

## **Transportation and Goods Movement Team**

### **Advocacy Issues Background**

#### **Issues**

#### **Ensure the reliability of transportation funding in California**

The \$24 billion State budget short fall is already having direct and dramatic impacts on transportation funding statewide. Metro has already lost all state dollars to operate its transit system and has over one billion dollars in infrastructure projects on hold for state funding. Additionally, the state is having trouble funding bonds because of its poor credit rating. Without a consistent source of revenue transportation projects around the state are at jeopardy of losing other appropriated dollar such as those from the federal government. It is critical for the state to consistently fund transportation projects in order to maintain a basic level of integrity and good repair in the system.

#### **Use transportation investment to spur economic development**

Direct investment in the state's transportation infrastructure is a strong economic stimulus tool, as evidenced by the federal American Recovery and Reinvestment Act of 2008. It is estimated that every one billion dollars in investment creates 18,000 new jobs. Additionally, private sector can provide partnership opportunities to reduce project delivery cost and currently has a trained workforce available to begin work.

### **Information about Transportation in California**

#### **-BACKGROUND-**

#### **Q: How are state budget shortfalls impacting transportation revenues?**

A: The State of California is expected to have a \$24 billion shortfall over the next two years. This impacts transportation projects in the state in a few specific ways. First, it impairs the State's ability to sell bonds to fund transportation projects such as those designated in Proposition 1B (Prop. 1B). Second, as the state looks for ways to close its budget gap it will divert money from every available source into the general fund. Proposition 42 (Prop. 42) funds have often been a target as have "spillover" funds from the gas tax. The state has already eliminated transit funding, locally that means a 16% for Metro from their operating revenues.

#### **Q: How will borrowing from Proposition 42 impact transportation projects?**

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY**  
**PROP 42 STIP Projects List (in thousands)**

Agency	Project	Prior	Program Year			Total Programmed	Reimbursed to Date	Balance
			FY 08-09	FY 09-10	FY 10-11 & Beyond			
Caltrans	I - 5 South Carmenita Rd interchange (RIP)(TCRP #43)	40,103		40,641		80,744	3,489	77,255
Caltrans	I - 5 South Widen, HOV, Orange Co-Rt 605 (RIP) (CMIA)	1,476	225,561		1,728	228,765	-	228,765
Caltrans	I - 5 North HOV Lanes, SR 134 - SR 170 (CMIA) *	23,161		151,853		175,014	-	175,014
Caltrans	I - 10 HOV lanes, Puente Ave-SR 57	58,500			19,655	78,155	7,546	70,609
Caltrans	I - 10 W. Covina/Pomona Soundwall (RTIP)			3,642		3,642	-	3,642
Caltrans	SR 138 from Rt 14-50th St, new expwy, R/W	13,935				13,935	-	13,935
Caltrans	SR 138 Widen, 77th St E-89th St E (RIP), grf	1,766		6,500		8,266	-	8,266
Caltrans	SR 138 Widen, 77th St E-89th St E (RIP)		928	540		1,468	-	1,468
Caltrans	SR 138 Widen, 175th St E-Largo Vista (RIP)			2,176		2,176	-	2,176
Caltrans	I - 405 Arbor Vitae interchange (96 grf) (RIP) *	3,067		31,303		34,370	-	34,370
Glendale	4 CNG Buses for Glendale Beeline Transit				1,023	1,023	-	1,023
LACMTA	50 Light Rail Vehicles			849	117,811	118,660	-	118,660
LACMTA	Exposition Light Rail Extension Phase II				103,356	103,356	-	103,356
SCRRA	Metrolink Sealed Corridor				14,000	14,000	-	14,000
Caltrans	I - 5 HOV lanes, Rt 170-Rt 118 (TCRP #41) <b>(Voted 05/09)</b>	61,855				61,855	10,588	51,267
LACMTA	Exposition Light Rail Transit <b>(Voted 09/07)</b>	314,653				314,653	108,239	206,414
<b>GRAND TOTAL</b>		518,516	226,489	237,504	257,573	1,240,082	129,862	1,110,220

**Note:** TBD = To be determined, Metro has requested the data from Caltrans District 7.

\* The recommendation is based on the project rediness.

