

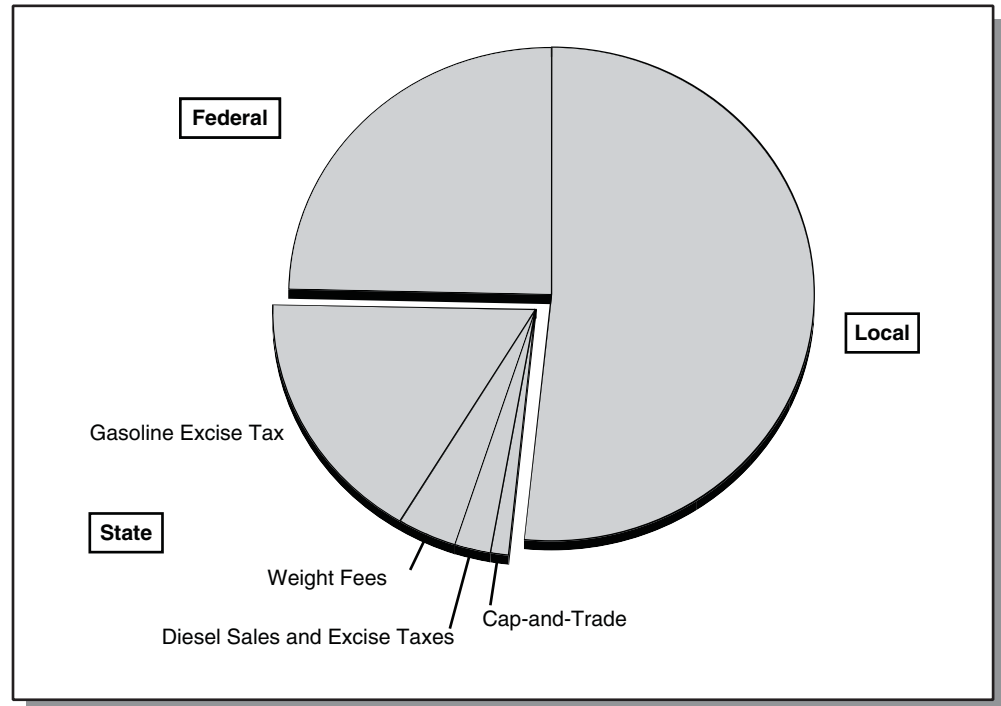
Overview of Proposals to Address Transportation Challenges

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Conference Committee on SBX1 4 and ABX1 3
Hon. Jim Beall, Chair
Hon. Jimmy Gomez, Chair



Transportation Funding in California Comes From Various Sources



- In 2015-16, we estimate that \$28 billion in transportation revenues will be provided from all levels of government.
- Local governments provide half of all transportation funding in California. Local funding sources include local sales taxes, transit fares, development impact fees, and property taxes.
- About one-fourth of the state's transportation funding comes from the federal government.
- The remaining one-fourth of funding comes from various state revenue sources—primarily excise taxes on gasoline.
- In addition to the funds identified above, the state also receives revenue from other sources (primarily vehicle registration fees) to support the California Highway Patrol and the Department of Motor Vehicles.



State Transportation Revenues Fund Various Programs

Revenue Source	Allowable Uses	Current Uses
Gasoline and diesel excise taxes	Article XIX Section 2 of the State Constitution limits use of revenues to construction, maintenance, mitigation, and associated administrative costs of state highways, local roads, and transit fixed guideways.	Highway Maintenance Program, SHOPP, STIP, local streets and roads, and Caltrans administration.
Vehicle registration fee	Article XIX Section 3 of the State Constitution limits use of revenues to: (1) construction, maintenance, mitigation, and associated administrative costs of state highways, local roads, and transit fixed guideways and (2) state administration and enforcement of traffic laws.	Support of DMV and CHP.
Vehicle weight fees	Same as vehicle registration fees.	Debt service on transportation bonds.
Cap-and-trade auction revenue	Article XIII A Section 3 of the State Constitution, various court decisions regarding what constitutes a fee versus tax, and Health and Safety Code 39712 limits use of revenues to activities that reduce greenhouse gas emissions.	Transit and intercity rail capital program and transit operating grants.

