

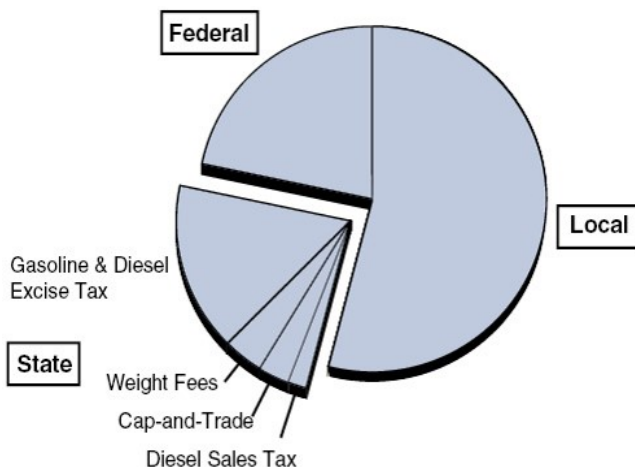
TRANSPORTATION FUNDING IN CALIFORNIA



March 2017

TRANSPORTATION FUNDING TODAY

California relies on a variety of revenue sources to fund the preservation and modernization of the multimodal transportation system. These sources include federal funds, state funds, and various sources of regional and local funds. Generally speaking, federal and state funds each constitute less than one-quarter of all funding, with more than one-half of all transportation funding in California coming from local sources. The following graphic from the Legislative Analyst's Office (LAO) illustrates the breakdown of transportation funding by source:



Source: LAO, FY 2016-17

FEDERAL TRANSPORTATION FUNDING

The federal government collects fuel taxes on gasoline (18.4 cents per gallon) and diesel (24.4 cents per gallon). These revenues are deposited in the federal Highway Trust Fund, which are distributed to states and local governments as well as transit agencies.

Most federal funding flows to recipients through formula allocations.

California receives roughly \$3.5 billion dollars in funding annually from the Federal Highway Administration. The state passes through about 40 percent of those federal highway funds to local governments. Federal highway funds are used for construction projects on the state's roads (including the interstate system) as well as planning and engineering. Some funds can also be used for transit and bicycle/pedestrian capital projects. In addition, the Federal Transit Administration provides roughly \$1.5 billion in transit grants to transit operators throughout the state.

STATE TRANSPORTATION FUNDING

California collects about \$6 billion annually in revenues for the construction, maintenance, and operation of its transportation system from five main sources:

Base Excise Tax on Gasoline: 18 cents per gallon (raising an estimated \$2.9 billion in FY 2016-17), distributed 64% to the state and 36% to cities and counties, used primarily for the maintenance and operation of the existing road system.

Price-Based Excise Tax on Gasoline: 9.8 cents per gallon in 2016 (raising an estimated \$1.4 billion in FY 2016-17), the first \$1 billion goes to backfill the weight fee revenues spent on transportation bond debt service, with the remainder distributed 44% to the state for capacity increasing projects, 44% to cities and counties, and 12% for maintenance and operations of the state highway system.

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STATE TRANSPORTATION FUNDING CONTINUED...

Variable Excise Tax on Diesel: 16 cents per gallon in 2016 (raising an estimated \$500 million in FY 2016-17), distributed 64% to the state and 35% to cities and counties, used primarily for the maintenance and operation of the existing road system.

Sales Tax on Diesel: 6.25% of the price of diesel sold in the state (raising an estimated \$500 million in FY 2016-17), dedicated to transit and rail operations and capital expenditures.

Weight Fees on Commercial Vehicles: Roughly \$1 billion each year, these revenues are used for repaying the state's General Fund for debt service on transportation bonds.

LOCAL TRANSPORTATION FUNDING

A variety of local sources of funding also support transportation, including local option sales taxes, developer and impact fees, and transit fares. For example, county transportation sales tax measures raise more than \$5 billion annually in 24 counties across California.

TRANSPORTATION FUNDING CHALLENGES

Adequate levels of funding are necessary to ensure California's transportation system remains efficient, competitive, and environmentally sustainable. The ability to maintain existing infrastructure is severely constrained due to decreasing levels of funding and an increasing demand on our transportation system. The decrease in state transportation funding is illustrated by the California Transportation Commission's action last year to de-program \$754 million and delay \$755 million from previously committed projects. This \$1.5 billion funding shortfall meant no new projects were programmed in the 2016 State Transportation Improvement Program (STIP). The shortfall in funding for the STIP was directly tied to a gasoline tax structure that depends on the price-per-gallon and increasing fuel efficiency of California's vehicle fleet.

Typically, transportation projects are funded from multiple sources. The total impact of defunding projects will likely run into the billions. This will have a very real impact beyond just meeting the transportation needs of Californians, as every \$1 billion in highway and transit investments supports 13,000 jobs, not to mention higher costs associated with project delays.

POTENTIAL FUNDING SOLUTIONS

Over the past ten years, the California Transportation Commission has urged the Legislature and the Administration to address California's transportation funding crisis.

In the past few months, state leaders have responded to this growing problem with a mix of proposals for funding increases and prudent reforms. The Governor's FY 2017-18 budget proposal addresses the need to expand the funding available for transportation. The Legislature has also responded to this transportation funding crisis by introducing bills in each house. All three proposals share many of the same funding mechanisms and reform proposals, with variations in the total amount of increased funding and distribution of funds.

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