Transportation Revenues and Expenditures

According to the Legislative Analyst’s Office, in fiscal year 1999-00, California spent about $15.5 billion in public funds on transportation.\(^{32}\) In addition, the private sector spends billions of dollars to purchase and operate the vehicles that travel over the transportation network and to build, operate, and maintain privately owned railroads, seaports, and airports. The following provides a brief overview of public transportation fund sources and allocations.

Transportation in California is funded from a variety of State, local, private, and federal fund sources. State funds consist primarily of the State excise tax on gasoline and diesel fuels (18 cents per gallon) and truck weight fees. Federal funds consist mainly of the federal gasoline and diesel fuel excise taxes. The main sources of local funding for transportation include local sales tax measures for transportation, a one-quarter percent share of the State general sales tax, and local general funds (see Figure 6).

**FIGURE 6**

California Transportation Revenue Sources (1999-2000)

![Figure 6](image)

*Source: Legislative Analyst’s Office, California Travels, May 2000.*

**Fuel Excise Taxes**

The 18 cents per gallon State tax on gasoline and diesel fuel is the primary source of State funding dedicated for transportation. These user-paid taxes generate about $3 billion per year, about 65 percent of which goes to the State Highway Account. The remaining 35 percent is allocated to cities and counties (local subvention) for street and road purposes. In addition, a portion of the funds in the State Highway Account is allocated to Regional Transportation Improvement Programs.

Although gasoline and diesel fuel consumption in California have been growing modestly over time with a predictable trend, future fuel consumption will be impacted by the penetration of alternative fuels and hybrid vehicles, as well as future policy directions. Beyond these issues, however, the major concern with the fuel tax is the constant erosion of its purchasing power over time due to general inflation. While fuel consumption in the State has been growing on average at about one percent per year, the general prices have been going up on average about three percent per year. This results in a two percent yearly decline in the purchasing power of the State and federal fuel tax revenues. As Figure 7 indicates, in 2000 inflation-adjusted dollars (Real), California fuel tax revenue per vehicle mile traveled is approximately 36 percent of what drivers paid in 1970.

**FIGURE 7**
California Fuel Tax Revenue Per Million Vehicle Miles Traveled

Both the California Legislature and the U.S. Congress have periodically raised fuel tax rates to offset the decline in the purchasing power of fuel tax revenues. The last increase in the State fuel tax rates was enacted in 1989-90 by the Transportation Blueprint legislation, which gradually doubled the State fuel tax rate from 9 cents per gallon to 18 cents per gallon. In spite of the periodic tax rate increases, fuel tax revenues have failed to keep up with inflation. State and federal legislation have proposed indexing the State and federal tax rates as a more permanent solution to this phenomenon, but none has been enacted to date.
Article XIX of the California Constitution limits the use of State fuel tax revenues and truck weight fees to the public roads and certain transit purposes. However, since the State General Fund is authorized to borrow funds from the State Highway Account, the actual level of funds available in any year can also fluctuate with the state of the economy and condition of the State General Fund.

About 90 percent (increasing up to 92 percent in 2008) of the federal gasoline tax (18.4 cents per gallon) and diesel fuel tax (24.4 cents per gallon) collected in California are returned back to the State in the form of federal reimbursements, currently estimated at about $2.5 billion per year. The actual federal funding level, however, depends greatly on the federal and congressional actions and policies, including the reauthorization of federal transportation acts, the federal budget conditions, and obligation authority limitations. Whenever there is a significant federal budget deficit, usually a portion of the Federal Highway Trust Fund revenue is redirected to the federal general fund to reduce budget shortfalls, rendering uncertainty in federal transportation funding.

