

Increased Transportation Infrastructure Investment Critical to State's Continued Economic Development

Overview

In 2017 the Legislature passed and Governor Edmund G. Brown Jr. signed SB 1 (Beall; D-San Jose; Chapter 5), an important step in the state's investment in transportation infrastructure. It is estimated that the funding coming from SB 1 (Chapter 5, Statutes of 2017) will on average raise \$5.2 billion annually over the next 10 years.

The vast majority of new revenues are devoted to roadway improvements and transportation systems. Although this investment is critical, it falls short of the investment needed to expand capacity and ease congestion for drivers in the state.

California's Transportation Funding Needs

Since the 1980s, California's population has increased by more than 50% and the rate of automotive travel has mirrored this growth. In fact, the Federal Highway Administration (FHA) reports that more than 80% of California's urban interstates are congested every single day. Although residents are driving more, improved vehicle efficiency and consumer demand for high miles-per-gallon and zero-emission vehicles has cut fuel consumption. The average fuel mileage has increased approximately 37% since 1991, meaning less money per gallon of gasoline has been raised, and today it costs about \$180 to buy the same amount of asphalt or concrete that \$100 would buy in 1991—the last time there was an increase in the gas tax.

Each year, Californians drive an average of 13,000 miles and the roads suffer wear-and-tear accordingly. The most recent Needs Assessment conducted by the California Transportation Commission (CTC), revealed that 58% of the state's roadways require rehabilitation or pavement maintenance and 26% of its bridges require major maintenance, preventive maintenance, or complete replacement. The Federal Highway Administration estimates that California will need approximately \$70 billion to modernize and fix its highway systems and another \$118 billion to widen its busy highways, sticking California with the largest reconstruction cost as compared to other states.

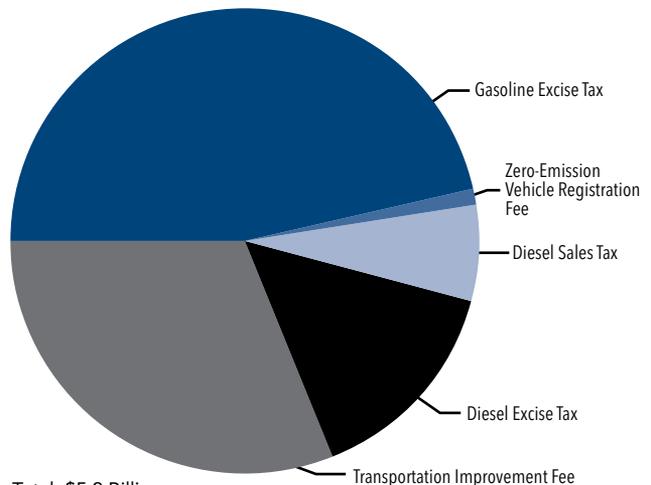
In addition to passenger miles traveled, the CTC estimates that the amount of freight on California's highways will increase by 75% within the next 20 years and the Transportation Road Improvement Program (TRIP) estimates that total vehicle miles traveled will increase 15% by 2030.

Increased Transportation Revenues from SB 1

Gasoline Taxes

As of November 1, 2017, the state gasoline base excise tax

Transportation Revenue Increases



Total: \$5.2 Billion

Reflects annual average increase over next 10 years,

Source: Legislative Analyst's Office

was increased from 18 cents to 30 cents per gallon. This is anticipated to raise \$2.2 billion a year

In addition to the base excise tax, there also is the swap excise tax, which is set annually by the Board of Equalization (BOE). The current rate is 11.7 cents per gallon. This is an increase of 1.9 cents per gallon. Beginning July 1, 2019, the swap tax will be eliminated and replaced with a fixed excise tax of 17.3 cents per gallon (the rate this tax was in 2010). This is anticipated to raise \$300 million annually.

Both these taxes will be adjusted for inflation beginning in 2020.

