

Informational Hearing Senate Transportation and Housing Committee

Jim Beall, Chair

Tuesday, January 24, 2017

1:30pm – John L. Burton Hearing Room (4203)

California Roads and Bridges’ Quickly Expanding Funding Shortfall

BACKGROUND INFORMATION

Introduction

On June 16, 2015 Governor Brown proclaimed the need for an extraordinary session of the Legislature in order to consider and act upon legislation necessary to enact permanent, sustainable funding to adequately and responsibly maintain and repair the state’s transportation and other critical infrastructure. Over the next 17 months, hearings took place, a conference committee was established, and Legislators along with industry stakeholders worked on reaching a comprehensive funding solution. Ultimately, the transportation special session ended on November 31, 2016 with no resolve.

As the 2017-2018 legislative session convenes, the purpose of this hearing is to initiate a dialogue on the transportation infrastructure and maintenance needs and funding shortfalls within our state. At this hearing, a series of panels will provide an overview of the existing transportation funding framework, the transportation needs and funding shortfalls at the state and local level, and lastly, what are potential funding options for future consideration. Panel participants will consist of state and local transportation representatives and also the Legislative Analyst Office.

Background

Overview of the Maintenance Problem

For a variety of reasons, state and local governments have been unable to properly fund the maintenance and rehabilitation of California’s road system for decades. In 2012, the American Society of Civil Engineers found 68% of California’s roads are in “poor” or “mediocre” condition, putting California behind 43 other states in road condition. More recently, a local streets and roads needs assessment presented to the California Transportation Commission found

that the statewide average pavement condition index (PCI), which rates the condition of the surface of a road network, to be 65. This score indicates that statewide, roads on average, are in “fair/at risk” condition and are becoming worn down to the point where rehabilitation may be needed to prevent rapid deterioration. As a result, majority of the state’s streets and roads are at an especially critical state because roads that are not properly maintained require more costly rehabilitation and reconstruction long before the projected end of their useful lives. These pavement rehabilitation and reconstruction projects are by far the most expensive type of maintenance projects. This is because rehabilitation repairs typically cost five to ten times more than routine maintenance. In sum, with many of California’s roads already in the “fair/at risk” category, the state is poised at the precipice of a sharp decline in which maintenance costs increase dramatically over the life cycle of the pavement.

While people typically think of poor road conditions in terms of the impact on their own cars, the movement of people is only a part of the transportation puzzle. Also critical to California’s economic well-being is the efficient movement of goods, both within the state and out of the state to the rest of the country and beyond, because it is directly linked to the state’s ability to generate jobs and remain competitive. The Office of Freight Management at the Federal Highway Administration estimates that the amount of freight moved on California highways will more than double, from 971 million tons in 2002 to 2,179 million tons in 2035. This increased movement of goods will create more truck traffic, and these heavy trucks exact a greater toll on pavement and bridges than lighter weight vehicles. While good for the economy, this increasing truck traffic will also accelerate the deterioration of the transportation infrastructure. Additionally, it is also imperative to note that California has nearly 3,000 structurally deficient bridges in need of various levels of rehabilitation.

Some local transportation officials report that the inadequate funding levels have left them with an unwinnable choice: They have to decide whether to sink large portions of their maintenance budget into trying to reclaim portions of the system that have essentially failed, at the expense of proper preventative maintenance on better-off roads in their jurisdictions; or they can let the failed roads go and try to perform the necessary preventative maintenance on other roads to keep them from joining the list of failing infrastructure. Without more resources, this is the decision more and more transportation officials will be forced to make as the system for which they are responsible crumbles around them.

Another imperative element to the state’s transportation network is our vast and multifaceted transit system. On a daily basis, millions of Californians board locally operated bus and rail transit systems to travel to work, school, etc. With the reduction of greenhouse gas emissions continuing to remain a priority for the state coupled with motorist’s desire for mobility options as an alternative to travel delays associated with vehicular traffic, the demand for transit is increasing. However, similar to the shortfalls for road maintenance, the erosion of transit funding has left transit agencies struggling to maintain existing operations and make the necessary critical capital improvements to their systems. A needs assessment prepared for the California Transit Association found that the transit 10-year funding needs (2011-2020) total approximately \$71.8 billion - \$50 billion for capital improvements and \$21 billion for operations.

Existing Sources of Funding for Transportation

California's state and local transportation systems rely on funding from local, state, and federal sources. Regional and local governments provide about half of the state's total transportation funding, and state and federal governments each provide about one quarter of the state's total transportation funding. Below is a brief description of these funding sources.

Local Funding. Local sales tax measures and other funding sources such as local general funds, property taxes, and developer fees are the primary local sources of transportation funding, including for road maintenance and expansion. Twenty-four counties (known as self-help counties) have approved ballot measures that increase the local sales tax and dedicate the revenues to transportation programs. These measures are the largest source of revenue for transportation, requiring two-thirds local voter approval and generally lasting between 20 and 30 years.

State Funding. State funding for transportation comes primarily from revenues derived from taxes and fees. The three main state revenue sources are: (1) the state gasoline and diesel excise taxes, (2) truck weight fees, and (3) the sales tax on diesel fuel. Because they are per-gallon rates that haven't changed since the early 1990s, revenues from the base fuel excise taxes have not kept up with costs as vehicles have become more fuel-efficient or use alternative energy sources not subject to state taxes. Because revenues from the fuel excise taxes are the bulk of what we use for our roads, these traditional funding sources have not kept pace with the demands of a growing population and an aging transportation system.

In addition, the state has funded transportation projects with general obligation bonds. The most recent transportation bond approved by the voters — the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) — provided \$19.9 billion for a variety of transportation projects. Very little of this funding, however, was dedicated to the maintenance of the system and was primarily used for highway expansion or transit. Most of this funding has been spent or is committed to ongoing projects and will be fully expended in the next few years as these projects are completed.

Federal Funding. The Highway Trust Fund, the source of most federal funding for the country's roads and transit infrastructure, has seen revenue fall short of expenditures for more than a decade. Drawing down trust fund balances and transferring money from the general fund have served as temporary fixes, but have not addressed the underlying issue of declining revenue from the federal fuel excise tax of 18.4 cents/gallon for gasoline and 24.4 cents/gallon for diesel fuel. The Congressional Budget Office projects that, absent reforms, trust fund shortfalls will grow to \$162 billion over the next 10 years.

Roughly 98% of federal funding for surface transportation flows to state and local governments, mostly in the form of reimbursements for expenses already incurred. Because projects require significant planning and construction time, it is important state and local governments have some certainty and consistency in funding. Historically, this has been the reason federal funding was

authorized over multiple years. The most recent federal transportation authorization legislation was passed in December 2015. The Fixing America's Surface Transportation Act (FAST Act) provides multi-year funding for surface transportation infrastructure planning and investment. The FAST Act authorizes \$305 billion over fiscal years 2016 through 2020 for highway, highway and motor vehicle safety, public transportation, motor carrier safety, hazardous materials safety, rail, and research, technology, and statistics programs.

Conclusion

Clearly the need for increased transportation funding is evident. As the Legislature and Administration work together to develop and enact a comprehensive transportation funding solution, a balanced approach that provides sufficient funding for road maintenance, transit, public safety, and the movement of goods should be considered. It is in the interest of all Californians to craft an ultimate solution that includes a number of options, as any one option may either be insufficient to make a meaningful difference or could be so burdensome as to do more harm than good. The 2017-2018 legislative session has commenced with three separate transportation funding proposals currently introduced. The Legislature now has the opportunity to consider these proposals and move forward with developing a solution.

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