

STAFF REPORT

SUBJECT: State Infrastructure Bond Propositions

MEETING DATE: July 20, 2006

AGENDA ITEM: 14

STAFF CONTACT: Jim Kemp, Steve VanDenburgh, Brittany Odermann

RECOMMENDATION:

Receive a report on state Proposition 42 revenue protections and bond revenue opportunities for transportation in the November 2006 State ballot propositions

SUMMARY

Two ballot measures that will be on the state ballot in November—Propositions 1A and 1B—have the potential to impact transportation revenues if approved by voters. Prop 1A would not create new funding, but would limit the state's ability to divert Proposition 42 (approved by voters in 2002) revenues to non-transportation purposes. Prop 1B would authorize \$19.9 billion in state general obligation bonds for transportation capital improvements. Some of the revenues from Prop 1B would be distributed on a formula basis providing about \$71 million for projects in Santa Barbara County, however, most of the 1B funds will be allocated by state agencies for projects on a competitive basis and it is unknown how much will be allocated for projects benefiting our region.

Even under the most optimistic assumptions, Prop 1B will provide only a fraction of what the renewal of Measure D will generate. While the one-time bond revenues would help ensure that state matching funds will be available to complete projects in the Measure D renewal expenditure plan, passage of Props 1A and 1B will not eliminate the need for Santa Barbara County to generate the revenues from a renewal of Measure D. In fact, failure to pass the Measure D renewal, will result in our region receiving a smaller amount of the state bond funds. The state propositions should be seen as complementary to—and serve as an incentive for—passage of the Measure D renewal.

Background

The November 7 general election ballot will include Proposition 1A which would place greater restrictions on the use of Prop. 42 funds for non-transportation purposes and require that outstanding Prop. 42 loans to the general fund be repaid by June 30, 2016. Four state infrastructure bonds are also on the ballot for transportation, housing, education and levees totaling \$37 billion. The transportation bond, Proposition 1B,

Member Agencies

Buellton ■ Carpinteria ■ Goleta ■ Guadalupe ■ Lompoc ■ Santa Barbara ■ Santa Maria ■ Solvang ■ Santa Barbara County

would provide \$19.9 billion in funding. Proposition 1C a \$2.85 billion housing bond includes \$300 million for transit oriented developments.

Members of the public have contacted SBCAG staff and asked if the propositions would provide sufficient funding for transportation to make the renewal of Measure D unnecessary. While proposition 1A stabilizes one existing source of transportation revenues and Prop 1B provides a needed increase in transportation funding, these propositions provide only a fraction of what the Measure D renewal would provide for transportation needs in our region.

Under Proposition 1B, SBCAG, local agencies, and transit operators would receive by formula approximately \$71 million in funding. This would provide part of the \$554 million in matching and leveraged funds assumed in the Measure D Renewal Expenditure Plan that would be needed to deliver the \$1.6 billion program over 30 years. Even if SBCAG were successful at competing for additional funding from competitive programs created by Proposition 1B so that its formula and competitive funding totaled \$200 million, or 1% of the 19.9 billion bond (the county has about 1% of the State's population) Prop. 1B would still not provide enough funding to deliver the Measure D Renewal Expenditure Plan adopted by the Board or even provide the match and leverage assumption of \$554 million.

Under Proposition 1C, local agencies interested in creating transit oriented developments would have the opportunity to compete for \$300 million in funding from a new program, the Transit Oriented Development Implementation Program. This might benefit the reconstruction of SBMTD's transit center which is being conceptually discussed as a TOD.

Proposition 1A, fire-walling Proposition 42, would provide no new revenue to cities\counties or the STIP program but would make it more difficult for the Governor and legislature to borrow transportation revenues for General Fund supported state operations, thus making existing state transportation funding more reliable.

Proposition 1A – Prop. 42 Protection

Proposition 42, which was approved by almost 70% of state voters in 2002, amended the State Constitution to dedicate the state sales tax revenues from fuel sales to transportation purposes. It generates about \$1.4 billion annually, however, the state has diverted these revenues to non-transportation purposes in two of the last three years.

