Los Angeles County
Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012-2952

213.922.2000 Tel
metro.net

Metro

EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
JANUARY 19, 2006

SUBJECT: STATE LEGISLATION

ACTION: APPROVE STAFF RECOMMENDATION ON STATE LEGISLATION

RECOMMENDATION

Adopt the following positions:

A. SB 1024 (Perata) – Safe Facilities, Improved Mobility and Clean Air Bond Act. SUPPORT-WORK WITH AUTHOR.

B. Strategic Growth Plan (Governor Arnold Schwarzenegger) – Infrastructure Financing. SUPPORT-WORK WITH AUTHOR.

C. AB 1783 (Nunez) - California Infrastructure Improvement, Smart Growth, Economic Reinvestment, and Emergency, Preparedness Financing Act of 2006. SUPPORT WORK WITH AUTHOR.

ATTACHMENTS

Attachment A1-A3: Legislative Analyses

Prepared by: Michael Turner
Government Relations Manager

Raffi Hamparian
Government Relations Manager

Matthew Raymond
Chief Communications Officer

Roger Snoble
Chief Executive Officer

BILL: SB 1024

AUTHOR: SENATE PRESIDENT PRO TEM DON PERATA (D-OAKLAND)

TITLE: SAFE FACILITIES, IMPROVED MOBILITY AND CLEAN AIR BOND ACT OF 2005

STATUS: SENATE

ACTION: SUPPORT – WORK WITH AUTHOR

RECOMMENDATION

Adopt a support-work with author position on SB 1024, which would authorize the issuance of almost $12 billion in bonds for various infrastructure improvement projects.

ISSUE

Senate President Pro Tem Don Perata has proposed a major infrastructure investment program through the introduction of SB 1024. Three infrastructure bond proposals have been introduced thus far, SB 1024 (Perata), AB 1783 (Nunez) and the Governor's Strategic Growth Plan. This measure could provide a substantial amount of funding for projects and programs in Los Angeles County.

PROVISIONS

SB 1024 would authorize the issuance of nearly $12 billion in general obligation bonds for various infrastructure improvements. The bond proceeds would be allocated in the following manner:

- $1.5 billion to the State Transportation Improvement Program to be allocated by the California Transportation Commission (CTC);
- $1 billion to a newly created Flood Control Account to be allocated by the Department of Water Resources for improvements to the various flood control facilities.
- $2.3 billion to repay past Proposition 42 loans;
- $2.5 billion to a newly created California Ports Infrastructure, Security and Air Quality Improvement Account. Of this amount, $2 billion would be allocated by the CTC to federally designated Trade Corridors of National Significance or other high volume corridors, for highway and freight rail improvements; $400 million would be allocated to the Carl Moyer Program and $100 million would be made available for port, harbor and ferry security improvements.
- $100 million to the Transportation Project enhancement and Mitigation Account to be allocated to various highway enhancement projects.

- $425 million to the Affordable Housing Incentive Program Account to be allocated by the CTC to cities and counties that meet their overall affordable housing needs, for improvements to streets and roads.
- $975 million to the Regional Housing and Community Growth Incentive Account to plan and construct infill housing and associated open space amenities.
- $200 million for the state share of specified flood control projects.
- $1 billion for the California High Speed Rail project subdivided into $200 million allotments for various corridors.
- $275 million for Transit Oriented Developments.
- $1.4 billion for affordable housing which will be added in January.

IMPACT ANALYSIS

At the close of the 2005 State Legislative Session, the Governor, Speaker and President Pro Tem announced that transportation and infrastructure investment would be the highest priority of the 2006 State Legislative Session. Most of this discussion centered around the idea of creating an infrastructure bond program that would invest in many areas of state infrastructure.

Governor Schwarzenegger has announced his Strategic Growth Plan which would outline a $222 billion infrastructure investment program, and the Speaker has introduced AB 1783. SB 1024 would authorize the issuance of $12 billion in General Obligation bonds for mostly transportation, flood control and housing related infrastructure. The individual elements of the proposal address a comprehensive set of transportation needs. Key elements in the proposal include the repayment of past transportation loans, and investments in both goods movement and housing near transit.

Generally, the issues with respect to the bonding proposals fall into a few general policy concerns.