Diesel Taxes

On November 1, 2017, the diesel excise tax was increased from 20 cents per gallon to 36 cents per gallon. Beginning in 2020, this rate will be adjusted annually for inflation. This is anticipated to raise \$700 million per year.

In addition, the sales tax on diesel increased from 1.75% to 5.75% on November 1, 2017 with anticipated revenues of \$350 million annually.

Vehicle Taxes and Fees

The vehicle license fee, introduced in 1935, initially was designed to replace a personal property tax levy on automobiles by cities and counties. Historically, the fee was 2% of vehicle value. The Legislature began reducing the fee in 1998, lowering

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Transportation Improvement Fee Schedule

Value of Vehicle*	Annual Fee
\$0 to \$4,999	\$25
\$5,000 to \$24,999	50
\$25,000 to \$34,999	100
\$35,000 to \$59,999	150
\$60,000 and higher	175

*Based on depreciated value of vehicle. Values not adjusted for inflation in the future.

Source: Legislative Analyst's Office

it to 0.65% of the vehicle's market value, paid annually with registration and set to a charted depreciation schedule. In 2003, Governor Gray Davis increased the fee to its original value of 2% to combat budget deficits. The decision was later rescinded by Governor Arnold Schwarzenegger when he took office months later. Although the fee was temporarily increased to 1.15% from May 2009 through June 2011, it was subsequently returned to 0.65% in the 2011 budget and it has remained at that level since. Almost all revenue derived from the vehicle license fee is distributed to California's cities and counties for transportation.

SB 1 created a new fee, the Transportation Improvement Fee. This fee was created specifically to fund transportation needs and is collected from vehicle owners through their registration fee starting January 1, 2018. The fee amount is a sliding scale based on the value of the vehicle and is expected to generate \$1.7 billion annually.

Zero-Emission Vehicle Registration Fee

According to the California Plug-In Vehicle Collaborative, since 2011 Californians have bought nearly half (301,155) of all electric vehicles in the country and the trend shows no signs of slowing as approximately 3,692 new electric cars are sold in the state each month. In addition, Governor Brown recently adopted a goal of having all new passenger vehicles sold in the state be zero-emission by 2050.

Because of the increase in zero-emission vehicles on the roads whose owners do not purchase fuel to help fund the roads, a new registration fee was adopted for zero-emission vehicles only. This fee of \$100 per zero-emission vehicle, beginning July 1, 2020 for model years 2020 or later, is expected to generate \$19 million per year.

Where Does the Money Go from SB 1?

SB 1 created a new series of formulas to distribute transportation revenues. Some funds are an allocated percentage while others are fixed amounts. Much of the money is going toward roadway repair and maintenance, a small portion to capacity expansion, and the remainder to other transportation-related programs not necessarily affecting the roadways.

State Highways – \$1.9 Billion

Of the money the state receives, \$1.8 billion is dedicated to highway maintenance and repair. These funds will be used for the California Department of Transportation (Caltrans) Highway Maintenance Program, which fixes highways that are in good

or fair condition, and the State Highway Operation Protection Program, which rehabilitates and reconstructs highways when they reach the end of their useful life. There was no designation under SB 1 for how much either program receives; that will need to be appropriated annually under the state budget.

Of the remaining funds, \$400 million is dedicated to maintenance and repair of bridges and culverts and \$33 million is dedicated to the State Transportation Improvement Program (STIP) for capacity expansion to improve transportation systems.

Local Streets and Roads

For local streets and roads, SB 1 allocates \$1.8 billion annually. Of this, \$1.5 billion is allocated to maintenance and rehabilitation and is distributed to local jurisdictions via existing statutory formulas, which include criteria like population and number of registered vehicles. For counties that have enacted developer fees or voter-approved taxes for transportation, another \$200 million has been set aside for the CTC to determine how to allocate. The remaining \$100 million is for capacity expansion through the STIP.

