

The Senate Environmental Quality Committee Informational Hearing

The Governor's Transportation Bond Proposal: Air Quality, Climate Change, and Planning

February 27, 2006
2:00 PM or Upon Adjournment of Session
State Capitol, Room 112

BACKGROUND PAPER

The Governor's Transportation Proposal: Issues & Questions

The Governor's Transportation Bond proposal provides for general obligation bond approvals of \$6 billion in 2006 and \$6 billion in 2008, with a \$14 billion revenue bond in 2012 backed by the excise tax on gasoline and motor vehicle weight fees. The proposal also includes expanded contracting authority for Caltrans and local transportation agencies and authorizes toll facilities and other projects with private partnerships (see chart).

While the creation of a coherent transportation network that benefits all Californians is a complex undertaking, it is essential that the state endeavor to reconcile conflicting policies. Funding highway projects that are intended to lessen congestion, but which may increase the emission of toxic contaminants or climate-altering substances represent conflicts that deserve further scrutiny and consideration by the Legislature.

The Senate Environmental Quality Committee's hearing offers an opportunity to review the Governor's transportation bond proposal and to consider recommendations for improving the proposal as it relates to California's environment, including commentaries on how the Legislature might better articulate a transportation framework based on statewide planning priorities, improvements in air quality, and limiting emissions that threaten the Earth's climate.

Public Transit Finance: Taxes, Fees, and Bonds – Who Pays? Who Benefits?

How we raise funds and what we spend them on has a profound impact on how our transportation network functions, how efficiently it performs, what it looks like, and even how people travel. Unfortunately, both our state and national system of transportation finance is complicated even for policymakers to understand. What follows is a brief explanation of transportation finance mechanisms, in addition to several key issues that are important to understanding California's transportation funding picture.

Transportation funding is unique when compared to many other publicly funded programs in the United States in that historically it has been supported by "user fee" financing, notably taxes on gasoline and other vehicle-related programs. Since the 1920s, California has relied primarily on state gasoline taxes to fund road construction and maintenance statewide. For various reasons, this historical trend began to shift in the 1990s with an increasing reliance on statewide bonds and county-level sales taxes.

California still receives most of its transportation revenues from the current state gasoline tax of 18 cents per gallon. This tax generates approximately \$3.3 billion a year in transportation revenues, accounting for nearly half of all roadway-related revenues in the state. The federal government also levies an 18.4 cent per gallon tax on gasoline and, from which, the state receives something in excess of \$2 billion a year in federal highway funds and approximately \$500 million in public transit funding. Additional sources of revenue for transportation statewide include local county sales taxes, bond receipts, local general fund monies, local property taxes, and road and bridge tolls.

Funding for public transit was historically kept quite separate from street and highway financing, until recently. Many of the local streetcar, trolley and motorbus services that operated in the early 20th century, both in California and nationwide, were often largely privately financed, with some support from local public funds. Federal funding for public transit systems arrived much later than it did for highways, with the first smaller grant programs starting in the 1960s and annual federal appropriations for local public transit beginning in the 1970s.

Today, California's public transit systems are funded by a wide range of sources, many of which fluctuate dramatically from year to year. Generally, the largest single source of revenue is passenger fares. Transit is also funded by a portion of the statewide sales tax, federal grants, countywide sales taxes, local transit district sales taxes, property taxes, general fund monies and other local and state grants.

Public transit agencies experienced the elimination of federal support for operations in the mid-1990s. Along with the loss of federal operating assistance, transit agencies are severely hampered financially by state laws prohibiting the expenditure of state gas tax revenues or bonds on the day-to-day operations of transit services. This has created somewhat of a Catch-22 for transit agencies: growth in capital expenditures, or the ability to buy train cars and buses for public transit systems, but a loss of revenue with which to operate those trains and buses (but with a caveat that the state transit assistance provides certain support).