A: In 2002 voters passed Prop. 42, which requires the state to use its share of the gas tax for transportation projects. Due to a loophole for “fiscal emergencies”, the state has raided those funds in most of the years since the proposition was passed. This year the state could attack Prop. 42 funds in a few ways:

- Directly transfer Prop. 42 revenues to the general fund, which must be repaid;
- Hold on to the revenues for as long as a year to bolster the State’s cash flow;
- Use Prop. 42 funds to pay down debt on transportation bonds instead of funding new programs and projects to take pressure off the general fund; or
- Transfer Prop. 42-mandated spillover funds for transit infrastructure (\$400m) into the general fund

Other tax revenues such as the Highway Users Tax Account could be raided to pay down bond debt instead of being used to fund new projects. Moving these funds away from state and local projects will have a devastating impact on the timeliness of their delivery. Existing Los Angeles County projects totaling over \$1.25B that depend on Prop. 42 include:

- I-5 carpool lane extension;
- I-405 carpool lane extension;
- Exposition light rail, Phase II;
- City street improvements in all 88 L.A. County cities; and
- Improvements to the SR 138.

According to Transportation California, “Borrowing gas tax funds now will plunge the state deeper in debt later – requiring billions of dollars in repayment in just three years. Any borrowing of gas tax funds must be repaid in three years when experts predict California will still be facing multi-billion dollar deficits. “

**Q: What are the long term impacts of immediate transportation cuts?**

A: Funding cuts to shovel-ready projects seriously impedes the ability of counties and cities to deliver projects and jeopardizes their ability to maintain the safety and mobility needs of the public. Uncertainty in state funding forces local agencies to defer projects and constantly play catch-up in funding infrastructure needs. Over time, a degraded transportation infrastructure system is much more expensive to maintain. More disturbingly, the governor is proposing to make some cuts, such as those to the Highway Users Account permanent. Doing so would basically make it impossible for the State to maintain its transportation network.

**Q: How does cutting and delaying transportation infrastructure funding impact California’s business competitiveness?**

A: California as a state has the largest economy in the U.S. and is ranked 8<sup>th</sup> in the world. All of that economic activity is supported by our extensive transportation network. However, a high degree of congestion exists in urban areas where 93% of the state lives. The Southern California Association of Governments estimates in its 2008 Regional Transportation Plan that the annual cost of congestion on our roads was \$10.5 B. There is clearly need for much greater investment. Additionally, funding delays hold back new projects that could add capacity and cuts to road repair and emergency services reduce the safety and throughput of California’s system adding further to congestion and delay.

Congestion and the perception of congestion impact California’s ability to compete for business. Not only does congestion result in lost productivity, but companies and talented individuals factor the cost of transportation in looking to move business to or accept jobs in the state. The goods

movement, an industry which generates \$52 Billion annually in Southern California, in particular requires a reliable high throughput system. The road and rail network in Southern California has been a competitive advantage in the past. However, failure to invest in infrastructure improvements may cause the state to lose that advantage.

**Q: Can Measure R funds be used to fill funding gaps?**

A: To earn the support of Los Angeles County residents, especially the business community, Measure R was designed with a high degree of accountability to fund the projects it listed on the ballot. While that means that there will be guaranteed funding for Los Angeles County priority projects it also means that there is little flexibility where the money is spent. Some additional funds can be applied to Measure R projects. It is possible to allocate Measure R funds within the program to “loan” a state fund shortfall; however, there is no guarantee of repayment, timely or otherwise.

**Q: How will requirements to meet state climate change goals impact transportation funding?**

A: AB 32 and SB 375 require the state to reduce its green house gas (GHG) emissions statewide and specifically in land-use planning. The most effective way to attack emissions is to improve transit ridership. With massive cuts to transit operation and infrastructure development, the state’s GHG requirements have become an unfunded mandate.

**Q: What impact will SB 375 have on existing local revenues?**

A: Clean-up legislation for SB 375 exempts projects approved by ballot measure before December 2008 from having to be listed in a Sustainable Community Strategy. Existing Metro sales tax revenues from sales tax Measures A and C provide funds for categories, not specific projects. Without clarification, funding provided by Measures A or C for a project the voters intended to build could be successfully litigated against.

**Q: How will spending money on transportation infrastructure help rebuild California’s economy?**

A: Direct investment in the economy will be essential to the state’s recovery. The California Infrastructure Coalition (A group of municipal and business organizations) estimates that there are 18,000 direct jobs created for every 1 billion dollars spent on infrastructure projects. The private sector which has suffered especially in the economic crisis would benefit greatly by working with the state to rebuild California’s transportation network.

