

January 21, 2010

# Governor's Transportation Funding Proposal

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

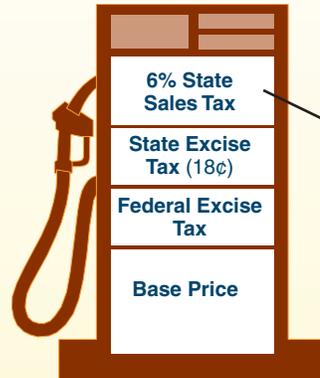
Senate Budget and Fiscal Review Committee

Hon. Denise Moreno Ducheny, Chair



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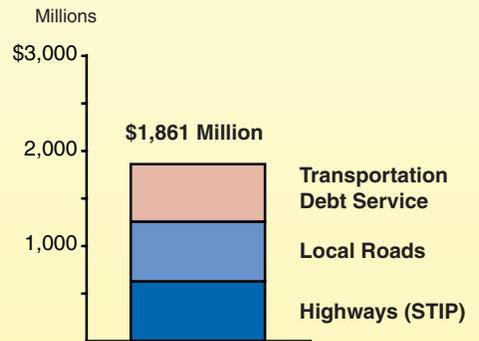
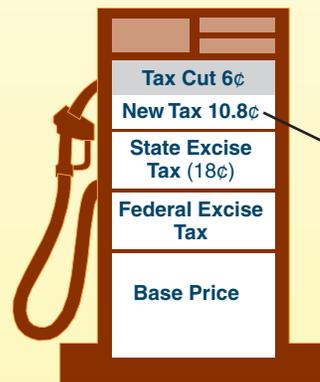
## Current Law



Use of Projected 2010-11 Revenues



## Governor's Proposal





## Governor's Transportation Funding Proposal *(Continued)*

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### Partial "Swap" of Fuel Taxes

- Eliminate the state sales tax on fuel, currently at 6 percent.
- Increase the 18-cent state excise tax on fuel by 10.8 cents per gallon in 2010-11, and increasing for nine years thereafter (through 2020-21).
- Revenues from the increased excise tax would not fully compensate for the loss of sales tax revenue. This provides a tax cut to motorists of about 6 cents per gallon in 2010-11, amounting to a total reduction of about \$1 billion.



### Funds a Different Mix of Transportation Purposes

- **Current State Sales Tax on Fuel.** In 2010-11, revenues from the existing sales tax would fund about \$1.6 billion in mass transportation, \$629 million for highway expansion in the State Transportation Improvement Program (STIP), and \$629 million for local streets and roads.
- **Proposed Increase in Fuel Excise Tax.** In 2010-11, the 10.8 cent per gallon increase in the excise tax would fund \$629 million for highway expansion in the STIP, \$629 million for local streets and roads, and \$603 million to reimburse the General Fund for debt service on transportation bonds.
- In 2010-11, fuel tax revenues proposed for debt service would constitute about 3.5 cents per gallon out of the 10.8 cent per gallon increase. This is within the constitutionally allowable limits.



