

# Transportation Funding Overview

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Transportation and Housing Committee

Hon. Mark DeSaulnier, Chair

Assembly Transportation Committee

Hon. Bonnie Lowenthal, Chair

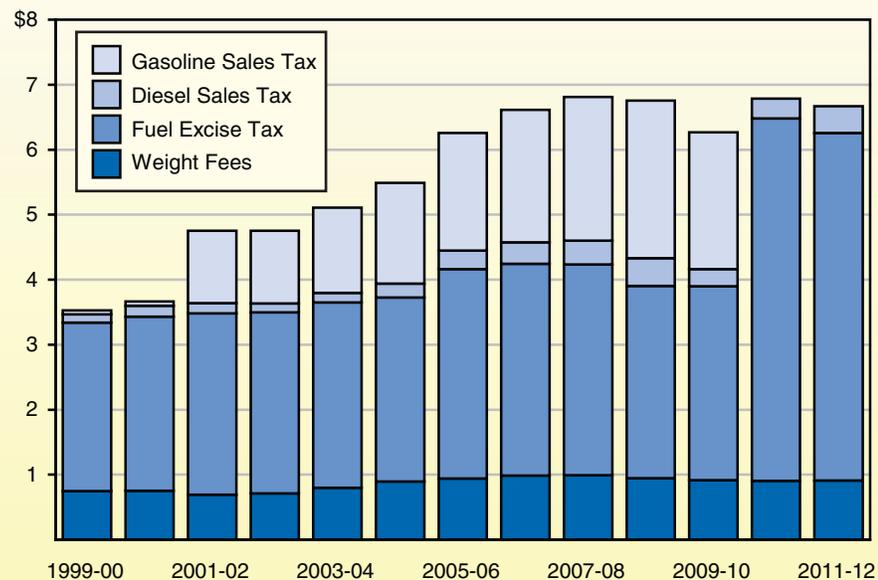




## State Transportation Revenues

### Transportation Revenues Have Increased During the Past Decade

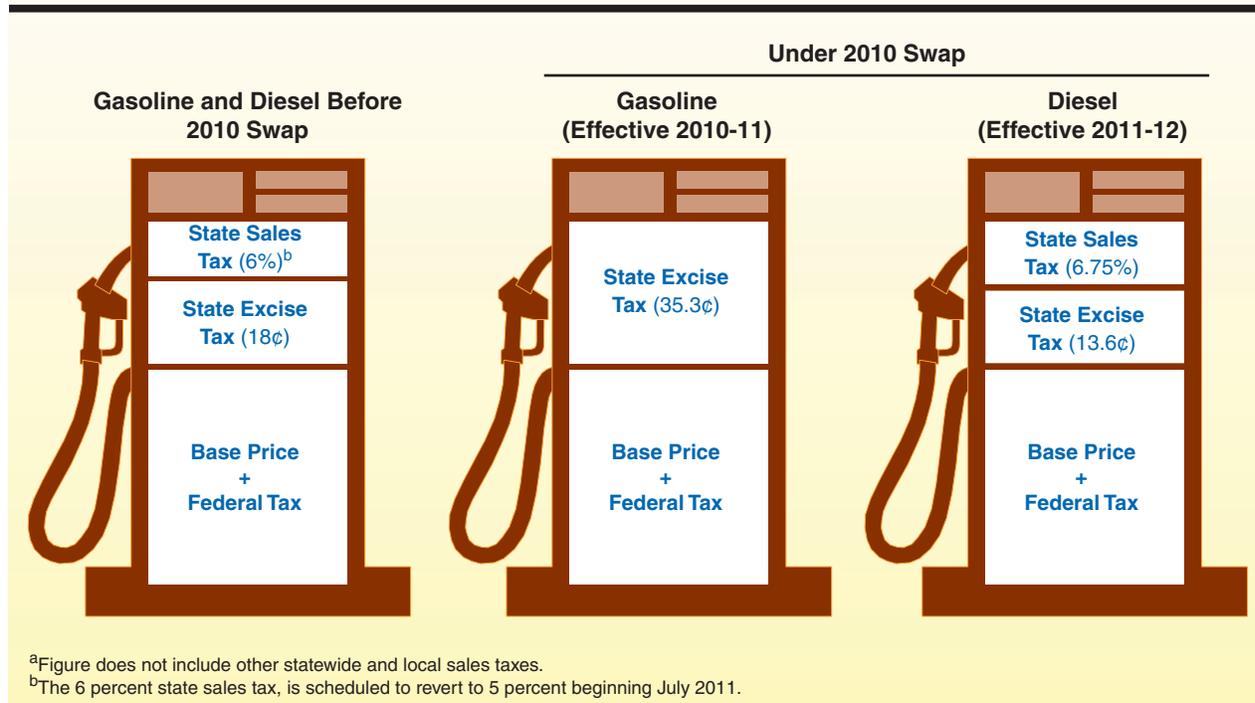
(In Billions)