First, the bond proposals must be evaluated based on their proportionate allocation of funds to Los Angeles County. Historically, state funding formulas have disproportionately allocated funds to other regions of the state at the expense of Los Angeles County. This is most clearly demonstrated in the State Transportation Improvement Program (STIP), where the state uses centerline miles of a highway instead of actual lane miles to apportion funds. Under this formula, a two-lane highway is equivalent to an eight-lane freeway.

SB 1024 allocates funds to the STIP by a direct allocation of $1.5 billion and through repayment of Proposition 42 funds, some of which ultimately are allocated through the STIP. Under these conditions, there is no ability to increase funds to Los Angeles County unless the underlying allocation formula is changed.

In other categories such as the Goods Movement Category, there is no allocation formula specified. Staff would recommend that the bond measure include requirements that proportionately allocate funds on the basis of need. In the case of goods movement, the bond should allocate funds based on the amount of cargo moved by a given port.

Second, SB 1024 leaves the actual allocations to be made by state agencies, primarily the California Transportation Commission. Staff is concerned that absent a formula requiring funds to be specifically allocated based on need, funds could be allocated in ways that are disproportionate to the needs of Los Angeles County. Staff recommends that the bond should either specify an allocation formula that clearly allocates a proportionate amount of funds to Los Angeles. The bond should also specify that Metro be designated as the body that allocates funds to projects.

Third, the basic elements of the bond proposal as outlined in SB 1024 may not necessarily reflect the needs of Los Angeles County. For example, the goods movement category would certainly address a key transportation issue in Los Angeles County if it ultimately guarantees a large percentage of those funds to come to Los Angeles. However, the STIP category, while ultimately allocating funds to Los Angeles County, does not provide sufficient resources to make a material difference in project funding. If this category were to be restructured to resemble a program such as the federal new starts program, Los Angeles County would be well positioned to receive funds for new transit projects. The same could be said of the High Speed Rail category.

Finally, the revenue source to pay for the bond has emerged as an issue. As currently drafted, SB 1024 would be a general obligation bond. If it grows as expected, the state's ability to fund such a bond would be seriously challenged. Recent discussions have revolved around backing a bond measure by tax increases, such as a sales or gas tax increase, or a fee-based program where beneficiaries would be assessed a fee, such as a container fee at the ports.

Staff is primarily concerned that Proposition 42 funds not be used as a revenue source to back the bonds. Doing so would fundamentally alter the amount of funding directed to Los Angeles County. Staff recommends that the bond measure should be in addition to, not in lieu of, Proposition 42 and that permanent safeguards be enacted as part of the bond to protect Proposition 42. Ultimately, a combination of increased taxes and fees may be the best combination to support a bond.

In summary, staff recommends that the following principles guide the discussion of any infrastructure bond proposal:

- The bond should proportionately allocate funds to Los Angeles County.
- The bond should be structured in a way that adequately funds Los Angeles County's transit and highway priorities.
- Bond proceeds should be allocated by the Metro Board of Directors.
- The bond should be supported by new revenues.
- Proposition 42 funds should not be used to support the bond.

It is expected that this bill will be transmitted to a conference committee that will negotiate a final package. Staff recommends that the Board of Directors adopt support work with author positions on this bill and advocate the above principles in that process.

ATTACHMENT A2

BILL: STRATEGIC GROWTH PLAN

AUTHOR: GOVERNOR ARNOLD SCHWARZENEGGER

TITLE: STRATEGIC GROWTH PLAN

STATUS: PENDING INTRODUCTION

ACTION: SUPPORT – WORK WITH AUTHOR

RECOMMENDATION

Adopt a Support – Work with Author position on Governor Schwarzenegger's Strategic Growth Plan, which would outline a series of investments in State infrastructure.

ISSUE

The Strategic Growth Plan would make substantial investments in State infrastructure, secure funds for transportation and provide new tools to develop transportation projects. Three infrastructure bond proposals have been introduced thus far, SB 1024 (Perata), AB 1783 (Nunez) and the Governor's Strategic Growth Plan. This measure could provide a substantial amount of funding for projects and programs in Los Angeles County.

