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## **SENATE COMMITTEE ON TRANSPORTATION AND HOUSING**

**Senator Jim Beall, Chair**

**2017 - 2018 Regular**

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**Bill No:** SB 1

**Hearing Date:** 2/14/2017

**Author:** Beall

**Version:** 1/26/2017

**Urgency:** Yes

**Fiscal:** Yes

**Consultant:** Manny Leon

**SUBJECT:** Transportation funding

**DIGEST:** This bill 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.

### **ANALYSIS:**

Existing law:

- 1) Levies a variety of taxes and fees on gasoline, diesel fuel, and motor vehicles including, but not limited to, a per gallon gasoline excise tax, an excise and sales tax on diesel fuel, and an annual vehicle registration fee. These taxes and fees are currently levied at the following rates:
  - a) Gasoline excise tax: \$0.27/gallon
  - b) Diesel excise tax: \$0.16/gallon
  - c) Diesel sales tax: 1.75%/gallon
  - d) Vehicle registration fee (VRF): \$53 per vehicle annually
  - e) Weight fees, for commercial vehicles only: up to a maximum amount of \$2,271
- 2) Further directs the revenue generated through these taxes and fees to be used for various transportation programs and funding the State Department of Motor Vehicles (DMV) and Highway Patrol (CHP). In general, the gasoline and diesel excise taxes are spent on road maintenance and construction as provided for in the Constitution; vehicle registration fees are spent on DMV and CHP operations; diesel sales tax provides funding for local transit operators; and weight fees are spent on paying the debt service on transportation bonds.

- 3) Established the “gas tax swap” in 2010, which redirected the state’s portion of the sales tax on gasoline to a priced-based excise tax (PBET) that is adjusted annually by the State Board of Equalization. Revenues generated from the PBET are distributed as follows:
  - a) 44% State Transportation Improvement Program (STIP)
  - b) 44% local entities
  - c) 12% State Highway Operations and Protection Program (SHOPP)
- 4) Established the Cap and Trade program administered by the State Air Resources Board (ARB) and also created a number of programs funded by Cap and Trade revenues, including several transit programs. The Transit and Intercity Rail Capital Program (TIRCP) is a grant program designed to fund certain capital and operational projects for transit and passenger rail providers. The Low Carbon Transit Operations Program (LCTOP) provides funding for new and expanded bus, rail services, or expanded intermodal transit facilities, and service or facility improvements.

This bill:

- 1) This bill increases a number of transportation-related taxes and fees as follows:
  - a) Gasoline excise tax: \$0.12/gallon (3 year phase-in: 6 cents/yr. 1, 3 cents/yr. 2, 3 cents/yr. 3)
  - b) Price-based excise tax: \$0.075/gallon
  - c) Diesel excise tax: \$0.20/gallon
  - d) Diesel sales tax: 4%/gallon
  - e) VRF increase: \$38 per vehicle annually
  - f) VRF increase: an additional \$100 for zero-emission vehicles, as defined
- 2) Further specifies that the tax rates and fees specified in this bill are adjusted every three years based on the Consumer Price Index.

The table below summarizes where the new funding comes from and how much is forecast to be raised (assuming zero inflation):

	RATE INCREASE	PHASE IN (YRS)	ADDITIONAL REVENUE BY YEAR (in millions)				
			YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Excise on Gasoline (cents)	12	3	\$900 m	\$1.35 b	\$1.8 b	\$ 1.8 b	\$ 1.8 b
Price-based Excise tax (cents)	7.5	1	\$1.12 b	\$1.12 b	\$1.12 b	\$1.12 b	\$1.12 b
Vehicle Registration (dollars)	38	1	\$1.29 b	\$1.29 b	\$1.29 b	\$1.29 b	\$1.29 b
Annual ZEV Fees (dollars)	100	1	\$11.1 m	\$11.1 m	\$11.1 m	\$11.1 m	\$11.1 m
Diesel Sales tax (percent)	4	1	\$340 m	\$340 m	\$340 m	\$340 m	\$340 m
Excise on Diesel (cents)	20	1	\$600 m	\$600 m	\$600 m	\$600 m	\$600 m
Weight fees		5	\$100 m	\$200 m	\$300 m	\$400 m	\$500 m
GF Loan Paybacks		3	\$353 m	\$353 m	\$ -	\$ -	\$ -
			<u>Total</u>				
			<u>New</u>				
			<u>Revenue:</u>	\$4.7 b	\$5.26 b	\$5.46 b	\$5.56 b
							\$5.66 b

