Proposition 1B

The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006

Background

California spends about $20 billion a year from a combination of state, federal, and local funds to maintain, operate, and improve its highways, streets and roads, passenger rail, and transit systems. These expenditures are primarily funded on a pay-as-you-go basis from taxes and user fees.

There are two primary state tax sources that fund state transportation programs. First, the state's 18 cent per gallon excise tax on gasoline and diesel fuel (generally referred to as the gas tax) generates about $3.4 billion annually. Second, revenues from the state sales tax on gasoline and diesel fuel currently provide about $2 billion a year. Additionally, the state imposes weight fees on commercial vehicles (trucks), which generate roughly $900 million a year. Generally, these revenues must be used for specific transportation purposes, including improvements to highways, streets and roads, passenger rail, and transit systems. These funds may also be used to mitigate the environmental impacts of various transportation projects. Under specified conditions, these revenues may be loaned or used for nontransportation uses.

Since 1990, voters have approved roughly $5 billion in state general obligation bonds to fund transportation. These bond proceeds have been dedicated primarily to passenger rail and transit improvements, as well as to retrofit highways and bridges for earthquake safety. As of June 2006, all but about $355 million of the authorized bonds have been spent on projects.

In addition to state funds, California's transportation system receives federal and local money. The state receives about $4.5 billion a year in federal gasoline and diesel fuel tax revenues for various transportation purposes. Collectively, local governments invest roughly $9.5 billion annually into California's highways, streets and roads, passenger rail, and transit systems. This funding comes mainly from a mix of local sales and property taxes, as well as transit fares. Local governments have also issued bonds backed mainly by local sales tax revenues to fund transportation projects.

Proposal

This measure authorizes the state to sell about $20 billion of general obligation bonds to fund transportation projects to relieve congestion, improve the movement of goods, improve air quality, and enhance the safety and security of the transportation system. (See "An Overview of State Bond Debt" for basic information on state general obligation bonds.)

Figure 1 summarizes the purposes for which the bond money would be used. The bond money would be available for expenditure by various state agencies and for grants to local agencies and transit operators upon appropriation by the Legislature:

- ***Congestion Reduction, Highway and Local Road Improvements***—$11.3 billion—for capital improvements to reduce congestion and increase capacity on state highways, local roads, and public transit for grants available to locally funded transportation projects, as well as for projects to rehabilitate state highways and local roads.
- ***Public Transportation***—$4 billion—to make capital improvements to local transit services and the state's intercity rail service. These improvements would include purchasing buses and rail cars, as well as making safety enhancements to existing transit facilities.
- ***Goods Movement and Air Quality***—$3.2 billion—for projects to improve the movement of goods—through the ports, on the state highway and rail systems, and between California and Mexico—and for projects to improve air quality by reducing emissions related to goods movement and replacing or retrofitting school buses.
- ***Safety and Security***—$1.5 billion—for projects to increase protection against a security threat or improve disaster response capabilities on transit systems; as well as for grants to improve the safety of rail crossings to seismically retrofit local bridges, ramps, and overpasses; and to improve security and disaster planning in publicly owned ports, harbors, and ferry terminals.

Figure 1

Proposition 1B
Uses of Bond Funds

	Amounts *(In Millions)*
Congestion Reduction, Highway and Local Road Improvements	**$11,250**
Reduce congestion on state highways and major access routes	$4,500
Increase highways, roads, and transit capacity	2,000
Improve local roads	2,000
Enhance State Route 99 capacity, safety, and operations	1,000
Provide grants for locally funded transportation projects	1,000
Rehabilitate and improve operation of state highways and local roads	750
Public Transportation	**$4,000**
Improve local rail and transit services, including purchasing vehicles and right of way	$3,600
Improve intercity rail, including purchasing railcars and locomotives	400
Goods Movement and Air Quality	**$3,200**
Improve movement of goods on state highways and rail system, and in ports	$2,000
Reduce emissions from goods movement activities	1,000
Retrofit and replace school buses	200
Safety and Security	**$1,475**
Improve security and facilitate disaster response of transit systems	$1,000
Provide grants to improve railroad crossing safety	250
Provide grants to seismically retrofit local bridges and overpasses	125
Provide grants to improve security and disaster planning in publicly owned ports, harbors, and ferry facilities	100
Total	**$19,925**

Fiscal Effects

Bond Costs. The costs of these bonds would depend on interest rates in effect at the time they are sold and the time period over which they are repaid. The state would likely make principal and interest payments from the state's General Fund over a period of about 30 years. If the bonds are sold at an average interest rate of 5 percent, the cost would be about $38.9 billion to pay off both the principal ($19.9 billion) and interest ($19.0 billion). The average repayment for principal and interest would be about $1.3 billion per year.

Operational Costs. The state and local governments that construct or improve transportation infrastructure with these bond funds (by, for example, building roads and bridges or purchasing buses or railcars) will incur unknown additional costs to operate and maintain them. A portion of these costs would be offset by revenues generated by the improvements, such as transit fares and tolls.