

February 4, 2009

# State Funding for Transportation

---

LEGISLATIVE ANALYST'S OFFICE

Presented to:  
Assembly Transportation Committee  
Hon. Mike Eng, Chair





## Traditional State Fund Sources

---



### State Highway Account (SHA)

- **Money Comes From the “Gas Tax”...** The state charges an 18-cents per gallon tax on gasoline and diesel fuel—known as the gas tax. The gas tax is estimated to generate about \$3.2 billion in 2009-10. Two-thirds of the revenues (\$2.2 billion) are deposited into the SHA. (One-third is apportioned for local roads.)
- **...And Truck Weight Fees.** The state charges weight-based fees to commercial vehicles. Revenues from these fees are deposited into the SHA and are estimated to be about \$1.1 billion in 2009-10.
- **Account Funds Mainly Maintenance and Rehabilitation.** Use of SHA funds is restricted to mainly highway purposes by Article XIX of the State Constitution. Expenditure priority is given to the Department of Transportation’s (Caltrans) administration, and maintenance and repair of the state’s highways.

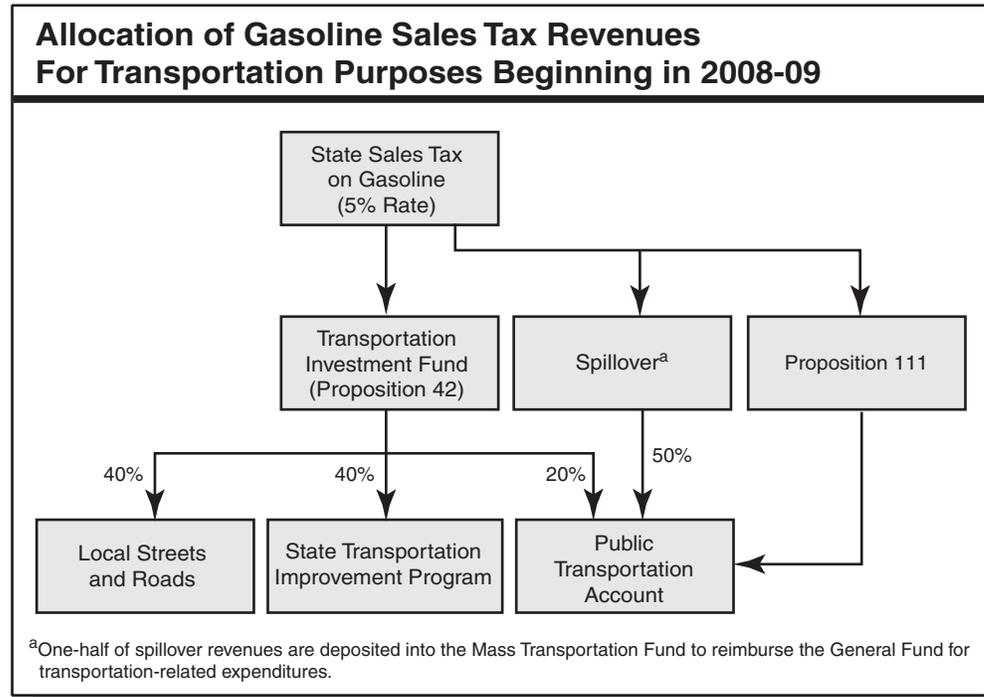


### Public Transportation Account (PTA)

- **Money Comes From Sales Taxes on Fuels.** The PTA is primarily funded by the sales tax on diesel and a portion of the sales tax on gasoline, including “spillover” when available.
- **Account Funds Rail and Mass Transportation.** The PTA is traditionally the state’s primary funding source for transit, including State Transit Assistance (STA), transit capital, and the state’s intercity rail program. In recent years, uses have been broadened to pay for home-to-school and regional center transportation.



