other (diversion)	
		2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
SHA	Fuel excise tax	-\$39	-\$40								
	Weight fees	-\$9	-\$10								
PTA	Sales tax - diesel			-\$6	-\$8	-\$6	-\$8				
	Sales tax - gas excise tax			-\$1	-\$1	-\$1	-\$1				
	Sales tax - spillover			-\$81	-\$4		-\$8				-\$13
TIF	Sales tax - gas			-\$36	-\$24	-\$6	-\$8		-\$21		
TOTAL		-\$48	-\$50	-\$124	-\$36	-\$13	-\$25	\$0	-\$21	\$0	-\$13

1. Includes revenue deposited in the Mass Transportation Fund.
2. Sales tax revenue before STA apportionment.

Proposition 1B Budget Authority (\$ millions)					
	Program (Fund or Account)	Total Prop 1B Amount	2007-08 Budget Act*	2008-09 Proposed*	Balance Remaining
6053	School bus retrofit/replacement	\$200	\$192	\$1	\$7
6054	California Ports Infrastructure, Security & Air Quality Improvement Account (ARB)	\$1,000	\$250	\$250	\$500
6055	Corridor Mobility Improvement Account	\$4,500	\$609	\$1,547	\$2,344
6056	Trade Corridors Improvement Fund	\$2,000	\$0	\$500	\$1,500
6058	State Transportation Improvement Program (Transportation Facilities Account)	\$2,000	\$729	\$1,186	\$84
6059	Transit Apportionments (Public Transportation Modernization, Improvement, & Service Enhancement Account)	\$3,600	\$600	\$350	\$2,650
6059	Intercity Rail (Public Transportation Modernization, Improvement, & Service Enhancement Account)	\$400	\$188	\$73	\$139
6060	State-Local Partnership Program	\$1,000	\$0	\$200	\$800
6061	Transit System Safety, Security & Disaster Response Account	\$1,000	\$101	\$101	\$797
6062	Local Bridge Seismic Retrofit Account	\$125	\$14	\$21	\$90
6063	Highway-Railroad Crossing Safety Account	\$250	\$123	\$65	\$62
6064	State Highway Operation and Protection Program (Highway Safety, Rehabilitation, and Preservation Account)	\$750	\$403	\$216	\$131
6065	Local Streets & Road Improvement, Congestion Relief, and Traffic Safety Account of 2006	\$2,000	\$950	\$0	\$1,050
6072	Route 99 Account	\$1,000	\$15	\$108	\$878
6073	Port and Maritime Security Account	\$100	\$41	\$58	\$1
	TOTAL	\$19,925	\$4,216	\$4,676	\$11,033
	Core Transportation**	\$17,625	\$3,631	\$4,266	\$9,729
	* Excluding appropriations to pay PMIA loan interest and estimated SMIF interest earned.				
	** Excluding accounts 6053, 6054, 6061, and 6073.				