Proposition 1A will amend the Constitution to revise the Proposition 42 provisions to restrict the ability of the Governor and the Legislature to suspend the transfer of revenues to transportation accounts and retain the funds for the General Fund or other purposes other than transportation. Currently, the Governor can issue a proclamation that the transfer of revenue to transportation accounts would have a significant fiscal impact on General Fund-supported state operations. Then the legislature, by 2/3 vote in each house, can suspend all or part of the transfer to the transportation account. Proposition 1A continues the annual sales tax transfer to transportation programs but

would require that future suspensions of revenues to transportation be treated as loans. The Governor would be required to issue a proclamation of severe state fiscal hardship; a 2/3 vote in favor of the suspension for one fiscal year would be required in both houses of the legislature; and the legislature must also enact a statute requiring the full repayment of transportation accounts, with interest, within 3 years. Prop. 1A also states that the number of suspensions is limited to two in any 10-year period, beginning July 1, 2007 and prohibits a second suspension until the first is fully repaid. This amendment also requires repayment of the revenues that were not transferred to transportation accounts as of July 1, 2007 to occur no later than June 30, 2016.

Prop 42 funding received by cities and the county for street repairs is currently 10-20% of the amount that Measure D provides for the same purpose. Most of the funding diverted from cities/counties for local streets to the General Fund in FY 2003-04 and FY 2004-05 has been repaid through the FY 05/06 and 06/07 state budgets so Prop. 1A's requirement to repay loans by 2016 would not have a major impact on local agencies. Since Prop. 1A still does allow loans to be made to the General Fund, though under stricter rules, local agencies relying solely on Prop. 42 funding for street repairs would be vulnerable to having their repair budgets disrupted by periodic suspensions of Prop. 42 transfers if Measure D were not available to smooth out funding reductions from year to year.

Agency	Prop. 42 FY 06/07 (est.)	Measure D FY 06/07 (est.)
Buellton	\$34,600	\$295,100
Carpinteria	\$113,400	\$784,400
Goleta	\$157,500	\$1,714,900
Guadalupe	\$49,700	\$374,900
Lompoc	\$332,500	\$2,240,800
Santa Barbara	\$714,100	\$4,696,400
Santa Maria	\$668,200	\$4,758,500
Solvang	\$42,900	\$328,000
County	\$1,581,018	\$6,985,800

Proposition 1A does not create new funding for local agencies or for state projects, but it does help significantly to stabilize existing transportation funding generated by Prop 42.

The 2006 STIP adopted by the California Transportation Commission assumes that revenues generated by Prop 42 will be available each year to fund projects programmed in the STIP as provided in statute. Repayment of the loans to the STIP program was assumed in the five year revenue estimate for the 2006 STIP and passage of Prop. 1A would actually require that the loans be repaid on a slower schedule than assumed in the STIP. The CTC would have to adjust the STIP before or during the 2008 STIP cycle to take this into effect and it would probably require delaying projects unless additional STIP revenues are provided by the passage of Prop. 1B.

Proposition 1B – Transportation

Proposition 1B—the Highway Safety, Traffic Reduction, Air Quality and Port Security Fund of 2006—is the largest of the four bond propositions that comprise the Governor's \$37 billion infrastructure package. SBCAG staff has summarized the \$19.9 billion state transportation infrastructure bond scheduled for the November 2006 ballot in the

attached table to estimate how much funding might be received in Santa Barbara County if the bond measure passes. Some of the funds will come to the county by formula. An estimate of the funds that we would be guaranteed to receive is \$70.8 million, or .35% of the \$19.9 billion program.

Formula Funds (est.)

STIP Augmentation (to SBCAG)	\$22.5 million
Local Streets & Roads (to local agencies)	\$22.2 million
Transit Agency Improvements (to transit agencies).	\$26.1 million

It is likely that funding from the Local Seismic Retrofit Program would come into the county to make the match for the nine local bridges on the seismic retrofit list. All of the other funding on the table below would be distributed competitively.

