

April 2, 2008

# Funding for Transportation Programs: Issues and Challenges

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 5

On Transportation

Hon. Mike Feuer, Chair





## State Funding for Transportation

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### Traditional State Fund Sources

- **State Highway Account (SHA).** Funding comes mainly from the state gas tax and truck weight fees. Expenditure priority is given to highway maintenance and rehabilitation. The Governor's budget proposes a total of \$4.2 billion in SHA expenditures for 2008-09.
- **Public Transportation Account (PTA).** Funding comes from sales tax on diesel fuel and a portion of sales tax on gasoline, including "spillover" revenue—net revenue from 4.75 percent sales tax on gasoline in excess of 0.25 percent sales tax on all other goods. Funds used for transit and transportation planning.

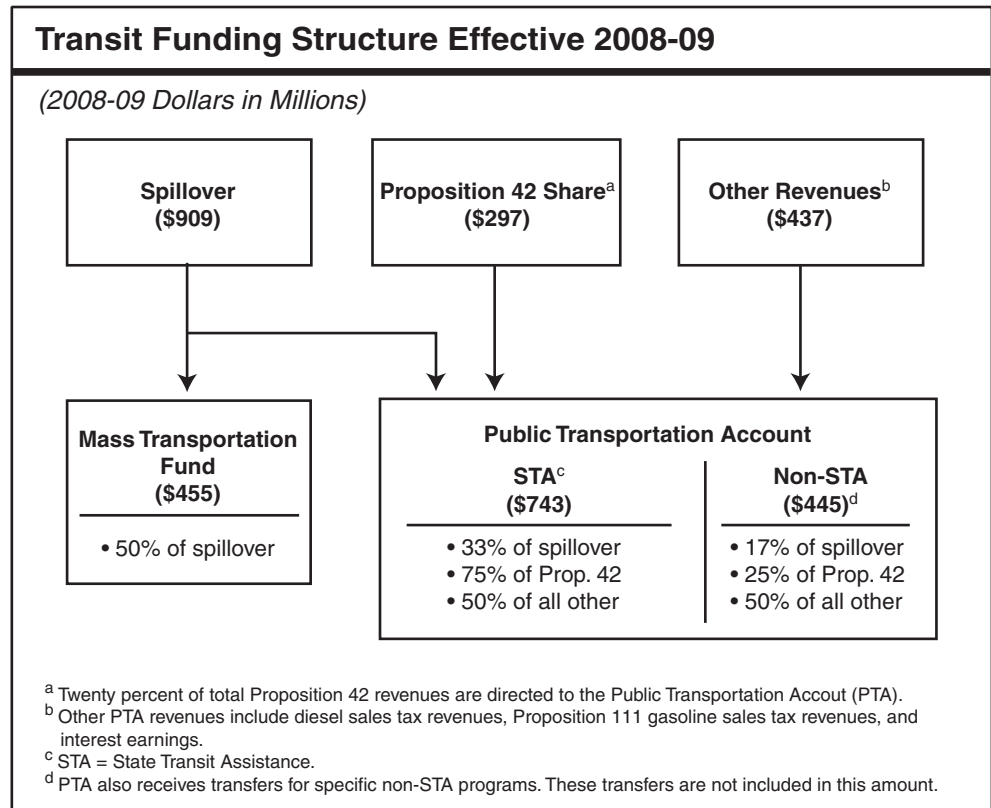


### More Recent State Fund Sources

- **Traffic Congestion Relief Fund.** Established by Chapter 91, Statutes of 2000 (AB 2928, Torlakson), allocates \$4.9 billion to 141 specific projects from a combination of General Fund and gasoline sales tax revenues.
- **Transportation Improvement Fund (TIF).** Proposition 42 (2002) requires a portion of gasoline sales tax revenue to be transferred to TIF, which is estimated at \$1.5 billion for 2008-09. Funds are allocated by formula to various purposes.
- **Proposition 1B Bond Program.** Proposition 1B, approved by voters in 2006, authorizes the sale of \$20 billion in general obligation bonds to fund various transportation projects.



## Significant Restructuring of Transit Funding Effective 2008-09



- One-half of spillover will go to Mass Transportation Fund annually to offset General Fund transportation-related expenditures, including transportation-related debt service payments, Proposition 42 loan repayments, Regional Center transportation, and Home-to-School transportation. Remaining one-half of spillover will go to PTA.
- Majority of PTA revenue is allocated to fund State Transit Assistance (STA), with the remainder of PTA funds available for non-STA purposes.
- Regional Center transportation will be funded from PTA on an ongoing basis.



## Impacts of Restructured Transit Funding for 2008-09 and Beyond

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- ☑ ***State Transportation Improvement Program (STIP) Funding Reduced by About \$1 Billion Through 2009-10.*** The current-year budget actions reduced the amount available to fund projects already planned in the 2006 STIP, which extends from 2006-07 through 2010-11. In total, from 2007-08 through 2009-10, the California Transportation Commission (CTC) estimates that there would be about \$1 billion less in PTA funds for projects already planned for those years.
  
