February 11, 2005

TO: Joe Wallace, President, and

Members of the AC Transit Board of Directors

Jim Gleich, DGM

FR: Lynn M. Suter & Associates

RE: Legislative Update – Governor’s Budget Proposal

First Budget Committee Hearings: Legislative Analyst Liz Hill and State Director of Finance Tom Campbell testified before both the Assembly and Senate Budget Committees, which met for the first time earlier this month. Democrats made it clear that they believe the gov’s budget relies too heavily on reductions in programs for the poor, the elderly, and K-12 education.

The Legislative Analyst testimony was critical of the $111.7 billion budget that restricts payback of money owed to schools, cuts deeply into healthcare and social service spending, and still leaves a shortfall of $10 billion in FY 2006-07. DOF Director Campbell appeared to recognize the many concerns voiced by legislators from both sides of the aisle, and encouraged bipartisan dialog heading into the budget debate.

Losing no momentum the Assembly and Senate Budget Committees filled the month of February with Subcommittee hearing throughout the state. This is the earliest start date for the budget committees in recent history. This past week Assembly Budget Subcommittees held back-to-back hearings in Sacramento, setting the stage for subcommittee actions to begin immediately after the release of the LAO’s analysis on the Governor’s budget proposal, which is expected next week.

Senate Budget Subcommittee 4 scheduled several hearing across the state to collect testimony on the impact the Governor’s budget will have on transportation projects in each region. AC Transit Director Chris Peeples testified at the Sub 4 hearing in San Jose on February 4th on the impacts the Budget will have on AC Transit and transit operations in the Bay Area. The Governor’s budget proposal through suspending Prop 42 and retaining spill over funds in the general fund will cost AC Transit approximately $6 million, and the impact to transit operations region wide will exceed $60 million in 2005-06.
**Gaming Bonds:** The Senate Governmental Organization Committee held an informational hearing on the revenue forecasts for the gaming compacts ratified last session. The compacts required the tribes secure $1.2 billion in bonds that are earmarked for transportation. State Treasure Phil Angelides was pessimistic of receiving any of the $1.2 billion in bond funds this fiscal year. The state continues to argue over the venue of a lawsuit filed by card clubs and race tracks as the source of the delay. In addition, provisions in the compact prevent full disclosure of a tribe’s financial information, which significantly increase the cost of issuing the bonds. Angelides estimates that the bonds will only generate $700-$800 million. He pointed out that it would be cheaper to use the remaining debt financing bonds to repay transportation accounts. Furthermore, with the State Highway Account broke, Angelides stated that without the gaming bond revenue the state must postpone the issuance of GARVEE bonds scheduled for April because there is insufficient revenue in the SHA for the state match. GARVEE bonds allow the state to securitize federal obligational authority.

**Saving Prop 42:** Halting the loss of transportation funds is moving up the Legislature’s priority chart. With the Governor’s proposal to suspend the flow of Proposition 42 fund in 2005-06 and in 2006-07, the Assembly Democrats have ranked stabilizing transportation funding as one of their top priorities. A coalition of public agencies, labor groups, and highway construction firms and residential and commercial development interests has formed to collectively fight the Governor’s proposal and promote Prop 42 reforms that do not leave the transportation accounts broke for the next two years. Taking note of the Treasure’s remarks, a possible source for transportation funding is to utilize $1.2 billion of the remaining California Debt Reduction to repay transportation accounts in 2005-06.

**Jobs, Housing & Transportation:** Senator Torlakson held an informational hearing setting the stage for legislation on infill development and smart growth. This hearing was the first for newly-merged Senate Transportation and Housing Committee. The hearing included presentations ranging from the breakdown in the transportation funding system, the need for housing and infill development, to transportation alternatives such as walking, bicycling and public transit. We await the introduction of legislation aimed at promoting infill development and smart growth principles.

**Bay Bridge Hearings:** The initial review by Legislature of Caltrans’ mismanagement of the Toll Bridge Seismic Retrofit program and the Administration’s proposal to redesign the Bay Bridge is complete. The process left more questions than answers and additional hearings may be scheduled.

The issue is now placed in the hands of the Governor and Legislative leadership to resolve. Senators Perata and Torlakson are expected to meet with the Governor soon to discuss the Governor’s proposal replace the Self-Anchored Suspension Bridge with the viaduct design. Evidence uncovered so far seriously questions validity of the Administration’s claim that the viaduct is a cheaper, faster alternative. If an agreement cannot be reached on the design, negotiations on the funding shortfall will not proceed,
and this project could be delayed for months to come. Regardless of the design for the Bay Bridge, the funding shortfall remains at $3 billion.

**Special Legislative Sessions:** The Governor complained that the legislature is wasting time, holding up his reforms, and not acting upon midyear budget cuts and redistricting proposals in the special session he called in January. None of the proposals has been heard by legislative committees as yet, and the Republicans and Democrats are blaming one another for the delay in setting hearing dates. Republican authors and committee members were in Washington DC for the President’s inaugural last week.

The Governor has threatened to take his reorganization proposals to the initiative process for a November vote if the Legislature hasn’t acted on them by March.

