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August 10, 1998

TO: **BOARD OF DIRECTORS**

FROM: **JULIAN BURKE**
CHIEF EXECUTIVE OFFICER

SUBJECT: **SB 1477 (KOPP/KARNETTE)—ALLOCATION OF $600 MILLION IN STATE HIGHWAY ACCOUNT FUNDS TO CITIES AND COUNTIES**

ISSUE

At the July 23 MTA Board meeting, the Board of Directors adopted a "work with authors" position on SB 1477, legislation introduced by Senators Quentin Kopp (I-SF) and Betty Karnette (D-Long Beach). The board articulated that the parameters of that position included that the bill not impact the 1998 STIP. Subsequent to that Board action, SB 1477 was presented before the Assembly Committee on Transportation on August 3. Although that committee approved passage of the bill, Caltrans testified that their analysis indicated SB 1477, if enacted into law, would directly impact the 1998 STIP.

BACKGROUND

Earlier this summer, SB 1477 was amended to provide for the allocation to cities and counties of $600 million over a three-year period from the State Highway Account (SHA). That was the version of the bill reviewed by the MTA Board when it adopted its "work with authors" position on July 23. Such "local" funding "off the top" would be for streets and highways reconstruction and the repair of storm damage to local streets and highways. Caltrans presented a letter to Senator Kopp and testified at the August 3 meeting of the Assembly Transportation Committee that even with the anticipated additional federal funds from TEA-21:

> "the fund transfer proposed in SB 1477 would exceed available funds and require the deprogramming of projects now included in the 1998 STIP...there would be significant winners and losers...The net effect would also be to significantly disrupt the 1998 STIP, as well as deplete funds for the 2000 STIP." (Attachment A)

POTENTIAL IMPACT ON METRO PASADENA BLUE LINE/ALAMEDA CORRIDOR PROJECTS

If Caltrans' contentions are accurate, the most likely impact on the 1998 STIP probably would be on state-only funded projects. The CTC has made obtaining the maximum amount of available federal transportation a high priority for the state. In order to access federal funding the state would need to ensure state matching funds are available. In Los Angeles County among the projects currently programmed (but not yet allocated) for state funding which might be impacted by SB 1477 include the Alameda Corridor Project, $150 million, and the Metro Rail Blue Line to Pasadena, $257.9 million. If SB 1477 becomes law, the CTC will ultimately need to balance its policy on obtaining federal funds with its desire to continue to support important state-only funded projects. The CTC's action in this regard may also need to take into account the provisions of SB 1847 should that bill be enacted into law.

The Board of Directors has adopted a "work with authors" position on SB 1477. In light of the Caltrans analysis indicating an impact on the 1998 STIP if SB 1477 becomes law, and the Board's concern on that issue, staff is obtaining more information on these potential impacts on Los Angeles County projects from the authors of SB 1477 and the CTC. Staff will also review other state-only funded projects in Los Angeles County to ascertain the additional potential implications of SB 1477. The "work with author" position on SB 1847 would also suggest that we better understand the possible impact of SB 1477 on state programmed funding for the Pasadena Metro Blue Line.

Attachment

ATTACHMENT A

STATE OF CALIFORNIA—BUSINESS, TRANSPORTATION AND HOUSING AGENCY PETE WILSON, Governor

DEPARTMENT OF TRANSPORTATION
OFFICE OF THE DIRECTOR
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July 31, 1998

The Honorable Quentin Kopp
Member of the Senate
State Capitol, Room 2057
Sacramento, CA 95814

Dear Senator Kopp:

This is to inform you that the Department of Transportation opposes Senate Bill 1477. This bill would transfer $600 million from the State Highway Account (SHA) over the next three years for distribution to cities and counties for the maintenance, rehabilitation, and repair of local streets and highways.

While there is no doubt that a critical need exists for funds to address local transportation infrastructure concerns, there is an equally clear need for funds to address statewide transportation infrastructure concerns. The primary vehicle for addressing these concerns on both a regional and interregional basis is the State Transportation Improvement Program (STIP), which also draws upon the State Highway Account. Pursuant to the new STIP process established under your SB 45, the California Transportation Commission recently adopted a six-year 1998 STIP that fully programmed available SHA funds identified in the fund estimate earlier this year.