- ☑ ***PTA Requires Loan to Stay Solvent in 2008-09.*** The Governor's budget estimates PTA to have insufficient revenues to keep the account solvent and proposes a \$60 million loan in 2008-09. With the loan, the account will end 2008-09 with a slim balance of \$29 million. If actual revenues to PTA for 2008-09 are lower than estimated, this balance could disappear, and PTA may require additional loans to stay solvent.
  
- ☑ ***STA to Receive More in 2008-09.*** The STA will receive \$743 million in 2008-09, significantly more than the level of funding (\$306 million) provided in the current year.



## Other Impacts Resulting From Recent Budget-Related Actions

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### **Delays in Traffic Congestion Relief Program (TCRP) Funding Will Delay Projects**

- Due to the state's fiscal condition in 2001-02 through 2004-05, a significant portion of funding for TCRP was delayed and loaned to the General Fund.
- Repayment of the outstanding loans, which currently total about \$1.1 billion, is expected to trickle in over the next nine years. This lengthy repayment schedule will delay some projects, particularly large projects that are ready, but require funding levels in excess of the amount that is available.



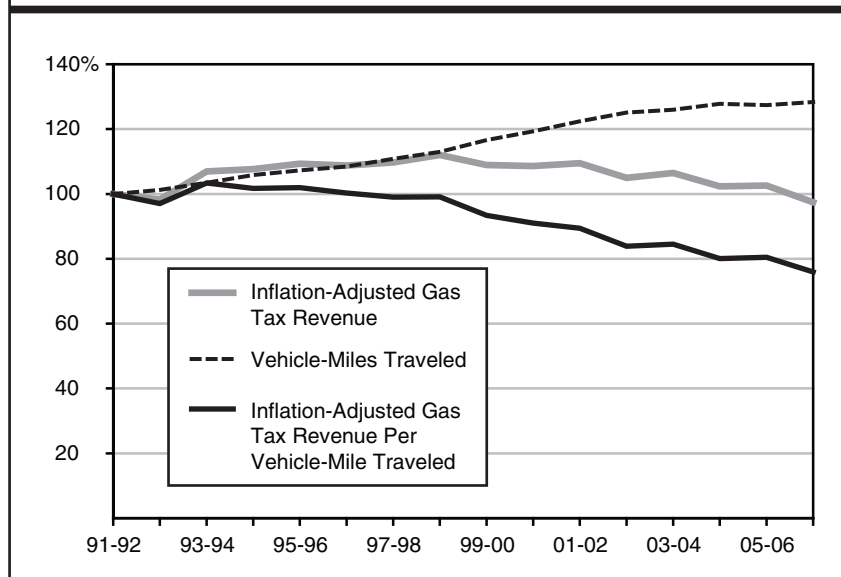
### **Trade Corridor Improvement Fund (TCIF) Plans Would Delay Existing Projects**

- In addition to the \$2 billion authorized in Proposition 1B, CTC plans to direct an additional \$1 billion from other fund sources (including \$500 million available for the State Highway Operation and Protection Program [SHOPP]) to support TCIF projects.
- Changing the funding priority of rehabilitation projects would delay the delivery of non-goods movement projects currently programmed in SHOPP but have not yet been funded.
- Such a delay would only further constrain the limited resources projected for SHOPP. The CTC estimates that there will be about \$600 million less available in 2008-09 and 2009-10 than assumed in the 2006 SHOPP.



## Significant Shortfall in Funding for Highway Maintenance and Rehabilitation

**Real Gas Tax Revenues Have Not Kept Pace With Road Use**



- According to the Department of Transportation’s five-year maintenance plan and ten-year SHOPP plan, the state will need to spend an additional \$3 billion annually over the next several years to address all highway maintenance and rehabilitation needs. However, annual gas tax revenues will be insufficient to cover these costs.
- The current state gas tax of 18 cents per gallon went into effect in 1994. Since then, inflation has eroded the value of per gallon tax revenues by 29 percent.
- While travel on California’s roads increased by 28 percent between 1991 and 2007, gas tax revenues (adjusted for inflation) have not increased. As a result, the revenue generated per mile traveled declined by more than 20 percent.



## Funding Highway Maintenance and Rehabilitation Over the Long Haul

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### **Raise State Gas Tax and Index for Inflation**

- In order to adequately fund highway maintenance and rehabilitation needs, we recommend the Legislature raise the state gas tax by at least ten cents per gallon.
- Further recommend the gas tax be indexed for inflation to prevent further erosion of the revenue over time.



### **Consider Taxing Alternative Fuels**

- If alternative fuels become a more prevalent energy source for transportation, the Legislature should consider taxing these fuels at a comparable rate to conventional motor fuels.
- Greater uses of energy-efficient vehicles would not necessarily reduce the number of vehicle miles driven on the state's highways.



### **Explore Mileage-Based Fees and Additional Toll Roads**

- Mileage-based fees and tolls offer an advantage over gas taxes in that these revenues are not eroded by increasing fuel economy or alternative fuel usage.
- Given the privacy and technical obstacles in implementing mileage-based fees, we recommend the Legislature examine the policy issues that must be addressed if such fees were implemented.
- As an interim step towards possible greater reliance on toll revenue, additional toll projects could be authorized on a pilot basis.