Senate Transportation and Housing Committee

Meeting Transportation Funding Needs of the Southern California Region: Lessons Learned from Other States

Friday, March 13, 2015
1:30 p.m. – METRO Board Room, 3rd Floor, One Gateway Plaza

BACKGROUND PAPER

Hearing Introduction

In a prior informational hearing on February 24, the Senate Committee on Transportation and Housing along with the Senate Budget Subcommittee No. 2 on Resources, Environmental Protection, Energy and Transportation heard about the growing backlog of maintenance and rehabilitation projects for both state highways and local road systems. On March 13, the Senate Transportation and Housing Committee will focus this inquiry on Southern California.

In this hearing, the committee will first hear presentations from elected officials identifying the present state of transportation infrastructure in Southern California and the needs facing both urban and suburban areas.

Next, the committee will hear from an academic perspective about various steps that other states are taking to increase revenues and determine the lessons California can learn from these actions. Finally, a representative from the Southern California Association of Governments (SCAG) will discuss the consequences of not bringing streets and roads up to good condition.

Background

Overview of the Problems Facing Southern California

One of the biggest problems the state faces is the transportation system's aging infrastructure and the critical lack of funding necessary to bring this infrastructure up to date for both state highways and local streets and roads. The SCAG region is home to 18 million people, 49 percent of California's population. If it were its own state, the SCAG region would be the fifth most populous in the nation. This region will have an additional 4 million people by 2035; the expected growth will occur mainly in the suburban inland counties of Riverside and San Bernardino, adding to the existing imbalance of jobs and housing in the region. This imbalance requires increased travel, which contributes to transportation and air-quality challenges.

SCAG members invested heavily in a multimodal transportation system that serves as the backbone of the region's economic well-being and encompasses nearly 22 thousand miles of highways and arterials. Together, the region's residents drive 446 million miles each day, and over the course of a year residents waste more than 3 million hours sitting in traffic. Further, roads are critical to the economic strength of the region because 34 percent of the region's jobs depend on the goods-movement industry.

In 2012, SCAG adopted its Regional Transportation Plan (RTP). The RTP is a long-range transportation plan that is developed and updated by SCAG every four years. The RTP provides a vision for transportation investments throughout the region. Using growth forecasts and economic trends that project out over a 20-year period, the RTP considers the role of transportation in the broader context of economic, environmental, and quality-of-life goals for the future, identifying regional transportation strategies to address mobility needs. Below are some key components of transportation improvement projects proposed for the SCAG region between 2012 and 2035.

Component	Description	Cost
Highways		**$64.2 billion**
Mixed Flow	Interchange improvements to and closures of critical gaps in the highway network to provide access to all parts of the region	$16.0 billion
High-Occupancy Vehicle (HOV)/ High-Occupancy Toll (HOT)	Closure of gaps in the high-occupancy vehicle (HOV) lane network and the addition of freeway-to-freeway direct HOV connectors to complete Southern California's HOV network A connected network of Express/HOT lanes	$20.9 billion
Toll Facilities	Closure of critical gaps in the highway network to provide access to all parts of the region	$27.3 billion
Arterials		**$22.1 billion**
Various Arterial Improvements	Spot widenings, signal prioritization, driveway consolidations and relocations, grade separations at high-volume intersections, new bicycle lanes, and other design features such as lighting, landscaping, and modified roadway, parking, and sidewalk widths	$22.1 billion

Table 1. SCAG's Regional Transportation Plan/Sustainable Communities Strategies (RTP/SCS) outlines costs of critical improvements to the transportation system.

Despite SCAG's efforts to develop long-range plans for transportation, it has not been able to identify the funding necessary to implement the plan. State and federal gas taxes have not changed in nearly 20 years, yet highway construction costs have grown by 82 percent. SCAG's RTP proposes the type of funding that should be made available to support the region's transportation investments, including a core revenue forecast of existing local, state, and federal sources. However, some of these revenue forecasts rely on fundamental shifts in how transportation is funded, including implementation of mileage-based user fees and increases in current taxes, such as the state and federal excise tax. SCAG acknowledges that changes must occur if the region is going to implement its long-range plan.