**Redistricting Proposal:** Gov. Schwarzenegger is pushing a proposed Constitutional Amendment that would transfer the Legislature’s power to draw district boundaries for both the legislature and Congress, to a nonpartisan panel of three retired judges. Asm. Kevin McCarthy has introduced Assembly Constitutional Amendment X3, which would require that Assembly and Senate districts be drawn so that neither political party has more than a 7 percentage-point advantage among registered voters. New boundaries would have to be geographically consistent, eliminating the practice of dividing cities among many districts to achieve political results.

*Currently the Legislature consists of 48 Democrats and 32 Republicans in the Assembly; 25 Democrats and 15 Republicans in the Senate.* In Congress there are 33 Democrats and 20 Republicans.

**Pension Reform Discussions:** Assemblyman Keith Richman presented the CSAC Board of Directors with his defined contribution plan for public employees hired after 2007. The Governor has taken ownership of the Richman proposal, and says he will sponsor a voter initiative for the November ballot if the legislature fails to institute pension reforms. State Treasurer Phil Angelides announced his intention to wage a national campaign against the Governor’s plan.

The Assembly PERS and the Senate Budget Subcommittee will be holding separate pension reform hearings Feb. 16. Asm PERS plans to discuss pension reform broadly, while Senate Budget will discuss the implications of defined benefit versus defined contribution plans. The Assembly plans to hold hearings throughout the state to discuss pension reform proposals.
## LEGISLATION

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<td>AB 54 (McLeod, Negrete) I-12/06/2004</td>
<td>State Property: Inventory.</td>
<td>01/06/2005-Referred to Com. on B. &amp; P. (01/06/2005-A B. &amp; P.)</td>
<td>No Position</td>
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**NOTE:** Under existing law the Department of General Services is required to maintain a complete and accurate statewide inventory of all real property held by the state and to update it annually. AB 54 would require General Services to update this list by January 1, of each year.

AB 54 will be one of many measures aiming to address the tracking and disposal of surplus property owned by the state.


**NOTE:** AB 209 is a spot bill that makes nonsubstantive changes to the authorizing statute for San Diego County’s local transportation sales tax program.


**NOTE:** ACA 4 would delete provision authorizing the Governor and the Legislature to suspend the transfer of Proposition 42 funds from the General Fund to the Transportation Investment Fund. This measure would take affect upon voter approval. However, the Governor has stated his support to repeal the suspension authority beginning with the 2007-08 fiscal year.

| ACA 7 (Nation) I-12/06/2004 | Local governmental taxation: special | 12/07/2004-From printer. May be heard | No Position |
### ACA 7 (Bogh)  
**I-01/24/2005**  
Motor vehicle fuel sales tax revenue.  
01/25/2005-From printer. May be heard in committee February 24.  
(01/24/2005-A PRINT)  
**No Position**

**NOTE:** ACA 7 would amend the Constitution to allow a city, county or special district to impose a special tax with 55% voter approval.

### ACA 9 (Bogh)  
**I-01/24/2005**  
Motor vehicle fuel sales tax revenue.  
01/25/2005-From printer. May be heard in committee February 24.  
(01/24/2005-A PRINT)  
**No Position**

**NOTE:** ACA 9 would increase the vote requirement from 2/3 to 4/5 of the membership of each house of the Legislature in order to enact a statute suspending in whole or in part the transfer of Proposition 42 funds.

### SB 99 (Battin)  
**I-01/14/2005**  
State real property: California Asset Review and Divestiture Commission.  
01/27/2005-To Com. on G.M., E. & A.  
(01/27/2005-S G.M., E. & A.)  
**No Position**

**NOTE:** SB 99 bill would establish the Commission on Asset Review and Divestiture, which would be charged reviewing the statewide inventory of real property, including all property owned by the Department of Transportation. After review the Commission would report its findings, along with recommendations on property to be divested, to the Legislature and to the Department of General Services. General Services would be required to divest the real property pursuant to the recommendations of the commission. Unless Constitutionally restricted, the proceeds would be used to pay-off the debt financing bonds.

The most significant change in SB 99 is that the property inventory would include properties owned by Caltrans that are currently exempt, which includes existing highways, airspace, excess lands, and properties acquired for highway projects. Although the proceeds from the sale of such properties would be placed in the State Highway Account, all right-of-way currently owned by Caltrans would be at risk of being sold upon the recommendation of the Commission.
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<td>SB 172 (Torlakson) I-02/09/2005</td>
<td>Seismic retrofit projects.</td>
<td>02/10/2005-From print. May be acted upon on or after March 12. (02/09/2005-S PRINT)</td>
<td>No Position</td>
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<td><strong>NOTE:</strong> SB 172 implements some of the findings outlined in the State Auditor’s report on Caltrans’ management of the Toll Bridge Seismic Retrofit Program. In general this bill required Caltrans to establish a comprehensive risk management plan for seismic retrofit projects and to provide reports to the Legislature within 45 days of the end of each calendar quarter.</td>
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<td>It is expected that SB 172 will be amended to implement additional management changes within Caltrans.</td>
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<td><strong>NOTE:</strong> SR 8 states that the Senate places a high priority on improving access to housing and reducing traffic congestion by promoting affordable housing, infill development, and other policies that allow people to live closer to their workplaces.</td>
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