



# California

## TRANSPORTATION PLAN

# 2040

### Appendix 6 Revenues and Expenditures

Integrating  
California's  
Transportation  
Future



# APPENDIX 6 | REVENUES AND EXPENDITURES

Transportation funding in California is insufficient to meet the growing needs of preserving, maintaining, and expanding the transportation system. Traditional transportation revenue sources, such as motor vehicle fuel taxes and fees, will not meet the cost of offsetting inflation, addressing increased transportation demand, complying with new sustainable policies, and supporting technological innovation. Policies that attempt to decrease vehicle miles traveled (VMT) through active modes and improved vehicle efficiency will continue to reduce fuel consumption. Therefore, a reduction in fuel consumption will correspondingly reduce fuel tax revenues that support transportation and result in a more substantial funding shortfall.

The State needs \$536.2 billion worth of transportation improvements over the ten-year period from 2011-2020, according to the latest 2011 Statewide Transportation System Needs Assessment. The Needs Assessment also projects that the State will produce \$242.4 billion in revenue for the same period—a shortfall of \$296 billion, as noted in **Table 1**. The exploration of new funding mechanisms and strategies is necessary to close the gap. This appendix provides an overview of transportation revenue sources and expenditures, highlights upcoming financial challenges, and suggests funding strategies to help minimize the funding shortfall.

TABLE 1. TEN-YEAR TRANSPORTATION SYSTEM NEEDS ANALYSIS (2011-2020)

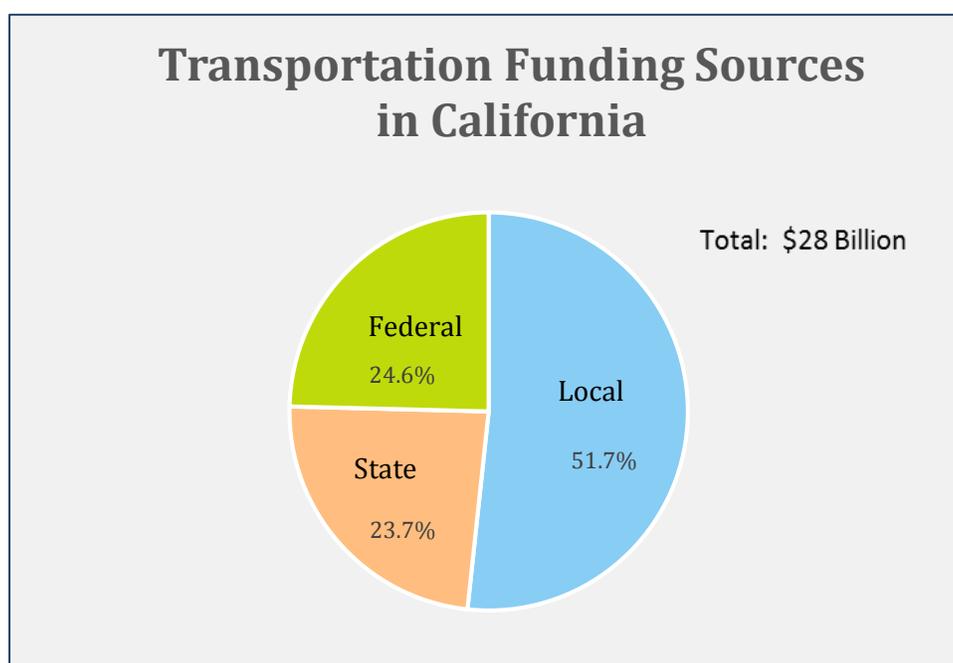
	A. Preservation- Rehabilitation	B. Preservation- Maintenance	C. Preservation- Subtotal	D. System Management	E. System Expansion	F. Subtotal (D+E)	Total
<b>Costs:</b>							
Highways	\$70,380,000	\$9,280,000	\$79,660,000	\$7,542,224	\$78,065,899	\$85,608,123	\$165,268,123
Local Roads	NA	NA	\$102,900,000	\$2,294,798	\$24,155,968	\$26,450,766	\$129,350,766
Public Transit	\$32,675,000	\$109,682,000	\$142,357,000	\$1,121,836	\$30,816,912	\$31,938,748	\$174,295,748
Intercity Rail	NA	NA	\$170,000	\$94,045	\$6,164,585	\$6,258,630	\$6,428,630
Freight Rail	\$64,420		\$64,420	\$387,332	\$21,924,017	\$22,311,349	\$22,375,769
Seaports	\$4,600,000		\$4,600,000	\$402,550	\$7,097,466	\$7,500,016	\$12,100,016
Airports	\$10,420,000		\$10,420,000	\$953,892	\$4,553,791	\$5,507,683	\$15,927,683
Land Ports	NA	NA	\$935,000	-	\$33,798	\$33,798	\$968,798
Intermodal Facilities	NA	NA	-	-	\$5,942,905	\$5,942,905	\$5,942,905
Bike/Ped	NA	NA	-	\$570,715	\$2,930,592	\$3,501,307	\$3,501,307
<b>Total Costs</b>			\$341,106,420	\$13,367,392	\$181,685,933	\$195,053,325	\$536,159,745
<b>Revenues:</b>							
Federal	NA	NA	NA	NA	NA	NA	\$30,900,000
State	NA	NA	NA	NA	NA	NA	\$53,100,000
Regional/Local	NA	NA	NA	NA	NA	NA	\$158,400,000
<b>Total Revenues</b>			\$147,707,000			\$94,693,000	\$242,400,000
<b>Net Revenues</b>			\$193,399,420			\$100,360,325	\$293,759,745
<b>% Funded</b>			43.30%			48.55%	45.21%

Source: 2011 Statewide Transportation System Needs Assessment, California Transportation Commission.

