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California Legislature

Background Paper for Assembly and Senate Transportation Committees
JOINT INFORMATIONAL HEARING
"Declining Gas Tax Revenues"
Monday, March 3, 2025
2:30 p.m. or Upon Adjournment of Assembly and Senate Session
Room 1100, Swing Space

Summary
California is home to approximately 394,383 miles of roadway, including 51,326 miles within the State Highway System, with the remainder consisting of rural and urban roads. The state also has 25,737 bridges. California's network of roads, highways, and bridges are foundational to the state's transportation infrastructure which supports multimodal forms of travel including; personal vehicles, public transit, rail networks, bicycle and pedestrian lanes, and freight movement.

The gas tax is the primary source of state funding for the state's transportation infrastructure system. Article XIX of the California Constitution mandates that the gas tax revenue be used exclusively for "research, planning, construction, improvement, maintenance, and operations of public streets and highways (and their related public facilities for nonmotorized traffic)" and the "research, planning, construction, and improvement of exclusive public mass transit guideways (and their related fixed facilities)." In addition to funding road maintenance, the gas tax funds transportation programs such as the State Highway System and Local Streets and Roads programs that support state, regional, and local government transportation projects.

Advancements in the automotive industry and a desire to reduce the dependence on fossil fuels have led to the development of more fuel-efficient vehicles, such as hybrids and zero-emission vehicles (ZEVs). Recently, California's goals to reduce greenhouse gas (GHG) emissions have driven the adoption of more fuel-efficient vehicles, which has reduced fuel consumption. This decline has negatively impacted gas tax revenue and will increasingly do so as the pace of adoption of more fuel efficient vehicles increases. The decrease in revenue will result in significantly less funding over time for the maintenance of the state's roadways and bridges.

This hearing provides a broad overview of the current state of California's gas tax, projections of declining gas tax revenue, and potential impacts on state and local transportation infrastructure.

Funding for Transportation Infrastructure and Maintenance
The construction of the California state highway system began in 1912. This included expansion of the state's network of roads, highways, and bridges. Both state and federal taxes on fuels funded the construction of new highway systems. Today, California has the ninth largest highway system in the country and as a result needs significant and stable funding to maintain this infrastructure.

California's transportation system is supported by state, local, and federal sources. State sources—which historically have accounted for roughly one-third of total transportation funding, including $14.2 billion in 2023-24—consist of various fuel taxes and vehicle fees. In recognition of the increased need for additional funding to maintain California's transportation infrastructure, in 2017, the Legislature passed and the Governor signed SB 1 (Beall), Chapter 5, Statutes of 2017, the Road Repair and Accountability Act (SB 1). SB 1 is forecast to provide roughly $6 billion in 2023-24 for road maintenance and additional funding for transit and safety projects. SB 1 also provided for an annual adjustment for inflation. SB 1 revenues are split equally between state and local investments.

The gas tax increase also funds new programs created by SB 1 that support the needs of state, regional, and local projects including; Solutions for Congested Corridors Program, Trade Corridor Enhancement Program, Local Streets and Roads Program, Local Partnership Program, Active Transportation Program, State Highway Operation and Protection Program, and the State Transportation Improvement Program.

Gas Tax Revenues Projected to Decline
The revenues from gas taxes are directly impacted by California's progress towards reaching its GHG emission reduction goals because a decrease in the consumption of gasoline and diesel fuels reduces the state's revenues from taxes on these fuels.

The Legislature has set a number of goals to reduce GHG emissions and address climate change. The Global Warming Solutions Act of 2006, AB 32 (Nuñez), Chapter 488, Statutes of 2006 and subsequent companion legislation SB 32 (Pavley), Chapter 249, Statutes of 2016 require California to reduce statewide GHG emissions to 40% below the 1990 level by 2030. AB 1279 (Muratsuchi), Chapter 337, Statutes of 2022 establishes the policy of the state to achieve carbon neutrality as soon as possible, but no later than 2045. California Air Resources Board (CARB) is responsible for developing a Scoping Plan to detail how the state will achieve its GHG emissions reduction targets mandated by law.

In 2020, Governor Newsom issued Executive Order (EO) N-79-20, which required 100% of in-state sales of new passenger cars and trucks to be zero-emission by 2035. This EO tasked CARB with developing and proposing passenger vehicle and truck regulations requiring increasing volumes of new zero-emission vehicles sold in the state towards that goal. Specifically, this regulation requires annual increases in the percentages of new passenger cars, trucks, and SUVs sold in California that are ZEVs, starting with 16% in 2023 and culminating in 100% in 2035. The EO also directed the California Energy Commission (CEC) to update the biennial statewide assessment of zero-emission vehicle infrastructure required to support the level of EV adoption required by the EO.

According to the Mineta Institute, state revenues from the gas tax are estimated to be $13.3 billion in 2024 and using their modeling projected revenue ranges decline significantly in the future. By 2040, Mineta estimates projected revenue ranges from $4.8 billion to $12.1 billion as shown in the figure below. Cumulative revenue through 2040 is from $12.8 billion to $75.1 billion less than cumulative revenue would be if the state continued to raise the same amount annually as it did in 2024 ($226.7 billion). These values equate to a cumulative revenue loss ranging from 6% to 33%.