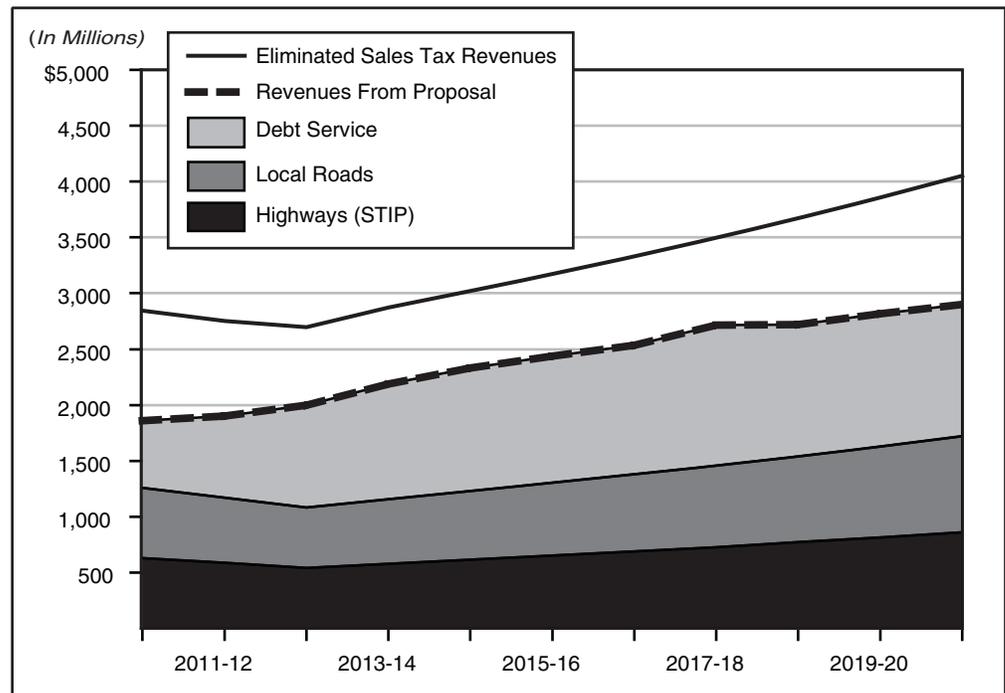
## Proposal Offsets Rising Debt-Service Costs

<b>Projected Transportation Debt-Service Costs</b>						
<i>(In Millions)</i>						
<b>Bond</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
<b>Funded From New Excise Tax</b>						
Proposition 1B (75 percent)	\$204	\$456	\$589	\$795	\$908	\$986
Proposition 192	134	146	138	120	125	114
<b>Totals</b>	<b>\$338</b>	<b>\$602</b>	<b>\$727</b>	<b>\$915</b>	<b>\$1,033</b>	<b>\$1,100</b>
<b>Cannot Be Funded From New Excise Tax</b>						
<b>Totals</b>	<b>\$255</b>	<b>\$326</b>	<b>\$483</b>	<b>\$512</b>	<b>\$633</b>	<b>\$905</b>
<b>Totals, All Transportation Bonds</b>	<b>\$593</b>	<b>\$928</b>	<b>\$1,210</b>	<b>\$1,427</b>	<b>\$1,666</b>	<b>\$2,005</b>

- ☑ ***New Tax Revenues Cannot Pay Transit and Rail Debt Service.***  
 Fuel excise tax revenues cannot be used for debt service on most transit and rail bonds, including Propositions 108 (1990), 116 (1990), 1A (2008), and a portion of Proposition 1B (2006).
  
- ☑ ***Additional Current- and Budget-Year Solutions.*** In addition to using revenues from the new excise tax for debt service on transportation, the Governor also proposes to help the General Fund with additional debt-service costs.
  - Use \$57 million in the current year and \$254 million in the budget year from existing transit funds to pay eligible debt service.
  - Use \$72 million in other highway funds to pay debt service in the budget year.
  
- ☑ ***Total Transportation Debt Service in 2010-11 Paid by Proposals.*** In total, the Governor’s proposals would provide about \$1 billion from transportation funds to pay debt-service costs in 2010-11.



## Proposal Provides Ongoing General Fund Benefits



- In total, over the next ten years, the proposal would offset General Fund costs by roughly \$11.5 billion for transportation debt service.
- In addition, by reducing the amount of transportation revenues flowing into the General Fund, the proposal would lower the minimum funding guarantee for education.



## Proposal Permanently Eliminates State Transit Funding

Projected Annual Transit-Related Obligations		
<i>(In Millions)</i>		
	2010-11	2019-20
Intercity Rail	\$116	\$230
Caltrans Planning/Administration	46	60
Other	8	10
Capital Projects	88	88
<b>Totals</b>	<b>\$258</b>	<b>\$388</b>



### Eliminates Funding for Transit Operations and Capital

- **Transit Operations.** Chapter 14, Statutes of 2009 (SB 7, Ducheny) provides no State Transit Assistance through 2012-13. Governor's proposal permanently eliminates funding for the program.
- **Transit Capital.** Proposal leaves Proposition 1B as the only remaining funding source dedicated to transit capital, of which \$2.3 billion is still available.