## FUNDING SOURCES

California’s transportation system receives funding from a variety of federal, State, and local sources. The State assumes responsibility for the federal and state highway system (SHS) and some interregional rail systems, while local entities are responsible for streets, roads, and transit systems. The primary source of federal and State revenue for the transportation system is the federal and State excise tax imposed on gasoline and diesel fuels. The State collects additional revenue from truck weight fees, State sales tax on diesel fuel, vehicle license fees (VLFs), and voter-approved bond sales. Local transportation entities obtain revenue through local sales tax measures, local property tax assessments, transit fares, developer fees, and general fund allocations. Statewide figures from the Legislative Analyst’s Office indicate roughly \$28 billion in transportation funding is collected annually, with local entities providing nearly half of that figure and federal and State transportation revenue mechanisms providing the other half (see Figure 1).<sup>1</sup>

FIGURE 1. FISCAL YEAR 2015-16 ESTIMATED TRANSPORTATION FUNDING



Source: Legislative Analyst’s Office, FY 2015-16 Overview of Transportation Funding

## FEDERAL TRANSPORTATION REVENUES

Federal revenue is primarily generated through fuel excise taxes—18.4 cents per gallon for gasoline and 24.4 cents per gallon for diesel—and the heavy-vehicle use tax (HVUT). Consumers pay the gasoline or diesel excise tax at the time of purchase. The HVUT tax is an annual fee (maximum \$550) paid by truck

<sup>1</sup> Legislative Analyst’s Office. (2015). “Overview of Transportation Funding.” Retrieved from <http://www.lao.ca.gov/handouts/transportation/2015/Overview-of-Transportation-Funding041615.pdf>.

owners to the Internal Revenue Service (IRS). This tax is assessed on heavy vehicles operating on public highways at registered gross weights equal to or exceeding 55,000 pounds.

Additional funding is allocated based on the federal government's authorization, which sets the maximum amount that can be appropriated to programs each fiscal year (FY) over a given period. The current authorization, the Surface Transportation Act, Fixing America's Surface Transportation Act (Fast Act),<sup>2</sup> is a five year bill that allocates \$305 billion for transportation purposes across the nation. California can expect to receive an annual average Federal Highway Administration (FHWA) apportionment of \$3.88 billion until this authorization expires.<sup>3</sup>

Since 2000, lawmakers have been permitted to transfer money from the US Treasury's General Fund to the Highway Trust Fund (HTF) if obligations outpace revenues based on enacted legislation. The Congressional Budget Office (CBO) estimated that outlays from the highway account totaled \$53 billion, while revenues amounted to only \$39 billion in 2015. By CBO's estimate, the balance in the trust fund's highway account will be \$3 billion at the end of federal fiscal year 2015.<sup>4</sup> This temporary fix could have a significant impact on California if lawmakers decide to stop this discretionary fund transfer, as it receives roughly a fourth of its transportation funding from the federal government. Thus, a sufficient and permanent financial mechanism is needed to stabilize transportation revenue.

## Tribal Government Funding Portion

Federally recognized tribes receive formula based funding or compete with other tribes for limited financial resources, including the programs listed in **Table 2**, that are dedicated to tribal governments: Tribal Transportation Program (TTP), Federal Lands Transportation Program, Federal Lands Access Program, Federal Lands Planning Program,<sup>5</sup> and Public Transportation on Indian Reservations.<sup>6</sup>

In the last decade, Pacific Region California Tribes have received the majority of their transportation funding from two formula-based programs—the Indian Reservation Roads (IRR) program pursuant to the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), and the TTP pursuant to the FAST Act. Currently, tribes receive FAST Act funds through the TTP, a federal funding pool for tribes similar to the separate FAST Act funding pool for states. Allocation amounts under both SAFETEA-LU, Moving Ahead for Progress in the 21<sup>st</sup> Century (MAP-21), and the FAST Act have been based on a statutory formula. Under SAFETEA-LU in FY 2011, Pacific Region tribes received \$21.8 million of the total, \$346.7 million (6.3 percent). In 2012, MAP-21 changed the funding formula for the TTP. For FY 2014, the authorized total share for Pacific Region California tribes was \$23.5 million, 6.8 percent of the total. In addition, Congress approved a one-time allocation of 60 percent of FY 2011 allocations as “transitional funding.” This resulted in an additional allocation of \$13.1 million for Pacific

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<sup>2</sup> US DOT, “The Fixing America's Surface Transportation Act or “FAST Act,” 2016, <https://www.transportation.gov/fastact>.

<sup>3</sup> Caltrans, “FAST Act FACT SHEET,” 2016, [http://www.dot.ca.gov/hq/transprog/map21/fact\\_sheets/fastact/core-apportionment.pdf](http://www.dot.ca.gov/hq/transprog/map21/fact_sheets/fastact/core-apportionment.pdf).

<sup>4</sup> Oakley, J, “Outlook for the Federal Highway Trust Fund,” 2014, [http://www.naco.org/about/leadership/nccae/Documents/Oakley-Presentation-Slides\\_\\_AASHTO\\_2014.pdf](http://www.naco.org/about/leadership/nccae/Documents/Oakley-Presentation-Slides__AASHTO_2014.pdf).

<sup>5</sup> Federal Highway Administration, “MAP-21 Federal Lands Highway Programs,” <http://flh.fhwa.dot.gov/programs/map-21.htm>.