## More Recent State Fund Sources



### ✓ 2000—Traffic Congestion Relief Fund (TCRF)

- **Money Came From General Fund and Gasoline Sales Tax.** Due to state fiscal problems, TCRF was not fully funded.
- **Account Funds the Traffic Congestion Relief Program.** Statutorily created program of 141 highway and mass transportation projects.

### ✓ 2002—Transportation Investment Fund (TIF)/ Proposition 42

- **Money Comes From Portions of Sales Tax on Gasoline.** An ongoing source of funding, Proposition 42 requires gasoline sales tax revenue in the General Fund to be transferred to the TIF for transportation uses.
- **Account Funds Highways, Local Roads, and Transit.** Beginning in 2008-09, funds are allocated by formula, as shown in the figure.



## More Recent State Fund Sources *(Continued)*

<b>Appropriations of Proposition 1B Funds</b>				
<i>(In Millions)</i>				
<b>Program</b>	<b>Authorized Amount</b>	<b>Already Appropriated</b>	<b>Proposed 2009-10</b>	<b>Balance</b>
Corridor Mobility	\$4,500	\$2,288.9	\$1,513.3 <sup>b</sup>	\$697.7
Trade Corridors	2,000	417.0	1,150.0 <sup>b</sup>	1,041.2
Local Transit	3,600	950.0	350.0	1,500.0
State Transportation Improvement Program	2,000	1,904.3	57.0	38.7
Local Streets and Roads	2,000	1,287.1	700.1 <sup>b</sup>	12.8
SHOPP <sup>a</sup>	750	617.0	78.0	55.0
State and Local Partnership Program	1,000	200.7	200.6	598.7
Grade Separations	250	185.1	0.7	64.3
State Route 99	1,000	117.8	436.5 <sup>b</sup>	445.7
Local Seismic	125	34.7	31.2	59.1
Intercity Rail	400	260.5	126.4	13.2
School Bus Retrofit	200	193.0	3.0	4.0
Air Quality	1,000	500.1	250.1	249.7
Transit Security	1,000	203.0	101.5	695.6
Port Security	100	99.5	—	0.5
<b>Total Appropriations</b>	<b>\$19,925</b>	<b>\$9,258.7</b>	<b>\$4,998.4</b>	<b>\$5,476.1</b>

<sup>a</sup> Includes \$500 million for State Highway Operation and Protection (SHOPP) augmentation and \$250 million for traffic light synchronization.

<sup>b</sup> Includes Governor's January proposal to appropriate an additional \$162 million for corridor mobility, \$52 million for trade corridors, \$800 million for local transit, \$700 million for local streets and roads, and \$5 million for State Route 99 in 2008-09.

### 2006—Proposition 1B

- **One-Time Infusion of \$20 Billion.** Approved by voters in 2006, Proposition 1B authorizes the state to sell \$20 billion in general obligation bonds for transportation purposes, mostly for capacity expansion of highways and transit systems and improvements to local roads.

### 2008—Proposition 1A

- **\$9.95 Billion for High-Speed Train and Other Rail.** Approved by voters in 2008, Proposition 1A authorizes the state to sell \$9.95 billion in general obligation bonds. Of the total, \$9 billion is available for a high-speed train system, and \$950 million is for other intercity and regional rail systems.



## Stable and Predictable Funding Needed

---

### The State's Transportation Capital Programs

- **State Highway Operation and Protection Program (SHOPP)** is the ongoing four-year program to repair and improve the safety of the state's highways.
- **State Transportation Improvement Program (STIP)** is the five-year ongoing program to expand capacity on the state's highway and transit systems.
- **Proposition 1B** includes a number of programs with specific funding allocations (for example, corridor mobility improvement, trade corridor improvement, and transit security). Programs have different project selection criteria targeting different aspects of transportation.
- **Traffic Congestion Relief Program (TCRP)** is a one-time program that includes 141 statutorily specified highway and transit projects.



**Programs Provide Funding Over Multiple Years.** The state's transportation programs are multiyear plans to fund various phases of project work.