PROVISIONS

Governor Schwarzenegger has proposed the Strategic Growth Plan, which calls for $222 billion in investments in State infrastructure. This plan would include General Obligation Bonds and a series of new policies to create revenue and expedite project delivery. Of the $222 billion, $107 billion would be related to transportation. This includes dedicated Proposition 42 funds, existing and future local sales taxes, new fees such as container fees and tolls, and, General Obligation Bonds. The proposal also recommends the use of design build and public private partnerships to expedite project delivery and secure funding. The plan consists of the following provisions:

General Obligation Bond

For transportation, the measure would initially offer $12 billion in two General Obligation bonds issuances ($6 billion in June 2006 and $6 billion in November 2008). These funds would be allocated as follows:

- $4 billion for Trade Infrastructure – Of this amount, $1 billion would be set aside for Air Quality Projects related to port emissions on a 1:1 (State: Local) matching ratio. The remaining $3 billion would be allocated to projects on a 1:4 (State: Local) matching ratio. The Business Transportation and Housing Agency would be charged with developing a list of projects to recommend to the CTC for funding from the $3 billion allocation.

- $1.5 billion for System Preservation on the State Highway System.
- $5.3 billion for Highway and Freeway projects.
- $300 million for various corridor improvements.
- $200 million for Intelligent Transportation Systems.
- $500 million for Intercity Rail.
- $200 million for pedestrian, bicycle and park and ride improvements.

Policy Initiatives
A variety of policy initiatives are proposed to secure existing revenue, develop new revenue and create expedited project delivery mechanisms. These initiatives are as follows:

- Removal of the suspension clause from Proposition 42.
- Authorizing the use of the Design Build contracting method for state highway projects.
- Authorizing the use of Public Private Partnerships where private investors would be authorized to participate in the development of transportation facilities.
- Imposition of container fees on cargo processed through the ports.
- Authorizing the imposition of tolls on the state highway system.

IMPACT ANALYSIS

The Strategic Growth Plan outlines a ten-year expenditure program using existing and new revenue to develop state infrastructure. The transportation component of the plan consists of existing revenues, including gas tax revenue and the preservation of Proposition 42 funds. The plan also includes anticipated revenue, including future local transportation sales tax measures and future federal funds. A series of new revenues are proposed and include container fees and tolls. It is important to note that the plan invests only in state-owned facilities.

The plan includes a number of positive features that would lead to substantial investment in new transportation facilities. These include the protection of Proposition 42, the use of General Obligation bonds, container fees on cargo, the use of design build and investments in key congestion corridors in the state. All of these elements are worthy of support.

The Strategic Growth Plan also includes proposals to invest in many other areas of state infrastructure. These projects would be financed by existing revenue, along with anticipated revenue and/or new fees. Since there is a large commitment of General Fund resources through General Obligation bonds, some consideration must be give to the long-term viability of this proposal. Changes in both the Governor's office and the Legislature over a ten-year period could alter the manner in which this plan is ultimately implemented. The transportation aspect of the plan is placed in a relatively high priority in that the General Obligation Bond issuances for transportation would be scheduled on the first two ballot opportunities (June 2006 and November 2008).

There are various aspects of the plan that raise concerns.

First, the plan makes no provision to invest in public transit. As the plan invests only in state-owned facilities, the plan does not dedicate funds to transit, other than making funds available for commuter rail, which is defined as the State's portion of commuter rail. The absence of any investment in transit projects not owned by the state represents an area of major concern.

In addition, the recommended highway projects are primarily related to Caltrans' priorities. In the case of Los Angeles County, funding is made available for a number of significant projects. However, in the case of the Carmenita Interchange project along Interstate 5, only $100 million is made available. Elsewhere in the plan, the Administration is recommending a significant investment in State Route 99, a key artery in Central California. At the same time, the state should give similar priority to Interstate 5 and the needed improvements in Los Angeles County.

In the area of goods movement, a significant amount of funding, $4 billion would be made available from the bond. Of this amount, $1 billion would be allocated to air quality mitigation projects and $3 billion would be allocated to transportation improvements. These funds must be matched by local funds, which are proposed to consist primarily of new cargo related fees. The matching requirement as proposed is difficult to achieve (1/5 state funding to 4/5 local funds) and is contingent upon the imposition of fees which, to date, have been vigorously opposed.

The plan proposes to maintain the decision-making process with the California Transportation Commission and would be based on recommendations from the Administration. This would significantly alter the current funding process for transportation projects, which is based at the County Transportation Commission level. Staff recommends that the ultimate process for funding projects should be based at the local level. Ideally, the bond funds should be directly allocated to the local funding agency.

In summary, staff has prepared a set of recommendations that should guide any infrastructure proposal that is adopted into law. These basic principles are:

- The bond should proportionately allocate funds to Los Angeles County.
- The bond should provide adequate funding to Los Angeles County's transit, and highway priorities.
- The bond proceeds should be allocated by the Metro Board.
- The bond should be supported by new revenue.
- Proposition 42 funds should not be used to support the bond.