Solutions from Other States

In 2012, President Obama signed into law the Moving Ahead for Progress in the 21st Century Act (P.L. 112-141), or MAP-21. Funding for surface transportation programs at more than $105 billion for fiscal years (FY) 2013 and 2014, MAP-21 was the first new highway authorization enacted since 2005. MAP-21 is set to expire on May 31, 2015; however, congressional staffers have indicated that short-term extensions of MAP-21 seem likely until such time as a long-term funding solution for the Highway Trust Fund can be identified.

Federal transportation funding has been falling short in recent years due to the development of more efficient vehicles and changes in people's driving behaviors. Fuel-efficient vehicles by definition require less fuel, compared to their inefficient counterparts, which leads to lowered fuel consumption and decreased fuel excise revenues. In addition, some states need to increase revenues just to meet transportation funding needs after years of flat or declining state revenues, while others are looking for funds to match those available from MAP-21's new and updated loan and grant programs.

Transportation funding is at a critical juncture. The Highway Trust Fund is headed for insolvency due to declining vehicle miles traveled and more fuel-efficient vehicles, while states increasingly need to come up with their own plans for raising additional transportation revenue. This situation requires action by leaders who recognize the need for a healthy transportation system.

The "Can-do" States

Eighteen states have already taken steps to increase transportation revenues this year (Figure 1). A total of 90 transportation funding bills are awaiting action in 26 state legislatures[1]. Collectively, these measures promise to generate billions of additional dollars for state and local transportation programs.

These states are often referred to as "can-do" states. They took action to avoid foreseeable problems if discretionary spending from the federal budget is reduced for transportation projects. Can-do states developed new rules, new tools, and new institutions to fund and finance infrastructure projects and engage in new kinds of problem solving, such as

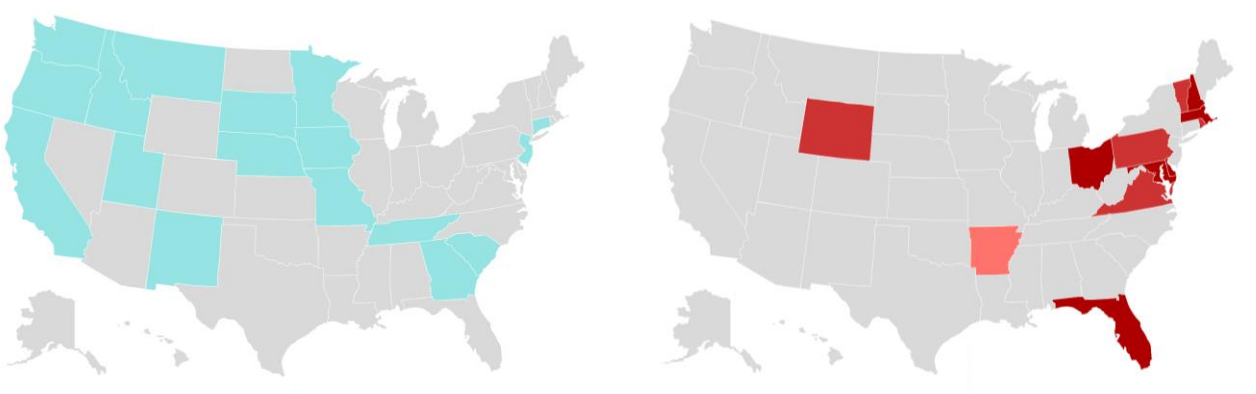

Figure 1. States that have plans to raise transportation revenue that are being actively considered during the 2015 legislative sessions (left, light blue – actively considered to date during 2015 sessions). States that have had successful plans to raise additional transportation revenue between 2012 and 2014 (right, pink – enacted 2012, light red – enacted 2013, dark red – enacted 2014). (Transportation for America)

[1] According to the American Road and Transportation Builders Association (ARTBA) Transportation Investment Advocacy Center, which tracks transportation funding initiatives at the state level

revolving loan funds, infrastructure banks, and public-private partnerships. The American Association of State Highway and Transportation Officials (AASHTO) Center for Excellence in Project Finance lists 30 states that are currently debating or have already passed measures aimed at increasing funding for transportation. Below are some legislative actions that different states have undertaken to help solve their transportation funding problems.

