**Administration and Projects Committee STAFF REPORT**

**Meeting Date:** June 4, 2015

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**Background**

This report contains updates on relevant developments in policy, legislation and finance that are of interest to the Authority both at the State and federal levels of government.

Mark Watts of Smith, Watts & Martinez LLC will be in attendance to discuss current legislative activities that may affect the Authority. This discussion may consist of an overview of current bills, and may also include recommendations for positions/actions by the Authority pertaining to specific bills.
Highway Trust Fund

Last week, the House of Representatives and Senate both passed a 2-month extension of the Highway Reauthorization, which was set to expire on May 31, 2015. A number of members had threatened to vote against the bill as a protest of how Congress has been handling (or mishandling) the Highway Trust Fund (HTF) solvency crisis and in opposition to the continued use of short-term extensions.

The options were either a mini-extension through the end of July (which would not require any additional money since the Highway Trust Fund (HTF) is estimated to remain solvent into August) or a longer-term extension through the end of September or December 31. Extending the bill through the end of the calendar year would require identifying an additional $10B in revenues or program cuts which Congress appeared to be unable or reluctant to do.

The administration is reluctantly supporting this extension and has said the President will not veto the bill, but that this is the last short term extension, stating – “The administration will not support continued failure in making the investments the nation needs" and "expects that the Congress will use this two-month extension to make meaningful and demonstrable progress towards a significant bill in 2015.” However, Chairman Bill Shuster (R-Pennsylvania), told the House Rules Committee that leaders might be looking at another extension through sometime toward the end of the year to try to come up with the money to fill the Highway Trust Fund through savings found in a tax overhaul.

The Highway Trust Fund could run out of funds at the same time the proposed extension of MAP-21 expires. This would cause two problems: Federal legislators may have to simultaneously deal with both an infusion of revenue into the Highway Trust Fund and another extension of MAP-21.

The primary hope for finding sufficient revenues to authorize a six-year program is as part of a comprehensive tax reform package. However, as of right now, it seems unlikely Congress will be able to pass such a controversial and complex bill this fall and potentially less likely in 2016, a presidential election year.

With pressure on to make headway on a multi-year plan for infrastructure funding before this new patch is up on July 31, Sen. John Thune (R-South Dakota) is floating the idea of trying to get some transportation funding from expired tax provisions commonly called extenders. The senator says tax extenders, which are all but certain to be renewed later this year, are more of a sure bet than relying on a tax overhaul. "What I would like to see happen, in a perfect world, is do tax extenders and the highway bill in that 60-day period so we're not dealing with this at the end of the year."

Even if enacting a big tax revamp is an attainable goal this year, Congress still has to come up with money before the end of July to keep the HTF afloat until that tax-overhaul windfall comes to fruition. And getting agreement on funding offsets has not been easy so far.
Senate Finance Chairman Orrin Hatch (R-Utah) blamed Democrats for "walking away from the negotiating table." The Chairman said Republican leaders came up with $5 billion in tax offsets from the last time they had to refill the trust fund and intended to use that funding, as well as "an equal amount in spending reductions and reforms," to achieve the roughly $11 billion needed to keep the trust fund solvent through December. But Democrats, "failed to engage in meeting us halfway with a balanced package of compliance revenue and spending reductions," forcing the GOP to resort to this latest two-month extension.
May 27, 2015

MEMORANDUM

To: Linsey Willis

From: Mark Watts

Subject: Legislative Update

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**Transportation funding Legislation**

Governor Brown noted in his January State Budget announcement, that the annual maintenance and repair needs on the state’s highway system are significantly more than can be funded within existing resources, and identified a current gap in the SHOPP of $6 billion annually. He further stated that the state must consider other funding options to provide for the long-term sustainability of the state’s core highway system. Calling on the legislature to act, the Governor stated that the solution must address the deferred maintenance needs of the highway system, key freight corridor investments, and include an ongoing pay-as-you-go funding structure that aligns funding with use of the system.

In response, both houses have initiated legislative action to address state and local roadway and preservation repair needs. SB 16 (Beall) reflects a new approach to transportation funding mixing several revenues sources to spread the impact among motorists while the Speaker of the Assembly put forth a concept of a road fee to serve as a basis for funding necessary highway preservation.

The following summarizes briefly the key legislative efforts to address new transportation resources.

**SB 16 (Beall)**

This is Senator Beall’s major effort to increase transportation resources through a variety of revenue sources, recapture truck weight fees, and require early repayment of about $1 billion outstanding loans, to be distributed for state and local roads repair and maintenance. When adopted, it would generate $3-4 billion annually over the next five years.

SB 16 has passed two committees at this point in the session in the Senate and was heard on Tuesday in the Senate Appropriations Committee where the bill was sent to the Suspense file.

**Assembly Proposal**

Although the Speaker and Assembly Transportation Chair, Jim Frazier, have continued to work on the approach outlined earlier in the year, the Assembly approach is not yet in legislative form. It is
anticipated that following the enactment of the 2015-16 State Budget Act that the Assembly will come forward with a more complete package.

**SB 321 (Beall)**

This measure would immediately lessen the 2015 gas tax excise rate reduction adopted by the Board of Equalization (BOE) by using an extended timeframe over which the price based tax estimates are to be used for calculating the annual fuel tax adjustment. It is presently ready to be considered on the Senate Floor.