**Truck Weight Fees**

These user fees have historically been the second most important source of State funding for transportation, generating between $700 and $800 million annually. Until 2001, California was the only member of the International Registration Plan (IRP), a federal program to facilitate commercial vehicle registration and operation in the United States and parts of Canada, that maintained its truck weight fee system on an unladen, or empty, weight basis. All other jurisdictions base their weight fees on the vehicle’s gross, or loaded, weight. In 1991, the Intermodal Surface Transportation Efficiency Act mandated a uniform weight fee system for all states and in 1999, the IRP approved an order to rescind all exemptions or forfeit IRP membership and loss of truck weight fees collected in other states.

In response to the federal mandate, Senate Bill 2084 (Chapter 861, Statutes of 2000) authorized converting the State’s unladen weight fee schedule to a system based on declared truck weights. The change was intended to be revenue neutral, but revenues declined sharply in 2002-03.

As part of the 2003-04 fiscal year budget package, to counteract this decrease in weight fee revenue and achieve “revenue neutrality,” SB 1055 (Chapter 719, Statutes of 2003) raised weight fees on certain trucks by 20 percent as of January 1, 2004, and allows for a second increase in 2004-05 if a specified revenue target is not met.

**Fuel Sales Tax**

Since the early 1970s, a small amount of the State sales tax on gasoline and the State portion of sales tax on diesel fuel have been used to provide funding for public transit (an average of $200 million per year). This money, deposited in the Public Transportation Account, is equally divided for intercity passenger rail and local/regional transit. This source of funding has been less predictable due to volatile fuel prices and changing economic conditions.
In 2000, the Traffic Congestion Relief Act dedicated the State’s portion of the sales tax on gasoline to transportation purposes for five years. Proposition 42, approved in March 2002, made this provision permanent and placed it in the State Constitution. The measure has generated approximately $1.3 - $1.5 billion per year in the Transportation Investment Fund to be allocated as follows:

- 40 percent to transportation improvement projects funded in the State Transportation Improvement Program;
- 40 percent to cities and counties for local streets and roads improvements; and
- 20 percent to public transportation.

Proposition 42 also authorizes the delay of gasoline sales tax redirection if the State General Fund experiences significant shortfalls. This provision introduces a high degree of uncertainty and unpredictability for this source of transportation funding. As a result of the recent budget shortfalls, Proposition 42 was partially suspended in 2003-04 and fully suspended in 2004-05.

**Local Transportation Revenues**

Local funds constitute about half of all public funds spent on transportation. Over one-third of local funds for transportation are derived from local sales tax measures dedicated to transportation purposes; the balance is made up from the local transportation funds, local general funds, transit fares, fees, assessments, and other local funds.

**FIGURE 8**

Local Transportation Fund Revenue (one quarter percent Sales Tax)

(Adjusted to year 2000 dollars)

**LOCAL TRANSPORTATION FUNDS** Since the early 1970s, a one-quarter percent of the State general sales tax generated in each county is returned to the respective county’s local transportation fund. Under the authority of the RTPA, the money (about $1 billion statewide) is allocated for local and regional transit services. The actual level of sales tax
revenues is again subject to economic fluctuations and thus cannot be predicted with any degree of certainty.

**LOCAL SALES TAX MEASURES** Article XIII of the State Constitution authorizes cities and counties to impose up to one percent additional local sales taxes if approved by the voters in the local jurisdiction. Currently, there are 17 counties that have authorized temporary one-half percent sales tax measures and seven counties with permanent transit sales taxes — including three Bay Area Rapid Transit District (BART) counties — five of which have also enacted additional temporary taxes. Statewide, the sales tax measures for transportation generate over $2 billion per year. However, some of the sales tax measures are set to expire by the end of this decade, and it is uncertain as to how many counties would succeed in obtaining the approval of two-thirds of voters (as required by the 1996 Proposition 218) to extend their current tax measures.

**FIGURE 9**
Local Streets and Roads Expenditures

![Diagram showing the distribution of local streets and roads expenditures: 33% Maintenance, 11% Engineering & Admin, 9% Storm Drain, Bike & Pedestrian, 47% Rehab, Construction & Lighting. Source: Legislative Analyst’s Office, California Travels, May 2000.]