1. Indexing the State Fuel Excise

Both Maryland and Massachusetts recently indexed the state fuel excise tax to keep pace with inflation — something the federal excise tax does not do. Maryland's proposal, approved in April 2013, includes indexing the fuel excise tax to inflation, starting immediately, with a ceiling of 5 cents in any given year. In 2013, the Massachusetts legislature also approved increasing the state's fuel excise tax from 21 to 24 cents per gallon and tied the tax rate to inflation going forward. However, the next year Massachusetts voters approved a ballot initiative which repealed the 2013 law.

Opponents of indexing the gas tax to inflation claim that legislators should be involved in the decision to raise taxes and subsequently be accountable for the increases in taxes. In addition, opponents argue that indexing gas taxes to inflation tends to increase the tax quickest when the consumer price index, and therefore gasoline prices, is rapidly increasing. Thus, higher gas prices will beget higher gas taxes, potentially undermining consumers' purchasing power.

2. Replacing the Excise Tax with Sales Tax

Virginia replaced its 17.5 cents-per-gallon state excise tax on fuel, which had not been changed since 1987, with a new 3.5 percent wholesale tax on motor fuels. Additionally, Virginia raised the sales tax on nonfood merchandise from 5 percent to 5.3 percent and devoted a larger portion of existing revenue to transportation. This plan is expected to raise about $880 million a year for transportation purposes.

Economists often point out a drawback of using revenues from sales tax on gasoline and diesel is that it could prove much more volatile than the current system of a flat fuel excise tax. Prices tend to be very unpredictable, creating significant challenges for governments attempting to budget for multi-year transportation projects. When the price of oil rises, the gas and diesel taxes will rise too, exacerbating the pain of oil spikes. On the flip side, if oil prices fall, then the tax also shrinks, causing revenues to drop.

3. Raising Vehicle Fees

Pennsylvania legislators have enacted tax and fee changes that will raise $2.3 billion annually for the state's transportation infrastructure: $1.65 billion for roads and bridges and $475 million for transit. The plan, approved in late 2013, eliminates the retail tax on gasoline and a state cap on gas tax paid at the wholesale level and raises various vehicle and driver fees over the next five years.

Increased driver fees include those for identification cards, duplicate driver's licenses and ID cards, and title fees. Pennsylvania also increased the one-time fee for vanity license plates to almost four times the previous cost and driver's license and annual vehicle registration fees by $1.

4. Instituting a Mileage-Based User Charge

Oregon has completed two pilot programs to test the feasibility of a road-usage charge based on vehicle miles traveled. Oregon's newest program will allow permanent enrollment of up to 5,000 vehicles that will be charged either by a simple device plugged in to the vehicle to measure miles only, or a GPS device to report in- and out-of-state travel mileage. Washington is studying and testing concepts similar to Oregon's program. Oregon, Washington, and California are members of the Western Road Usage Charge Consortium, an 11-state research collective examining a per-mile or road-usage charge as a regional policy in the West. Elsewhere in the nation, Indiana, Wisconsin, Michigan, Illinois, Maine, Delaware, and Florida are studying or investigating per-mile charging for roads. With the passage of SB 1077 (Chapter 835, 2014), California is working on implementing its own pilot program.

Conclusion

Other states have taken action to increase revenue to fund transportation projects. While California regions have long-term plans that include much needed maintenance of roads, these plans often require new and/or updated revenue streams in order to be completed. The committee should consider in what ways it might take action, as many other states have, to ensure that the future transportation needs of the state are met.