SHOPP = State Highway Operation and Protection Program; STIP = State Transportation Improvement Program; Caltrans = California Department of Transportation; DMV = Department of Motor Vehicles; and CHP = California Highway Patrol.



Funding Challenges. The state and local governments face significant funding needs to maintain and repair existing transportation infrastructure and meet future travel demand. For example, best practices indicate that state highways should receive preventive and minor corrective maintenance on average every five to seven years. However, the California Department of Transportation’s (Caltrans’) current funding level for this type of work only allows for such maintenance on a stretch of pavement every 20 years on average. Caltrans estimates indicate it would cost an additional \$1 billion annually to fully fund maintenance of pavement, bridges, and culverts.



Comparison of Major Funding Proposals

Governor	Senate Committee ^b	Senate Republican	Assembly Republican
New Taxes^a			
\$3 Billion Annually <ul style="list-style-type: none"> • \$65 vehicle registration fee • 6 cents per gallon gasoline excise tax • 11 cents per gallon diesel excise tax • Index gasoline and diesel excise tax rates for inflation 	\$4.6 Billion Annually <ul style="list-style-type: none"> • \$70 from two vehicle registration fees and \$100 additional fee for zero emission vehicles • 12 cents per gallon gasoline excise tax • 22 cents per gallon diesel excise tax • Index gasoline and diesel excise tax rates for inflation • 3.5 percent diesel sales tax 	—	—
Allocate Existing Revenue^a			
\$600 Million Annually <ul style="list-style-type: none"> • \$500 million from cap-and-trade • \$100 million Caltrans efficiency savings 	\$400 Million Annually <ul style="list-style-type: none"> • \$400 million from cap-and-trade 	\$2.9 Billion Annually <ul style="list-style-type: none"> • \$1.9 billion from cap-and-trade • \$1 billion from weight fees 	\$4.4 Billion Annually <ul style="list-style-type: none"> • \$1.2 billion from cap-and-trade • \$1 billion from weight fees • \$1 billion General Fund • \$685 million from vacant positions • \$500 million Caltrans efficiency savings
One-Time Funding^a			
\$879 million in loan repayments	\$1 billion in various loan repayments	\$2.4 billion in various loan repayments	
^a Revenue estimates provided by proponents of each proposal. ^b Proposals approved by the Senate Transportation and Infrastructure Development Committee.			



LAO Comments on Funding Proposals

- Increase Funding for Transportation.*** All proposals provide a significant ongoing increase in funding for transportation programs—ranging from almost \$3 billion to \$5 billion annually.
- Allocate Existing Revenues.*** The proposals all allocate some existing revenues to transportation, with some proposals allocating a few hundred million dollars and others providing billions of dollars. All proposals allocate cap-and-trade auction revenues. Allocating weight fees, which currently benefit the General Fund, or providing direct General Fund support, would require budgetary trade-offs regarding other non-Proposition 98 General Fund priorities.
- Shift Toward Vehicle Registration Fees.*** The proposals that raise new revenues do so with a mix of fuel taxes and vehicle fees. This approach would likely provide stable and modestly growing revenues over time.
- Index Fuel Excise Taxes.*** The proposals that raise new revenues also eliminate the current variable tax adjustment process and instead index tax rates for inflation. This approach would likely result in more stable and predictable transportation revenues.



Comparison of Major Expenditure Proposals

Governor	Senate Committee ^a	Senate Republican	Assembly Republican
Expenditure of New Ongoing Revenue			
<p>\$1.7 Billion for State Programs</p> <ul style="list-style-type: none"> • \$1.5 billion SHOPP and Maintenance • \$200 million Trade Corridors <p>\$1.3 billion for Local Programs</p> <ul style="list-style-type: none"> • \$1.05 billion Local Streets and Roads • \$250 million Local Partnership Program 	<p>\$2.2 Billion for State Programs</p> <ul style="list-style-type: none"> • \$1.9 billion SHOPP and Maintenance • \$300 million Trade Corridors <p>\$2.4 Billion for Local Programs</p> <ul style="list-style-type: none"> • \$1.9 billion local roads • \$200 million Local Partnership Program • \$300 million STA 	—	—
Expenditure of Existing Ongoing Revenue			
<p>\$500 Million for Local Programs</p> <ul style="list-style-type: none"> • \$400 million Transit and Intercity Rail Grants • \$100 million Low Carbon Road Program 	<p>\$400 Million for Local Programs</p> <ul style="list-style-type: none"> • \$400 million Transit and Intercity Rail Grants 	<p>\$2.9 Billion for Highways and Roads</p>	<p>\$4.4 Billion for Highways and Roads</p>
One-Time Expenditures			
<p>\$879 Million</p> <ul style="list-style-type: none"> • \$334 million Trade Corridors • \$265 million Transit and Intercity Rail • \$148 million TCRP • \$132 million SHOPP 	<p>\$1 Billion</p> <ul style="list-style-type: none"> • For SHOPP local roads and Local Partnership Program 	<p>\$2.4 Billion</p> <ul style="list-style-type: none"> • For highways and roads 	—
<p>^a Senate Transportation and Infrastructure Development Committee. SHOPP = State Highway Operation and Protection Program; STA = State Transit Assistance; and TCRP = Traffic Congestion Relief Program.</p>			



