



May 14, 2008

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To: Members of the California Transit Association

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**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Today, the Governor released his required "May Revisions" to the 2008-09 State Budget, updating the proposal he originally made on January 10th of this year.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 10th 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 10th 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 10th 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.

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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 or Gus@Caltransit.org.

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

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