- Dedicated transportation revenues have grown 89 percent from \$3.5 billion in 1999-00 to an estimated \$6.7 billion in 2011-12.
- The increase in revenues was mainly due to the commitment of the sales tax on gasoline for transportation purposes. Revenues from this tax were generally deposited in the General Fund prior to 2001-02, but then became a new source of funding for transportation.
- In 2010, the state swapped these gasoline sales tax revenues for an increase in the gasoline excise tax. These changes were revenue neutral.

## The Fuel Tax Swap of 2010

### The Impact of the Fuel Tax Swap on State Gasoline and Diesel Taxes<sup>a</sup>



#### Gasoline

- The swap eliminated the state sales tax on gasoline. Instead the state increased the gasoline excise tax by 17.3 cents to generate the same amount of revenue. These changes took effect July 1, 2010.
- The gasoline swap allowed the state to offset General Fund costs because the excise tax revenues could be used to pay debt service on transportation bonds.



## The Fuel Tax Swap of 2010

*(Continued)*

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### **Diesel**

- Under the swap, the sales tax on diesel fuel will increase by 1.75 percent on July 1, 2011. The excise tax will decrease by a corresponding amount.
- This allowed the Legislature to provide roughly \$300 million each year in subsidies to local transit operators through the State Transit Assistance program.

