Transportation Financing

Transportation in California comes from a variety of state, local, and federal fund sources.

State Fund Sources

- State excise tax on each gallon of gasoline and diesel fuels.
- Weight fees imposed on commercial trucks.
- State sales tax on gasoline and diesel fuels.

Federal Funds

- Federal transportation dollars are apportioned to California based on the state's contribution to the federal Highway Trust Fund through federal excise taxes on gasoline and diesel fuels.

- Federal funds are collected through a federal excise tax on each gallon of gasoline.

- The Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) authorizes the Federal surface transportation programs for highways, highway safety, and transit for the five-year period of 2005-09.

- California is expected to receive $23.4 billion in SAFETEA-LU funds. Some of that money however, approximately $3.7 billion (16 percent), will come in the form of earmarks for specific projects.

Local Funds

- Local sales tax measures for transportation purposes. This could be done through a pay as you go process or through the issuance of revenue bonds.

- There are 17 counties in California which have local sales tax measures that are dedicated for transportation purposes. Over one-third of local funds for transportation are derived from optional local sales taxes-on all sales, not just gasoline-dedicated for transportation purposes.

- There are 14 counties in California which will be soliciting local sales tax measures for transportation purposes in 2006.

Other Funds

Tribal Gaming Bonds Revenues: AB 687 (2004)

- A potential source of revenue was to be realized by providing the state with the authority to bond against future state revenues with revenue from tribal gaming compacts.

- AB 687 (Chapter 91, Statutes of 2004) would have allowed up to $1.5 billion in proceeds to be dedicated to the repayment of transportation program loans (Proposition 42 funds) to the General Fund (GF).

- In reality, however, AB 687 has not yet provided any funding because the sale of the bonds has been delayed by litigation filed in September of 2004, which challenged the ratification of compacts through urgency legislation.

- Consequently, the estimated $1.2 billion in bond proceeds that was assumed to be made available for the 2005-06 fiscal year is estimated by the State Treasurer to be closer to $850 million, if the sale were to occur today.

Breakdown of Taxes That Californians Pay at the Pump

- 18 cents in *state excise tax* for each gallon of gasoline and diesel fuel. This is generally referred to as the gas tax.

- 18.4 cents in *federal excise tax* for each gallon of gasoline.

- 24.4 cents in *federal excise tax* for each gallon of diesel fuel.

- 7.25 percent uniform *state* and *local* sales tax, plus optional local sales taxes for transportation or other purposes, which varies by county.

- In addition, the state collects weight fees on commercial vehicles (trucks) based on the gross vehicle weight of the vehicle.

Breakdown of Where Funds Go

- The state receives about 65 percent of the revenues from the state gasoline and diesel excise taxes, while cities and counties receive about 35 percent for local streets and roads.

- The state's share of the gasoline and diesel tax revenues, along with truck weight fees, is deposited into the State Highway Account (SHA).

- Article XIX of the California State Constitution restricts the use of gasoline tax revenues for certain purposes. These monies may only be used to plan, construct, maintain, and operate public streets and highways; and to plan construct and maintain mass transit tracks and related fixed facilities (such as stations). Gas tax revenues cannot be used to operate or maintain mass transit systems or to purchase or maintain rolling stock (trains, buses, or ferries).

How Sales Tax on Revenues Are Used

- Prior to the passage of the AB 2928 (Torlakson), Chapter 91, Statutes of 2000, which created the Traffic Congestion Relief Act (TCRA) and dedicated the sales tax on gasoline for transportation purposes, only a small portion of gasoline and diesel tax revenues went to transportation.

- Essentially, 5 percent of the sales tax on gasoline went to the General Fund prior to the passage of the TCRA and subsequently, Proposition 42. Those funds however, continued to go to the General Fund in order to provide relief for the state's General Fund budget deficits. The 2005-06 fiscal year was the first year in which the first full transfer of gasoline tax revenues under Proposition 42 occurred. It provided $1.3 billion to fund the State Transportation Improvement Program (STIP), Traffic Congestion Relief Program (TCRP), and local subventions for road repair and transit.

- *Public Transportation Account (PTA)*
  A small portion of the sales tax on gasoline and the majority of the sales tax on diesel fuel are provided to this account to support mass transit activities.

- *Local Transportation Funds*
  A 0.25 percent uniform tax on all sales tax is dedicated for transportation uses, primarily for transit.