LAO Comments on Expenditure Proposals

- Fully Fund Cost-Effective Maintenance.** Preventative and minor corrective maintenance, which is performed by the Caltrans Highway Maintenance Program, is significantly more cost-effective than allowing highways to deteriorate such that major rehabilitation is needed. Caltrans estimates fully funding maintenance would require an additional \$1 billion annually and would reduce future State Highway Operation and Protection Program (SHOPP) costs by up to several billions of dollars each year. In light of these benefits, we recommend fully funding maintenance as part of any transportation funding package.

- Using Cap-and-Trade Revenues.** All proposals allocate cap-and-trade auction revenues to increase funding for transportation programs. There is currently legal uncertainty as to how the state can spend cap-and-trade revenue. To eliminate this uncertainty the Legislature would have to approve these revenues as a tax. Absent that, it could minimize legal risk by targeting cap-and-trade revenues to transportation projects that have a closer nexus to greenhouse gas emission reductions.

- Simplify Distribution of Funds.** The current system of distributing transportation revenues is complex and may not allow flexibility to ensure funding meets transportation priorities as revenues and priorities change over time. Some of the special session proposals create additional and more complex formulas for allocating funds among programs. The Legislature could consider allocating new and existing funding in the same manner and further could consider simplifying the system of allocating transportation revenues to better ensure funding is allocated to the highest priorities.



Comparison of Other Major Proposals

Governor	Senate Committee ^a	Senate Republican	Assembly Republican
Accountability			
Requires Caltrans to meet certain performance standards	<ul style="list-style-type: none"> • Requires CTC oversight of SHOPP projects • Creates a transportation Inspector General • Requires Caltrans efficiencies 	<ul style="list-style-type: none"> • Requires CTC oversight of SHOPP projects • Creates a transportation Inspector General 	—
Procurement Methods			
Extends P3 authority by ten years and allows construction manager general construction method for 12 additional projects	—	Permanently extends P3 authority	Permanently extends P3 authority
Other			
<ul style="list-style-type: none"> • CEQA exemptions for certain types of projects • Constitutional restrictions on new revenue 	<ul style="list-style-type: none"> • Constitutional and statutory restrictions on existing and new revenue 	<ul style="list-style-type: none"> • CEQA exemptions for certain types of projects • Increases Caltrans use of consultants • Constitutional restrictions on existing and new revenue 	—
<p>^a Senate Transportation and Infrastructure Development Committee. CTC = California Transportation Commission; SHOPP = State Highway Operation and Protection Program; P3 = public-private partnership; and CEQA = California Environmental Quality Act.</p>			



LAO Comments on Other Major Proposals

- Increase CTC Oversight.*** Most of the proposals require greater accountability for Caltrans. However, the legislative proposals generally require stronger accountability measures than those proposed by the Governor. Specifically, two legislative proposals establish a stronger role for the California Transportation Commission (CTC) by requiring the CTC to perform project-level oversight and approval functions for the SHOPP. These legislative proposals are consistent with prior LAO recommendations to increase CTC's role in project-level oversight for the SHOPP.

- Improve Public-Private Partnerships (P3s) Process.*** The state has experienced some challenges with using P3 procurement in the past. If the Legislature chooses to extend the authority for Caltrans to use the P3 procurement method, we recommend the Legislature require a more robust project selection and evaluation process in order to ensure that more appropriate projects are selected for P3 procurement.