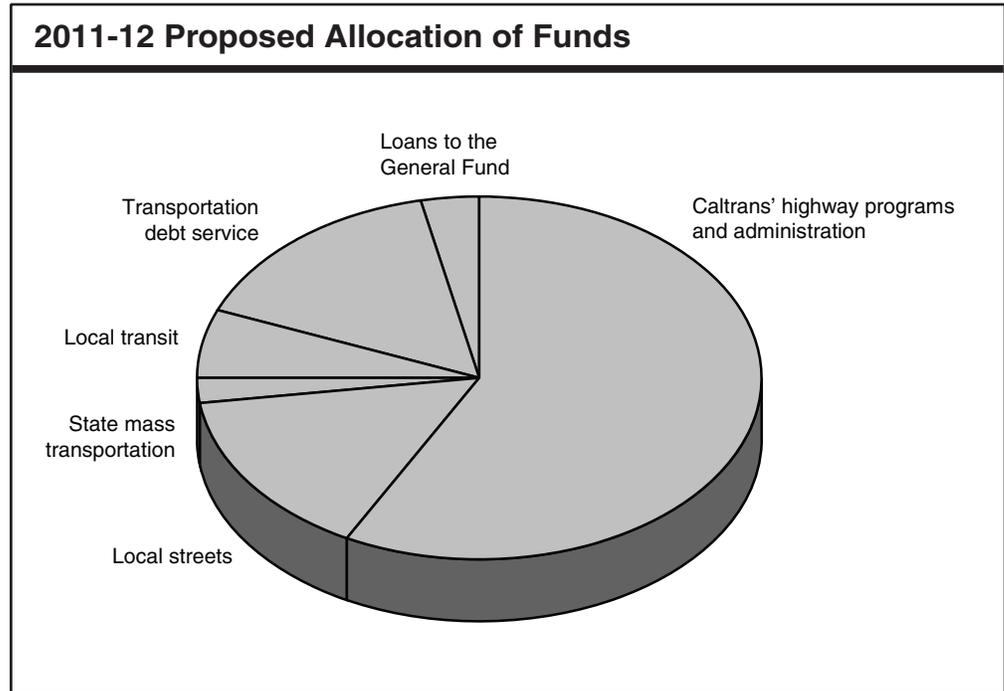


### **Propositions 22 and 26 Passed in November 2010**

- These two ballot measures potentially undo the swap. Proposition 22 prohibits loaning certain transportation funds to the General Fund, and restricts the state's ability to repay bonds with transportation funds. Proposition 26 requires that the swap be reenacted with a two-thirds vote before November 2011. Otherwise, the tax provisions of the swap would be repealed.



## Governor's January 2011 Budget Proposal



### Recapture General Fund Benefit of the Fuel Tax Swap

- The Governor's budget proposes a two-step approach to restore the General Fund benefit potentially eliminated by Propositions 22 and 26 (2010). First, it would reenact the fuel tax swap with a two-thirds vote. Second, it would help the General Fund by using weight fees instead of fuel excise tax revenues to pay debt service on transportation bonds and for borrowing.



## Governor's January 2011 Budget Proposal (Continued)

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### **Potential Consequences of Not Reenacting the Tax Swap**

- If the swap is not reenacted it is likely that the state would return to taxing fuel the way it did prior to the swap. In this event, the state would be required to spend a much larger portion of its transportation revenues on public transit, and these funds would not be available to help the General Fund as planned.
- It is also possible that Proposition 26 could be interpreted as eliminating the new taxes created under the swap, but *not* reinstating the old taxes. In this event, the state would receive about \$2.5 billion less annually in fuel taxes.



## Proposition 1B Provides Short-Term Funding

<b>Uses of Proposition 1B Funds</b>		
<i>(In Millions)</i>		
<b>Program</b>	<b>Purpose</b>	<b>Amount</b>
<b>Congestion Reduction, Highway and Local Road Improvements</b>		<b>\$11,250</b>
Corridor Mobility Improvement	Reduce congestion on state highway and major access routes.	\$4,500
STIP	Increase capacity on highways, roads, and transit.	2,000
Local Streets and Roads	Enhance capacity,safety,and operations.	2,000
Highway 99 Improvement	Enhance capacity,safety,and operations.	1,000
State-Local Partnership	Match locally funded transportation projects.	1,000
SHOPP	Rehabilitate and improve operation of highways.	500
Traffic Light Synchronization	Improve safety and operation of local streets and roads.	250
<b>Transit</b>		<b>\$4,000</b>
Local Transit	Purchase vehicles and right of way, and make capital improvements.	\$3,600
Intercity Rail	Purchase vehicles and right of way, and make capital improvements.	400
<b>Goods Movement and Air Quality</b>		<b>\$3,200</b>
Trade Corridor Improvement	Improve movement of goods on highways and rail, and in ports.	\$2,000
Air Quality	Reduce emissions from goods movements activities.	1,000
School Bus Retrofit	Retrofit and replace polluting vehicles.	200
<b>Safety and Security</b>		<b>\$1,475</b>
Transit Security	Improve security and facilitate disaster response.	\$1,000
Grade Separation	Improve railroad crossing safety.	250
Local Bridge Seismic	Seismically retrofit local bridges and overpasses.	125
Port Security	Improve security in publicly owned ports, harbors, and ferry facilities.	100
<b>Total</b>		<b>\$19,925</b>

STIP = State Transportation Improvement Program; SHOPP = State Highway Operation and Protection Program.