Transit Programs

SB 1 dedicates \$750 million annually to transit programs. The State Transit Assistance Program receives \$430 million, which is distributed to transit operators. Transit and intercity rail receive \$270 million, which is distributed through a competitive grant program. Commuter and intercity rail each receive \$44 million.

Trade and Congested Corridor Programs

SB 1 created two programs to improve efficiency and ease congestion for the state's trade corridors:

- \$310 million will be directed to the Trade Corridor Enhancements Program;
- \$250 million will be directed to the Solutions for Congested Corridors Program.

Under these two programs, local agencies and Caltrans can apply for funds for projects to improve trade corridors and congested corridors.

Other Programs

The remaining \$270 million is allocated for a variety of programs, including parks and agricultural programs, active transportation (bicycle and pedestrian improvements), freeway patrol service, local and regional planning grants, university transportation research, and workforce development.

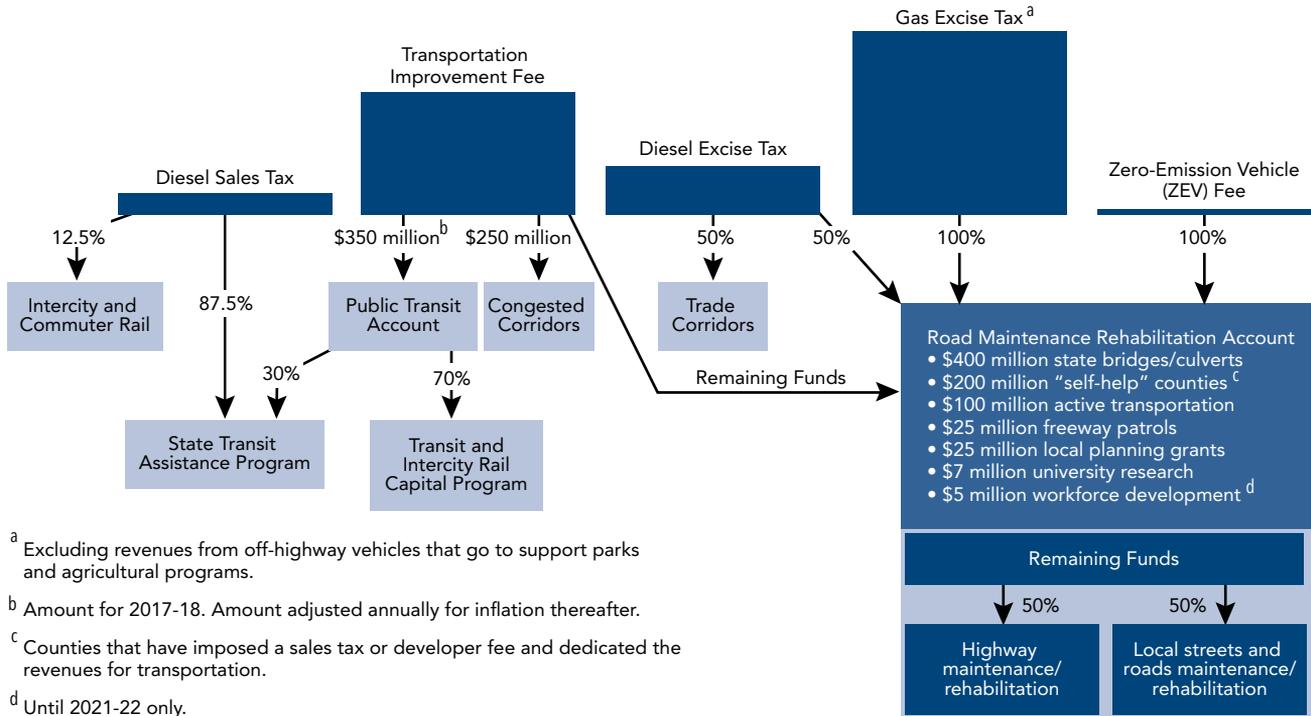
Accountability Measures

To ensure that the transportation dollars are being used as efficiently as possible, many accountability measures were included in SB 1. Caltrans efficiencies, audits and local government requirements were included, as well as a constitutional amendment to protect the funds generated from being used for purposes outside of transportation.