**Q: What are some of the private sector solutions to finance infrastructure investment?**

A: Leveraging the private sector to build, maintain and operate California’s transportation network *does not* mean privatizing the system, *nor* is it a panacea to the state’s budget crisis. Leveraging the private sector *can* augment existing budgets and save millions of dollars through efficiency and by providing upfront capital. There are a variety of mechanisms to contract or fund work with the private sector including:

- Jointly developing projects with private investors;
- Tolling users for improved or new services;
- Contracting with private firms to build, manage and operate projects;

The Business, Transportation and Housing Agency is currently working on guidelines for public-private partnerships to help the state and local governments make informed decisions. Metro is also exploring which of its many upcoming projects will be good candidates for public private partnerships and has already signed a design-build contract to extend the carpool lane on the 405.

The state should aggressively pursue opportunities where the public interest can best be served by working with the private sector.

**Q: What can the legislature and the administration do to create transportation-related jobs and prevent projects from being cancelled or delayed?**

A: Billions of dollars of infrastructure projects are at stake as the state prepares to slash its way to solvency. The governor and legislature can effectively protect vital transportation jobs by ensuring reliable funding. That means preventing substantial cuts to transportation budgets or using bonds or gas tax revenues to backfill the general fund for non-transportation purposes. The state department of transportation can take proactive measures to improve project delivery. The California Transportation Commission should move quickly to approve projects in its jurisdiction and the legislature should streamline project approval in ways that do not compromise the public's safety or harm the environment. Additionally, the state should look to partner with the private sector on all applicable projects. While every corner of the state is feeling the pain of the current budget crisis, the road to recovery will be paved through wise investments made today.

February 4, 2009

# State Funding for Transportation

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LEGISLATIVE ANALYST'S OFFICE

Presented to:  
Assembly Transportation Committee  
Hon. Mike Eng, Chair





## Traditional State Fund Sources

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### State Highway Account (SHA)

- ***Money Comes From the “Gas Tax”...*** The state charges an 18-cents per gallon tax on gasoline and diesel fuel—known as the gas tax. The gas tax is estimated to generate about \$3.2 billion in 2009-10. Two-thirds of the revenues (\$2.2 billion) are deposited into the SHA. (One-third is apportioned for local roads.)
- ***...And Truck Weight Fees.*** The state charges weight-based fees to commercial vehicles. Revenues from these fees are deposited into the SHA and are estimated to be about \$1.1 billion in 2009-10.
- ***Account Funds Mainly Maintenance and Rehabilitation.*** Use of SHA funds is restricted to mainly highway purposes by Article XIX of the State Constitution. Expenditure priority is given to the Department of Transportation’s (Caltrans) administration, and maintenance and repair of the state’s highways.

