SENATE TRANSPORTATION AND HOUSING COMMITTEE
INFORMATIONAL HEARING

Declining Transportation Revenues: Transportation Project Cuts and the Updated 2016 STIP Fund Estimate

Upon Adjournment of Session - Tuesday, February 16, 2016
John L. Burton Hearing Room (4203)

Background Paper

Purpose of the Hearing

The purpose of this hearing is to have the California Transportation Commission describe its recent update of the 2016 State Transportation Improvement Program's Fund Estimate and discuss how the ongoing decline in gas tax revenues has impacted the state's ability to fund transportation programs.

Overview

The State Transportation Improvement Program

The State Transportation Improvement Program (STIP) is a multi-year capital improvement program of transportation projects on and off the State Highway System, funded with revenues deposited in the State Highway Account. The STIP is composed of two categories: 75% of STIP funds go toward projects in the Regional Transportation Improvement Program (RTIP) and 25%go to the Interregional Transportation Improvement Program (ITIP). Each STIP will cover a five-year period and add two new years of programming capacity. Additionally, every new STIP will include projects carried forward from the previous STIP plus new projects from among those proposed by regional transportation planning agencies (RTPA) in their RTIPs and by the California Department of Transportation (Caltrans) in its ITIP.

County and Interregional Shares

The RTIP (75%) is further subdivided by formula into county funding shares. County funding shares are available for projects nominated by regions in their submitted RTIP. The Caltrans ITIP (25%) will nominate only projects for the interregional program based on department priorities. Under restricted circumstances, an RTIP may also recommend a project for funding from the interregional share. Both surpluses and deficits of county shares and interregional shares carry forward from one period to the next. The CTC will program each new project, including Caltrans support costs, either from a county share or from the interregional share.

The ITIP consists of STIP projects funded from the interregional program and is broken down into two parts: the first, funded from up to 10% of new STIP funding are projects nominated by Caltrans. This portion is subject to the north/south 40/60 split and otherwise may include projects anywhere in the state. The projects may include state highway, intercity passenger rail, mass transit guideway, or grade separation projects. Non-capital costs for transportation system management or transportation demand management may be included where Caltrans finds the project to be a cost-effective substitute for capital expenditures.

The second part, funded from at least 15% of new STIP funding, is not subject to the north/south split. It is limited to intercity rail projects (including Amtrak feeder bus, interregional commuter rail, and grade separation projects) and to improvements outside urbanized areas on interregional road system routes (which are specified in statute). At least 15% of the 15% (or at least 2.25% of new STIP funding) must be programmed for intercity rail projects and grade separation projects.

Proposition 42 and the 2010 Gas Tax Swap

Prior to 2002, most of the revenues from the state sales tax on gasoline were not used for transportation purposes. Instead, these revenues were used for various general purposes including education, health, social services, and corrections. Passed by the voters in 2002, Proposition 42 amended the state Constitution to dedicate most of the revenue from the sales tax on gasoline to transportation uses. Specifically, Proposition 42 requires those revenues that previously went to the General Fund be transferred to the Transportation Investment Fund (special fund) to provide for improvements to highways, streets and roads, and transit systems. However, Proposition 42 also allowed for the transfer of funds to be suspended when the state faced fiscal difficulties and was silent as to whether suspended transfer amounts were required to be paid back. Due to a variety of state budget issues over the next several years, Proposition 42 funding was suspended to cover General Fund expenditures. This, subsequently, also led to the introduction and enactment of additional ballot measures (e.g., Proposition 1A, 2006) establishing borrowing/loaning restrictions on the state's sales tax on gasoline.

The "Great Recession" of 2008-09 resulted in more severe General Fund shortfalls that required significant borrowing from the state's special funds — including transportation. However, constitutional protections limited the state's flexibility in using transportation dollars for General Fund relief. As a result, in 2010 the Legislature passed and the Governor signed both AB X8 6 (Chapter 11, Statutes of 2010) and SB 70 (Chapter 9, Statutes of 2010), which, when combined, changed the way the state taxes transportation fuels and how it provides funding for transportation programs. AB X8 6 and SB 70 provided that the state portion of the sales tax would no longer apply to the sale of gasoline and instead the gas excise tax would be raised to sufficiently recover the eliminated sales tax on gasoline.

This "gas tax swap" provided the state with greater flexibility in the expenditure of these funding sources. Thus, the new framework for the state's gas excise tax would total the base gas excise tax (18 cents) plus the price-based gas excise tax (currently 12 cents). AB X8 6 and SB 70 generated General Fund savings by directing a portion of gas tax revenue to first be used for debt service payments on transportation general obligation bonds. The remaining funds are allocated between local roadways (44%), new construction projects (STIP, 44%), and highway maintenance and operations (SHOPP, 12%).

Furthermore, in order to ensure "revenue neutrality" with the eliminated sales tax on gasoline, AB X8 6 requires the State Board of Equalization (BOE) to annually adjust the price-based excise tax portion to compensate for changes in the price and volume of fuel sold to ensure the revenue generated is equal to the revenue that would have been generated if it had continued to be collected under prior law. Due to additional funding protections and restrictions on levying new revenues created by the passage of Propositions 22 and 26 (2010), the Legislature reenacted the gas tax swap through AB 105 (Chapter 6, Statutes of 2011) on a bipartisan vote. Similarly, AB 105 re-established the gas tax swap by eliminating the sales tax on gasoline and replaced it with the price-based excise tax. Again, the BOE is required to adjust this rate annually. The passage of AB 105 also authorized the redirection of weight fees from the State Highway Account to the General Fund to pay off general obligation bond debt service for specified voter-approved transportation bonds.

Updated 2016 STIP Fund Estimate

On January 20 of this year, due to ongoing reductions in fuel prices, the CTC adopted an updated 2016 STIP Fund Estimate to reflect the reductions in the price-based portion of the gasoline excise tax. Originally set at 18 cents per gallon, over time the price-based gas excise tax has been reduced to 12 cents per gallon as of July 2015, and continued falling gas prices have led to a discussion of an additional two-cent reduction starting July 1, 2016. As a result, the updated fund estimate reduces transportation dollars to state and local agencies by approximately $754 million over the program's five-year period and will result in the delay or cancelling of a significant number of transportation projects across the state. The BOE is anticipating the release of the official price-based excise tax rate sometime in February 2016 with enactment to take place on July 1, 2016. A final reduction of more than two cents by the BOE may spark additional conversations by state officials on more funding reductions to transportation programs.