

Transportation/Infrastructure Funding

Long-Term Stability, Spending Oversight Important to Keep State Moving

Each year, Californians drive an average of 14,000 miles, increasing the wear and tear on the state's aging roads, highways and freight routes. Californians use roadways to travel to work and school, vacation at the state's abundant parks and entertainment destinations, and move trillions of dollars of goods through and around the state. California's roads, bridges, freight and public transit systems require annual maintenance, much of which has been deferred for the better part of a decade. State transportation leaders must tackle a significant backlog of repairs, modernization and expansion to keep pace with advances in technology, such as autonomous vehicles and rapid transit, as well as expand roadways to accommodate additional drivers.

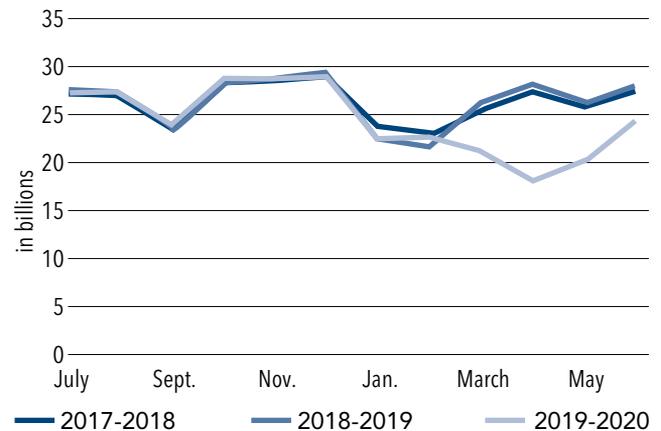
THE BASICS

California receives approximately \$3.5 billion annually from the Federal Highway Administration, mostly generated by fuel taxes on gasoline and diesel.

Although truck traffic has increased again after an initial drop-off, impacts from COVID-19 have resulted in substantial reductions of vehicle miles traveled (VMT) by passenger cars, which affects both state and local income that can be used for much-needed infrastructure improvements to deliver the goods necessary to keep the California and U.S. economy moving.

The Federal Highway Administration found that April 2020 VMT dropped almost 40% compared to April 2019. Although driving increased when the spread of COVID-19 began to

COVID-19 LEADS TO DECLINE IN VEHICLE MILES TRAVELED



Source: Legislative Analyst's Office, *Impact of COVID-19 on State Transportation Revenues* (September 17, 2020).

decline and more states opened, the overall decrease in VMT remains at approximately 15% nationwide. The California Legislative Analyst's Office (LAO) also found that VMT in April 2020 was 41% lower than in April 2019, and was still down by 19% year-over-year in June 2020.

With 80% of the Highway Trust Fund coming from gas taxes, the American Association of State Highway and Transportation Officials (AASHTO) forecasted a deficit of \$37 billion over the next five years for states and urged Congress to take action in the federal budget in the form of a future coronavirus relief bill. In June 2020, a survey by the National League of Cities determined that 65% of member cities were delaying or canceling capital expenditures and infrastructure projects due to budget woes.

2020-2021 BUDGET

The LAO projected a \$1.3 billion net increase in transportation spending for 2019-2020 when compared to the 2018-2019 budget, largely as a function of increases in overall revenues due to the passage of SB 1 (Beall; D-San Jose; Chapter 5, Statutes of 2017), which survived a ballot measure attack in 2018.

Agenda for California Recovery

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TRANSPORTATION

SB 1 imposed a tax on the use of gasoline and was necessary to address long-deferred infrastructure and concerns over a growing lack of mobility in the state.

The September 2020 LAO report on transportation revenues and COVID-19 estimated a decrease of \$619 million in fuel and vehicle fee revenues for 2019–2020, with most of the decline due to an estimated \$556 million reduction in gasoline taxes.

POLICY CONCERNS

Long-term modernization of California's system of roadways and transportation infrastructure requires a long-term plan and challenged state and local budgets before COVID-19, given the high costs estimated for repair, modernization and expansion to accommodate continued economic and population growth. Although the state was able to largely stabilize the budget for the State Transportation Improvement Program and the Caltrans Highway Rehabilitation fund, revenues for local streets and roads will be \$256 million (9%) less than estimated for 2019–2020 and \$231 million (8%) less than estimated for 2020–2021, and state transit assistance will be severely affected.

As Californians drive increasingly fuel-efficient vehicles and more zero-emission cars, relying on these excise taxes will divorce funding from the impact that vehicles have on the roads. The Legislature recognized this phenomenon in 2016, creating an advisory committee (including a member from the California Chamber of Commerce) to develop a new transportation finance system based on miles driven, rather than gallons of fuel consumed.

Any new mileage fee would replace the current fuel tax, not add to it. The advantage of such a system would be to assess drivers for exactly how much they use the roads, without regard to how efficient their engines may be or if they use petroleum fuels at all. Governor Gavin Newsom's administration has directed Caltrans to further evaluate this new finance regime but has neither released a schedule nor signaled any urgency for new financing authority or policy changes for possible rollout after 2020.

California must be cognizant of the interrelationship between funding and VMT, increase efficiencies in the use of funds, and ensure that sufficient oversight and accountability in the use of funds is maintained while allowing flexibility for technological development and advancement of California's transit system. Policy decisions, such as the Governor's pledge to phase out combustion engine passenger vehicles by 2035, will further exacerbate this funding issue. Careful consideration must be given to how to backfill these funds.

LEGISLATIVE ACTIVITY IN 2021

Bills may be introduced to divert transportation funding for other purposes, including climate-related purposes, which may directly affect the ability to continue much-needed improvements. Additionally, if the Governor moves forward with a plan to phase out combustion engine vehicles, the Legislature will need to address how to continue to fund California's roads and infrastructure with a lack of income from the bipartisan SB 1 gas tax increases passed just a few years ago.

CALCHAMBER POSITION

The CalChamber supports reasonable and necessary funding to ensure long-term stability of California's roads, bridges and infrastructure, all of which are necessary to move California-made goods and support the state's vibrant economy.

California should reject fees unrelated to infrastructure improvement or which otherwise make it more difficult for Californians to commute or businesses to move their goods in order to ensure a robust economy.

The Legislature should encourage policy that maintains adequate oversight over use of transportation dollars and implements measurable benchmarks and performance-based outcomes for the use of funds.



Staff Contact
Leah Silverthorn
Policy Advocate

leah.silverthorn@calchamber.com

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