

## ***TPW- 5/15/08: Add-On to Item 4***

To: COG Directors  
From: Rusty Selix  
RE: Governor's May Revise/ CTA analysis of May Revise - More Transit Funds at Risk

### **Summary of Governor's May Revise**

The shortfall for 2008-09 is \$17 Billion. Of this amount, \$6 Billion is new since January due to lower revenues.

In general all of the major proposals by the Governor made in January to balance the budget are still being proposed with the exception of suspending proposition 98, the early release of prisoners and closing of state parks.

The Governor's budget does not rely totally on cuts to balance the budget but forecasts \$5 Billion annually through improved lottery operations based upon the premise that California currently nets \$88 per capita from its lottery whereas the average among the 10 largest states is \$225 per capita. The Governor proposes to borrow against this revenue source but also proposes that if the revenues are not sufficient there would be a 1 cent increase in the sales tax for up to three years. These proposals would have to be approved by voters in November as part of a constitutional amendment that creates a reserve fund whereby revenues above historic averages would not be used to expand programs but instead would go into a reserve fund to ensure that in deficit years there would not have to be program cuts.

The Governor's budget expands the transfer of transit funds to the General Fund. Attached is the California Transit Association analysis. There are no other transportation funding policy changes proposed in the Governor's budget which does note, however, that due to the rise in the price of gasoline there will be less driving and thus less revenue which will create a \$100 reduction in funds available for the SHOPP program.



May 14, 2008

1415 L Street, Suite 200 • Sacramento, CA 95814

Phone (916) 446-4656 • FAX (916) 446-4318

E-Mail: [info@caltransit.org](mailto:info@caltransit.org)

[www.caltransit.org](http://www.caltransit.org)

To: Members of the California Transit Association

Fm: Joshua W. Shaw, Executive Director  
Gus F. Khouri, Legislative Advocate

**RE: MAY REVISIONS TO GOVERNOR'S 2008-09 STATE BUDGET-  
MORE TRANSIT FUNDS AT RISK**

Today, the Governor released his required "May Revisions" to the 2008-09 State Budget, updating the proposal he originally made on January 10<sup>th</sup> of this year. In his proposal, **more than \$1 billion in dedicated transit funds are proposed to be diverted** to help solve the State's ongoing General Fund crisis. We will work with our Executive Committee and Legislative Committee to determine the exact impact on transit, and we'll be asking you to help us shore up support for transit in the Legislature. In the meantime, here are the details of the new budget proposal as we understand them today:

**General Budget Outlook**

The continuing mismatch between revenues and expenses has worsened since the January 10<sup>th</sup> budget was released; today the Governor projects the General Fund operating deficit to be \$24.3 billion if nothing is changed by June 30, 2009. That number does not reflect the mid-year cuts already enacted by the Legislature and Governor in February of this year; when those are factored in, the actual size of **the General Fund "hole" that must be filled is \$17.2 billion.**

In his proposal today, the Governor suggests a number of spending reductions and revenue "solutions" designed to fill that hole, and leave a reserve of \$2.0 billion. The diversion of transit funds is further detailed below. The two main solutions proposed involve the interlinking of a plan to modernize the State lottery and sell its future revenue streams to private sector investors (for about \$5 billion per year for three years), and securitization of those revenues to generate more cash, with a plan called the Budget Stabilization Act, to amend the California constitution to impose what the Governor calls a revenue limit for state-supported programs. Both these measures would need to be approved by a vote of the people on the November statewide election ballot.

**Public Transportation Account Proposals**

The main transit funding change from his January budget to today is the Governor's new proposal to **shift an additional \$828 million in Public Transportation Account funds** to support General Fund programs. This would **reduce the proposed 2008-09 State Transit Assistance Program** from January's \$743 million proposal **to \$306 million.**

The following changes were made today with regard to the PTA as compared to the January 10<sup>th</sup> budget:

- Today's proposal increases the total diversion of public transit dollars (compared to historic PTA purposes) from \$596 million in January to about **\$1.4 billion**.
- Despite additional revenue from an increase in the sales tax on diesel and an increase in Proposition 111 revenues (from \$434 million total in January to \$538 million now), the overall shift of PTA dollars to the General Fund reduces the proposed State Transit Assistance (STA) Program level from the \$743 million proposed in January to **\$306 million**.
- The proposed \$306 million STA Program level is the **same as the current year**.
- The \$828 million in additional PTA revenue shifted would be spent on the following programs historically supported by the General Fund:
  - **\$593 million** for home-to-school transportation
  - **\$235 million** on current and prior year general obligation bond debt service
- Another **\$10 million** in PTA dollars are proposed to be spent on the **High Speed Rail Authority's** current engineering and project management work.

The new budget continues to provide **NO PTA dollars** for existing transit capital projects programmed in the STIP to receive 2008-09 allocations.

The PTA is also still expected to fund the regional occupation center transportation program at \$141 million. That is not changed since January.