**LOCAL GENERAL FUNDS** Cities and counties are required by law to maintain a certain level of expenditures on streets and roads out of their general funds as a pre-condition to receiving their share of the State fuel tax revenues (local subvention). Cities’ and counties’ general funds currently provide about $1 billion per year for local streets and roads. Shortfalls in the State and local general funds create uncertainty about this source of funding as well.

**Expenditures**
According to the Legislative Analyst’s Office, approximately 80 percent of State transportation expenditures are allocated to maintaining, rehabilitating, operating, and improving the highway system. Mass transportation constitutes about nine percent of total State transportation
Expenditures, planning and administration six percent, and the balance is directed to the Equipment and the Aeronautics Programs (see Figure 10).

About half the highway expenditures are for capital outlay projects and another 15 percent for project design, engineering, and environmental review. Local assistance constitutes about 17 percent of highway expenditures and maintenance 12 percent.

Funding for the four-year State Highway Operation and Protection Program (SHOPP) and the ten-year SHOPP Plan comes “off the top” of the State Highway Account. SHOPP projects are limited to capital improvements relative to maintenance, safety, and rehabilitation of the State highways and bridges that do not add capacity to the system. The 2002 SHOPP identifies a potential need for approximately $22 billion in rehabilitation, reconstruction, stormwater management, and operational improvement projects over the next ten years.

FIGURE 10
Expenditures From State and Federal Funds (1999-2000)

The balance of the State Highway Account funds the State Transportation Improvement Program (STIP). STIP funding is allocated 25 percent to the Department for the inter-regional road system and intercity passenger rail, and 75 percent to the RTPAs for regional improvement projects.

Nearly half of local street and road expenditures are spent on street rehabilitation, construction, and lighting projects. Maintenance receives about one-third of the annual expenditures, engineering and administration account for about 11 percent, and storm drain repair, pedestrian, and bicycle facilities receive the remaining 9 percent.

Enforcement

In addition to fuel taxes, Californians pay vehicle registration and driver license fees in order to operate vehicles. Revenue generated from these fees can only be used for the State
administration and enforcement of traffic and vehicle laws. The California Highway Patrol’s 2003-04 budget included $1.2 billion for traffic enforcement purposes.

**Forecasting Future Transportation Revenues**

The challenges in developing reliable, meaningful long-range forecasts of future funding levels are many, some of which have been briefly pointed out in the above discussion. Most of the transportation funding revenues are highly sensitive to changes in inflation, fuel prices, and economic and budgetary conditions, as well as future legislative actions at the State and federal levels. Currently, several proposed bond measures are being considered that could affect transportation-funding levels. The future outcomes of these and other pending legislation and voter approval changes are unknown at this time.

In the face of the many unknowns and the uncertainty that could affect future funding levels available to the State and regional agencies, the CTP recommends that a study be authorized to determine the reliability and viability of future transportation financing streams. The results of the study could influence reauthorization of the federal transportation act in 2009.

**Guiding Principles for Reaching the Vision**

The overarching principle of the CTP is the concept of an “integrated transportation system.” Transportation policy- and decision-makers cannot view transportation by individual mode. It must be viewed, planned, and operated as a complete integrated system with complementary modes. Nor can policy- and decision-makers take a narrow geographic approach to transportation. The system must connect effectively between jurisdictions. To this end, the CTP was developed with four guiding principles in mind:

- Collaboration
- Leadership
- Innovation
- Communication

**Collaboration** is, simply stated, everyone working together. However, in the context of transportation planning and programming in California, the process is a complex one shared among multiple public and private entities. It requires collaboration among transportation providers, stakeholders, and all levels of government.

Collaboration by governmental entities is multi-dimensional in scope. It must take place among geographic areas and between federal, regional, State, and city governments. It must also occur among many functions (for example, housing, transportation, and health) at each level of government.

Collaboration among policy-makers to ensure harmonization of policies is critical to successfully achieving common goals. For example, if a community or region adopts a policy