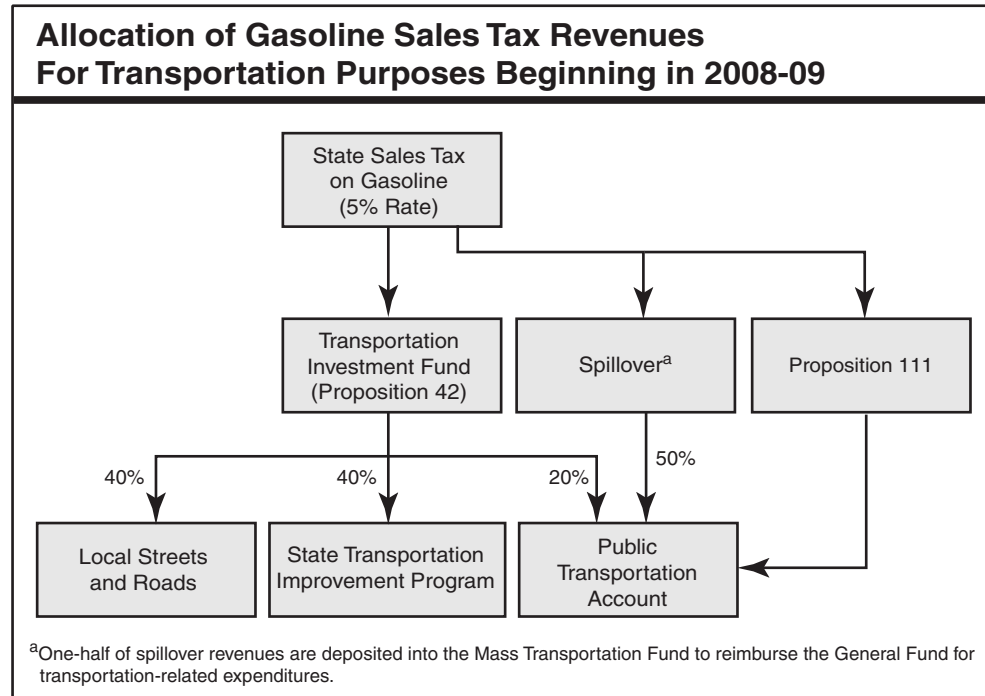


### Public Transportation Account (PTA)

- ***Money Comes From Sales Taxes on Fuels.*** The PTA is primarily funded by the sales tax on diesel and a portion of the sales tax on gasoline, including “spillover” when available.
- ***Account Funds Rail and Mass Transportation.*** The PTA is traditionally the state’s primary funding source for transit, including State Transit Assistance (STA), transit capital, and the state’s intercity rail program. In recent years, uses have been broadened to pay for home-to-school and regional center transportation.



## More Recent State Fund Sources



### ✓ 2000—Traffic Congestion Relief Fund (TCRF)

- **Money Came From General Fund and Gasoline Sales Tax.** Due to state fiscal problems, TCRF was not fully funded.
- **Account Funds the Traffic Congestion Relief Program.** Statutorily created program of 141 highway and mass transportation projects.

### ✓ 2002—Transportation Investment Fund (TIF)/ Proposition 42

- **Money Comes From Portions of Sales Tax on Gasoline.** An ongoing source of funding, Proposition 42 requires gasoline sales tax revenue in the General Fund to be transferred to the TIF for transportation uses.
- **Account Funds Highways, Local Roads, and Transit.** Beginning in 2008-09, funds are allocated by formula, as shown in the figure.



## More Recent State Fund Sources *(Continued)*

<b>Appropriations of Proposition 1B Funds</b>				
<i>(In Millions)</i>				
<b>Program</b>	<b>Authorized Amount</b>	<b>Already Appropriated</b>	<b>Proposed 2009-10</b>	<b>Balance</b>
Corridor Mobility	\$4,500	\$2,288.9	\$1,513.3 <sup>b</sup>	\$697.7
Trade Corridors	2,000	417.0	1,150.0 <sup>b</sup>	1,041.2
Local Transit	3,600	950.0	350.0	1,500.0
State Transportation Improvement Program	2,000	1,904.3	57.0	38.7
Local Streets and Roads	2,000	1,287.1	700.1 <sup>b</sup>	12.8
SHOPP <sup>a</sup>	750	617.0	78.0	55.0
State and Local Partnership Program	1,000	200.7	200.6	598.7
Grade Separations	250	185.1	0.7	64.3
State Route 99	1,000	117.8	436.5 <sup>b</sup>	445.7
Local Seismic	125	34.7	31.2	59.1
Intercity Rail	400	260.5	126.4	13.2
School Bus Retrofit	200	193.0	3.0	4.0
Air Quality	1,000	500.1	250.1	249.7
Transit Security	1,000	203.0	101.5	695.6
Port Security	100	99.5	—	0.5
<b>Total Appropriations</b>	<b>\$19,925</b>	<b>\$9,258.7</b>	<b>\$4,998.4</b>	<b>\$5,476.1</b>

<sup>a</sup> Includes \$500 million for State Highway Operation and Protection (SHOPP) augmentation and \$250 million for traffic light synchronization.

<sup>b</sup> Includes Governor's January proposal to appropriate an additional \$162 million for corridor mobility, \$52 million for trade corridors, \$800 million for local transit, \$700 million for local streets and roads, and \$5 million for State Route 99 in 2008-09.

### 2006—Proposition 1B

- **One-Time Infusion of \$20 Billion.** Approved by voters in 2006, Proposition 1B authorizes the state to sell \$20 billion in general obligation bonds for transportation purposes, mostly for capacity expansion of highways and transit systems and improvements to local roads.