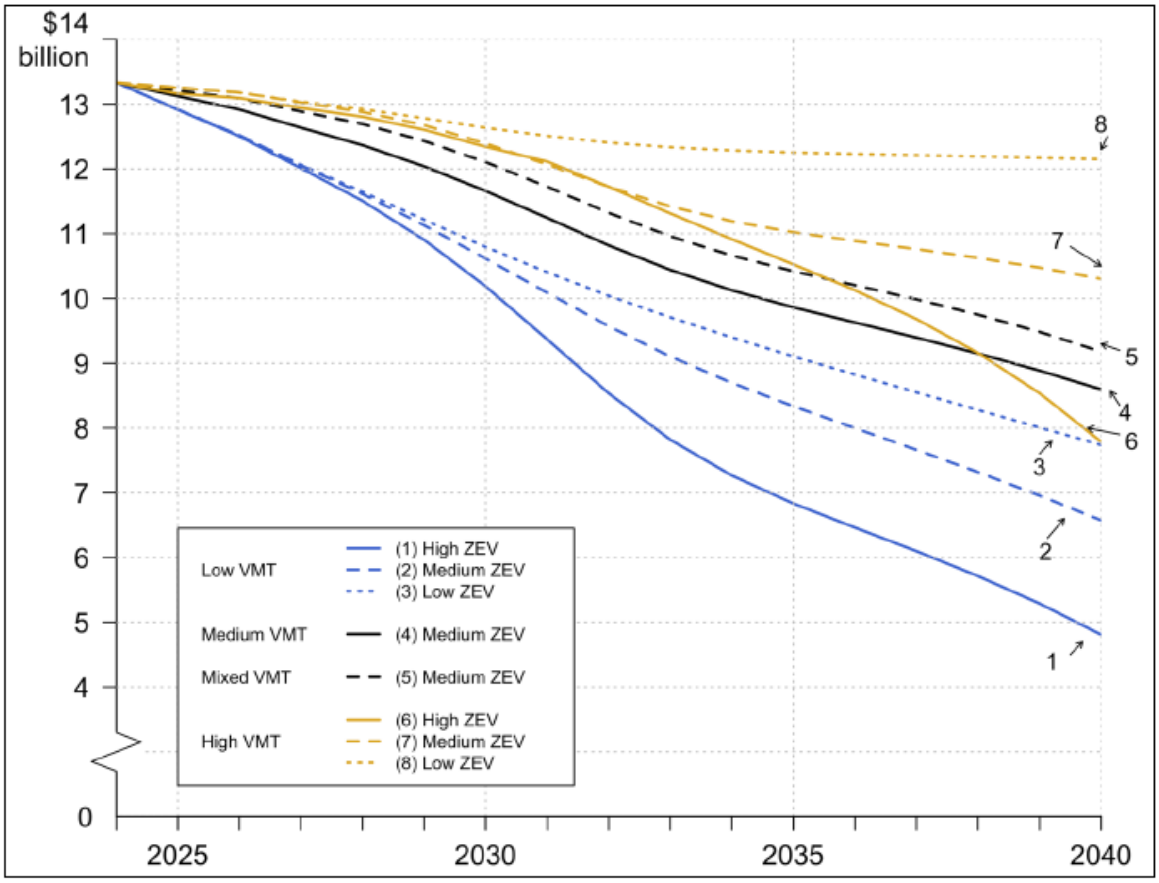

Figure 7. Total Projected State Revenue, by Scenario (2024 dollars)

Similarly, other states are experiencing decreases in state gas tax revenues. For example, Connecticut estimates that their gas tax revenues fell by 4.2% between 2012 and 2021 due primarily to vehicle electrification. West Virginia estimates that their gas tax revenue will fall 11–20% by 2030 and 31–50% by 2050 due to vehicle electrification. A 2022 study in Michigan estimated that despite ZEVs representing only 6% of the new vehicle market, vehicle electrification resulted in a funding deficit of $20.8 million in 2022. That funding deficit is expected to increase to over $95 million per year by 2030.

In addition to the loss of revenue, the transition to cleaner and more fuel-efficient vehicles is not benefitting all income groups equally. Lower-income individuals tend to drive older, less fuel-efficient vehicles, and sometimes have to commute farther to work. Alternatively, many of the state's ZEVs have been purchased by persons with greater incomes. As a result, lower-income

populations over time will pay more in gas taxes than moderate and high-income individuals. SB 1 included a transportation improvement fee that EV owners pay as part of the vehicle licensing process. However, this fee is relatively small compared to the average annual amount a combustion-engine vehicle's owner pays in gas taxes in a year. This disparity emphasizes the critical need to reevaluate the current gas tax model.

