

APPENDIX G

TRANSPORTATION FUNDING IN CALIFORNIA

California, like the rest of the nation, built its interstate system primarily with federal and state funds derived from per gallon gasoline and diesel fuel excise taxes, commonly called the gas tax. Being a fixed amount, the excise tax needs periodic increases to maintain buying power and to keep up with the effects of inflation, a politically difficult sell. By the 1980's it became apparent that the gas tax was not keeping up with inflation and that other revenue would be needed to continue to fund transportation improvements. The state gas tax was last raised in 1994, and the federal tax was raised in 1997. Inflation has since cut the buying power of both sources to less than 50% of their 1990-era levels.

Frustrated by the slow progress begat by low funding, Santa Clara County in 1984 became the first county to tax themselves to build a state highway (Route 85). Many counties have followed successfully in this path. In the early 1990's the state experimented with the use of bond proceeds through the initiative process to fund transportation projects. Unfortunately even though all \$3 billion worth of projects were programmed and committed for delivery, the voters later rejected \$2 billion of the bonds. During the "dot com" boom of the late 1990's the state tried diverting excess General Funds to the Transportation Congestion Relief Program (TCRP). Unfortunately the "dot com" boom ended as quickly as it began so the General Fund has never been able to meet that commitment.

Through a series of voter initiatives during the early and mid-2000s, the state now re-directs a portion of the sales tax on gasoline and diesel to transportation. However, as the price of gasoline has increased along with sales tax proceeds, the legislature has consistently kept the transfers to transportation to the legal minimum preferring to use the rest to prop up the troubled state General Fund. Lately, the state experimented again with the use of bonds (Prop 1A) for transportation. While sorely needed, these funds have primarily gone to projects started earlier, but were stalled due to lack of funds. Unfortunately the current recession is hindering the state's ability to sell bonds, again slowing down project construction.

In an environment of erratic funding levels, compounded by a plethora of funding source's each with unique rules and restrictions that limit discretion for certain policy or political aims regardless of real needs it is little wonder the logical outcome is a series of boom and bust cycles and misplaced expectations. In this environment, planning large transportation projects that typically take three to seven years to plan and design, often ends up becoming out of sync with funding. Recognizing that things aren't likely to improve, the challenge is to plan an appropriate shelf of PID's (of appropriate project characteristics) to meet the next boom cycle.

THE SITUATION TODAY

Taxes on gasoline and diesel fuels, plus local county measures are the largest sources of persistent revenues for transportation work on the state highway system. Other sources include bond proceeds, state General Fund transfer's, federal programs and earmarks, development mitigation fees, and lately federal stimulus funds. State and federal gas tax and sales tax revenues available to the state highway programs range near \$2 billion per year. While the total revenue collected by county sales tax measures during the 2007/08 FY was about \$4.5 billion, a high percentage of those funds are earmarked to transit or local roads and unavailable for use on the state highway system.

FUND ESTIMATE

On a biennial schedule (once every two years), the Department prepares a multi-year Fund Estimate that address state revenues. The Fund Estimate is a forward looking analysis, looking ahead by five years, which compares existing commitments to anticipated revenues. In concept the Fund Estimate is rather simple and the output is an estimate of new programming for the state's two major highway programs. California splits its share of state highway gas tax funds between two distinct highway programs, the STIP and the SHOPP.

THE SHOPP

The SHOPP, a fiscally constrained four year program of projects dedicated to the maintenance and preservation of the state highway system, is the Department's highest priority. Starting about 2004 the needs of the SHOPP began to consume 100% of the state and federal gas tax; previously that fund source met the demands of both programs. Unfortunately, as noted above these funds are derived from a source that is not indexed to inflation and is already well below a level necessary to keep the roadway system in a good state of repair.

The 2010 Fund Estimate SHOPP program capacity for the period from FY 2010-11 to 2014-15 is \$4.3 billion dollars. This falls \$2 billion below the \$6.3 goal constrained SHOPP 10-year plan. As a result of the large shortfall, potential impacts may include delays of needed projects, an inability to fix new and/or ongoing deterioration of the highways, and possible cost increases. Due to declining funding and growing needs, existing programmed SHOPP projects will be delayed. The only new projects that will be programmed in the next four-year SHOPP document will address safety needs, emergency needs, or legal and regulatory mandates. Though insufficient to meet SHOPP needs, gas tax revenues are reasonably steady and predictable and should allow sensible PID planning.

Lately some of Proposition 1B funding and recent federal stimulus funds were made available to the SHOPP. While welcomed, because inflation continues to erode the buying power of the gas tax compounded by the downturn in the economy causing a drop, these one-time funds ultimately wound up substituting for the loss of the gas tax serving largely to maintain planned delivery. As the gas tax buying power continues to erode, other short term funding solutions are likely to be found for SHOPP leading to a boom and bust cycle that now reaches extreme proportions in the STIP.

THE STIP

The STIP is a program of projects, across a five year time frame, that is intended to relieve congestion and improve interregional mobility primarily through construction of new freeway lanes, interchanges, and roads. Today, since 100% of the gas tax funds are now slated to the SHOPP, the STIP gets whatever funds remain. The steadiest source of revenue to the STIP is the Transportation Investment Fund (TIF). These are derived from a portion of the sales tax on the sale of gasoline and diesel. By law, TIF revenues cannot be used to fund SHOPP projects, thus they must go to the STIP and are anticipated to be in the \$450 - 500 million per year range. While somewhat certain, in a fiscal emergency the legislature can elect to suspend the transfer of TIF revenues to transportation for a year. While those funds are required to be repaid, this would cause havoc to STIP project delivery. Another source of funding to the STIP is the Public Transit Account (PTA), also derived by the sales tax on gasoline and diesel. As PTA funds cannot be utilized to fund roadwork, this fund source should be excluded when determining PID resources. Regardless, current law permits the legislature broad discretion to redirect PTA funds to non-transportation purposes with no penalty, and they have. In practice this is unreliable fund source. Historically it has worked out to be a minor fund source as well. Little to no PTA is anticipated in the near future. A very small amount of federal transportation enhancement funding is also included with the STIP resulting with some minor PID demand.

Other funding sources and programs exist that largely support the same objectives of the STIP. This includes the state TCRP and Proposition 1B (CMIA, Route 99, and TCIF) programs. Local sales tax measure and specific federal programs and earmarks are also included. Most highway projects are funded with a basket of these funds, a consequence of the hodgepodge funding plans that evolved in California. Many of these funding programs are one-time in nature contributing to the booms. Figure 3 (strata chart) on page 19 illustrates this over time. For the sake of this report we will call this whole collective of programs the STIP as PIDs are generally required and developed for these programs.