3) *Where the new revenues are spent.*

- a) *No effect on current taxes and fees.* This bill does not affect how revenues from existing gasoline excise taxes, diesel excise and sales taxes, and VRF are spent. It only affects the new revenues raised by this bill.
- b) *Most new funds spent on maintenance.* This bill creates the Road Maintenance and Rehabilitation Program. Funds raised by the gas tax and vehicle registration fees in this bill are deposited into the Road Maintenance and Rehabilitation Account (RMRA), which is created within the State Transportation Fund. The RMRA funds shall be spent on basic road maintenance and rehabilitation and critical safety projects.
- c) *What about the other new revenues?* This bill directs the diesel excise tax increase to fund goods movement projects through the existing Trade Corridor Improvement Program (TCIF). The diesel sales tax increase will fund local transit operators through the State Transit Assistance Program (STA) and also provide funding for commuter and intercity passenger rail service.
- d) *Accelerated loan repayment.* This bill provides that outstanding loans made to the General Fund from the State Highway Account, the Motor Vehicle Fuel Account, the Highway Users Tax Account, and the Motor Vehicle Account shall be repaid over two years, half the amount per year. The outstanding loan amounts are estimated at about \$706 million. These funds will also be used to fund the road maintenance backlog at both the state and local level.

- e) *State and local split.* New funds raised by this bill are allocated to both state and local projects. Off the top, \$200 million is set aside for local entities that have passed local sales and use taxes and/or developer fees for transportation purposes. The RMRA also provides funding for several transportation-related programs including Active Transportation, advance mitigation, and UC and CSU transportation research. The remainder is split 50/50 between state and local projects. The local project funding is allocated pursuant to an existing statutory formula, where 50% goes to cities based on population and 50% goes to counties based on a combination of the number of registered vehicles and the miles of county roads. In order to receive these funds, the city and county must maintain their historic commitment to funding street and highway purposes by annually expending not less than the average of its expenditures over a specified three year period (i.e. maintenance of effort requirement). The California Transportation Commission (CTC) shall annually evaluate each agency receiving funds to ensure that the funds are spent appropriately.
  - f) *Trade corridors.* The diesel fuel tax increase (20 cents), resulting in about \$600 million annually, shall be deposited in the TCIF. These funds are allocated by the CTC for infrastructure improvements on corridors that have a high volume of freight movement.
  - g) *Weight Fees.* This bill proposes to redirect half of the weight fees currently being used to pay down transportation general obligation bonds to the State Highway Account (SHA) over a five year period with the remaining half of weight fees continuing to be used for transportation debt service.
- 4) *Caltrans efficiency.* This bill directs Caltrans to generate up to \$70 million in department efficiencies. The revenue generated through the efficiencies will be allocated to the Active Transportation Program.
  - 5) *Gas tax swap.* As mentioned above, in 2010, sales tax rates on vehicle fuels were reduced and replaced with an increase in the fuel excise tax rate. The swap is intended to be revenue neutral, which requires annual recalculation of what sales taxes revenues would have been had the rate not been reduced and then a resetting of the fuel excise tax rate. This annual adjustment has led to sudden and steep variations in revenue, making it hard for state and local governments to plan their transportation programs. This bill eliminates the true up and instead imposes a more stable tax that will be adjusted for inflation every three years. Revenues generated from the PBET adjustment will be allocated under the existing statutory framework (i.e. STIP/Locals/SHOPP).

- 6) *Cap and Trade Programs.* This bill increases the existing percentage of funding for the Cap and Trade's TIRCP from the current 10% allocation to 20% and LCTOP allocations from the current 5% to 10% in order to increase transit services that reduce greenhouse gas emissions throughout the state.
- 7) *Additional Reforms.* This bill contains a number of additional transportation-related reforms including creating a Transportation Inspector General Office, establishing the California Transportation Commission as an independent entity, developing an Advance Mitigation Program, and provides an exemption, until January 1, 2023, of the California Environmental Quality Act requirements for local projects that are within the right of way of an existing roadway within specified limitations.
- 8) *Urgency.* This is an urgency statute.
- 9) *Triple Referral.* This bill has been triple referred to the Committees on Environmental Quality and Governance and Finance.