Performance Outcomes for Caltrans

SB 1 requires Caltrans to operate more efficiently and generate at least \$100 million annually though those efficiencies, which can be directed toward maintenance and rehabilitation of

Formulas for Distributing New Transportation Revenues



^a Excluding revenues from off-highway vehicles that go to support parks and agricultural programs.
^b Amount for 2017-18. Amount adjusted annually for inflation thereafter.
^c Counties that have imposed a sales tax or developer fee and dedicated the revenues for transportation.
^d Until 2021-22 only.

Source: Legislative Analyst's Office

the state's roads. Caltrans also is directed to report to the Legislature on progress toward meeting the following performance outcomes by the end of 2027:

- At least 98% of state highway pavement in good or fair condition.
- At least 90% level of service for maintenance of potholes, spalls, and cracks.
- At least 90% of culverts in good or fair condition.
- At least 90% of transportation management system units in good condition.
- At least an additional 500 bridges fixed.

To further ensure transportation dollars are being spent efficiently, the Office of Audits and Investigations has been created. This office is responsible for overseeing compliance with state and federal requirements and to ensure that funding is being spent efficiently and economically. The office is required to report back to the Legislature, Governor and CTC annually.

Constitutional Amendment: ACA 5

Passed as a companion measure to SB 1 was ACA 5 (Frazier; D-Discovery Bay; Chapter 30; Statutes of 2017), the Road Repair and Accountability Act of 2017). This constitutional amendment was passed as an additional accountability measure so that the money raised will be used only for transportation purposes. ACA 5 specifically identifies the two funding sources in SB 1 that are not currently protected by the Constitution: revenue derived from the diesel sales tax and the Transportation Improvement Fee.

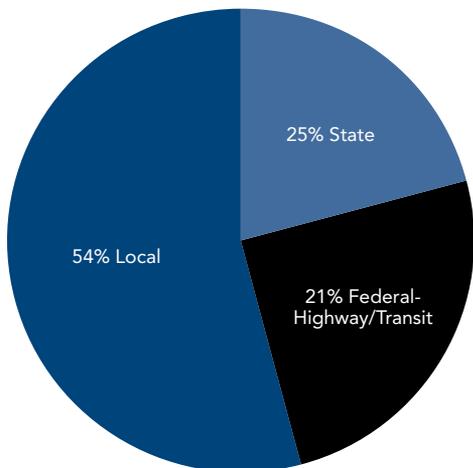
If approved by voters in June 2018, ACA 5 will amend the California Constitution in the following ways:

- Require revenues derived from the sales tax on diesel fuels to be deposited into the Public Transit Account, and prohibit the Legislature from temporarily or permanently diverting or appropriating those revenues for purposes other than researching, planning, constructing, improving, maintaining and operating public streets and highways and transportation systems.
- Require that revenues derived from SB 1's proposed Transportation Improvement Fee on vehicles, except for specified administrative expenditures to collect the revenues, be used solely for transportation purposes. These revenues shall not be used for debt service on state transportation general obligation bonds authorized before November 8, 2016, and may be used for future bond debt service only to the extent that purpose is explicitly authorized in future bond acts. The Legislature would be prohibited from borrowing those revenues or using them for unauthorized purposes.

Other Transportation Funding Sources

Although the state has taken a large step toward filling the funding gap to improve California's transportation infrastructure, there still are existing and potential future funding considerations that need to be taken into account. State policies that continue to push toward more efficient vehicles and transportation systems will have an impact on the revenues currently dedicated to infrastructure.

California Highway/Transit Funding 2014–15 Fiscal Year



*Last year of available funding data

Source: CalChamber with California Department of Transportation data.

