

AGENDA: February 3, 2005

TO: Santa Cruz County Regional Transportation Commission
FROM: Rachel Moriconi, Senior Transportation Planner
RE: The Governor's Proposed Fiscal Year 2005/06 State Budget

RECOMMENDATION:

This item is for information only.

BACKGROUND

On January 10, 2005, Governor Arnold Schwarzenegger released his proposed Fiscal Year 2005-06 State Budget. The budget attempts to address an approximately \$8-9 billion deficit in the state budget, using suspension of Proposition 42 to cover \$1.3 billion of that deficit.

DISCUSSION

The Governor's Budget Proposal

Proposition 42, approved by voters in 2002, dedicated revenues from existing state sales taxes on gasoline to transportation projects and programs. Despite statewide efforts to protect Proposition 42's revenues from being used to backfill the State General Fund, one of the Governor's key proposals to balance the current and next year state budgets is to continue suspension of Proposition 42. For FY05/06, the suspension will defer \$1.3 billion from transportation. This is in addition to the approximately \$5.5 billion that has been bled from transportation coffers over the past three years.

The Governor's proposed budget does, however, include a plan to firewall Proposition 42 funds starting in FY2007-08 and requires repayment of loans over 15 years. The Governor has said that he may place a constitutional amendment on a special November 2005 ballot to do just that.

Additionally, the Governor's proposal assumes that revenues from the Tribal Gaming compacts made last June will be delayed until 2006 (due to pending court cases). Earlier this year we heard that these revenues would be allocated to transportation to payback previous years loans. The Governor's budget also includes reduced funding for the Public Transportation Account (PTA) and includes no funding for the state Environmental

Enhancement and Mitigation (EEM) program. Attachments 1 and 2 provide additional details on the Governor's budget proposal.

Impacts on Santa Cruz County

In Santa Cruz County, the continued reduction in funds for transportation has meant the delay of nearly every State Transportation Improvement Program (STIP) funded project in the region, the largest being the Highway 1/17 Merge Lanes project, and projects that would otherwise have been funded through the Traffic Congestion Relief Program (TCRP), such as the Pacific Station/ Metro Center rehabilitation project and city and county street and road projects.

The Highway 1/17 Merge Lanes project is currently scheduled to start construction next fiscal year, but it is unclear if sufficient funding will be available for the California Transportation Commission (CTC) to fulfill its commitment to this and other projects programmed in FY05/06. Since the STIP includes more than just Proposition 42 funds, there should still be funding available for some STIP projects next year, but only projects that are ready to be implemented will be given priority for those funds. For that reason, staff continues to work with Caltrans to ensure that the Highway 1/17 Merge Lanes project is ready for delivery as soon as possible. Nevertheless, it now seems highly unlikely that the Highway 1/17 Merge Lanes project will get an allocation for STIP funds this year. (The Highway 1/17 Merge Lanes project is discussed in another staff report.)

Impacts on the 2006 RTIP and STIP

At its January 20, 2005 meeting, the California Transportation Commission (CTC) stated that it was waiting to hear the details of the Governor's proposal and the responses of the Legislature before making any definitive funding decisions for next year. The CTC indicated its intention to work closely with the regional transportation agencies in development of any specific proposals. In an effort to better illustrate the impacts of recent budget trends, the CTC may consider a two-tiered approach for development of the 2006 State Transportation Improvement Program (STIP). The first tier would reflect the status quo: continued suspension of Proposition 42 and delayed repayment of previous loans from transportation to the General Fund. The second tier would reflect how much funding would be available if existing statutes were followed. Under the first tier scenario, even the two additional years that are added into the 2006 STIP might not be enough to prevent the STIP from being in the red, and it is possible that some regions might have to remove projects from the STIP. The specific impacts to Santa Cruz County STIP projects are unknown, but since our county has an unprogrammed STIP balance of over \$10 million, the impacts to our region may be minimized.

All in all, it is too early to know how the state transportation funding situation will play out for specific projects. TEA-21 reauthorization and when and if Tribal Gaming revenues come in remain unknowns, but could improve the funding picture. Staff will continue to keep the Commission and project proponents informed of developments. The Draft Fund Estimate for

the 2006 STIP is scheduled for release this summer, with programming for the 2006 RTIP expected to occur in the fall of 2005, and adoption of the 2006 STIP in April 2006.

Statewide Need for Transportation Funds

Despite efforts to inform legislators and the public of the negative impacts of continued suspension of Proposition 42 and the low amount of funding for transportation even with Proposition 42, there seems to be no political will at the state level to address the fact that the state's revenue stream cannot meet its ongoing expenditure needs in the long run. California currently ranks 47th of the 50 states in both per-capita and income-based spending on transportation and 49th of 50 for higher education. Staff plans to meet with state legislators to discuss the situation as part of the Commission's legislative agenda. As you know, Assemblymember John Laird is the Chair of the Assembly Budget Committee and he is well aware of the dire need for transportation revenues in our county and around the state.

SUMMARY

The Governor's proposed FY05/06 State Budget again proposes to suspend Proposition 42. If approved by the legislature, \$250 million less would be available for STIP projects statewide. Allocations to STIP projects in Santa Cruz County may continue to be delayed.

Attachments: 1. Budget Briefing from Will Kempton, Caltrans Director
2. California Transit Association's January 11, 2005 budget summary

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