$6 Billion Transportation Funding Proposals Introduced, including $2.2 Billion for Local Streets and Roads

As the first order of business in the new legislative session, Senator Beall and Assembly Member Frazier introduced similar transportation funding proposals on December 5, 2016, under SB 1 and AB 1, respectively. Upon full implementation, each proposal will generate approximately $6 billion annually, with about $2.2 billion going to local streets and roads.

These proposals present an opportunity in the new legislative session for all sides to negotiate on a comprehensive package to send to the Governor. The League of California Cities supports these proposals as a starting place for negotiations, but also understands that there is still work needed to get the necessary two-thirds vote in each legislative chamber. The League will continue to help advance the discussion and will provide cities with the tools it needs to advocate when the legislature is closer to reaching a deal.

Below, the League has summarized the key provisions in each of these proposals, as well as highlight the key differences under specific provisions:

Reforms

- **Establishes local reporting requirements.** Cities and counties would be required to send the CTC a list of projects they propose to fund with Road Maintenance and Rehabilitation Account (RMRA) funds, specifying the location, description, proposed schedule, and estimated useful life for each project each fiscal year.

- **Requires cities and counties to maintain existing general fund levels for transportation funding.** The bills require cities and counties to maintain their general fund transportation levels at equal to or greater than their annual average expenditures during the 2009-10, 2010-11, 2011-12 fiscal years, which is known as a maintenance of effort requirement. The bill authorizes the State Controller's Office to audit local governments for compliance and subject local governments to reimbursing the state for non-compliance.

- **Makes permanent the National Environmental Protection Act (NEPA) delegation authority.** Permanently extends the authority for CalTrans to participate in the federal NEPA delegation pilot program, which allows projects involving federal funds to be delivered faster.

- **Promotes employment and training opportunities through preapprenticeship.** Requires state and local agencies to create programs that promote employment in advanced construction through preapprenticeship as a condition of receiving RMRA funds.

- **Incorporates "complete streets" design concept into the Highway Design Manual.** Requires Caltrans to incorporate the "complete streets" design concept into the Highway Design Manual.

- **Restores independence to the California Transportation Commission (CTC).** The bills move the CTC out from under the California State Transportation Agency, establishing it as its own entity within state government to help it fulfill its oversight role.

- **Creates the Office of Transportation Inspector General as an independent entity and office within state government.** Its role will be to ensure that all other state agencies that receive state transportation funds are operating efficiently, effectively, and in compliance with federal and state laws. The Inspector General would be appointed by the Governor to a six-year term and would have the authority to conduct audits and investigations involving state transportation funds with all affected state agencies.

- **Permanently extends and expands the limited CEQA exemption for transportation repair, maintenance, and minor alteration projects to existing roadways.** The bills delete the January 1, 2020 sunset of the existing law and expand the exemption to cities and counties with populations greater than 100,000 and apply the exemption to state roadways.

- **Creates an Advanced Mitigation program for transportation projects.** The bills authorize the Natural Resources Agency to prepare, approve, and implement advance mitigation plans for one or more planned transportation projects. An advanced mitigation plan is defined as a regional or statewide plan that estimates the potential future mitigation requirements for one or more transportation projects and identifies mitigation projects, sites, or credits that would fulfill some or all of those requirements. The Agency would be authorized to administer the program, establish mitigation banks, secure areas for the purpose of providing mitigation, and allow transportation agencies to use mitigation credits to fulfill mitigation requirements. The program's intention is to supplant existing CEQA requirements, not substitute for them.

<u>Additional Revenues (Approximate)</u>

- **$1.8 billion from a 12 cent increase to the gasoline excise tax, adjusted every 3 years for inflation.** The revenue generated from this particular increase would help restore the gas tax' lost purchasing power due to inflation. The funds attributable to the 12 cent increase would be transferred to the newly created Road Maintenance and Rehabilitation Account (RMRA) for distribution.
    - **Key Difference:** SB 1 (Beall) phases in the 12 cent increase over 3 years, while AB 1 (Frazier) does not include a phase in period.

- **$1.1 billion from ending the Board of Equalization (BOE) "true up" and resetting the rate to the historical average of 17.3 cents per gallon, adjusted every 3 years for inflation.** This provision would "reset" the priced based excise tax on gasoline to its original rate of 17.3 cents. Funds would be distributed using current formulas.