Infrastructure Needs and Impacts of Revenue Decline

The California Transportation Commission (CTC) Annual Report to the Legislature in 2024 identified that the needs of transportation infrastructure have changed due to the severe climate events; from atmospheric rivers to wildfires, to entire segments of road sinking underwater or falling into the ocean due to poor conditions. The responsibility of maintenance for these transportation systems falls on the shoulders of the state, regional, and local entities that rely on revenues from local taxes in addition to the state and federal gas tax. The CTC's 2025 Interim Needs Assessment identifies a 10-year need of $736.2 billion and projected available revenues of $572 billion. The anticipated funding shortfall is $164 billion, with the financial impact from the adoption of zero-emission vehicles and increased fuel economy increasing that shortfall by $31.1 billion.

Pavement conditions are a key indicator of the adequacy of funding to maintain the state's roads. The figures below shows that even with the increase in funding from SB 1 the state's road condition continues to decline.

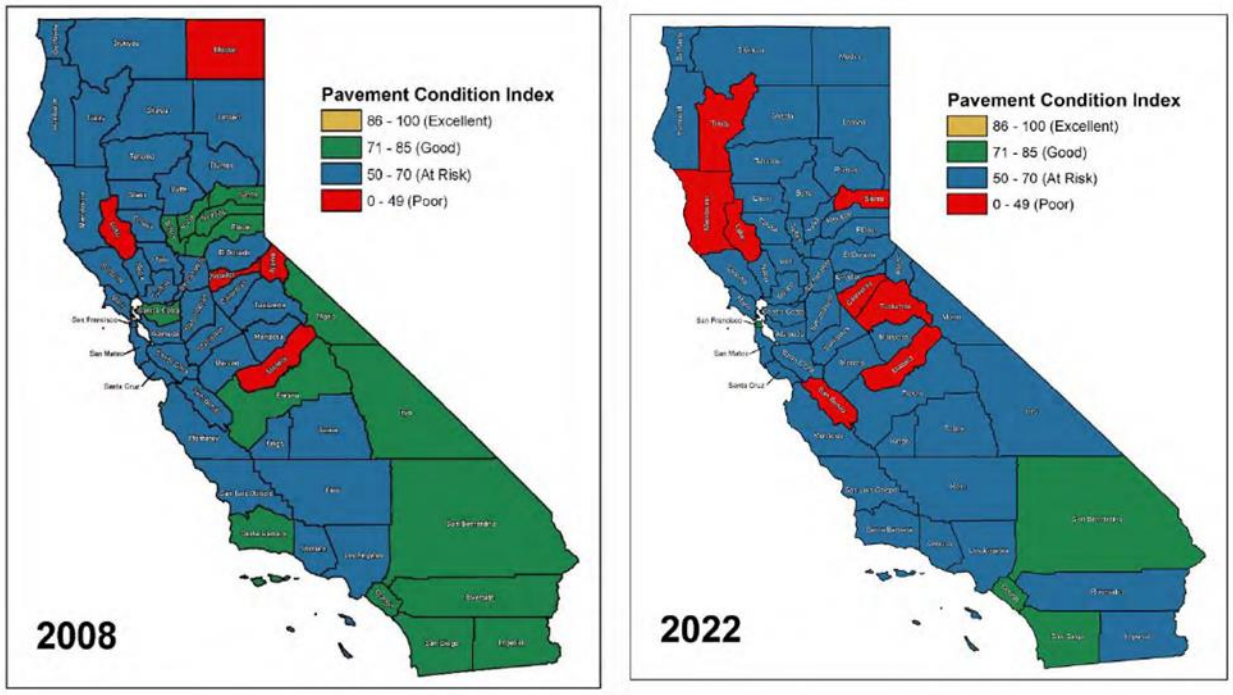

Figure 2.8 Average PCI by County for 2008 and 2022

In addition, local bridges are an integral part of local street and road infrastructure. They make up approximately 48 percent of all the bridges in California. Their average age is over 50 years, 10 years older than the national average, and more than half are in fair or poor condition. The bridge safety, strengthening, and widening improvements necessary to keep pace with California's modern mobility needs will require $7.2 billion. To simply maintain their current condition will require $800 million annually, but only $290 million is available. There is an estimated shortfall of $4.3 billion to maintain the safety and integrity of bridge infrastructure.

According to the Legislative Analyst's Offices' report in 2023 on Assessing California's Climate Policies — Implications for State Transportation Funding and Programs "Revenue declines will have significant impacts for certain transportation programs. Absent a funding backfill from alternative sources, the projected revenue declines will result in certain state transportation programs having less capacity to support state and local transportation projects and activities. The exact impacts on each specific program will depend on several factors, such as the magnitude of its estimated funding reduction and the degree to which it relies on state funds as compared to other sources."

Conclusion

Ensuring the state's transportation infrastructure is high-quality is critical to enabling individuals to get to where they need to be on a daily basis. Good quality roads also support the state's goods movement and economy. While the transition to cleaner vehicles is important to meet environmental and air quality goals, is also comes with the negative impact of reducing the revenues generated by the gas tax which is currently only imposed on combustion-engine vehicles. Next steps will be to provide information on and assess the work that California and other states have done to begin to address this issue.