- Locals receive approximately $100 million annually through the State Transit Assistance (STA) account.

- *Optional Local Sales Tax Measures*
  Optional sales tax (0.5 percent to 1.5 percent) may be imposed by local governments for transportation purposes. These activities include highway construction, street maintenance and repair, and subsidies for transit operations.

- *Local Funds*
  A 2 percent uniform sales tax provides revenues for local purposes. One percent is dedicated to local health and criminal justice purposes. The remaining one percent is for city and county General Fund purposes including public works or local streets and roads projects and programs.

Optional Local Sales Tax

- Optional local sales taxes for transportation originated in 1970, when the Legislature authorized several counties served by the Bay Area Rapid Transit (BART) District to impose a regional sales tax.

- Since then, the Legislature has authorized counties to impose special half-cent sales taxes (subject to a two-thirds voter approval for transportation purposes.

How State Dollars Are Allocated

- The State Transportation Improvement Program (STIP) process determines which transportation projects will be funded by state funds and when projects will be constructed. This is done by the Regional Transportation Planning (RTP) agencies proposing which projects should be included in the STIP. All allocations are determined by the California Transportation Commission (CTC). The Department of Transportation (Caltrans) recommends projects through the Interregional Transportation Improvement Program (ITIP).

- Caltrans first prepares a fund estimate (FE) which projects biennially all federal and state transportation funds that are statutorily available over a four-year period. The fund estimate, when adopted by the California Transportation Commission (CTC), provides the basis for determining how much funding capacity is available to fund transportation projects in that four-year timeframe.

- These funds are first used to cover non-capital expenditures, including administration, highway maintenance, and operation. Remaining funds are then allocated to local assistance and capital outlay.

How STIP Funds Are Distributed

- Under current law, SB 45 (Kopp), Chapter 622, Statutes of 1997, 75 percent of STIP funds are designated for the Regional Transportation Improvement Program (RTIP) with projects chosen by Regional Transportation Planning Agencies (RTPAs), while the remaining 25 percent are designated for the ITIP with projects chosen by Caltrans. Projects may also be jointly funded by the ITIP and RTIP.

How Projects Are Chosen for the Regional Program

- Funds for the RTIP are geographically divided by what is known as the north-south split. Specifically, 60 percent of funds are allocated to 13 southern California counties while the remainder is allocated to the remaining 45 northern California counties.

- These funds are further divided into county shares based on a statutory formula which allocates 75 percent of the funds based on population, and 25 percent based on highway lane miles.

How Interregional Funds Are Distributed

- Of the ITIP Funds, 40 percent is subject to the north-south spilt, while the remaining 60 percent is limited to improvements outside urbanized areas.

- About 10 percent of ITIP funds must be programmed for intercity rail projects, while the remainder may be programmed for highway improvement projects.

How Projects Are Chosen

- Projects are selected for funding by RTPAs based on regional priorities, as defined in the 20-year regional transportation plans. Specifically, projects are selected from a large pool of projects proposed by cities, counties and transit agencies. The RTPAs then submit their respective lists to the CTC for approval.

- The CTC can adopt or reject an individual RTIP in its entirety, cannot delete or add specific projects. Together, the 46 regional proposals form the statewide RTIP.

State Highway Operation and Protection Program (SHOPP)

- Current law requires that highway funds be spent to preserve the highway system before being used to expand it. Consequently, this requires that the SHOPP is fully funded before determining the availability of funds for the STIP.

- The SHOPP includes schedule and cost estimates for all highway rehabilitation projects, as well as projects to improve safety and operations.

- The SHOPP is based on a ten-year plan, which is updated every two-years, that projects state highway rehabilitation needs.

- SHOPP projects are selected by Caltrans based on a statewide need basis, rather than a geographic formula, such as a percentage of population or highway lanes, that the STIP is based on.

California's Current Transportation Condition

According to the CTC's 2005 Annual Report, state funding for transportation remains "unstable, unreliable, increasingly inflexible, and woefully inadequate."

- Current revenues from the basic per-gallon fuel tax (excise tax) and truck weight fees are insufficient to fund even ongoing state highway maintenance, operations, and rehabilitation costs. The state highway system has grown, new communities have sprouted, and vehicle miles traveled have increased, due to increased fuel economy, which has added to the wear and tear on our roadways.

- The current balance of transportation loans to the General Fund stands at $3.349 billion, and that does not include another $4.5 billion that was simply taken and never scheduled for repayment as a loan.