It has also fueled a disparity between urban and suburban services. There has been increased funding for commuter systems that need to buy equipment to serve largely wealthier, suburban populations, but cutbacks to urban bus transit systems that don't need much new equipment, but require much more funding for repair, maintenance and operations.

- *Is the rehabilitation of highways more appropriately addressed by a fee or tax – an alternative that has been raised by the Legislative Analyst -- rather than general obligation bonds with indebtedness paid for by future generations?*
- *Given the emphasis placed on highway construction, how has the Administration considered a “polluter pays” mechanism (e.g., fees on petroleum feedstock) to be used as a fiscal instrument for addressing the on-going regulatory and related costs of petroleum fuels and their impairment of public health, air, water, and other resources?*
- *How does the Governor’s proposal integrate expenditures on highways with support for public transit, car pool programs, bicycling infrastructure, and other sustainable transport options?*
- *What projections does the Administration use for the pricing of petroleum fuels over the next thirty years and how does such information guide the prioritization of transportation expenditures, especially as regards highway construction?*

Transportation: Air Quality

Public Health

Transportation policy has a profound impact on the health of all Californians. A majority of Californians breathe polluted air mostly caused by truck, bus and automobile exhaust.

The legacies of inadequate transportation planning include not just traffic congestion, but impaired public health resulting from vehicular air pollution. Many studies find that air pollution exacerbates asthma, and new research indicates that air pollution may actually cause asthma in otherwise healthy children. California has some of the highest childhood asthma rates in the country, and more than 90 percent of the population lives in areas that fail to meet the state air quality standards. If California could achieve the state standards for particulate matter (or PM), the State Air Resources Board (ARB) estimates that approximately 6,500 premature deaths and thousands of hospitalizations and emergency room visits for respiratory and cardiac illnesses could be avoided, saving over \$43 billion in health costs. According to ARB, attaining both the ozone and PM standards would annually prevent 4.7 million school absences for children, 350,000 asthma attacks, 500,000 cases of respiratory illnesses, 400,000 cases of lower respiratory symptoms in children and another 400,000 cases of upper respiratory symptoms in children.

Traffic accidents are one of the leading causes of death and injury for Californians. The lack of accommodation and facilities for walkers and cyclists in California's transportation networks create obstacles for those concerned about the growing incidence of obesity throughout the state.

- *How has the Governor’s proposal been constructed to address public health? To what extent has the Administration considered transportation- related health problems and designed a proposal which addresses such problems?*

Clean Air Provisions

In order to avoid potentially contradictory policies, the Governor's proposal, as a whole, should be consistent with statewide efforts to achieve state and federal air quality standards. Most specifically, one might expect the proposal to be coordinated with the Governor's Environmental Action Plan goal of achieving at least a 50% reduction in air pollution emissions and exposure by 2010, and the Governor's targets for reducing the emission of greenhouse gases. Additionally, all projects funded by the bond should be considered as a package to determine their cumulative air quality impacts.

- *Are projects included in the Governor's proposal required to be fully mitigated with respect to air quality and environmental impacts? To what extent does the proposal promote not merely compliance with existing law, but promote additional pollution reductions?*

There also appear to be potentially serious conflicts between the major projects (e.g., building highways) that rely on individual vehicles and a transportation system designed to improve air quality.

- *Should the proposal include a requirement that all bond expenditures and related projects improve air quality, especially for air basins that have not attained air quality objectives identified by state and federal laws (e.g., Clean Air Act)?*
- *To what extent does the proposal take action on priority measures that will directly reduce particulate matter and oxides of nitrogen emissions and contribute to improved air quality and public health, both throughout the state and for communities suffering a disproportionate exposure to air contaminants?*

Port Facilities

With respect to the mitigation of pollution resulting from port projects, it is unclear how the Governor's proposal uses clean construction practices, such as the use of best achievable technologies for port equipment. Equally important is an understanding of how the Governor's proposal provides a system to track and account for the equipment designed to mitigate pollution. In the context of mitigating air pollution in both ports and highway construction, there is a concern that older, polluting equipment will simply be relocated to other regions of the state. Without some system for tracking where expenditures, especially as regards mobile sources of pollution, the State may not be able to properly account for whether public monies are being properly used to affect air pollution.