It is expected that this bill will be transmitted to a conference committee that will negotiate a final package. Staff recommends that the Board of Directors adopt support work with author positions on this bill and advocate the above principles in that process.

ATTACHMENT A3

BILL: AB1783

AUTHOR: ASSEMBLY SPEAKER FABIAN NUNEZ (D-LOS ANGELES)

TITLE: CALIFORNIA INFRASTRUCTUTRE IMPROVEMENT, SMART GROWTH, ECONOMIC REINVESTMENT, AND EMERGENCY PREPAREDNESS FINANCING ACT OF 2006

STATUS: ASSEMBLY

ACTION: SUPPORT – WORK WITH AUTHOR

RECOMMENDATION

Adopt a support-work with author position on AB 1783, which would authorize the issuance of various types of public financing instruments to enhance the State of California's infrastructure.

ISSUE

Speaker Nunez has introduced a bill to enhance the State of California's transportation, flood control and emergency public safety systems, among other infrastructure needs. The bill represents the third major proposal to revamp the State's aging infrastructure. Three infrastructure bond proposals have been introduced thus far, SB 1024 (Perata), AB 1783 (Nunez) and the Governor's Strategic Growth Plan. This measure could provide a substantial amount of funding for projects and programs in Los Angeles County.

PROVISIONS

AB 1783 does not specify a dollar amount for statewide infrastructure improvements. Rather, the legislation outlines a set of defined principles which would be used to allocate a major investment to improve the state's transportation, flood control, safe water systems, environmental improvement, housing, hospital seismic safety repair and emergency public safety communications systems, among other needs. Specifically, the bill outlines the following principles:

- Any future state infrastructure financing plan must be consistent with a long term plan for the state's growth and infrastructure needs.
- Any proposal for new state funding must include a specific financing plan and a full assessment of the long-term costs to the General Fund.
- Any future state infrastructure financing will be provided using a mix of federal funds, bond funds, special funds and General Funds.

- Sets as a goal the establishment of new funding sources for as much of the infrastructure financing as practicable.
- Any future state infrastructure financing plan that includes new bonds shall include a strategy that maximizes return and minimizes debt service costs.

AB 1783 also sets forth a set of defined public policy goals that should guide any new financing proposal to improve the State of California's infrastructure. Among these goals are:

- Preparing the state for the population and demographic changes forecast for the next two decades.
- Reducing traffic congestion and mitigating the damaging consequences from traffic on the environment.
- Improving state and local growth planning and encouraging "smart growth."
- Relying on regional planning to meet local and state objectives.
- Investing in and supporting livable communities, sustainable development, and sound environmental practices.
- Investing in and supporting communities most in need of new economic opportunities.
- Making investments that are cost-effective and yield a fair return on the investment in sustained economic growth for the state.
- Strengthening the state's economy and creating jobs.

IMPACT ANALYSIS

AB 1783 will serve as a blueprint for Assembly Speaker Fabian Nunez as he engages members of the Assembly, Senate and the Governor in the ongoing dialogue to adopt a major financing plan this year to renew the State of California's aging infrastructure system. While the bill offers no defined dollar amount, it does advance a set of principles that will be used by the Speaker as he negotiates a final bond package.

The bill includes favorable language with respect to public transportation and specifically the need to fund inner city rail systems (as opposed to inter-city rail systems). The legislation also references goods movement projects and the need to mitigate environmental impacts associated with increased highway and rail capacity. The legislation also cites transportation security as a priority, including both port and mass transit security.

Without a defined dollar amount, it is difficult to gauge the precise impact. However, opportunities exist to modify the bond proposals to ensure that funds are allocated by the local funding agency and that funds are distributed based on demonstrated need.

In summary, staff has prepared a set of recommendations that should guide any infrastructure proposal that is adopted into law. These basic principles are:

- The bond should proportionately allocate funds to Los Angeles County.

- The bond should be structured in a way adequately funds Los Angeles County's transit and highway priorities.
- The bond proceeds be allocated by the Metro Board of Directors.
- The bond should be supported by new revenue.
- Proposition 42 funds should not be used to support the bond.

It is expected that this bill will be transmitted to a conference committee that will negotiate a final package. Staff recommends that the Board of Directors adopt support work with author positions on this bill and advocate the above principles in that process.