<sup>6</sup> Federal Transit Administration, “FY 2014 Section 5311(c) Public Transportation on Indian Reservations Apportionment, 2014 [http://www.fta.dot.gov/documents/Table\\_10\\_FY\\_2014\\_\\_Tribal\\_021814.pdf](http://www.fta.dot.gov/documents/Table_10_FY_2014__Tribal_021814.pdf).

Region California tribes. The amount for the TTP is set to increase throughout the term of FAST Act, from \$465 million in FY 2016 to \$505 million in FY 2020 for all tribes.

TABLE 2. TRIBAL GOVERNMENT FINANCIAL PROGRAMS

PROGRAM	FUNDING SOURCE	DESCRIPTION
Tribal Transportation Program	Highway Account	Provides access to basic community services for tribal communities. This program replaces the Indian Reservation Roads program.
Federal Lands Transportation Program	Highway Account	Provides funding for projects that provide access to or within federal or tribal land.
Federal Lands Access Program	Highway Account	Provides funding to improve access to transportation facilities that are located on or adjacent to, or that provide access to federal or tribal land.
Federal Lands Planning Program	Highway Account	Provides funding for transportation planning activities on federal lands or tribal facilities, similar to the Statewide and Metropolitan transportation planning funding.
Tribal High Priority Projects Program	General Fund	Supplements the Tribal Transportation Program (TTP) by providing funding to tribal communities for high priority projects, or emergency-disaster projects.
Public Transportation Indian Reservations	Mass Transit Account	Provides funding for capital, operating, planning, and administrative expenses for public transit projects for rural tribal communities.

## STATE TRANSPORTATION REVENUES

The State generates transportation revenues by assessing fuel excise and sales taxes, general obligation bonds, and weight fees. Article XIX of the California Constitution stipulates that revenue collected from certain sources be used for specified purposes. For example, motor vehicle fuels can be used only on transportation—highway and roadway needs, public transportation, or paying off transportation debt obligations.

### Gasoline Fuel Taxes

A State excise tax on gasoline is the principal source of California’s transportation revenue, consisting of a fixed tax of 18 cents (base excise tax) and a variable-rate tax (price-based excise tax) as established by the Fuel Tax Swap of 2010, for each gallon of gasoline sold. The Fuel Tax Swap was first enacted in 2010 by Assembly Bill (AB) x8-6 and Senate Bill (SB) 70. Due to conflicts created by the passage of Propositions 22 and 26 by voters, the Legislature reenacted the Fuel Tax Swap through AB 105 (2011). As a result, the State sales tax on gasoline was replaced with the price-base excise tax. The California Board of Equalization (BOE) is required to adjust this rate annually to ensure the amount of tax revenue generated is equal to what would have been generated before the Fuel Tax Swap was enacted. The passage of AB 105 also authorized the redirection of weight fees from the State Highway Account (SHA) to the General Fund to pay off obligation bond debt service for specified voter-approved transportation bonds. Together, the base and price-based excise taxes have historically generated over \$5 billion<sup>7</sup>, which is deposited into the SHA. **Table 3** illustrates the current gasoline tax per gallon.

<sup>7</sup> CA Board of Equalization, “Table 24: Gasoline and Jet Fuel Tax Statistics, FY 1923-24 to 2012-2013,” [http://www.boe.ca.gov/annual/2013-14/table\\_14/table24\\_2013-14.pdf](http://www.boe.ca.gov/annual/2013-14/table_14/table24_2013-14.pdf)

TABLE 3. FISCAL YEAR 2015-16 GASOLINE TAXES PER GALLON

NAME OF TAX	AMOUNT PER GALLON
State Excise Tax (base State excise and price-based excise taxes)	30.00¢
Average State taxes and fees for local purposes (counties/special districts tax, Bradley-Burns local tax, local public safety fund, underground storage fee, etc.)	12.35¢
Total State taxes and fees	42.35¢
<b>Total taxes and fees paid (including Federal 18.4¢)</b>	<b>60.75¢</b>

Source: American Petroleum Institute<sup>8</sup>

The first portion of funding is set aside to backfill truck weight fees lost from the Fuel Tax Swap, that were reallocated to pay off transportation debt obligations and the General Fund. The remaining funds in the SHA are allocated to the State Transportation Improvement Program (STIP) for construction projects, the State Highway Operations Protection Program (SHOPP) for highway maintenance and operation, and local roadway projects.

### Diesel Fuel Taxes

The State imposes a fuel excise tax and a sales and use tax on retail sales of diesel fuel that applies to general consumers. Beginning in 2011, the Fuel Tax Swap decreased the State excise tax on diesel from 18 to 10 cents and increases to 13 cents per gallon in FY 2015-16. The Fuel Tax Swap subjects the retail sale of diesel fuel to an additional sales and use tax. Therefore, sales of diesel fuel are subject to the statewide rate of 7.5 percent, any applicable district tax rates, plus the additional sales and use tax rate applicable to diesel fuel. The additional sales and use tax rate for diesel changed over several years. The current additional sales and use tax rate for diesel fuel is fixed at 1.75 percent, effective July 1, 2014. **Table 4** illustrates the current diesel tax per gallon.

TABLE 4. FISCAL YEAR 2015-16 DIESEL TAXES PER GALLON

NAME OF TAX	AMOUNT PER GALLON
State Excise Tax	13.00¢
Statutory increase in sales tax rate	26.38¢
Total State Taxes and Fees	39.38¢
Total Taxes and Fees Paid (including Federal 24.4¢)	63.78¢

Source: American Petroleum Institute<sup>9</sup>

The diesel fuel tax is expected to generate \$400 million in 2015.<sup>10</sup> This funds local mass transportation efforts through the State Transit Assistance fund (STA) program for regional and county purposes. Of

<sup>8</sup> American Petroleum Institute, "State Motor Fuel Taxes – Rates Effective 7/01/2015," <http://www.api.org/~media/files/statistics/Statemotorfuel-onepaggers-july-2015.pdf>.