Local Government Funding

In addition to transportation funds at the state level, local governments also provide significant investment dollars, which include local voter-approved sales taxes, property taxes, and fares from public transit. Voters have historically approved most local taxes for transportation purposes.

Although local funding has served as a valuable tool to fund local transportation projects, historically it has been insufficient to cure statewide infrastructure problems. The amount of funds available can fluctuate significantly by county and many counties focus these funds on local transportation issues rather than a comprehensive state plan.

In order to receive funds from the SB 1 revenues, cities and counties are required to spend as much on transportation projects as they did on average between the years 2009–2010 and 2011–2012. This provision is necessary to ensure that the funds will be available at the local level to supplement those allocated from the state. To ensure compliance, the State Controller's Office has authorization to perform audits. Finally, cities and counties are required to submit proposed projects, approved by the city council or county board of supervisors, to the California Transportation Commission.

Bonds

Proposition 1B was approved in 2006 and allowed the state to issue almost \$20 billion in general obligation bonds over a 10-year period for transportation purposes. These bonds are subject to annual appropriations by the state Legislature and will expire soon. Although many view bonds as an effective funding source, there is skepticism that voters will approve another proposition given California's substantial debts and need to spend available monies on services other than transportation and the significant bond funding already committed to construction of the high-speed rail. Additionally, the interest payments for bonds substantially add to the overall transportation project costs when compared to a pay-as-you-go system, like a fuel tax.

Truck Weight Fees

California instituted a commercial weight fee schedule in the first half of the 20th century. The fees are based on commercial vehicle weight and generate about \$1 billion per year. This fee was enacted to reimburse the state for the wear and tear heavy trucks cause on streets and highways. In 2011, however, AB 105 (Committee on Budget; Chapter 6) diverted the revenue from truck weight fees from the State Highway Account to the General Fund, where it is used to pay general obligation bond debt service for specified voter-approved transportation bonds.

Bills have been introduced to redirect truck weight fees away from bond debt service and back to new transportation projects, but ultimately have not passed the Legislature.

Federal Funding

Nearly a quarter of California's transportation funding comes from the federal government. In December 2015, Congress passed the first major transportation funding bill since 2005, providing California with \$26 billion for projects over the next five years, a 14.5% increase.

Over the last decade, Congress was unable to pass comprehensive legislation and had relied on a series of two-year stopgap bills. These short-term bills created funding uncertainties for planning and developing transportation projects that have long completion timelines. Although the most recent bill expanded funding for five years, it did not include any new dedicated and sustainable funding sources, such as an increase in the federal gas tax. Rather, it relied on shifting revenue from other areas of the budget. This has created skepticism that the cycle of short-term fixes will return with the expiration of the bill.

In addition, despite the increase in federal funding, California remains a donor state as it relates to the portion of federal transportation revenue the state receives. California will receive only 8.5% of the \$305 billion allocation, while paying between 11% and 12% of the total federal gas tax revenue.

The biggest unknown, and potential new source of significant revenue, is a new national transportation funding proposal allocating \$1 trillion to upgrade the country's infrastructure, including roads, tunnels, bridges and airports. The details of the proposal are vague at this point and it is unknown how much of that funding California would receive. The proposal will undoubtedly face a number of political hurdles in Congress, namely: how to create the revenue sources to fund it.

Other Transportation Funding Considerations

Mileage-Based User Fees

Another option is to collect mileage-based user fees by relying on existing technology to collect data on individual motorists' mileage use, convey that information to data processing centers, evaluate the data, and collect fees from drivers based on usage levels.

According to a report by the nonpartisan Congressional Budget Office released in 2011, mileage-based user fees would provide more efficient highway financing than fuel taxes because usage pricing is directly connected to how often a person uses surface transportation. The Reason Foundation and other groups support

the concept as a straightforward and transparent approach that will allow individuals to adjust their usage as needed. Others, however, argue that the costs of implementing modern technology associated with a mileage-based user fee will negate the prospective earnings.