The transportation industry is seeking to move the bill to be part of the state budget process so it can become effective immediately along with the budget and result in net, higher gas tax revenues in 2015.

**AB 194 (Frazier)**

This bill has emerged as the key bill to address state tolling and High Occupancy Toll (HOT) Lanes. Current authority for tolling and HOT projects essentially expired and this bill extends indefinitely the authority for the CTC to grant to Caltrans and regional transportation agencies authority to develop and operate HOT Lanes.

The administration also had a proposal they wanted to pursue as an adjunct to the state budget, in the form of a budget trailer bill; however, the budget committees elected to hold that proposal in favor of a bill, such as AB 194, that went through policy vetting in the legislature.

The measure passed the Assembly Transportation Committee and is presently on the Appropriations Committee Suspense file. AB 194 is expected to move to the Floor later this week.

**AB 1265 (Perea)**

Assemblymember Perea is carrying this bill to extend the state’s current Public-Private Partnership (P3) law. With the author and Assembly Transportation Committee Chair’s leadership, the bill readily passed the Assembly Transportation Committee. It is currently awaiting final consideration in the Assembly Appropriations Committee.

However, this bill is under attack by Caltrans’ Professional Engineers in California Government (PECG), who seek to amend the bill to: (1) Overturn the Supreme Court decision that supported the Caltrans approach to P3s; and (2) Mandate that the contractor working under the P3 concessionaire in an agreement use Caltrans forces for construction inspection and other project pre-development work.

**State Budget**

This week brings to a close the state budget subcommittee work on the Governor’s Budget Proposals with the full Budget Committees of both houses scheduled to adopt their own versions of the budget act this week; this will lead to the Budget Conference Committee where the focus will be on reconciling the differences in order to present the Governor a final proposed state budget act for his consideration and approval by June 15.
Overview

For the budget year, the Assembly version of the budget includes $117.9 billion in General Fund Expenditures and $119.7 billion of General Fund Revenues while the Senate committee’s version of the budget includes total General Fund expenditures of $117.5 billion for 2015-16.

The Senate committee’s version of the budget provides for $5.6 billion in general reserves.

The Assembly version of the budget provides $5.3 billion in total reserves. This includes:
- $4.2 billion in the Prop 2 Rainy Day Fund.
- $1.1 billion in the regular Budget Reserve.

This results in the State's largest budget reserve in the last 30 years in both total fund and as a percentage of overall General Fund Spending. The two charts below compare this reserves to the last 15 budget packages ($ billions).

Transportation Budget Items

The budget committees approved the Administration’s key proposals to increase funding transportation projects and staff to deliver these projects at the California Department of Transportation (Caltrans). Other important proposals adopted include:

- **Cap-and-Trade Proposal.** The budget committee approved the Administration’s cap-and-trade proposal for transportation-related programs as follows (1) $500 million for the high-speed rail system; (2) $400 transit-oriented development (sustainable communities); (3) $265 million for the transit and intercity rail capital program; and (4) $100 million for low carbon transit operations.

- **Caltrans Capital Outlay Support (COS) and Project Initiation Document (PID) Program Funding.** The subcommittees approved a proposal to reduce the Caltrans budget by $25.2 million and 178 full-time equivalents (FTE) for the COS program from the 2015-16 Governor’s budget, for a total of 9,697 FTEs and $1.7 billion in costs. The committee also approved the Governor’s budget request for 362 positions and $53.8 million to develop about 600 PIDS in 2015-16.

- **Road Usage Charge (RUC) Pilot Program.** Approved $11.9 million for the implementation of a RUC pilot program, as required by SB 1077 (DeSaulnier), Chapter 835, Statutes of 2014. The approved funding provides for six state positions and $10.1 million for consultants to develop, conduct and evaluate the pilot program and provide the results to the Legislature by June 2017.

- **Additional Funding for State-Supported AMTRAK Routes.** The committee provided an additional $7.6 million to fund the operating expenses of the state-supported AMTRAK routes—Capitol Corridor, San Joaquin, and Surfliner. This increase also funds additional train service on the San Joaquin Intercity Rail route.
**Legislative Bill Recommendations**

The following are recommended positions for the consideration of the APC:

**AB 157 (Levine)**

Recommend: Support. This bill seeks to support the combination of the design work with environmental review to speed the development of the combined operational improvements and bikeway on the Richmond-San Rafael Bridge.

**AB 194 (Frazier)**

Recommend: Support. AB 194 authorizes regional transportation agencies to develop and operate toll lanes. At present, the measure contains favorable language that would require consultation between the regional transportation authority and a local agency on the planned facility.

**AB 464 (Mullin)**

Recommend: Support. The bill authorizes the lifting of the current countywide sales tax “cap” from 2% to 3%.

**ACA 4 (Frazier)**

Recommend: Support. The measure would provide statewide voter consideration of reducing the current voter threshold for local transportation taxes from two-thirds to 55%.

**SB 321 (Beall)**

Recommend: Support. Note: APC recommended a “support in concept” position on April 2, 2015. The bill would reduce the annual volatility of the establishment of the “Tax Swap” excise tax component.