<sup>9</sup> Ibid

<sup>10</sup> Caltrans, Division of Budgets, "2015-16 California Transportation Financing Package," [http://www.dot.ca.gov/docs/CA\\_Transportation\\_Financing\\_Package\\_2015-16.pdf](http://www.dot.ca.gov/docs/CA_Transportation_Financing_Package_2015-16.pdf).

the 7.5 percent-per-gallon base sales and use tax for diesel fuel, 4.75 percent is split between State and local governments. Half of this revenue goes to the STA program, while the other half goes to support the State's intercity rail and other mass transportation efforts.

## Transportation Bonds and Loans

Debt financing or borrowing is a method of raising large amounts of startup capital for more expensive infrastructure projects. The bond issues can be general obligation or revenue bonds (backed by project- and location-specific potential revenues). The State infrequently issues general obligation bonds to finance capital improvement projects for highways, rail, and transit. Proposition 116 of 1990 enacted the Clean Air and Transportation Improvement Act (CATIA) and authorized general bond issue of \$1.99 billion. This provided funding for mostly passenger rail capital projects, with limited funds available for public mass transit guideways, paratransit vehicles, bicycle and ferry facilities, and a railroad technology museum. Proposition 192, known as Seismic Retrofit Bond Act of 1996 provided a \$2 billion bond issue for seismic retrofit program, including a \$650 million seismic retrofitting for toll bridges.

Proposition 1B—Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006—was the largest transportation proposition to pass to date, authorizing the State to sell \$20 billion in bonds for transportation projects. Most recently, in 2008, voters passed Proposition 1A—Safe, Reliable High-Speed Passenger Train Bond Act for the 21<sup>st</sup> Century, which provided \$9.95 billion to fund construction of California's high-speed rail (HSR) and connecting systems.

Another funding mechanism used by the State is Grant Anticipation Revenue Vehicles (GARVEE) bonds. GARVEE bonds are tax-exempt bonds backed by future federal aid highway funding. The State uses GARVEE bonds to finance the construction of critical transportation infrastructure projects. In accordance with California Transportation Commission (CTC) policy, GARVEE bonds have a maximum term of 12 years.

The State also uses federal credit assistance through the Transportation Infrastructure Finance and Innovation Act (TIFIA) Program. TIFIA provides federal direct or secured loans, loan guarantees and standby letters of credit to eligible surface transportation projects, including highway, transit, intercity, passenger rail, some types of freight rail, and intermodal freight transfer facilities. The program's goal is to leverage federal funds by attracting substantial private co-investment for large capital projects. The United States Department of Transportation (US DOT) awards credit assistance to eligible applicants, which include state departments of transportation, transit operators, special authorities, local governments and private entities.

## Truck Weight Fees

In addition to the federal HVUT, commercial trucks pay State weight fees based on declared gross vehicle weight. For the last five years, the fee generated approximately \$950 million annually. The money is used to compensate for the additional pavement distress caused by trucks on the roadway. As mentioned above, the State Legislature redirected this revenue from the SHA to the General Fund to pay the debt-service cost on transportation bonds starting in fiscal year 2010-11.

## Vehicle License Fees

The VLF was established in 1935 by the Legislature in lieu of a property tax on vehicles. The formula for the VLF is based on the purchase price of the vehicle when acquired. The VLF is paid upon initial and annual vehicle registration renewal. Currently, it is calculated at 0.65 percent of the vehicle purchase price the first year, decreasing each year for the first 11 years or until the title of the vehicle is transferred.<sup>11</sup> The VLF brings approximately \$500 million annually and the bulk of collected funds are transferred to counties and cities. The VLF also funds the Department of Motor Vehicles (DMV), the Franchise Tax Board, and the State's Controller's Office.

## Cap-and-Trade

AB 32 established the goal of reducing GHG emissions to 1990 levels by 2020. To meet this goal, the ARB adopted "Cap-and-Trade," a market mechanism that places a "cap" on emissions for entities responsible for 85 percent of the State's GHG emissions. As part of the Cap-and-Trade Program, ARB conducts quarterly auctions and sells emission allowances. These auctions will likely generate billions of dollars in State revenue over the coming years. Through SB 862, GHG: Emissions Reduction, the Governor's FY 2014-15 budget appropriated \$850 million in auction revenue to various State programs, including programs related to sustainable communities, clean transportation, energy efficiency, natural resources, and waste diversion. The 2014-15 budget allocated \$250 million to the California High-Speed Rail Authority (CHSRA) and provided an ongoing commitment of 25 percent of future proceeds. Caltrans received \$25 million to oversee the Low Carbon Transit Operations Program and another \$25 million for the Transit and Intercity Rail Capital Program. The Strategic Growth Council (SGC) received \$130 million to coordinate the Affordable Housing and Sustainable Communities Program and ARB received \$200 million to oversee the Low-Carbon Transportation Program (see Table 5).<sup>12</sup> On June 15, 2014, the Legislature approved the 2014-15 Budget Bill and related trailer bills that support the budget. SB 862 establishes long-term funding for the Cap-and-Trade Program. Beginning FY 2015-16, SB 862 dedicates 60 percent of Cap-and-Trade revenue to all of the mentioned programs through a continuous appropriation, while the remaining 40 percent of Cap-and-Trade revenue is available for annual budget act appropriation. The 60 percent continuous appropriation includes 25 percent for HSR, 20 percent for Affordable Housing and Sustainable Communities (AHSC), 10 percent for Transit and Intercity Rail Capital Program, and 5 percent for the Low Carbon Transit Operations Program. The Legislature will allocate the remaining funds to meet specific objectives in the future. Initially, fuel costs may rise in the short run, but the creation of a carbon market would spur technological innovation and clean energy investments that lead to better efficiency and sustainability in the long run.<sup>13</sup>