### **Spillover Revenue**

The Governor now projects that the "spillover" revenue stream – one of four main revenue streams historically dedicated to the Public Transportation Account – has **grown by \$268 million** since the January 10<sup>th</sup> estimate of \$909 million. The source is now estimated to produce **\$1.177 billion in 2008-09** due to higher gas prices.

Today's proposal calls for a change in the 2007 Budget Act, which itself changed historic law to permanently divert 50% of any year's spillover dollars from the PTA to support General Fund programs; today the Governor indicated he needs more of those funds to address the 2008-09 General Fund deficit.

## **Proposition 42**

The Governor proposes to **fully fund Proposition 42**. In other words, despite the General Fund deficit, he does *not* propose to trigger the suspension and loan provisions of 2006's Proposition 1A, which further protected Proposition 42 revenues. Proposition 42 revenue is now projected at **\$1.43billion**, down from \$1.49 billion in January. Proposition 42 would presumably fund the following programs:

- \$572 million (40% of the revenue) to the State Transportation Improvement Program (STIP), which can be used for transit capital projects.
- \$286 million (20% of the revenue) to city streets.
- \$286 million (20% of the revenue) to county roads.
- **\$286 million** (20% of the revenue) **to the Public Transportation Account**. Of this amount:
  - 75%, or \$214.5 million, goes to the State Transit Assistance Program.
  - 25%, or \$71.5 million, is available for state and regional programming priorities.

## **Proposition 1B**

The proposal today apparently does not change the Governor's January proposals with regard to appropriations from Proposition 1B, including a **\$350 million PTMISEA program**.

## **Other Transportation Programs**

The May Revise notes that gasoline consumption is down recently, which drives down the proceeds from the state's excise tax on gas by \$225 million. This, in turn, decreases funds available to the STIP and for Caltrans' State Highway Operations and Protection Program (SHOPP), offset somewhat by a carry-over from 2007-08. The SHOPP is down \$100 million since the January budget.

Despite that, the May revise also proposes a \$200 million loan from the State Highway Account to the General Fund. A number of other transportation accounts would also loan funds to the General Fund.

# # #

We'll provide more details as they become available. Please contact us at (916) 446-4656 if you have questions, or email us at [Josh@Caltransit.org](mailto:Josh@Caltransit.org) or [Gus@Caltransit.org](mailto:Gus@Caltransit.org).

**Comparison Chart Highlights:  
2008-09 January 10<sup>th</sup> Budget vs. May Revise**

	<b>Proposal</b>	<b>January 10<sup>th</sup></b>	<b>May Revise</b>
<b>Revenue</b>	<b>State Transit Assistance (STA) Program</b>	Provides the STA program with <b>\$743 million</b> .	Reduces the STA program to a total of <b>\$306 million</b> , which is a \$437 million or <b>64% reduction</b> .
	<b>Other PTA Programs</b>	<b>\$106 million</b> for Intercity rail, including \$23 million for planning, and \$9 million for the Caltrans Division of Mass Transportation.	No changes apparent.
	<b>Proposition 1B</b>	Provides <b>\$350 million</b> from PTMISEA pot within Prop 1B.	No changes apparent.
<b>Cuts</b>	<b>Bond Debt Repayment</b>	Uses <b>\$372 million</b> of the spillover diversion to pay for transportation-related general obligation bond debt service (Propositions 108, 116 and 192).	An additional <b>\$235 million</b> is proposed for bond debt repayment for a total of <b>\$607 million</b> .
	<b>Traffic Congestion Relief program (TCRP)</b>	<b>\$83 million</b> of the remaining spillover diversion would be used to repay the TCRP from previous loans to the GF from that program.	No changes apparent.
	<b>Regional Occupational Center / Home-to-school Funding</b>	Makes the PTA responsible, in perpetuity, for transportation programs serving developmentally disabled clients of regional centers. The cost is <b>\$141 million</b> for 2008-09.	No change apparent on regional occupational center funding, however, <b>\$593 million</b> is proposed to pay for home-to-school transportation. This was not proposed in January.
<b>Impact</b>	<b>State Transit Assistance (STA) Program</b>	Historic law would allocate <b>\$894 million</b> to the STA program. The January 10 <sup>th</sup> proposal provides \$743 million, which is about a 17% reduction.	The STA program total is <b>\$306 million</b> which is <b>\$586 million</b> less than historic law. This represents a <b>65% reduction</b> .
	<b>PTA-STIP</b>	<b>Historic law would have allocated \$585 million for this year. There is NO funding proposed for transit capital projects in the STIP for 08-09.</b>	No changes apparent.
<b>Total Cut</b>	<b>PTA Funds</b>	Diverts a total of <b>\$596 million</b> from PTA (\$455 in spillover and \$141 million to pay for regional occupational center transportation). <b>This represents a 30% cut to the PTA.</b>	<b>Diverts at least an additional \$828 million for a total of \$1.424 billion in diverted funding from public transit.</b>



**CALIFORNIA  
TRANSIT  
ASSOCIATION**

---

1415 L Street, Suite 200 • Sacramento, CA 95814  
Phone (916) 446-4656 • FAX (916) 446-4318  
E-Mail: [info@caltransit.org](mailto:info@caltransit.org)  
[www.caltransit.org](http://www.caltransit.org)

**FOR IMMEDIATE RELEASE**

May 14, 2008

**CONTACT:** Joshua Shaw,  
Executive Director  
(916) 893-9299

**Transit demand surges, but funding to shrink**  
***May Revise would push transit raids this decade past \$4 billion mark***

SACRAMENTO — If there's a silver lining for public transit advocates to find in the May Revise of the governor's proposed state budget for 2008-09, it's that the recommended outlay for next year isn't any less than this year's.