### Other Transit-Related Expenditures Become Out-Year General Fund Obligations

- Sometime after 2011-12, the Governor's proposal would rely on the General Fund to assume transit-related obligations traditionally funded through eliminated tax revenues.



## Proposal Provides No New Funding for Highway Repairs

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### **Proposal Ignores Substantial Highway Repair Needs**

- The proposal raises the fuel excise tax—which has traditionally funded highway repairs—but does not provide any of the new revenues to repair the state’s aging highways and bridges.



### **Highway Repairs and Maintenance Lack Adequate Funding**

- Caltrans estimates it would need an additional \$4.5 billion per year to make major repairs that are needed on the state’s highways and bridges.
- Caltrans estimates that \$400 million to \$500 million in additional annual funding for preventive maintenance work could save the state several billions of dollars by avoiding the cost of major repairs in the future.
- By not funding needed repairs and maintenance, the state’s transportation infrastructure will continue to degrade and will ultimately be more costly to fix in the future.



## Issues for Legislative Consideration

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### **Governor's Proposal Has Merit**

- The proposal has merit because of the substantial ongoing benefits it would provide to the General Fund.



### **Legislature Has Options to Modify the Proposal**

- We recommend the Legislature maintain transportation revenues at or near the current levels and provide funding for highway repairs. This would reduce the state's future costs and save motorists money on repair of their vehicles for damage due to rough roads.
- The Legislature could adopt only part of the Governor's proposal and maintain the diesel sales tax revenues. This would provide more flexibility to the Legislature as the diesel sales tax funding could be used for transit subsidies or debt service on transit bonds.



### **Additional Current-Year Solutions Should Be Adopted**

- The Governor's proposal includes \$57 million in current-year General Fund solutions. However, we recommend the Legislature take some minor actions during the special session that increase the benefit to the General Fund by about \$160 million in the current year.



## Additional General Fund Benefit Available In Current Year

<b>Use More Transportation Funds for Debt Service in 2009-10</b>		
<i>(In Millions)</i>		
	<b>Governor's Proposal</b>	<b>LAO Recommendation</b>
Transit funds eligible	\$57	\$140
Highway funds eligible	—	79
<b>Totals</b>	<b>\$57</b>	<b>\$219</b>



### **Additional \$160 Million Available for General Fund Benefit**

- **Transit Funds.** Governor's proposal includes \$57 million for transit debt service. There is \$140 million in eligible debt service in the current year that can be scored as General Fund benefit without action by Legislature.
- **Other Highway Funds.** Governor proposes using miscellaneous highway revenues for debt service in budget year. The Legislature could take action to use \$79 million of these revenues in the current year to reimburse the General Fund for transportation debt service.



## **Option 1—Maintain Total Transportation Revenue at Current Level, Increase Funding For Highway Repairs**

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- Doing so allows funding of the Governor's budget and provides up to 6 cents per gallon (in addition to the Governor's proposal) to fund pavement maintenance and highway repairs.
- This would save the state money in the long run by making repairs now instead of needing much more costly repairs in the future that will result from improper maintenance.
- This could also save motorists money. Recent studies have shown that California motorists pay hundreds, possibly even thousands of dollars each year in damage to their vehicles caused by rough roads.



## Option 2—Maintain Status Quo for Diesel Revenues

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### *This Option Would:*

- Maintain current diesel sales tax revenues.
- Not increase diesel excise tax as proposed.
- Increase gasoline excise tax to offset loss of diesel excise tax increase, about 2 cents more than the 10.8 cents in 2010-11.



***Option Provides More Transportation Revenues than Governor's Proposal.*** This would increase transportation revenues beyond the Governor's proposal by roughly \$300 million to \$400 million annually. (The option, however, would still provide fewer resources than current law.)

- ***Creates Flexibility.*** Diesel sales tax revenues can be used for transit operations or various transit debt service not available with the Governor's proposal.
- ***Increases General Fund Benefit.*** This option reduces or eliminates out-year General Fund obligations for other transit-related programs.