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<sup>11</sup> California Department of Motor Vehicles, "Frequently Asked Questions FAQ. In Vehicle License Fee FAQs," [https://www.dmv.ca.gov/portal/dmv/detail/faq/faq\\_vlf/!ut/p/a1/lZDBasMwEES\\_pYccxa7tKlaOlG1264QeCqmlI5EVO1GxZbkIUfr1lX0PoXsYGfHm9i1lqEFaFcxVeTNZNSxebpvq9eWQlAVWBT1y5FVZvp8P57TYzFAJEqS23vkbiMsYGj1Z31nfdHaDOW-wV\\_MqTRj6ZdlpcwHR0rRnCd2RTjMkzxo1YSrvCGZlc5awpG1TECBkfredbuHjn4Fvj3BqEOn3aX-6xljlb8TYfol6Xr\\_KihBXzNc8Sx65F9YfD\\_Vj8PVPsRvvDEdw48gy6slvsRyC409\\_SOTwG!//dl5/d5/L2dBISEvZ0FBIS9nQSEh/?uril=wcm%3Apath%3A%2Fdmv\\_content\\_en%2Fdmv%2Ffaq%2Ffaq\\_vlf](https://www.dmv.ca.gov/portal/dmv/detail/faq/faq_vlf/!ut/p/a1/lZDBasMwEES_pYccxa7tKlaOlG1264QeCqmlI5EVO1GxZbkIUfr1lX0PoXsYGfHm9i1lqEFaFcxVeTNZNSxebpvq9eWQlAVWBT1y5FVZvp8P57TYzFAJEqS23vkbiMsYGj1Z31nfdHaDOW-wV_MqTRj6ZdlpcwHR0rRnCd2RTjMkzxo1YSrvCGZlc5awpG1TECBkfredbuHjn4Fvj3BqEOn3aX-6xljlb8TYfol6Xr_KihBXzNc8Sx65F9YfD_Vj8PVPsRvvDEdw48gy6slvsRyC409_SOTwG!//dl5/d5/L2dBISEvZ0FBIS9nQSEh/?uril=wcm%3Apath%3A%2Fdmv_content_en%2Fdmv%2Ffaq%2Ffaq_vlf).

<sup>12</sup> CA Department of Finance, "Cap and Trade Expenditure Plan," <http://www.ebudget.ca.gov/2014-15/pdf/Enacted/BudgetSummary/CapandTradeExpenditurePlan.pdf>

<sup>13</sup> California Air Resource Board, Cap-and-Trade Program. What is Cap-and-Trade?" <http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm>.

TABLE 5. CAP-AND-TRADE: SUSTAINABLE COMMUNITIES AND CLEAN TRANSPORTATION PROGRAMS

AGENCY/DEPARTMENT	PROGRAM	FY 14-15 FUNDING AMOUNT (MILLIONS)	PERCENTAGE
High-Speed Rail Authority	<b>High-Speed Rail Project</b> Covers initial construction of Central Valley segment and environmental and design work on the system.	\$250	25%
CalSTA/Caltrans	<b>Low Carbon Transit Operations Program</b> Funds bus and rail service projects that target disadvantage communities, reduce greenhouse gases, and improve mobility.	\$25	5%
CalSTA/Caltrans	<b>Transit and Intercity Rail Capital Program</b> Funds bus and rail capital improvement projects that target disadvantaged communities, expand rail systems, reduce greenhouse gases, improve safety, and enhance connectivity to high-speed rail.	\$25	10%
Strategic Growth Council	<b>Affordable Housing and Sustainable Communities Program</b> Funds “sustainable community” initiatives, such as transit-oriented development.	\$130	20%
Air Resources Board	<b>Clean Transportation Program</b> Funds a range of programmatic activities, such as incentive programs for zero- and low-emissions passenger vehicles, clean buses and trucks, and sustainable freight technology.	\$200	Annual Appropriation

### Active Transportation Program

Governor Brown signed SB 99 on September 26, 2013, which provides about \$120 million annually from the federal trust fund and the SHA to the ATP. This program provides funding for non-motorized transportation, such as pedestrian, bicycle, trail, and Safe Routes to School (SRTS) projects. Disadvantaged communities must receive no less than 25 percent of the program’s funding. The ATP receives funds that were previously dedicated to SRTS, the former Transportation Enhancement Program, recreational trails funding, and the Bicycle Account. The CTC is responsible for adopting guidelines and programming ATP projects. Caltrans is responsible for recommending projects to the CTC and monitoring awarded applicants. The purpose of ATP is to encourage increased use of active modes of transportation with the following specific goals:

- Increase the proportion of trips accomplished by biking and walking
- Increase safety and mobility for non-motorized users
- Advance the active transportation efforts of regional agencies to achieve GHG emission reduction goals
- Enhance public health
- Ensure that disadvantaged communities fully share in the benefits of the program
- Provide a broad spectrum of projects to benefit many types of active transportation users

## LOCAL REVENUES

Local revenue provides funding for highways, streets, roads, bike routes, pedestrian pathways, transit service, and freight services. These local funding sources derive primarily from a sales and use tax on the sale of goods, including gasoline and diesel fuel, voter-approved local sales tax initiatives, transit fares, property taxes, developer fees, and special district taxes, such as an infrastructure financing district (IFD) taxes. IFDs, which require 55 percent voter approval, generate revenue for local infrastructure improvements, including transportation projects. Governor Brown enacted SB 628 on September 29, 2014, directing IFDs to focus on specific infrastructure projects.