**Projects Funded From Many Sources.** Most projects are funded from multiple sources, including state, bond, local, and federal funds. Each source generally has different requirements or limitations on how funds can be spent.



## Transportation Funds Provide General Fund Relief

### Governor's Proposals to Use Transportation Funds to Help the General Fund

(In Millions)

Proposal	2008-09 Estimated	Governor's Budget Proposals		Total New Proposals
		2008-09 <sup>a</sup>	2009-10	
Fund home-to-school transportation	\$622.8	—	\$402.7	\$402.7
Redirect tribal gambling payments	—	\$100.8	100.8	201.6
Fund regional center transportation	138.3	—	138.3	138.3
Debt service/Proposition 42 repayment	621.3	—	—	—
Borrow transportation funds	231.0	—	—	—
<b>Totals</b>	<b>\$1,613.4</b>	<b>\$100.8</b>	<b>\$640.8</b>	<b>\$741.6</b>

<sup>a</sup> As part of his 2009-10 budget, the Governor proposes additional uses of transportation funds to provide General Fund relief in 2008-09.

- Different Accounts Provide General Fund Relief.** Over the past few years, significant amounts of transportation funds have been used to help the General Fund, with different accounts contributing various levels each year.
- Frequent Changes Create Instability.** The amounts and types of transportation funds used to help balance the state's budget vary from year to year, making it hard to predict (1) how much and (2) from which accounts money would be redirected. This creates instability because of the difficulty determining which programs and projects would be affected.
- PTA Faces Potential Shortfall in 2009-10.** The Governor proposes to reduce current-year STA funding and suspend program funding in 2009-10 in order to free up PTA funds for home-to-school and regional center transportation. However, if the Governor's proposal to raise the state's sales tax rate is not adopted, the PTA would have a shortfall in 2009-10 and the account would not be able to fulfill all of its obligations.



## Transit Capital Funding Is Unpredictable

---

### State Transportation Improvement Program (STIP) Transit Projects

- **Transit Revenues Redirected for General Fund Relief.** Over the past few years, revenues traditionally used for transit purposes have been redirected to General Fund expenditures, including debt service on transportation bonds, home-to-school transportation, and regional center transportation.
- **Planned Projects Are Delayed.** To free up money for General Fund relief, transit capital projects have been delayed. According to the California Transportation Commission (CTC) staff, about \$520 million in projects programmed for funding from 2007-08 through 2009-10 have been delayed or deprogrammed.