It is important to remember that funding, even for formula programs, may only be available over a period of time as bonds are issued. The State may decide not to issue \$19.9 billion worth of bonds for transportation in 2007, assuming the proposition passes, and may not have the financial capacity to do so. There are three other State bonds on the ballot and if one or all pass the State will have to weigh the importance of transportation projects versus levee projects versus school projects versus housing projects when issuing bonds. The State will also have to calculate how large an issuance should occur and in what year(s) bonds should be issued depending on the State's ability to repay bonds, prevailing interest rates, and California's credit rating and the financial market's willingness to buy bonds from California. Assuming the State issues bonds for transportation over a period of years, some of the programs in the attached table will benefit from the first issuance, others may have to wait for later issuances or perhaps the State will pro-rate the funds across all of the programs with each issuance. These are issues which will have to be resolved if the proposition passes.

Counties with transportation sales tax measures will receive extra benefit from the State bond. One program in particular in Prop. 1B, the State-Local Partnership Program, provides a benefit to counties with measures and also provides a direct incentive for counties to pass transportation sales tax measures. It would be funded at \$1.0 billion by bond proceeds and funds would be distributed over five years on a dollar for dollar match basis by the CTC. It is SBCAG staffs' understanding that the program was included in the bond because the expired State-Local Partnership program was very popular and successful with measure counties and helped expedite the delivery of sales tax measure projects so the drafters of Prop 1B wanted to revive it. The other reason to include it was because the drafters wanted to provide a clear incentive for voters to support both the State bond and local transportation measures that would be on the same ballot. There was a concern that voters might view the bond and the transportation measures as competing for their votes--a duplication of effort or redundancy--and vote for one or the other, rather than see them as coordinated, complementing efforts to bring together state and local funding packages to deliver projects.

It is important to remember that sales tax measure counties make huge expenditures on the transportation system, both for local road and transit and State highways, rivaling or even exceeding what the State spends on transportation. The 10 county transportation

sales tax measures expected to be on the ballot in November, if passed, would generate over \$20 billion for transportation over their lifespans, about the same as the revenues generated by Prop. 1B. The State's matching program in Prop. 1B is intended to give voters an incentive to support both the bond and local transportation measures.

The measure renewal would help SBCAG compete for non-formula program funding from Prop. 1B like the Highway Railroad Crossing Safety program for a UPRR - Hwy. 166 project in Guadalupe, the Corridor Mobility Program for the 101 widening and perhaps even the Public Transportation program for intercity rail track improvements if SBCAG could show it would match the State's investment to benefit a new commuter rail program. While a county like Ventura, without a measure, would probably receive no funding from the State-Local Partnership program, they'd still be somewhat competitive for the other programs by virtue of their larger population, traffic congestion, proximity to L.A., Port Hueneme, etc. But they, too, would probably be even more competitive if they were asking the State to pay for part of an improvement because the rest would be funded by a measure.

In summary, Propositions 1A and 1B should be viewed as complementary to the passage of local transportation sales tax measures rather than redundant. As they relate to our own renewal of Measure D, the following should be considered:

- Completion of the projects in the Measure D renewal expenditure plan will require significant contributions of state and federal funding
- Measure D funds can only be spent on specific, high-priority projects that benefit our county's transportation system and cannot be diverted to other purposes or areas
- Without a local transportation sales tax measure, the region will not qualify for some of the state bond funds and will receive a smaller share
- Measure D will generate \$1.6 billion (in current year dollars) for an estimated \$3 billion in transportation needs in our county—the state bond will generate \$71 million in formula funding for the county and perhaps \$50 to \$130 million in additional competitive funding.
- The state bonds are limited to capital projects and cannot be used to pay for operating bus or rail services—Measure D funds are more flexible and can be used for transit operating costs

Proposition 1C – Housing

This proposition contains a total of \$2.85 billion in affordable housing construction and infill incentives, \$300 million of which is designated to facilitate development of infrastructure associated with transit-oriented developments through a new program, the Transit-Oriented Development Implementation Program. This program will assist cities, counties, and transit agencies in the development of higher density uses within close proximity of transit stations. The money will be distributed through a competitive application process in the form of grants and loans. Applications will be ranked according to criteria established by the State Department of Housing and Community Development including the extent to which the project or development will increase public transit ridership and minimize automobile trips. Bonus points will be given to projects that are in an area designated for infill development as part of an existing regional plan.