In the context of vulnerable communities and subpopulations, including the state's largest port facilities, the Governor's proposal does not contain explicit guidance for mitigating or replacing existing sources of pollution.

To what extent does the Governor's proposal envision funding to:

- *Replace and retrofit old trucks serving ports?*
- *Replace old switching locomotives?*
- *Electrify piers to cut ship emissions?*
- *Require clean construction equipment for all bond-funded infrastructure?*

In addition to specific projects, it is unclear to what extent the Administration has considered a low-interest loan program for certain expenditures as a source of initial capital and providing for repayment in order to limit taxpayer debt.

Transportation and greenhouse gas emissions

In order to adequately address green house gas emissions, California must reduce the growth of emissions from the biggest source- the transportation sector. Emissions from the state's cars, buses, trucks, trains, planes, and other vehicles account for almost 40 percent of statewide greenhouse gases. In fact, passenger vehicles emit more than the electricity sector. Transportation emissions are reportedly increasing at almost 2% per year.

As one of the fundamental problems confronting California in the coming decades, it is not clear how the Governor's transportation proposal meshes with what the Governor recognizes elsewhere as an urgent need to address the threats of global warming.

Among the most prominent of questions regarding the Governor's Proposal is how the proposal relates to the Governor's Climate Action Plan, as contained in Executive Order S-3-05. The Governor's Climate Action Plan sets greenhouse gas emission reduction targets for California. The Climate Action Plan, however, has been criticized as providing insufficient new requirements for reducing carbon emissions. In the absence of such a plan, the Governor's Proposal for California's transportation system may undermine the Governor's Climate Action Plan.

In reconciling the Governor's proposal with policies that are consistent with lessening carbon emissions, one approach might include efforts to mitigate the release of green house gases. Another approach, however, would emphasize a transportation system that is consistent with protections for clean air and climate change.

To illustrate, the Governor's proposal might emphasize rail transit systems, such as contained in SB 1024 (Perata), and allocate the largest part of bond expenditures to those projects that meet clean air and climate protective designs (e.g., the "California Rail Corridor Improvement Account," as contained in SB 1024). The Governor's Transportation Proposal directs \$1.7 billion to the state highway system performance improvements, rather than the creation of a regional rail structure. Allocating transportation bond funds in accordance with SB 1024 would appear to be more closely linked to multiple objectives, such as global warming, public health, energy conservation, and smart growth.

- *How does the Governor's Climate Action Plan support greater relative expenditures on highways as a means of curbing green house gas releases than investments in other transportation modes, such as rail?*
- *What studies, modeling or other information does the Administration cite to indicate the greater efficiencies, with respect to curbing the release of green house gases, can be achieved by highway construction versus investments in other transportation modes, such as rail?*

Statewide Infrastructure Planning

The Governor's "Strategic Growth Plan" (2006-07 Governor's Budget Summary, pg. 73) notes that "Chapter 606 Statutes of 1999, requires the Governor to publish a five-year infrastructure plan. It is the stated intent of the statute that the Legislature consider the Governor's plan, and ultimately adopt a final five-year infrastructure plan for the state. The Governor's 2006 plan is currently being modified to be consistent with the Governor's larger vision for California's infrastructure future and will be published not later than March of 2006."

AB 857 (Wiggins/Sher) Chapter 1016, Statutes of 2002, however, subsequently revised the requirements of Chapter 606, Statutes of 1999, while revising and adding related requirements. AB 857 requires the governor to annually submit (with the Budget) a proposed five-year infrastructure plan. The plan must cover a five-fiscal-year period beginning with the fiscal year that is the same as that covered by the Governor's Budget. The plan must include criteria and priorities used to identify and select the infrastructure proposed for funding and must specify sources of funding, an evaluation of the impact of new state debt on the state's existing overall debt position, and recommend specific projects for funding.