### Transportation Development Act

The Transportation Development Act (TDA) of 1971 provides two local funding sources for transportation and transit purposes through the Local Transportation Fund (LTF) and State Transit Assistance Fund (STA). LTF is derived from a ¼ cent of the general sales tax collected statewide. The BOE collects the revenue and returns the money to each participating county on a pro rata basis. On the other hand, STA is derived from the statewide sales tax on diesel. Also, the additional 1.75 percent increase to base sales tax on diesel is dedicated to the STA. Statute requires that 50 percent of the STA funds be allocated based on population and the other 50 percent be allocated based on operator revenues from the previous year.

### Self-Help Counties and Local Sales Tax Measures

The State Constitution authorizes counties to impose an additional local sales tax up to 1 percent if the measure receives supermajority two-thirds of approval votes cast. Counties with such voter-approved local sales tax initiatives are “self-help counties.” Currently, 81 percent of Californians live in self-help counties.<sup>14</sup> Currently, there are 20 voter-approved self-help counties. These counties use transportation sales tax measures to fund highway, freight, transit, bicycle, pedestrian, and other mobility initiatives. Further, six counties have implemented a permanent 0.5 percent sales tax to fund four transit districts in their region. Statewide, self-help counties generate over \$4 billion per year from local sales tax measures. Over the course of the next three decades, self-help counties are expected to spend over \$95 billion on California’s transportation system.

### Local General Funds

Cities and counties are required by law to spend a certain amount of their general funds on streets and roads as a precondition to receiving their share of the State fuel tax revenue. Cities and counties receive 36 percent of the 18 cents per gallon base fuel excise tax revenues, while the SHA gets 64 percent.

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<sup>14</sup> Self-Help Counties Coalition, “California’s Economy Fueled by Local Sales Tax Measures,” [http://www.selfhelpcounties.org/Brochure\\_Self-HelpCounties\\_011813.pdf](http://www.selfhelpcounties.org/Brochure_Self-HelpCounties_011813.pdf).

## EXPENDITURES

California has steadily increased its spending on transportation over the course of many decades. Federal and State revenues are deposited into the SHA and Public Transportation Account (PTA), and then allocated for interregional and regional transportation improvement, maintenance and operation, local assistance, and non-capital outlay. The State's primary infrastructure investment areas are: 1) highways, 2) local streets and roads, 3) mass transportation, 4) intercity rail, and 5) HSR.

### HIGHWAYS

From 2001-2011, the State spent about \$56 billion on highway infrastructure projects that included design, construction, and staff oversight.<sup>15</sup> Spending on highway projects has increased in recent years due to the infusion of one-time Proposition 1B bond funding. Additional funding includes:

- *State Transportation Improvement Program (STIP)*—Funds expansion projects that add capacity to the transportation network and consists of two components: Caltrans' Interregional Transportation Improvement Program (ITIP) and Regional Transportation Planning Agencies' (RTPAs') Regional Transportation Improvement Program (RTIP). Approximately 25 percent of overall STIP funding goes toward the ITIP, while 75 percent goes toward the RTIP. The ITIP focuses on improving interregional transportation and sustainable, integrated corridors of statewide significance while the RTIP focuses on improving transportation within regions.
- *State Highway Operation and Protection Program (SHOPP)*—Provides funding for pavement rehabilitation, operation, emergency repair, and safety improvements on State highways and bridges.

### LOCAL STREETS AND ROADS

Over the past decade, roughly \$19 billion has been distributed to local entities, and annual State funding for local roads has increased over the years. This includes:

- *Local Assistance Program*—Caltrans oversees the distribution of approximately \$1.7 billion in federal and State funding annually to over 600 cities, counties, and regional agencies. The program provides recipients with the opportunity to improve their transportation infrastructure or provide additional transportation services.

### MASS TRANSPORTATION

Capital expenditures for mass transportation have fluctuated over the past ten years. Expended State funds have varied from \$200 million to \$1.5 billion per year. During this period, funding sources shifted from special funds to bonds. This includes:

- *Public Transportation Account (PTA)*—Provides funding for local transit, as outlined in the TDA. Proposition 22 (2010) requires revenue generated from the State's 4.75 percent base portion of

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<sup>15</sup> Taylor, M, "A Ten-Year Perspective: CA Infrastructure Spending," 2011,  
[http://www.lao.ca.gov/reports/2011/stadm/infrastructure/infrastructure\\_082511.pdf](http://www.lao.ca.gov/reports/2011/stadm/infrastructure/infrastructure_082511.pdf).

the sales tax on diesel fuel to be split equally between the State and local transit agencies. The additional 1.75 percent on top of base sales tax is dedicated to the STA for operation and capital purposes.

## INTERCITY RAIL

Caltrans funds three intercity rail routes: the Pacific Surfliner, the San Joaquin, and the Capitol Corridor. State legislation transferred Caltrans management responsibilities of the Pacific Surfliner and the San Joaquin to local joint power authorities and the Capitol Corridor continues to be managed by the Capitol Corridor Joint Powers Authority. The Pacific Surfliner operates from San Luis Obispo-Los Angeles-San Diego. The San Joaquin operates from Oakland-Sacramento-Bakersfield. The Capitol Corridor operates from San Jose-Oakland-Sacramento-Auburn. All three routes are supplemented by dedicated feeder bus service. These three rail lines serve more than 5.3 million passengers annually to more than 130 destinations throughout California.