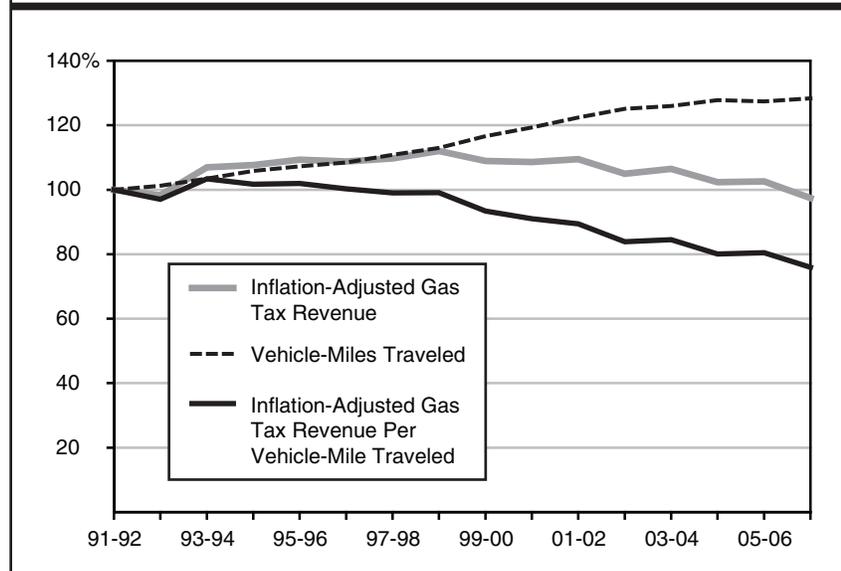
### Proposition 1B Transit Funds

- **Bond Funds Provide Transit Capital.** Proposition 1B provides \$3.6 billion for transit capital improvements. Many of the projects in STIP will be funded with these funds to the extent they are still high in priority for transit operators.
- **However, Funding Formula Limits Benefits.** So far, these funds have been made available annually at varying levels and without a predictable, ongoing allocation formula. Due to uncertainty about how much funding will be available, and how funds will be allocated from year to year, planning efforts by transit operators are being hampered.



## Highway Repair Funding Continues to Shrink

### Real Gas Tax Revenues Have Not Kept Pace With Road Use



- Loans and Redirection of Funds Delay Highway Repairs.** To help the General Fund, \$200 million was loaned from SHA in the current year. This delayed some projects.
- Maintenance and Rehabilitation Costs Increasing.** The cost of maintaining the state's highways has increased. Spending more on maintenance leaves less funding for major rehabilitation work. As a result, a substantial number of repair projects have not been funded.
- Gas Tax Revenues Declining.** Current SHA funding is insufficient to pay for all the highway maintenance and repair that is needed. In addition, the consumption of gasoline has declined every year since 2005. This results in lower gas tax revenue to the state.
- Short-Term and Long-Term Options.** In the short-term, we recommend raising the gas tax. In the long-term, we recommend exploring new ways of funding transportation programs, including charging drivers based on the miles traveled.



## Unavailable Bond Funds Disrupt Project Progress

<b>Proposition 1B Projects at Risk in 2008-09</b>			
<i>(Dollars in Billions)</i>			
	<b>Number of Projects</b>	<b>Proposition 1B Funding</b>	<b>Total Project Cost</b>
Already awarded construction contracts	98	\$1.5	\$1.8
Projects planned for award in 2008-09	98	1.7	2.1
<b>Total Projects at Risk</b>	<b>196</b>	<b>\$3.2</b>	<b>\$3.9</b>

- PMIA Provides Short-Term Financing for Projects.*** Cash from the Pooled Money Investment Account (PMIA)—the state's short-term savings account—is used to pay expenses incurred on bond-funded projects before bonds are sold. This process provides short-term financing for Proposition 1B projects.
- Bond Funds Unavailable Due to Cash Problems.*** In December, the Pooled Money Investment Board voted to suspend disbursements from the PMIA for bond-funded projects. As a result, money is not available to continue paying for work on Proposition 1B projects.
- Many Projects Will Be Delayed.*** Caltrans is holding back on awarding new contracts for bond projects. In addition, it may have to suspend or cancel contracts for projects already under construction.



## Issues for Legislative Consideration

---



### Ongoing Stable Funding Needed

- ***In the Short-Term.*** Legislative action to set priorities on the use of funds, such as in the PTA, would help to provide greater stability. In addition, raising the state's gas tax would provide more funding from a relatively stable ongoing funding source.
- ***In the Long-Term.*** The Legislature should explore new ways of funding transportation programs. Specifically, we recommend further research into the feasibility of charging drivers mileage-based fees.



### How to Get the Most Benefit From Federal Stimulus

- ***Have Projects Ready to Go.*** Direct Caltrans and CTC to determine which projects in its programs are close to "shovel ready."
- ***Fund SHOPP Projects.*** In a December 2008 report, we identified 122 SHOPP projects with total construction costs of \$800 million that could be advanced to construction much sooner than currently planned. In addition, advancing many small projects would likely have a greater stimulus impact.
- ***Fund Delayed Proposition 1B Projects.*** Direct Caltrans and CTC to determine which Proposition 1B projects could be funded with federal stimulus funds and how such a funding switch would work given the requirements on the use of Proposition 1B funds.