If passed by voters, this proposition could be a funding source for the transit oriented redevelopment of the SBMTD transit center in downtown Santa Barbara that is being studied by MTD and the city of Santa Barbara.

Proposition 1C also includes \$1.5 billion for several low income, affordable housing and first-time homebuyer grant and loan programs and \$200 million for parks. Finally, Prop 1C includes \$850 million for regional planning, infill development and housing programs.

Many of the Prop 1C programs will require enactment of additional legislation if the bond measure passes in November. It is staff's understanding that at least some of the infill development and housing programs will require the development of a regional growth blueprint.

COMMITTEE REVIEW: None

Attachments:

Summary of Proposition 1B

**PROPOSITION 1B SUMMARY –
SBCAG Staff – July 5, 2006**

Funding (x\$100,000)	Program	Purpose	How Allocated	Funding for Projects in Santa Barbara County
\$4,500	Corridor Mobility Improvement Account	To relieve congestion by expanding capacity, enhancing operations, and improving travel times in high congestion corridors.	<p>CTC to develop and adopt guidelines, by Dec. 1 2006, and allocate funds after reviewing project nominations (due no later than Jan. 15, 2007) submitted by Caltrans and regional agencies. CTC to adopt initial program to be funded by March 1, 2007.</p> <p>All projects nominated must be in a regional transportation plan.</p> <p>Projects must meet all of the following criteria:</p> <ol style="list-style-type: none"> 1. Is nominated by Caltrans and the regional agency OR there is a commitment of supplemental funds to the project from state, local federal sources to fully fund the project. 2. Can commence construction or implementation no later than Dec. 31, 2012 3. Improves mobility in high congestion corridors by improving travel times or reducing the number of daily vehicle hours of delay, improves connectivity of the state highway system between rural, urban, suburban areas, or improves operation or safety of a highway road or segment. 4. Improves access to jobs, housing, markets, and commerce. <p>Caltrans director has stated that geographic balance will be achieved by the CTC allocating 60% of funds to south county projects, 40% to north county projects (S.B. is a south county).</p> <p>Caltrans director has suggested that "high congestion corridors" could mean corridors with travel speeds of 35 m.p.h. or less for 15 minutes or more per day.</p>	Since this is a competitive program, SBCAG is not guaranteed any funding. Highway 101 projects on the South Coast will be the best candidates. Because of the 2012 construction requirement, requesting funding for the Milpas\Cabrillo project to close shortfalls may be our best chance for funding.
\$1,000	State Route 99 Corridor	Safety, operational enhancements, rehabilitation, or capacity improvements along the 400 mile Route 99 corridor	Available to Caltrans	Not applicable to SB County
\$3,100	<p>Ports, Infrastructure, Security and Air Quality</p> <p>\$2,000 to Trade Corridors Improvement Fund</p> <p>\$1,000 to reduce emissions and improve air quality</p> <p>\$100</p>	<p>Improvements to federally designated trade corridors of national significance</p> <p>Emissions reductions from activities related to the movement of freight long trade corridors</p> <p>Port, Harbor & Ferry Terminal Security</p>	<p>CTC to allocate to projects after considering trade infrastructure and goods movement plans that have been adopted by state and regional agencies</p> <p>Funds to be allocated by state Air Resources Board to reduce emissions in California's trade corridors</p> <p>Available to the Office of Emergency services to be allocated as grants for port, harbor, and ferry terminal security improvements.</p>	<p>TBD: Targeted to rail and highway lines in/out of Southern California ports and the border region.</p> <p>TBD: APCD & SBCAG should monitor</p> <p>City of Santa Barbara could compete for grants</p>