## HIGH-SPEED RAIL

Compared to other transportation expenditures, spending on HSR has been minimal over the years. In the future, however, HSR construction costs alone will represent a significant portion of transportation expenditures. This includes:

- *California's Global Warming Solutions Act of 2006 (AB 32)* – Established a market-based compliance mechanism known as the “Cap-and-Trade” program. Governor Brown earmarked \$250 million in FY 2014-15 for the CHSRA through Cap-and-Trade auction revenues collected under AB 32, to fund the first phase in the Central Valley and to complete further environmental and design work of the statewide system. In addition, the State budget will commit 25 percent of future Cap-and-Trade revenues to complete the system.

## FUNDING CHALLENGES

The SHS has steadily deteriorated over the past decades and has experienced increasing maintenance costs and congestion. The Governor's Budget Summary shows that Caltrans estimates that without new revenue, in 10 years 47 percent of pavement will either need preventative maintenance (30 percent) or already be distressed (17 percent). The SHS's pavement needs are expected to total \$8 billion per year over the next decade, but only \$2.3 billion per year is estimated to be available—a shortfall of \$5.7 billion per year. Further, entities managing local streets and roads will experience a funding shortfall of \$82 billion of their own over the next 10 years. Through a combination of deteriorating infrastructure and increasing demand and bond debt, it is uncertain if California will be able to meet its future transportation needs.

## DECREASING REVENUE

The decrease in transportation revenue can be attributed to a variety of causes, including not indexing the excise fuel tax to match inflation, or the decline in gasoline and diesel consumption due to user choice or more fuel-efficient and alternative-energy vehicles. Further, the economic recession led to a decrease in consumption, which correspondingly decreased transportation revenue. Revenue is

expected to further decrease because policies, such as the Corporate Average Fuel Economy regulation that was passed in 2012, requires an increase in car and light-truck fuel economy to 54.5 miles per gallon (MPG) by 2025.<sup>16</sup> This policy may bring about a rebound effect; the reduction in vehicle operating costs due to increased mileage will boost disposable income, possibly inducing Californians to drive more.

## BOND DEBT

Bonds serve as a quick and temporary financial mechanism to generate money and typically expedite capital projects in the short-run; however, there is a long-run financial trade-off. As bond funding remains an option, lengthy debt repayments, such as Proposition 1B, will continue to draw from future revenue that could be used to fund the transportation system. The Legislature has begun to allocate additional resources to pay down California's debt obligations. As mentioned previously, truck weight fees were redirected to pay the debt owed on bonds. The State has attempted to avoid borrowing additional money to decrease its overall debt service.

## TRIBAL GOVERNMENT FUNDING AND PARTNERSHIPS

In the Tribal Listening Sessions conducted as preparation for creating this plan, tribal government representatives noted that funding is the main transportation difficulty they face. Transportation funding is vital for providing needed community services and sustaining vibrant and diverse tribal economies. Funding for tribal transportation projects is also necessary for facilities needed by tribal communities in their mostly rural settings.

Planning funds are essential in helping tribes develop their transportation systems. Transportation plans are required for several programs and are the foundation of successful transportation systems. A crucial component of planning, and therefore funding, is data. Many tribal governments lack sufficient data for planning and funding purposes due to lack of funding and rural locations. Recreational traffic is often not counted in many traffic studies. Tribes must also overcome institutional restrictions to partner with local and regional transportation agencies. As a result, many tribes experience difficulties accessing transportation funding.

Accessing transportation funding is a priority goal of California tribal governments. As Stated previously, Native American tribes are sovereign governments. In California, a majority of transportation funding is given to local governments or regional agencies. Thus, tribes must compete with cities, counties, and other local agencies for limited funds. This intense competition makes it difficult for tribal governments to access needed funding and provide essential services to their communities. New strategies are required to improve tribal transportation systems.

Innovative funding mechanisms are critical in providing better funding access. Partnerships between tribes, local governments, and regional agencies create new opportunities in transportation and provide

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<sup>16</sup> The White House: Office of Press Secretary, "Obama Administration Finalizes Historic 54.5 MPG Fuel Efficiency Standards," 2012, <http://www.whitehouse.gov/the-press-office/2012/08/28/obama-administration-finalizes-historic-545-mpg-fuel-efficiency-standard>.

mutually beneficial solutions to community problems. Building collaborative and cooperative relationships help ensure maximum benefits and efficiency for all. In addition, other creative solutions could empower tribal governments to develop their own transportation networks. These solutions may include partnerships with multiple tribal governments in tribal transportation funding districts, a separate funding reservation for tribes, and special transportation districts.

## STRATEGIES TO REDUCE THE FUNDING GAP

Reliance on unstable revenue sources has created a challenge: how to maintain the current infrastructure and meet future demand. Federal and State initiatives to reduce gasoline and diesel fuel consumption make the creation of stable funding sources even more imperative. In order to address the revenue shortfall anticipated over the next decade, the excise tax on fuel should be indexed and additional funding mechanisms such as pay-as-you-go taxes and fees, new excise taxes, sales taxes, and other user fees must be explored.

