

AGENDA

**ASSEMBLY BUDGET SUBCOMMITTEE No. 5
On Transportation and Information Technology**

Assemblymember Bob Blumenfield, Chair

WEDNESDAY, FEBRUARY 10, 2010

STATE CAPITOL, ROOM 127

4:00 PM

ADMINISTRATION'S ALTERNATIVE TRANSPORTATION FUNDING PROPOSAL

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Governor's Proposal

Currently, the 6% sales tax on gasoline and diesel generates \$2.8 billion dollars for transportation. Under current law for 2010-11, these revenues would be divided as follows: \$629 million for Highways; \$629 for local streets and roads; and \$1.65 billion for public transit.

The Governor is proposing to achieve \$1.8 billion in General Fund savings by eliminating the current 6-percent state sales tax on gas and diesel (\$2.8 billion in revenue loss), and increase the fuel excise tax by 10.8 cents per gallon (\$1.8 billion in revenue gain). This proposal then would essentially use new excise tax revenue maintain current funding for local streets and roads and highways but eliminate funding for local transit. General Fund savings would be achieved by using new excise tax revenue to support nearly \$1 billion in debt service costs in 2010-11 and by scoring a reduction in the Proposition 98 guarantee, and subsequent reduction of K-12 funding of \$868 million since fuel sales tax revenues are calculated into the Proposition 98 tax base. Finally, the Governor's proposal uses nearly \$1 billion retained in the balance of the Public Transportation Account (PTA) for out year debt service and to fund the intercity rail and planning until balances are exhausted in 2011-12.

The chart below outlines the Governor's proposal:

Governor's Transportation Funding Proposal (in millions)

	Current Law	Governor's Proposal
Total Revenues	\$2,916	\$1,868
PTA Balance	946	946
Total available resources	3,862	2,814
Highway/Streets and Roads Expenditures	1,258	1,258
Transit Expenditures (State and Local)	1,658	186
General Fund Relief for Debt Service (Proposition 98 Savings)	0	928 (\$868)
Balance	\$946	\$442

Proposal's Impacts

Eliminates Funding for Public Transit. Revenues from fuel sales tax account for the majority of the funding for local and state transit programs. These revenues provide both a stable funding stream for local transit operations and capital projects as well as infrequent spikes in funding through the Gasoline Spillover. The Governor's proposal eliminates this revenue source, totaling around \$1.6 billion, for transit operations and capital projects leaving only a portion of the balance in the PTA for intercity rail operations and planning until 2011-12 when the balance runs out. Beyond 2012, nearly \$200 million in state transit programs will be funded by the General Fund.

Different Funds Have Different Protections. The Governor's proposal eliminates the funding for Proposition 42 and shifts support for highways and local streets and roads to the excise tax, weakening the protections around the funding for state highway and local streets and roads. Approved by the voters in 2006, Proposition 1A amended Proposition 42 by placing very tight protections around state gas sales tax revenues dedicated for Highways and local streets and roads. The constitutional amendment restricted the Legislatures ability to borrow from gas sales tax revenues to twice every ten years, through 2/3rds vote approval and under explicit direction of how borrowed funds shall be paid back. Much like Proposition 42, Article XIX requires that all state taxes or fees (non sales tax) on fuel be used for transportation purposes (this Article does not pertain to federal or local fees or taxes). However, Article XIX is less restrictive than Proposition 42 in that it allows the Legislature to borrow excise tax revenues annually no restrictions on frequency.

Provides General Fund Relief and Fuel Tax Cut. As discussed above, the Governor's proposal is scored in the budget as providing \$1.8 billion in General Fund relief with non proposition 98 savings totaling near \$1 billion. The proposal builds a growth factor into the excise tax to fund increasing future general obligation bond debt service payments, providing growing long term benefits to the General Fund that surpass \$1 billion in 2012-13. Lastly, to benefit consumers, the Governor's proposal would reduce state taxes at the pump by \$.05 per gallon in 2010-11.

Excise Tax vs. Sales Tax Revenue Growth. The State excise tax is a fixed per gallon assessment that over time has slowed in growth as cars have become more fuel efficient and consumers buy less gas per capita. Conversely the sales tax on fuel is based on the purchase price, rather than the gallon purchased, and has stronger growth due to rising gas prices. While the Governor's proposal builds into the excise tax and a growth factor to account for rising debt service costs, it is unlikely that it will keep pace with a sales tax since gas prices are projected to rise.

Though Funding is Kept Whole, Some STIP Capacity is Impacted. Funding for local STIP and Public Transit is distributed on a formula basis that dictates how much counties are eligible to receive. However, in order to meet the local's highest needs, counties are then given some flexibility in how much transit or highway money they can use to fill their total capacity. Since some urban counties have larger public transit than highway needs, they tend to absorb the majority of funding available to all counties for public transit. Conversely, rural counties who have higher STIP highway needs and less public transit infrastructure are able to increase their STIP capacity with more funds unused by urban counties. By eliminating transit funding, the Governor's proposal will lock in how much funding will go to each county for STIP, taking away some of the excess capacity that the suburban and rural counties were able to take advantage of as a result of larger counties devoting their capacity to public transit.

Staff Comments

There are various options that the Legislature may want to consider to amend this proposal to bring funding to areas underserved by the Governor's proposal and still retain general fund savings. Key goals to determine when looking at this issue are: impacts to revenue neutrality; maximizing short and long term general fund savings; and determining appropriate transit, highways and roads funding. Below are some options that are flexible and can be scaled to fit desirable outcomes:

Increase the excise tax above the Governor's level. Assuming the Governor's proposal, the maximum that the excise tax could be increased without impacting revenue neutrality is 35 cents. This change would provide \$1 billion in new funding for highways streets and roads.

Build more robust growth into the tax. The Governor's proposal builds enough growth into the excise tax to fund future general fund debt service costs. The Legislature may want to increase that growth factor to provide increased funding for transportation in the future.

Retain a portion of the fuels sales. The sales tax on diesel generates roughly \$300 million per year and is dedicated to State Transit Assistance. Assuming the Governor's proposal, the Legislature may want to consider retaining this tax for state and local transit. Additionally, another option would be to increase enough gasoline sales tax to generate almost \$700 million without impacting revenue neutrality. This funding could be used for both transit and STIP projects.

Give local entities the ability to raise funds for transit. Unlike State excise tax, local fees are not restricted by Article XIX of the constitution and if given authority, local entities could pass them through a majority vote process.

Increase general Fund savings. The LAO has identified \$160 in additional General Fund Savings by going back and paying more bond debt with PTA funds in the current year.