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Consulting and Governmental Relations

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MEMORANDUM

To: Transportation Clients

From: Mark Watts

Subject: Legislative Report

State Budget

On June 15, the Legislature approved AB 93, the 2015 State Budget Act. The overall state General Fund expenditure plan for 2015-16 reflected in the bill amounts to \$117 Billion.

But, in a disagreement with the governor, the legislative general fund budget was based on a higher level of revenue estimates for the fiscal year than the Governor's Department of Finance has estimated and dedicated the additional revenues to additional program funding.

Although it was anticipated that negotiations between the Governor and legislative leadership would take more than a week to conclude an agreement on modifications to the core budget negotiations resulted in significant changes to the budget act that were approved by the Legislature on June 20, along with related trailer bills.

Special Session On Transportation and Infrastructure

In addition to announcing the budget agreement, the governor also announced two Special Sessions of the Legislature to address (1) how California pays for roads, highways and other infrastructure and (2) Medi-Cal. These would run concurrent with the regular legislative session.

The Governor's proclamation calls for the Legislature to enact permanent and sustainable funding to maintain and repair the state's transportation and critical

infrastructure, improve the state's key trade corridors and complement local infrastructure efforts.

The Governor's call for a Special Session on Transportation last week was acted upon by the Legislature this past Friday, with the adoption of Special Session Joint Rules by the Senate and the introduction of SCAX1 1(Huff), the first Special Session bill to be introduced. With both Houses meeting Monday, June 20, it is anticipated that additional Special Session legislation may be introduced as well; in fact, it appears that Senator Beall will be moving forward with legislation to be introduced today.

In a related development, CalSTA Secretary Brian Kelly conducted a conference call with Transportation stakeholders with the following the key points he made regarding the Special Session:

- The Administration's initial focus will be to reach out to the legislative leadership;
- The Administration's overarching objective remains to seek new funding under a "fix it first" theme to address the state's long-standing deferred maintenance crisis;

The Secretary did also underscore that the Special Session proclamation calls for action to streamline project delivery.

Transportation Budget Items

In addition to the Budget Act, the Legislature approved four trailer bills on June 15, as well, including AB 95 (related to transportation). AB 95 includes several items of interest to the transportation community:

Development of CT highway preservation "Shelf" of projects. The budget includes 25 positions to create a \$500 million project shelf for the State Highway Operations and Preservation Program (SHOPP).

AMTRAK Funding for Intercity rail. The budget fully funds Amtrak contract changes, pursuant to federal government requirements for intercity rail services.

Intercity Rail Reporting. Caltrans is required to report, by April 1, 2016, to the Legislature on potential benefits to safety, greenhouse gas reduction, service levels, and operating costs by improving grade separations at key intersections, as defined by the Federal Railroad Administration, along the state's intercity rail system.

State Transit Assistance Eligibility Funding. A one-year extension of an exemption to allow transit operators whose cost increases have exceeded the Consumer Price Index to continue using State Transit Assistance funding for both operating and capital expenditures is included in the budget trailer bill.

Cap on Clean Air Vehicle Program. Increases the cap on the "green sticker" Clean Air Vehicle program from 70,000 to 85,000. This program allows low-emission and energy-efficient vehicles with a single occupant to use high-occupancy vehicle lanes

Cap and Trade Funding

The Budget Conference Committee final spending plan incorporated into the final budget sent to the Governor includes staff resources necessary to continue existing workload related to cap-and-trade expenditures, but rejects all of the discretionary expenditure proposals. This conforms to the announced legislative intent that discussions will continue to further refine the state's expenditure plan for the 40 percent of the cap-and-trade revenues that are not continuously appropriated according to statute enacted last year.

However, the existing statutory continuous appropriations remain, so sixty percent of revenue in 2015-16 will be allocated to High Speed Rail, Affordable Housing and Sustainable Communities, Low Carbon Transit Operations, and the Transit and Intercity Rail Capital Program, pursuant to current law.

Transportation Loan Repayments

The Budget Conference Committee previously added language into their version of the budget related to Pre-Prop 42 loans. These loans have not been characterized by the Governor as part of the state's "Wall of Debt" and had remained withheld over the past decade due to state budget pressures.

The final budget agreement identifies \$842 million in Pre-Prop 42 borrowing from 2000-01 as "general fund borrowing" which would qualify the loans for repayment from the Proposition 2 "Rainy Day" funds in a future legislative action.

Assembly Transportation Funding Plan

Assembly Transportation Committee chair, Jim Frazier is expected to disclose the Assembly plans for legislation to address the state and local road systems repair needs. This follows the release of an initial legislative concept by the Speaker last February.

While the Senate has moved SB 16 (Beall) through the committee process and the bill, which generates about \$3.5 billion, annually for 5 years, is pending consideration on the Senate floor, the Assembly Democratic leadership has worked together and with their caucus to develop their version to provide funding for roads.