### INDEXING THE FUEL EXCISE TAX

Since 1993, the U.S. federal fuel tax has been at \$0.184 cents per gallon for gasoline and \$0.244 cents per gallon for diesel. Fuel taxes have not increased with inflation, maintenance, and rehabilitation costs; therefore, transportation agencies have lost purchasing power over the decades. A solution to increase purchasing power would be to index the fuel tax to the Consumer Price Index—Florida, Maryland, and New Hampshire implemented this strategy. This would allow the revenue collected from fuel excise taxes to accurately reflect current market conditions.

### PAY-AS-YOU-GO TAXES AND FEES

As automobile manufacturers increase production of more fuel-efficient vehicles and governments encourage sustainable communities, revenue from the excise tax on fuel will shrink. The Legislature has taken the initiative to address this issue through the passage of AB 2032 (2004), which, for a fee, permits single occupancy vehicles (SOVs) in selected areas to use designated high occupancy vehicle (HOV) lanes (carpool lanes) during peak commute periods.

In 2015, Governor Brown signed into law AB 194 authorizing regional transportation agencies or the Department to develop and operate high occupancy toll (HOT) lanes or other toll facilities upon approval of the CTC and removes the existing limitation on the number of facilities that may be approved. Prior to passage of AB 194, existing law limited the number of facilities to not more than 4, 2 in northern California and 2 in southern California, approved before January 1, 2012. The law allows applicable agencies to issue bonds, refunding bonds, or bond anticipation notes backed by revenues generated from the facilities. The southbound I-680 Express Lane was the first HOT lane project implemented in northern California, and was opened to traffic in September, 2010. The evaluation of the Express Lane within three years of opening showed that the tolls collected were not financially sufficient because revenues did not exceed operating cost. The operating cost has been subsidized by the unspent grant funds available in the project. When the Express Lane becomes financially sustainable, the Sunol Smart

Carpool Lane JPA Board will assess how to reinvest these funds in the corridor.<sup>17</sup> I-15 in San Diego is the other project under this Express Lane Demonstration Program, but no evaluation reports submitted to the Legislature for this corridor were found to date.

The development of new revenue mechanisms will be critical to replace the outdated fuel excise tax and reduce the revenue shortfall. Decision makers may consider creating an excise tax on alternative fuels, carbon tax, road usage charge, or congestion pricing to generate more revenue. An increase to transportation related sales taxes would also increase revenue.

## Vehicle Based Fees

As cars become more fuel efficient, many new car owners are paying less in fuel taxes than the average motorist. Consideration should be given to developing new fees on vehicles to stabilize transportation revenue as vehicles become more fuel efficient. This fee could be imposed in an equitable manner and revenue would not erode as more fuel efficient vehicles are introduced.

## Road Charge

A mileage-based pricing strategy could be implemented. Oregon is currently exploring this under their Road Usage Charge Program. A similar effort in California has been introduced through SB 1077 (DeSaulnier, 2014). This bill requires the State to assess the potential for a user mileage-based revenue collection on California's roads and highways as an alternative to the motor fuel tax system. CTC has assembled a 15 member Road Charge Technical Advisory Committee (TAC) to develop recommendations for the design of a Road Charge Pilot Program. California State Transportation Agency (CalSTA) will implement this pilot program in the Summer of 2016. The outcomes of this program will be reported to the TAC, CTC, and Legislature in the second half of 2017. CTC will provide recommendations on this program to the Legislature in December of 2018. Caltrans is providing the technical support to the TAC, CTC, and CalSTA in carrying out their duties and responsibilities.

## Congestion Pricing

Congestion pricing is a strategy that surcharges roadway users, where there is excess of demand, to reduce traffic congestion. This strategy has been used worldwide for decades and it can be applied to urban cores or single transportation facilities. "Cordon pricing" involves applying a fee or tax during peak usage as a disincentive for motorists from visiting the area, thus, helping to reduce travel and alleviating traffic congestion. "HOT lanes" allow users to access a dedicated lane such as a "carpool" lane for a fee based on the distance traveled and its demand. This allows users to access a less congested traffic lane, while alleviating the demand for a general-purpose lane that is at max throughput capacity. Moreover, it serves as another revenue mechanism.

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<sup>17</sup> Alameda County Transportation Commission, "Southbound I-680 Express Lane Performance Evaluation- An After Study," 2013, [http://www.alamedactc.org/files/managed/Document/11591/AlamedaCTC\\_I-680\\_After\\_Study\\_20130712.pdf](http://www.alamedactc.org/files/managed/Document/11591/AlamedaCTC_I-680_After_Study_20130712.pdf).

## ADDITIONAL SALES TAX

Although some Californians view the Fuel Tax Swap of 2010 as an additional tax on gasoline and diesel fuel, the program was intended to be revenue-neutral and provide the Legislature with more flexibility to allocate transportation revenue.<sup>18</sup> Californians could raise the sales tax across the State or within local jurisdictions for transportation purposes. Local voters could also extend or increase the sales tax measures already in place for local transportation purposes.

## CONCLUSION

California's transportation funding mechanisms are dated, thus, transportation will continue to face funding challenges in the future. Revenues are expected to decrease due to inflation and political initiatives that focus on reducing automobile use and shifting consumers to choose for alternative fuels. An act of indexing or a single revenue mechanism alone will not negate the funding shortfall. More likely, several revenue strategies will have to be explored and implemented to close the financial shortfall. If this gap is not addressed, the State's eroding transportation infrastructure may have an impact on the economy as the mobility needs of people and businesses will not be met.

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<sup>18</sup> California State Board of Equalization, "Tax Rate on Gasoline," [http://www.boe.ca.gov/taxprograms/excise\\_gas\\_tax.htm](http://www.boe.ca.gov/taxprograms/excise_gas_tax.htm).