By January 1, 2005, the criteria and priorities must be consistent with the state planning priorities enacted by AB 857. These state planning priorities are intended to promote equity, strengthen the economy, protect the environment, and promote public health and safety by: 1) promoting infill development and equity, 2) protecting environmental and agricultural resources, and 3) encouraging efficient development patterns.

Each state agency, by January 1, 2005, that requests infrastructure must specify how that infrastructure is consistent with the state planning priorities. Every officer, agency, department, or instrumentality of state government, by January 1, 2005, must ensure that their entity's functional plan is consistent with the state planning priorities and annually demonstrate to the Department of Finance how the plans are consistent with the state planning priorities when requesting infrastructure.

The Environmental Goals and Policy Report (EGPR) must serve as a guide for state expenditures and any revision of the EGPR after January 1, 2004, must be consistent with the state planning priorities. In transmitting the annual Budget, information must be included relating proposed expenditures to the achievement of statewide goals and objectives set forth in the EGPR.

- *How can the Legislature have the needed oversight of the Governor's bond proposals without an infrastructure plan and bond authorizations tied to the planning cycles in that infrastructure plan?*
- *What actions has the Administration taken to implement the requirements of AB 857?*
- *When will the Governor submit an infrastructure plan to the Legislature with the State Budget that is consistent with the state planning priorities?*
- *Are state entity functional plans consistent with the state planning priorities?*
- *When will the required Environmental Goals and Policy report be submitted to the Legislature?*

Transportation and Land Use Linkages: How Does the Proposal Foster Smart Growth?

In order to help reverse many of the past development patterns, any infrastructure bond proposal would fund alternative transportation options that drive smart growth development patterns while reducing vehicle miles traveled. At the same time, assistance and incentives could be provided to local governments and regional entities to revise local general plans and regional plans to be consistent with state planning priorities and other smart growth policies. This, in turn, could be the basis for providing assistance for affordable housing projects that are consistent with those plans

- *How will state planning priorities be incorporated into decisions regarding development and expenditure of infrastructure funds, and will they be incorporated into "guidelines for review of projects" and the "trade infrastructure and goods movement action plan?"*

- *How will the proposed transportation bond reduce vehicle miles traveled, increase mobility, and reduce dependence on petroleum fuels?*
- *Will funding or incentives be provided for regional and local planning efforts that are consistent with state planning priorities and smart growth policies that reduce vehicle miles traveled?*

COMPARING TWO INFRASTRUCTURE BOND PROPOSALS

Category of Projects	Funding proposed in SB 1165 (Dutton)	Funding proposed in SB 1024 (Perata)
Highway Improvements	\$5.6 billion	
STIP Program		\$1.5 billion
Proposition 42 Repayment		\$2.3 billion
State Local Partnership		\$1 billion
Local Bridge Seismic Retrofit		\$125 million
Environmental Enhancements for Transportation Projects		\$100 million
State Highway Operations and Preservation Program (SHOPP)	\$1.5 billion	
Goods Movement Infrastructure	\$3 billion*	\$2 billion
Port Mitigation/Air Quality Improvements	\$1 billion*	\$400 million
Port Security		\$100 million
Inter-City Rail (Amtrak)	\$500 million	
High-Speed Rail		\$1 billion
Transit Security		\$500 million
Grade Separations		\$325 million
Park and Ride, Bike and Pedestrian Facilities	\$200 million	
Intelligent Transportation Systems (ITS) to Improve Highway Operations	\$200 million	
Affordable Housing		\$1.4 billion
Infill Development and Housing Incentives		\$1.175 billion
TOTAL	\$12 BILLION	\$11.925 billion

* Requires a match from unspecified sources. Goods movement infrastructure projects require a 4:1 match and port mitigation projects require a 1:1 match.
Source: Senate Transportation and Housing Committee