- All State Highway Account (SHA) revenues are now needed to cover state highway maintenance and operations and the capital costs of the SHOPP. These costs have continued to rise while the SHA have remained flat. Without additional revenue for the SHOPP, our ability to maintain the safety and integrity of the state highway system will become severely compromised.

- According to the CTC, this year's federal reauthorization act also provides little relief for state programs-much of the federal increase was devoted to congressional earmarks, and the remaining funds were no more than forecast for the 2004 STIP. According to the Legislative Analyst's office (LAO), the state received over $3.7 billion in earmarks for specific projects yet, those funds are inflexible and require that the state fund the remainder of a project, or lose the earmark.

- The state also needs significant funding to improve security within its transportation infrastructure including airports, ports, mass transit facilities, and bridges.

<u>The STIP, SHOPP, and TCRP</u>

- The STIP and the SHOPP constitute the major part of the state transportation program. Together they constitute the planned commitment of state and federal dollars to transportation projects. They are approved by the CTC and developed in cooperation with Caltrans and the state's regional transportation agencies. The STIP consists of improvements to the state highway system, the intercity rail system, and other road and transit facilities of regional significance. The SHOPP is the program for rehabilitation and safety work on the state highway system that does not involve roadway capacity.

- By June of 2006, the CTC anticipates that there will be over $900 million in STIP and SHOPP projects that are ready to go and placed on the shelf or that could have been ready except for the lack of funding.

- The TCRP, the other major element of the state transportation program, consists of $4.9 billion designated for 141 specific projects in the Traffic Congestion Relief Act of 2000. Many of these projects were not vetted through the transportation planning and programming process.

- The CTC estimates that $1.2 billion in TCRP projects will be ready to go to construction but will be held back due to lack of funding.

- The Transportation Congestion Relief Act (TCR) created the Transportation Investment Fund (TIF) to receive GF transfers from the sales tax on gasoline. It provided that each quarter a fixed amount would be transferred to the TCRF ($678 million off the top), with the balance to be divided by formula, with 40 % to cities and counties for local road maintenance and repairs, 40% to the STIP, and 20% to the Public Transportation Account (PTA). Of the 20 % for the PTA, half would augment the State Transit Assistance (STA) program, which is distributed by formula to the state's transit operators, and half would augment STIP revenues. The TIF and the transfers to the TCRF were originally to sunset in June 2006.

<u>Proposition 42</u>

- Over the last five years, sales tax revenues have proven to be a notoriously unstable and unreliable source of funding, given to suspension and diversion in each annual budget.

- Even as the Governor and Legislature were providing a welcome $1.3 billion infusion to transportation from Proposition 42, another $1.9 billion was being delayed or diverted. Proposition 42 funding was exhausted by September 2005, quickly consumed by the backlog of deferred projects. The Governor however has proposed fully funding Proposition 42 for the 2006-07 fiscal year, meaning that approximately $1.4 billion will available for projects this year, if approved by the Legislature.

- Proposition 42 mandated that General Fund (GF) revenues from the sales tax on gasoline be transferred each year to the TIF, which in turn is distributed among the TCRP, STIP, and apportionments to cities and counties for local; road rehabilitation.

- Proposition 42 also permits the Governor and Legislature to suspend the transfer each year under certain conditions, and 2005-06 was the first year that the transfer was not suspended.

- Proposition 42 transfer represents about 70% of the total sales tax on motor vehicle fuel going to transportation. The other 30% is transferred under provisions that predate Proposition 42 and is transferred directly to the PTA-before the GF receives its sales tax revenue-from which they split between the STIP and apportionments to local transit operators.

- The CTC anticipates that the 2006 STIP will delete some highway projects, while leaving transit fully unfunded.

<u>Impact on Locals</u>

- Because of the state's funding instability, regional and local agencies have also found themselves without access to federal matching funds to which they are entitled under state law, the Regional Surface Transportation Program (RSTP) and Congestion Mitigation and Air Quality Program (CMAQ). Cities and counties have not been receiving their share of funding for local road rehabilitation and repair.

- Some projects have been kept on schedule in the past by means of borrowing, either through the advancement of local funds for STIP and TCRP projects or through the CTC's issuance of binds against future federal transportation funds. The state's capacity to borrow against future federal funds is now severely limited by the fact that those funds are no longer available for the STIP.