In 2014, the Legislature passed legislation that authorized a mileage-based user fee pilot program in California. The program is administered by a 15-member panel that reported findings on the viability of the program back to the Legislature. The pilot project concluded in March 2017 and a final report with findings was released on December 1, 2017.

The report envisions the user fee will replace the gas tax—it would not be additive—and there would be no exemptions or rate differentials amongst drivers. In addition, the project provided test participants with a menu of options for recording mileage information, including pre-paid mileage, odometer checks and automated reporting with or without data. This broad range of options allowed the committee to conduct a more robust policy analysis in its report, evaluating convenience, administrative and privacy issues, and pricing.

The final report also noted that there needs to be additional investigation into mechanics and policies of the state such as: pay-at-the-pump technology; how to collect the road charge from drivers and which state agency would collect and administer funds. Most important, the report noted that the transition will take time. The report concluded that implementing the program before 2025 would be problematic. The report can be found on the Caltrans website at http://www.dot.ca.gov/road_charge/resources/final-report/docs/final.pdf.

Based on this report, the Legislature will ultimately determine the components of any potential mileage-based user fee program.

Priced Managed Lanes

Managed lanes are highway lanes that restrict vehicle eligibility, often taking the form of carpool lanes, transit bus lanes, and truck-only lanes. Priced managed lanes—a subset of managed lanes—charge users a fee for lane access. A common example of priced managed lanes is toll roads. The usage fee for these lanes can vary based on the level of congestion and/or the time of day. These lanes combine congestion pricing and lane management to moderate demand during peak driving periods of the day, with the twin goals of incentivizing motorists to shift their driving habits and generating infrastructure funds. The number of priced managed lanes throughout the U.S. has increased in recent years and new projects are planned.

All-electronic highway tolling is technologically simple and relatively inexpensive to establish. According to a September 2013 nationwide study by the Reason Foundation, expanding the use of toll financing is an ideal funding mechanism to replace the gas tax. The study found that a majority of states could charge a toll of 3.5 cents per mile for cars and 14 cents per mile for trucks. In California, however, the recommended toll charge would have to double to make any impact on infrastructure financing due to high construction costs.

Public-Private Partnerships

A public-private partnership occurs when a public agency and a private sector organization join forces to provide a service or build a project for the public. Advocates of this funding avenue stress that because public transportation budgets are sparse, bringing on a private entity to support and expedite projects is a win-win for the public agency, the private organization, and the public at large, which benefits from project completion in less time.

Many transportation experts hail the use of public-private partnerships for building infrastructure because each party has distinct capabilities and unique resources at its disposal. Expertise by the government includes knowledge of the legislative and decision-making processes, political savvy know-how regarding public financing methods, ability to mitigate risks, and a good command of local, state, and federal regulations. Private entities also contribute with project management skills, considerable financial resources, ability to expedite infrastructure investment, knowledge of operations and best practices, and construction and design acumen.

While creating opportunities to address some transportation funding issues, public-private partnerships still require underlying revenue streams to finance projects. The use of private financial resources can reduce—but does not eliminate—the public cost. State and local governments still must find financing mechanisms to pay for these projects.

CalChamber Position

California must remain “on the move” through an efficient, integrated network of roads, transit, rail, ports, and aviation facilities that is highly accessible for all users, supports strong economic growth and encourages a high quality of life. Public agencies must be able to efficiently plan for and complete future transportation projects with stable and sufficient sources of funds. Cost-effective improvements to California’s transportation systems will result in more efficient goods movement, reduced congestion, less idling and significant environmental benefits.

The state needs a long-term comprehensive, well-financed, dependable and efficient transportation financing mechanism that allows for maintenance of deteriorating infrastructure, encourages new construction projects, and ultimately creates well-paying jobs for Californians. California’s continued economic development will be closely tied to an improved transportation system, both for workers and students commuting to jobs and classes, and for the movement of goods around the state and to its international seaports and airports.



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