



March 4, 2010

## Legislature Sends New Transportation Funding Package to Governor

Today, the Legislature approved an alternative to the Governor's transportation tax swap proposal that is seen as a "divorce" from the General Fund. This alternative provides General Fund relief and restores transportation funding levels today and into the future. ABX8 6 and ABX8 9 are modeled after the Governor's budget proposal that swaps the growing sales tax on fuels for a declining excise tax on gas. However, this alternative is an improvement in several ways.

First, it would immediately provide an equal replacement level of funding without a tax reduction as proposed by the Governor. Second, it would include an annual adjustment to ensure that the replacement tax reflects the same amount of revenue that would have been generated through the current sales tax, addressing the problem of exchanging a growing revenue stream with a declining one. This provides a truly revenue-neutral approach to compensate for what would have been a reduction in transportation investments into the future. Third, this alternative would partially restore transit funding, providing necessary levels for operating both transit and intercity rail. A controversial regional fee authority to fund transit, bicycle paths, and pedestrian travel was dropped from the alternative proposal.

While these bills are headed to the Governor for his consideration, CSAC understands that efforts continue to convince the Governor to sign the two-bill package. We understand that discussions between the Legislature and Administration led to several changes where agreement was reached, but an area of controversy remains with respect to the Governor anticipating about \$800 million in savings by reducing the Proposition 98 calculation to fund education. The alternative explicitly protects Proposition 98 funding.

The Legislature also approved ABX8 14, a clean-up measure to the cash management bill. ABX8 14 authorizes counties and cities to utilize Proposition 1B funds during the HUTA deferral period and requires that such borrowings are repaid with interest.

While the Eighth Extraordinary Session remains open, all signs indicate that the Legislature has completed its work in the Proposition 58 special session. Press reports indicate the entire budget package achieves about \$4.1 billion in savings over the current and budget years. We understand that the Governor has not decided if he will sign the transportation package, indicating that the Legislature did not appropriately address job creation during the special session.

CSAC will be asking the Governor to sign the two-bill package. While the tax swap certainly changes the architecture of transportation funding in the State of California and reduces constitutional protections afforded Proposition 42 revenues, CSAC overall supports the transition as it is revenue neutral for taxpayers, holds the STIP and local streets and roads harmless, provides additional revenues for the SHOPP, and provides revenues to continue support for vital transit services. It also provides significant general fund relief (\$1.1 billion in current and budget-year savings) by way of transportation- and transit-related bond debt obligation and, as such, the state General Fund is in a better financial position.

We promise to keep you posted on the latest. Check out the CSAC website for the most up-to-date information.

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