



- 7) Specifies that the restrictions on fuel excise tax and vehicle registration fee revenues do not apply to revenues derived from sales taxes or vehicle license fees.

This bill:

- 1) Prohibits the Legislature from borrowing revenues from fees and taxes imposed on vehicles or their use or operation, and from using those revenues other than as permitted in the Constitution, as specified.
- 2) Authorizes the use of vehicle weight fees to be used for general obligation transportation bonds approved by the voters prior to January 1, 2017, as specified.
- 3) Prohibits the Legislature from borrowing revenues from taxes imposed on the sale of diesel fuel on or after January 1, 2017 from using those revenues for any other purpose than transportation planning and mass transportation purposes.
- 4) Authorizes an unspecified portion of new increases in gasoline taxes and/or motor vehicle fees to be used by the state and local agencies to pay down revenue bonds used for transportation-related purposes as provided in Article 19 of the State Constitution.
- 5) Repeals the requirement that Article 19 revenues used for mass transportation purposes can only be expended for the payment of voter-approved mass transportation bonds and instead allows the funds used for mass transportation expenditures to be under general Article 19 requirements.
- 6) Requires the provisions specified in this measure are subject to voter approval in the 2018.

#### **COMMENTS:**

- 1) *Author's Statement:* "SCA 2 will ensure that any future revenues passed by the Legislature to pay for road and highway maintenance will be spent exclusively on vitally needed repairs and not on other legislative priorities.

According to the American Society of Civil Engineers, 68% of California's roads are considered to be in "poor" or "mediocre" condition. Not only does poor road quality affect individual users, it also impacts the efficient movement of goods throughout the state, which directly impacts job growth and the

competitiveness of California's ports and goods movement industries. With freight movement predicted to increase significantly, Californians will see increased deterioration of their roads due to the heavier vehicle use. Because preventative maintenance costs 10 to 12 times less than pavement and road rehabilitation, California is at an opportune moment to make needed repairs and avoid facing even higher maintenance costs down the road.

In order to fund needed repairs to the states roads and highways, the Legislature is considering a number of options that would provide increased funding for transportation projects but provide no oversight or protection on how funds would be spent. Without the protections in SCA 2, revenues that are raised to pay for the repair and maintenance of the state's roads and highways could be used for non-transportation related purposes. Not only would this fail to fix our roads and highways, it would also defy the intent of the Legislature and violate the public trust of our constituents."

- 2) *Current restrictions.* Most transportation revenues, including gasoline and diesel excise taxes and vehicle registration fees, are constitutionally protected from being borrowed or used for purposes other than transportation. This protection does not apply to vehicle license fees and fuel excise taxes for usage outside of public roads. While the Constitution is currently silent on the use of weight fees, there are different opinions on whether those are currently protected. However, since 2011, weight fees have been used to pay down transportation-related general obligation bonds without substantial challenges relative to the constitutionality of this practice.
- 3) *The need for new funding.* The deterioration of California's state and local streets and roads has been widely documented. For example, at the January 2017 California Transportation Commission (CTC) hearing, a local streets and roads needs assessment presented to the CTC 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, rather than routine maintenance, may be needed to prevent rapid deterioration. The needs assessment further found that in order to *maintain local roads* at their *existing* condition would require an additional \$3.5 billion annually. Overall, according to the "Fix Our Roads" Coalition, total deferred maintenance shortfalls total approximately \$73 billion, while the shortfall is estimated at \$59 billion for the deferred maintenance backlog at the state level.
- 4) *A response to the need.* Introduced in the current legislative session, SB 1 (Beall) proposes to increase a number of transportation-related taxes and fees to

raise roughly \$5.1 billion in new transportation revenues annually and makes adjustments for inflation every three years. SB 1 proposes the funding to be used towards deferred maintenance on the state highways and local streets and roads, improve the state's trade corridors, and transit. SB 1 also includes a number of reforms such as establishing the Office of Transportation Inspector General, setting up the California Transportation Commission as an independent entity, and developing a comprehensive Advanced Mitigation Program. SCA 2 serves as the companion measure to provide constitutional protections for the revenues generated under SB 1.

- 5) *General Fund impact.* If approved by the voters, SCA 2 in addition to the provisions specified in SB 1 will limit the amount of weight fees that currently offset General Fund revenues, which contribute about \$1 billion annually to the General Fund to pay down transportation-related bonds. SCA 2 specifically prohibits the use of vehicle weight fees to be used for general obligation transportation bonds authorized after January 1, 2017. SB 1 additionally directs 50% of all weight fees currently being used for debt service to be permanently deposited into the State Highway Account over a five-year period. As a result, if both proposals are approved, the General Fund will experience an ongoing loss of approximately \$500 million after the fifth year until all existing transportation bond obligations are retired.
- 6) *Starting Point.* While this bill sets up the constitutional protections for revenues generated under SB 1, the ultimate transportation funding package has not been finalized, and, as a result, SCA 2 remains a work in progress. In addition to SB 1, several other transportation funding proposals have been introduced. AB 1 (Frazier) is a slightly different proposal but overall includes most of SB 1's provisions and generates a similar amount of revenue. Conversely, the Governor's transportation funding proposal would generate less annual revenue and allocates funds to programs not included in SB 1. Therefore, as discussions continue and a comprehensive funding proposal is developed, SCA 2 will need to be revised in order to set up the proper protections that reflect the final transportation funding proposal.
- 7) *Double Referral.* This bill has been double referred to the Committee on Elections and Constitutional Amendments.

#### **RELATED LEGISLATION:**

**SB 1 (Beall, 2017)** — increases several taxes and fees to raise roughly \$5.1 billion in new transportation revenues annually and makes adjustments for inflation every three years. This bill proposes the funding to be used towards deferred

maintenance on the state highways and local streets and roads, improve the state's trade corridors, and transit. SB 1 passed out of Senate Governance and Finance Committee on March 8<sup>th</sup> and is referred to the Senate Appropriations Committee.

**SCAX1 1 (Huff, 2015)** — would have prohibited the Legislature from borrowing revenues from fees and taxes imposed on vehicles or their use or operation, and from using those revenues other than as specifically permitted in the Constitution. This measure would have further required that revenues derived from the portion of the vehicle license fee that exceeds the current rate of 0.65% be used solely for street and highway purposes. This bill died in the Senate Appropriations Committee.

**SCA 7 (Huff, 2015)** — would have prohibited the Legislature from borrowing revenues from fees and taxes imposed on vehicles or their use or operation, and from using those revenues other than as specifically permitted in the Constitution, with limited exceptions. Further prohibited revenues derived from motor vehicle taxes, motor vehicle fees and taxes, and vehicle license fees (VLFs) from paying the principal and interest on bonds or other indebtedness, except as explicitly provided. Lastly, this measure required that revenues derived from the portion of the VLF that exceeds the current rate of 0.65% be used solely for street and highway purposes. This bill was referred, but not heard, in the Senate Transportation and Housing Committee.

**FISCAL EFFECT:** Appropriation: No    Fiscal Com.: Yes    Local: No

**POSITIONS:** (Communicated to the committee before noon on Wednesday, March 8, 2017.)

**SUPPORT:**

None received.

**OPPOSITION:**

None received.

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