



COUNCIL AGENDA: 06-26-07  
ITEM: 2.50(a)

## Memorandum

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**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Lee Price, MMC  
City Clerk 

**SUBJECT: 2007-2008 STATE BUDGET:  
PROPOSITION 42 FUNDING AND THE  
PUBLIC TRANSPORTATION ACCOUNT  
(PTA) TRANSIT "SPILLOVER" FUNDS**

**DATE:** June 22, 2007

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### RECOMMENDATION

As recommended by the Rules and Open Government Committee on June 20, 2007 that Cities support transit funding, but oppose efforts to change Proposition 42 that could jeopardize or destabilize local streets and roads funds as outlined in the attached memo previously submitted to and approved by the Rules & Open Government Committee.



# Memorandum

**TO: RULES AND OPEN  
GOVERNMENT COMMITTEE**

**FROM: Betsy Shotwell  
Roxanne Miller**

**SUBJECT: SEE BELOW**

**DATE: June 15, 2007**

Approved

*Deanna Antea*

Date

*6/15/07*

**SUBJECT: 2007-08 STATE BUDGET: PROPOSITION 42 FUNDING AND THE  
PUBLIC TRANSPORTATION ACCOUNT (PTA) TRANSIT "SPILLOVER" FUNDS**

## RECOMMENDATION

Recommend that the City oppose any change to the Proposition 42 formula allocations or formula splits between the State Transportation Improvement Program (STIP), cities, counties and transit. Cities support transit funding, but oppose efforts to change Proposition 42 that could jeopardize or destabilize local streets and road funds.

## OUTCOME

If the Rules and Open Government Committee the Mayor and City Council support staff's recommendation, the City lobbyist could oppose proposed changes to the Proposition 42 formula splits between the STIP, cities, counties and transit to ensure full funding of Proposition 42. Staff believes that proposed changes to the Proposition 42 formula allocations or formula may have significant long-term effects and could have significant impact reducing future funding for local streets and roads.

## BACKGROUND AND ANALYSIS

Governor Schwarzenegger's proposed FY 07-08 state budget included no changes to the Proposition 42 formula allocations or formula splits between the STIP, cities, counties and transit. The formula as approved by the voters divides Proposition 42 funds as follows:

- STIP – 40 percent
- Cities – 20 percent
- Counties – 20 percent
- Transit – 20 percent

The budget and May Revision proposes to divert \$830 million in PTA (Public Transportation Account) spillover revenues in 07-08 to reimburse the General Fund for Home-to-School Transportation (currently a Proposition 98 obligation); \$340 million for transportation-related general obligation bond debt service and other programs to relieve general fund obligations. The "spillover" is generated when sales tax on gasoline outpaces sales tax on other taxable goods in a given year, the excess funding goes into the state's PTA as the spillover.

The Senate and Assembly each took their own action as alternatives to the Governor's proposed budget and May Revision. The Senate proposed no changes to the Proposition 42 formula allocations or formula splits between the STIP, cities, counties and transit and rejected the Governor's proposal to shift spillover and PTA transit funding to relieve the General Fund.

The Assembly approved a motion to capture the spillover revenue under Proposition 42 and change the allocation formula in FY 08-09 as follows: reduce STIP from 40 percent to 35 percent; reduce Cities' from 20 percent to 15 percent; reduce counties' from 20 percent to 15 percent; and increase transit share from 20 percent to 35 percent. The Assembly also approved the Governor's proposal to shift \$340 million of spillover to pay general obligation debt and \$129 million for regional transportation providing a total of \$469 million to relieve general fund obligations but rejected the Governor's other proposals to divert additional transit funding.

The proposals to capture spillover revenue under Proposition 42 and to change the existing Proposition 42 allocation formula is pending before the two-house Budget Conference Committee. Transit interests and others are advancing proposals claiming a change in the Proposition 42 formula and adding spillover revenue to the Proposition 42 pot, which, they state will result in increased revenues to compensate for the reduced percentages proposed for cities and counties. But the spillover funds are subject to substantial risks with future revenues subject to the volatility and unpredictability of funding based on the future price of gasoline. While the spillover account is currently benefiting from the increase in gasoline sales, there was a 15-year period between 1986-87 and 2000-01 when there was no spillover revenue. Other issues that could impact the spillover are the possible future loss of gasoline sales due to higher mileage vehicles and alternative fuel vehicles entering the market. Additionally, Proposition 42 revenues are constitutionally protected with the voters' approval of Proposition 1A in 2006 to protect local funds while the spillover revenues do not have the same constitutional protection.

Cities support transit funding, but oppose efforts to change Proposition 42 that could jeopardize destabilize local street and road funds. The loss and/or volatility of vital Proposition 42 funding would impact San José's ability to plan for and address these critical needs. The spillover fund has been in law for over thirty years. The Legislature could reject the Governor's proposed cuts to transit and balance the State budget with other means.

**PUBLIC OUTREACH**

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This document will be posted on the City's website for the June 20, 2007 Rules and Open Government Committee meeting where Council and the public have the opportunity to comment.

**COORDINATION**

This information was coordinated with the Department of Transportation.



BETSY SHOTWELL  
Director, Intergovernmental Relations



ROXANNE MILLER  
Legislative Representative

For more information, contact: Roxanne Miller at (916)443-3946