\$200	School Bus Retrofit and Replacement for Air Quality	Reduce children's exposure to emissions	(No agency is identified to select projects—may need follow-up legislation)	Can't say until more is known about who and how funds allocated
\$2,000	State Transportation Improvement Program (STIP) Augmentation	Capital highway and transit projects	Funds will be distributed to regional agencies for project selection and concurrence by the CTC according to the statutory STIP formula.	SBCAG's share expected to be \$22.5 million. This is not "new money"; it is an advance of future STIP funds already assumed as matching funds for projects in the Measure D Renewal Expenditure Plan or other projects of regional significance that were nominated for measure funding but did not make it into the renewal measure.
\$4,000	Public Transportation Modernization, Improvement and Service Enhancement	For rehabilitation, safety, modernization, capital service enhancement or expansion, new capital projects, bus rapid transit improvements, or rolling stock procurement, rehabilitation or replacement		
	\$400	Caltrans Intercity Rail Improvement	Available to Caltrans for intercity rail projects, of which \$125 million shall be used for the procurement of intercity rail cars and locomotives	No funds directly to SBCAG, though Amtrak service through SBCAG region may benefit
	\$3,600	Transit Agency Improvements	50% of the funds shall be distributed by the controller to transit agencies based on farebox returns, 50% to transit agencies based on population (same method used to distribute STA funds).	SBCAG region would receive approx. \$20.5 mil. based on population and \$5.6 mil. based on farebox revenue. S.C.\MTD \$15,200,000 SMAT \$6,600,000 COLT \$3,100,000 S.Y.\Cuy. \$1,200,000
\$1,000	State Local Partnership Program	Primarily a matching program for agencies with transportation sales tax programs, though other sources may be used as a match.	CTC to allocate over 5 years. Dollar for dollar match with local funds to eligible projects nominated by applicant transportation agencies. No criteria set at this time for how matching funds allocated.	Difficult to estimate without criteria and without knowing if Measure D will be renewed.
\$1,000	Transit System Safety, Security & Disaster Response	Transit safety and disaster preparedness	Allocation process to be determined by legislative statutes for capital projects that provide increased protection against a security and safety threat, and to develop a disaster response transportation system that	TBD

	Account		can move people, goods, emergency personnel and equipment after a disaster.	
\$125	Local Seismic Retrofit Program	Directed at the 497 local bridges still to be seismically retrofitted	Provides the 11.5% match for federal bridge funding available for bridge repairs	There are 9 local bridges in S.B. county that could receive funding.
\$250	Highway-Railroad Crossing Safety	High priority grade separations and railroad crossing safety improvements	Available to Caltrans. A dollar for dollar non-state match is required.	Possibly could provide matching funds for a Hwy 166 grade separation in Guadalupe.
\$750	SHOPP	Augment Caltrans' maintenance and operations program	Caltrans proposes projects and the CTC allocates funds.	This is not a formula program—it is needs driven, but we should expect Caltrans Dist. 5 will request funding for SB county highway projects.
\$2,000	Local Streets and Roads	For roadway maintenance and rehabilitation, traffic safety, and congestion relief	Appropriated by the state Controller. <ul style="list-style-type: none"> \$1 bil. or 50% to counties. 75% based on vehicles registered in the county, 25% based on % of the county road miles in the state versus S.B. county \$1 bil. or 50% to cities based on population relative to city population in the state (\$400k minimum) 	\$12.4 (est.) to County of Santa Barbara; \$9.7 million(est.) to cities in Santa Barbara County County \$12,400,139 Buellton \$400,000 Car. \$460,149 Goleta \$984,442 Guad. \$400,000 Lompoc \$1,357,984 S.B. \$2,904,584 S.M. \$2,849,232 Solvang \$400,000
19.925 bil.				