- **$1.3 billion from a $38 increase to the Vehicle Registration Fee, adjusted every 3 years for inflation.** After the California Department of Motor Vehicles deducts their administrative costs from imposing and collecting the fee, the funds from the increase would be deposited into the RMRA for distribution.

- **$500 million from restoration of half the truck weight fees to transportation projects.** Restoration of truck weight fee revenue would be phased-in over a five-year period and half would no longer be allowed to be transferred out of the state highway account (SHA) after the 2020-21 fiscal years. The funds would remain in the SHA, which would prevent HUTA funds from the variable gas tax from having to offset the SHA weight fee transfer.

    - **Key Difference:** SB 1 (Beall) phases in a percentage of the truck weight fees back to transportation projects, while AB 1 (Frazier) phases in specific weight fee amounts every year. SB 1 caps the weight fee transfer at 50% in FY 2020-21, while AB caps the weight fee transfer at $500,000,000 in FY 2020-21.

- **$600 million from a 20 cent per gallon increase to the diesel excise tax, adjusted every 3 years for inflation.** The funds attributable to the 20 cent increase to the diesel excise tax would be transferred to the Trade Corridors Improvement Fund (TCIF). Federal FAST Act funds for freight would also be deposited into the TCIF.

- **$300 million from unallocated cap and trade funds.** This continuous appropriation of cap and trade funds would essentially double the amount going towards the Transit and Intercity Rail Capital Program (TIRCP) and the Low Carbon Transit Operations Program (LCTOP).

- **$263 million from 3.5 Percent Increase to the diesel sales tax.** The funds generated through the additional 3.5 percent increase to the diesel sales tax would deposit $263 million into the State Transportation Account for transit and intercity rail purposes.
    - **Key Difference:** SB 1 (Beall) would impose an additional 0.5 percent to this sales tax which would generate a $40 million set aside for intercity rail and commuter rail.

- **$60 million from miscellaneous transportation revenues.** The bills delete the transfer of miscellaneous revenues to the Transportation Debt Service Fund and instead redirect the funds to the RMRA.

- **$20 million from Vehicle Registration Fee on zero emission vehicles, starting in the 2nd year of ownership, adjusted every 3 years for inflation.** Per the authors, this provision will help make up for the fact that owners of zero emission vehicles do not pay any gas tax to maintain the roads they drive on. Revenues would be deposited into the RMRA for distribution.
    - **Key Difference:** SB 1 (Beall) imposes a $100 Vehicle Registration Fee on zero emission vehicles generating, while AB 1 (Frazier) imposes a $165 Vehicle Registration Fee

The revenues generated from these proposals, would provide the following allocations:
From the $3.2 billion in the RMRA:

- State Highway System - $1.45 billion annually for maintenance and rehabilitation of the state highway system.
- Local Streets and Roads – $1.45 billion annually for maintenance and rehabilitation of local streets and roads.
- Self-help counties – $200 million for existing and aspiring self-help counties.
- Active Transportation Programs – $80 million annually for Active Transportation and up to an additional $70 million through Caltrans efficiencies.
- Advanced Mitigation – $120 million one-time funds for implementation of the Advanced Mitigation program over the first four years.
- California State University – $2 million for transportation research and workforce training.
    - **Key Difference:** University of California – $3 million under AB 1 (Frazier) for the Institutes for Transportation Studies.

From restoration/returned revenue from the HUTA:

- State Transportation Improvement Program - $770 million annually for capital projects and improvements on the state's highway system.
- State Highway Operation and Protection Program – $210 million annually for maintenance and rehabilitation of the state highway system.
- Local Streets and Roads - $770 million annually for local streets and roads.

From Cap and Trade revenues and diesel tax increase:

- Transit and Intercity Rail – $563 million annually for transit and intercity rail capital projects and operations, $40 million additionally set aside for intercity and commuter rail under SB 1 (Beall).

From the TCIF:

- Freight, trade corridors, and goods movement – $600 million annually for freight, trade corridors, and goods movement.

From loan Repayments:

- $706 million one-time funds for transportation loan repayment.

While not yet introduced, the League of California Cities will continue to advocate for constitutionally protecting the additional revenue for transportation purposes.

The League has prepared preliminary estimates (insert link) of the revenues each city could receive for transportation maintenance and repair under the proposal. The time for the legislature and Governor to act is now and these proposals provide a solid framework to move the discussion forward.