### 2008—Proposition 1A

- **\$9.95 Billion for High-Speed Train and Other Rail.** Approved by voters in 2008, Proposition 1A authorizes the state to sell \$9.95 billion in general obligation bonds. Of the total, \$9 billion is available for a high-speed train system, and \$950 million is for other intercity and regional rail systems.



## Stable and Predictable Funding Needed

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### The State's Transportation Capital Programs

- **State Highway Operation and Protection Program (SHOPP)** is the ongoing four-year program to repair and improve the safety of the state's highways.
- **State Transportation Improvement Program (STIP)** is the five-year ongoing program to expand capacity on the state's highway and transit systems.
- **Proposition 1B** includes a number of programs with specific funding allocations (for example, corridor mobility improvement, trade corridor improvement, and transit security). Programs have different project selection criteria targeting different aspects of transportation.
- **Traffic Congestion Relief Program (TCRP)** is a one-time program that includes 141 statutorily specified highway and transit projects.



**Programs Provide Funding Over Multiple Years.** The state's transportation programs are multiyear plans to fund various phases of project work.



**Projects Funded From Many Sources.** Most projects are funded from multiple sources, including state, bond, local, and federal funds. Each source generally has different requirements or limitations on how funds can be spent.



## Transportation Funds Provide General Fund Relief

### Governor's Proposals to Use Transportation Funds to Help the General Fund

(In Millions)

Proposal	2008-09 Estimated	Governor's Budget Proposals		Total New Proposals
		2008-09 <sup>a</sup>	2009-10	
Fund home-to-school transportation	\$622.8	—	\$402.7	\$402.7
Redirect tribal gambling payments	—	\$100.8	100.8	201.6
Fund regional center transportation	138.3	—	138.3	138.3
Debt service/Proposition 42 repayment	621.3	—	—	—
Borrow transportation funds	231.0	—	—	—
<b>Totals</b>	<b>\$1,613.4</b>	<b>\$100.8</b>	<b>\$640.8</b>	<b>\$741.6</b>

<sup>a</sup> As part of his 2009-10 budget, the Governor proposes additional uses of transportation funds to provide General Fund relief in 2008-09.

- Different Accounts Provide General Fund Relief.** Over the past few years, significant amounts of transportation funds have been used to help the General Fund, with different accounts contributing various levels each year.
- Frequent Changes Create Instability.** The amounts and types of transportation funds used to help balance the state's budget vary from year to year, making it hard to predict (1) how much and (2) from which accounts money would be redirected. This creates instability because of the difficulty determining which programs and projects would be affected.
- PTA Faces Potential Shortfall in 2009-10.** The Governor proposes to reduce current-year STA funding and suspend program funding in 2009-10 in order to free up PTA funds for home-to-school and regional center transportation. However, if the Governor's proposal to raise the state's sales tax rate is not adopted, the PTA would have a shortfall in 2009-10 and the account would not be able to fulfill all of its obligations.



## Transit Capital Funding Is Unpredictable

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### State Transportation Improvement Program (STIP) Transit Projects

- **Transit Revenues Redirected for General Fund Relief.** Over the past few years, revenues traditionally used for transit purposes have been redirected to General Fund expenditures, including debt service on transportation bonds, home-to-school transportation, and regional center transportation.
- **Planned Projects Are Delayed.** To free up money for General Fund relief, transit capital projects have been delayed. According to the California Transportation Commission (CTC) staff, about \$520 million in projects programmed for funding from 2007-08 through 2009-10 have been delayed or deprogrammed.