- Proposition 1B passed in November 2006.
- The bulk of the Proposition 1B funds have already been committed to projects.



## Future Federal Funding Likely to Be Lower

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### **SAFETEA-LU**

- The most recent federal transportation act, the Safe Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU) in effect since 2005 provided a significant increase in funding for California compared to the prior act. Specifically, SAFETEA-LU provided a roughly 40 percent increase in federal transportation funding.
- SAFETEA-LU authorizes about \$5 billion annually for California, including funds for highways, local roads, and transit.
- SAFETEA-LU expired October 1, 2009, but has been extended multiple times without the passage of a new authorization.



### **Next Federal Act Likely to Provide Significantly Less Funding**

- The current revenues going into the Federal Highway Trust Fund are insufficient to continue providing funding at the levels currently authorized under SAFETEA-LU. It is unlikely that Congress will agree to an increase of the federal fuel excise tax to provide additional funding. It is likely that Congress will instead authorize a level of spending in the next act that is lower than the level authorized under SAFETEA-LU.



## Future Federal Funding Likely to Be Lower (Continued)

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### **Federal Stimulus Provided One-Time Increase**

- The American Recovery and Reinvestment Act (ARRA) provided about \$2.6 billion to California for highways and roads, and an additional \$1 billion for transit. These funds are available only within specified timeframes and for certain eligible projects.



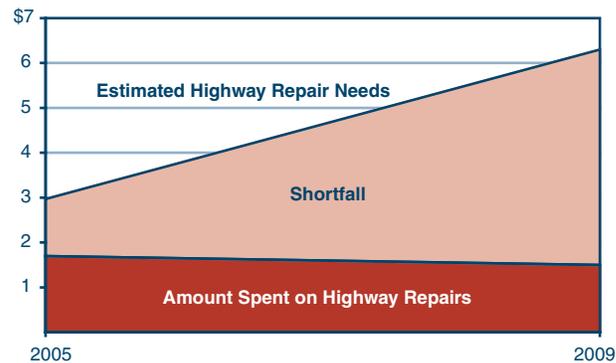
### **Bulk of Stimulus Funds Already Used**

- Of the \$2.6 billion for highways and roads, as of late 2010, the state had awarded contracts for nearly all ARRA-funded projects and had spent over \$1 billion.



## Highway Maintenance and Reconstruction Severely Underfunded

### Annual Spending on Highway Repairs Falls Short of Needs (In Billions)



#### Highway Reconstruction

- The State Highway Operation and Protection Program (SHOPP) is the state's program of projects that reconstruct and rehabilitate the state's highways. The SHOPP has a growing funding deficit, based on Caltrans estimates of project needs.



#### Highway Maintenance

- Caltrans' Highway Maintenance program performs minor maintenance and repaving work on the state's highways. Currently, Caltrans allocates only enough funding to perform preventive maintenance on about 2,700 lane-miles of the highway system each year. However, according to industry best practices, in order to properly maintain the state's highways, Caltrans should be applying these maintenance treatments annually to between 7,000 and 10,000 lane-miles of the system.



## Legislature Should Consider Prioritizing Funding

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- ☑ It is likely that reduced levels of funding will be available for transportation purposes in the future. This means the Legislature will need to prioritize expenditures for these programs.
- ☑ The state's core transportation programs are the maintenance and reconstruction of the state's existing highways. The two programs through which this work is performed—Highway Maintenance and SHOPP—are both already significantly underfunded, our analysis shows. Given these likely fiscal restraints, the Legislature should consider prioritizing funding for these programs over other transportation purposes, such as new construction.
- ☑ Opportunities may exist to reduce traffic congestion with operational and demand management tools, which could cost significantly less than building capacity expansion projects. The Legislature should direct Caltrans to report on whether and to what extent it plans to expand the use of operations and traffic management strategies. The Legislature may wish to consider prioritizing funding for lower-cost operational improvements over capacity-increasing capital projects.