MEMO

DATE: February 3, 2005

TO: The Regional Council
The Transportation and Communications Committee

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SUBJECT: State Budget Update

SUMMARY:

Governor Arnold Schwarzenegger released his Fiscal Year 2005-06 Budget on Monday, January 10th. To help address an estimated $8 billion shortfall, the Governor has proposed a suspension of Proposition 42, the voter-approved dedication of motor vehicle fuel sales tax revenues for transportation purposes. A total of $3.4 billion in revenues to transportation have been lost during three years of Proposition 42 suspensions. The Governor proposes a 15-year repayment schedule of Proposition 42 funds in his Budget and launches new initiatives, including a transportation program called "GoCalifornia."

BACKGROUND:

Despite a $5 billion increase in projected tax revenues, California faces an estimated $8 billion structural budget deficit in FY05-06. To address the shortfall, Governor Schwarzenegger has proposed a combination of borrowing, transfers, and cuts in his FY05-06 Budget, released January 10th. Transportation funding fares poorly in the Budget, although the broad outlines of transportation reforms announced with the Budget's release promise an improvement in funding in 2007.

Proposition 42, the dedication of motor vehicle fuel sales taxes for transportation purposes, is suspended in the Governor's FY05-06 Budget, reserving $1.3 billion for General Fund use. Added to previous suspensions, a total of $3.4 billion have been diverted to the General Fund from Proposition 42's Traffic Congestion Relief Fund (TCRF). The Budget proposes a 15-year repayment of these funds beginning in 2007.

Although the loan to the General Fund is repayable without interest, the Governor proposes a constitutional amendment staring in FY07-08 to eliminate the ability to borrow Proposition 42 funds—the "Prop 42 firewall" sought by transportation stakeholders. Until that time, the Budget is silent on an FY06-07 suspension, leaving open the possibility of an additional near-term transfer. For FY05-06, $183 million is available from the TCRF.

The Budget contains other reductions in the area of transportation beyond the Proposition 42 suspension. Indian gaming revenues, allocated to transportation in the FY04-05 Budget and estimated at $1.2 billion, will be available in FY05-06 only if pending litigation is resolved. Should litigation continue or if revenues are lower than expected, there is no Budget provision to

supplant gaming proceeds. Furthermore, the spillover of sales tax to the Public Transportation Account for transit is suspended at a cost of $216 million.

On the bright side, the Governor proposes a new program in the Budget called "GoCalifornia." While details have not been released, GoCalifornia is broadly defined as a comprehensive 10-year strategy for transportation improvements covering all modes of transportation and connecting transportation to housing. A key component of GoCalifornia is project delivery efficiency, including performance improvements at Caltrans and alternative procurement systems, such as design-build and design-sequencing. Those concepts, as well as GoCalifornia's emphasis on public-private partnerships, are key components of the adopted 2004 Regional Transportation Plan and SCAG's goods movement strategy. GoCalifornia will be unveiled in the spring.

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