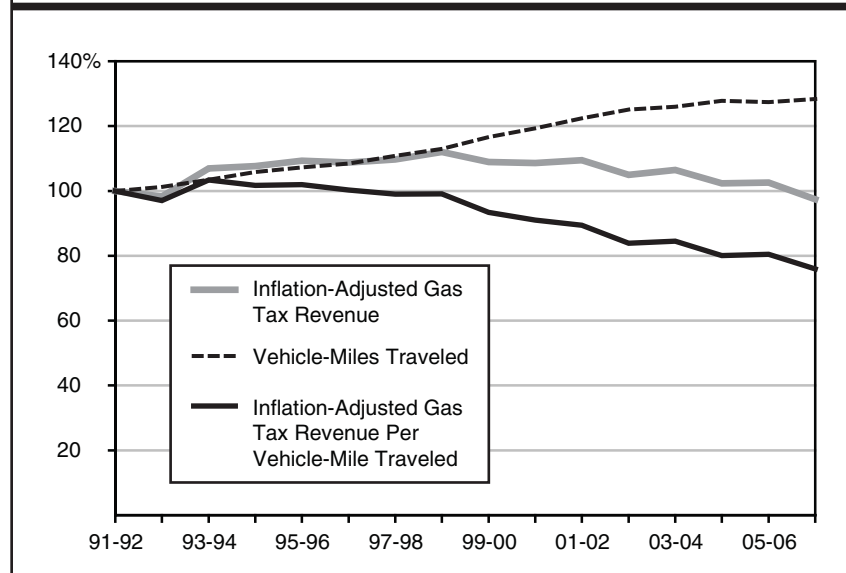
### Proposition 1B Transit Funds

- **Bond Funds Provide Transit Capital.** Proposition 1B provides \$3.6 billion for transit capital improvements. Many of the projects in STIP will be funded with these funds to the extent they are still high in priority for transit operators.
- **However, Funding Formula Limits Benefits.** So far, these funds have been made available annually at varying levels and without a predictable, ongoing allocation formula. Due to uncertainty about how much funding will be available, and how funds will be allocated from year to year, planning efforts by transit operators are being hampered.



## Highway Repair Funding Continues to Shrink

### Real Gas Tax Revenues Have Not Kept Pace With Road Use



- Loans and Redirection of Funds Delay Highway Repairs.** To help the General Fund, \$200 million was loaned from SHA in the current year. This delayed some projects.
- Maintenance and Rehabilitation Costs Increasing.** The cost of maintaining the state's highways has increased. Spending more on maintenance leaves less funding for major rehabilitation work. As a result, a substantial number of repair projects have not been funded.
- Gas Tax Revenues Declining.** Current SHA funding is insufficient to pay for all the highway maintenance and repair that is needed. In addition, the consumption of gasoline has declined every year since 2005. This results in lower gas tax revenue to the state.
- Short-Term and Long-Term Options.** In the short-term, we recommend raising the gas tax. In the long-term, we recommend exploring new ways of funding transportation programs, including charging drivers based on the miles traveled.



## Unavailable Bond Funds Disrupt Project Progress

<b>Proposition 1B Projects at Risk in 2008-09</b>			
<i>(Dollars in Billions)</i>			
	<b>Number of Projects</b>	<b>Proposition 1B Funding</b>	<b>Total Project Cost</b>
Already awarded construction contracts	98	\$1.5	\$1.8
Projects planned for award in 2008-09	98	1.7	2.1
<b>Total Projects at Risk</b>	<b>196</b>	<b>\$3.2</b>	<b>\$3.9</b>

- PMIA Provides Short-Term Financing for Projects.*** Cash from the Pooled Money Investment Account (PMIA)—the state's short-term savings account—is used to pay expenses incurred on bond-funded projects before bonds are sold. This process provides short-term financing for Proposition 1B projects.
- Bond Funds Unavailable Due to Cash Problems.*** In December, the Pooled Money Investment Board voted to suspend disbursements from the PMIA for bond-funded projects. As a result, money is not available to continue paying for work on Proposition 1B projects.
- Many Projects Will Be Delayed.*** Caltrans is holding back on awarding new contracts for bond projects. In addition, it may have to suspend or cancel contracts for projects already under construction.



## Issues for Legislative Consideration

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### Ongoing Stable Funding Needed

- ***In the Short-Term.*** Legislative action to set priorities on the use of funds, such as in the PTA, would help to provide greater stability. In addition, raising the state's gas tax would provide more funding from a relatively stable ongoing funding source.
- ***In the Long-Term.*** The Legislature should explore new ways of funding transportation programs. Specifically, we recommend further research into the feasibility of charging drivers mileage-based fees.



### How to Get the Most Benefit From Federal Stimulus

- ***Have Projects Ready to Go.*** Direct Caltrans and CTC to determine which projects in its programs are close to "shovel ready."
- ***Fund SHOPP Projects.*** In a December 2008 report, we identified 122 SHOPP projects with total construction costs of \$800 million that could be advanced to construction much sooner than currently planned. In addition, advancing many small projects would likely have a greater stimulus impact.
- ***Fund Delayed Proposition 1B Projects.*** Direct Caltrans and CTC to determine which Proposition 1B projects could be funded with federal stimulus funds and how such a funding switch would work given the requirements on the use of Proposition 1B funds.