Since that time, additional federal funding available for California materialized in the final form of the new federal transportation reauthorization act, the so-called "TEA 21." Unfortunately, even with the additional funds apparently now available, the fund transfer proposed in SB 1477 would exceed available funds and require the deprogramming of projects now included in the 1998 STIP. Although some cities or counties might in effect "trade" a STIP project for a SB 1477 project, the difference in the funding formulas for the STIP and SB 1477 would result in a disparate distribution of the funds; there would be significant "winners" and "losers." The net effect would also be to significantly disrupt the 1998 STIP, as well as deplete available funds for the 2000 STIP. Further, the state's ability to fully utilize the influx of federal TEA 21 dollars relies on adequate state-fund reserves for matching purposes. In this light, the apparent abundance of TEA 21 as a justification for the funding shift proposed in SB 1477 has to be tempered. The funding shift anticipated in the bill would significantly undermine the state's flexibility to exploit TEA 21's welcomed infusion of funds. Finally, the transfer would also push the available SHA fund balance below the level typically needed to meet the Department's contractual obligations and result in a negative balance by fiscal year 2001.

For these reasons, the Department opposes SB 1477. I would be happy to discuss our concerns with you at your convenience.

Sincerely,

Jan Hall

JAN HALL
Assistant Deputy Director
Legislative and Local
Government Affairs

c: Members, Assembly Transportation Committee
Senate Republican Caucus

CALIFORNIA DEPARTMENT OF TRANSPORTATION

BUDGETS PROGRAM

State Highway Account Cash Balance/1998 STIP
SB 1477
Fact Sheet

<u>Impact to 1998 STIP</u>

- SB 1477 would allocate $600 million in state-only funds to cities and counties over the next three years for rehabilitation of the local road network and storm damage to that system.
- SB 1477 will impact the projects included in the 1998 STIP. Projects scheduled for delivery in the first three years of the 1998 STIP will have to be delayed.
- There are no uncommitted funds in the State Highway Account Cash Balance. All of the cash balance, <u>plus</u> anticipated interest, was committed to projects by the California Transportation Commission (CTC) when it adopted the 1998 STIP in June.
- There is currently approximately $1.8 billion in the SHA. If the CTC allocates funding according to the adopted 1998 STIP, the SHA cash balance is expected to be reduced annually to about $667 million by fiscal year 2000. That is a reduction of 64%.
- In addition to SB 1477, there is another potential commitment of SHA resources being discussed by the Legislature: $200 million for retrofit soundwalls. Taken with SB 1477, the $200 million for retrofit soundwalls (AB 1686) will have a cumulative negative impact of $800 million on the 1998 STIP.
- Federal regulation prohibits federal funding participation in retrofit soundwalls, so they must be state-only funded. Because SB 1477 would transfer state-only SHA funds, California would be at high risk of not having enough state funding to match federal dollars for projects. We risk losing federal dollars and the Department's ability to exchange state-only dollars for locally-held federal dollars would also be undercut.

<u>Impact to 2000 and 2002 STIP</u>

- Federal TEA 21 provides approximately $140 million annually in uncommitted federal funds during the six years of the 1998 STIP. This would create new programming capacity of $850 million for the 2000 STIP.
- Federal funds can be used for rehabilitation and reconstruction of the local road network that is part of the federal aid system. In the 1998 STIP, 34% of the programming funds were dedicated to local road and transit network improvements. Regional Transportation Agencies have indicated that they expect to do more of this in the future.

- The 2002 STIP is projected to have approximately $3 billion in new programming capacity in its last two-years. A portion of the uncommitted federal funds available for the 2000 STIP should be dedicated to advanced project development in preparation for the 2002 STIP.

Delivery of Projects

- The Department has consistently managed to deliver more than 100 percent of the dollars programmed annually by either accelerating projects or adding projects.

- Delivery by Regional and Local Agencies has been slower. As an example:

- Cumulative Local and Regional Agencies Shortfall of federal dollars (OA) usage during ISTEA	$184 million
- Local and Regional Agencies Pre-TEA 21 Demo funds remaining	$105 million
- Local and Regional Minimum Allocation Funds remaining	$122 million
- TSM Unliquidated Encumbrances	$56 million
- FCR program Unliquidated Encumbrances	$90 million
- Grade Separations Unliquidated Encumbrances	$85 million
- Other Miscellaneous Programs Unliquidated Encumbrances	$58 million

- For the current Federal Fiscal Year, the Regional and Local Agencies were responsible for obligating $680 million in federal funds. To date, they obligated $206 million and a recent survey indicates that they could obligate another $110 million by the end of the federal fiscal year. This means that the State will have to step in and obligate the remaining $360 million in federal funding or lose the obligational authority to other states.

- TEA 21 provides an annual average of $730 million to the local and regional agencies directly. That is an increase of approximately $300 million above what they received annually during the six years of ISTEA. If local and regional agencies continue to deliver at 85% of their target delivery, the State will need to be in a position to step in and use that federal funding to avoid its loss. The state's capability to accomplish this is being diminished by the magnitude of the dollars shifted to the local and regional agencies in TEA 21.