But that's small consolation considering that the diversion of Public Transportation Account (PTA) funds included in the spending plan released today would push the total raided from transit coffers this decade beyond the \$4 billion mark.

"We acknowledge that the governor worked hard to find a way to maintain the current year's funding," said Joshua Shaw, Executive Director of the California Transit Association, "but we expected more last year – we believe we were legally entitled to it, and we know Californians want and need better transit service – so more of the same is nothing to be happy about."

The spending plan calls for re-directing another \$1.4 billion from the Public Transportation Account (PTA) into the General Fund, on top of the more than \$1.25 billion slashed from the PTA in the current budget and nearly \$3 billion already drained from the account this decade. All told, transit is ticketed to receive just \$306 million in the 08-09 proposal, that coming via the State Transit Assistance (STA) program. The allotment is a 59 percent reduction in STA funding compared to the preliminary budget plan released in January.

"That three hundred and six million is equal to the STA for 07-08, so they claim to be holding transit harmless," Shaw explained. "While it's not technically a net reduction, it's clearly a significant amount less than the voters intended to provide to transit when they enacted numerous measures over the years designed to spend transportation taxes on transportation programs."

-- MORE --

**Transit demand surges, but funding to shrink**  
**2-2-2-2-2**

The latest siphoning of transit funds effectively countered the unexpected relief provided by full funding of Proposition 42-mandated transfers of gasoline sales tax revenues.

The proposed cuts rely on diverting nearly all of the \$1.177 billion in “spillover” funds – essentially revenues from the sales tax on gasoline that accrue when gas prices are high and increasing faster than the rate of all other sales tax income. Shaw noted that, since 1971, voters intended that 100 percent of spillover funds should be dedicated to public transit.

The governor’s proposal also continues his January call for an additional \$141 million to be redirected from the PTA to fund transportation services administered by regional occupational centers, an expense outside the scope of mass transit services and thus traditionally shouldered by the General Fund.

Overall, the May Revise cuts represent an additional \$828 million in transit funding reductions beyond those originally proposed in January.

The re-routing of more than \$1.25 billion in PTA money in the current year’s budget prompted a lawsuit from the Association seeking to restore the cuts. The suit maintained that a series of voter-approved constitutional provisions – from 1990’s Proposition 116 through Proposition 1A of 2006 – established the PTA as a trust fund and require that PTA revenues must be spent on “mass transportation purposes.” A Sacramento Superior Court ruling upheld nearly \$800 million of the diversion, and lawmakers re-configured the law on which the court’s decision was based in order to reclaim the remaining \$400-million-plus to help facilitate mid-year budget cuts instituted in February. The Association is currently exploring the possibility of an appeal of the Superior Court decision.

The latest cuts come in the face of record-breaking fuel price hikes that show no sign of slowing down, and an accompanying astronomical increase in transit usage across the nation. Over the last several days, the trend has generated widespread attention from the national media, which reported that many California transit providers are experiencing ridership escalations of more than 20 percent compared to last year.

“Given that fuel prices are driving more and more people out of their cars and on to buses and trains for their day-to-day mobility, this is the worst possible time to continue this trend of massive cuts to transit funding,” said Shaw. “Transit providers are seeing ridership surge to record levels and beyond. Many are actually having to turn away passengers. Yet their ability to keep up with demand keeps moving in the opposite direction.”

The budget plan proposes \$101.8 billion in total spending, with a projected deficit of \$17.2 billion. That’s higher than the \$14.5 billion deficit forecast at the beginning of the year, despite nearly \$7 billion in mid-year cuts enacted in February.

“The gimmicks used year after year to patch the budget have all been exhausted. This continued pattern of taking money that voters have repeatedly decreed must be spent on transit and using it

-- MORE --

**Transit demand surges, but funding to shrink**  
**3-3-3-3-3**

to paper over the holes in the General Fund has got to stop,” Shaw said. “We urge the legislature to take a look at the various proposals from the governor to enact serious structural reform of the budget process, as well as to consider raising state revenues.”

The California Transit Association is the trade organization representing the state’s public transportation systems. Its mission is to support the needs of California’s public transit systems through advocacy and education. The Association’s members include more than 85 local and regional transit systems, operating bus, dial-a-ride, light rail and commuter rail services.

###