**COMMENTS:**

- 1) *Author's Statement:* "SB 1 provides 25 million drivers with smoother, safer, stronger bridges and roads; a reliable transportation system that can withstand natural disasters. Businesses will benefit from improved transportation corridors that will cut down their shipping costs and bring more Pacific Rim tonnage through California ports, making them indispensable in a highly competitive race with Pacific Northwest ports. And, the bill pumps more funding into mass transit to reduce congestion and greenhouse gases. Just as important, the bill begins the process of repairs now — 87 percent of California's roads are rated in fair or poor condition — avoiding wasted billions spent in higher costs for deferred maintenance. For the cost of \$9.47 per month for an average driver — a 6¢ per-gallon gas tax adjustment plus, restoring the price based excise tax, and a \$38 increase in registration fees — the state can restore and improve its transportation for the new century."

SB 1, combined with my SB 3 which creates a \$3 billion housing bond, can offset the effect of the policies of the new Administration by creating and sustaining nearly 600,000 jobs, many that will offer middle-class wages with medical benefits that can counterbalance proposed reductions to the Affordable Care Act. The injection of jobs will stimulate the economy, increase consumer spending, and stimulate the housing market to produce a new influx of tax dollars to reduce the impact of bond debt service. And for this spending, Californians will see tangible benefits."

- 2) *Purpose.* According to the author, this bill solves a crisis that threatens our deteriorating streets and highways. California faces an estimated \$132 billion deferred maintenance backlog over the next ten years at state and local level that will grow by billions every year. The state transportation system is critical to California's economic well-being, as it enables us to move people and goods around the state. SB 1 creates a much-needed funding plan to address the maintenance backlog of our aging systems. Under this bill, everyone who uses the roads will share in paying for the cost of these essential repairs.

SB 1 will provide more resources for the state to repair the infrastructure under its jurisdiction and it also distributes billions of dollars at the local level for road maintenance. Furthermore, this bill provides additional funding for trade corridor improvements, transit, and commuter/intercity rail services. The author notes that the state has failed to keep pace with repairs due to several factors, including the diversion of road maintenance revenues for other uses and the decline of the gas tax revenue.

- 3) *Is there a need?* 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 for the deferred maintenance backlog at the state level.

The Governor's 2017-2018 budget proposal also identifies the existing funding shortfalls relative to the state's failing roads. At the state level, the annual funding gap for road maintenance and repair needs is an estimated \$6 billion. The Governor's proposal further highlights that due to the state's deteriorating roads, California motorists spend an average of \$762 annually on vehicle repair costs. Moreover, the aftermath of the recent winter storms have clearly demonstrated the dire condition of the state's highways and roads and the need to close the existing funding gap. Over the past two months, the Department of Transportation (Caltrans) has executed more than 100 emergency contracts in response to \$212 million in storm damage in order to quickly restore access to

the traveling public. Furthermore, Caltrans crews have been working 12-hour shifts, around the clock, dedicated to responding to more than 210 short-term closures. While Caltrans has effectively responded to this year's challenging weather conditions, these recent events have only exacerbated the existing need by requiring Caltrans to allocate scarce resources to emergency response efforts and away from bridge, pavement, and other rehabilitation projects.

- 4) *Additional Needs and Shortfalls.* The impact of the state's poor road conditions expands beyond the everyday motorist. The logistics industry and transit operators, which are vital to the transport of goods and people, are also negatively impacted and are similarly experiencing their own respective funding shortfalls. For transit, the erosion of 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 10-year funding needs (2011-2020) total approximately \$71.8 billion to \$50 billion for capital improvements and \$21 billion for operations.
- 5) *Economic growth and Jobs.* Extensive research has found a direct link between infrastructure spending and economic growth/job creation. A 2016 article by Center on Budget and Policy Priorities noted:

“The condition of roads, bridges, schools, water treatment plants, and other physical assets greatly affects the economy’s ability to function and grow. Commerce requires well-maintained roads, railroads, airports, and ports so that manufacturers can obtain raw materials and parts, and deliver finished products to consumers. Improving many types of public infrastructure boosts the productivity of businesses by reducing their costs. Better roads and public transit make it feasible (or more efficient) for workers to get from their home communities to more of the places where the jobs are. Carefully targeted initiatives to maintain and improve public infrastructure boosts a state’s long-term productivity, resulting in more economic growth and higher-wage jobs. In the short-term, under the right conditions — including the current ones — public infrastructure investments also can create needed jobs.”

Additionally, in a 2014 study, the Center of Globalization, Governance, and Competitiveness at Duke University found: “As a basic component of a competitive economy, transportation infrastructure moves people and goods to their destinations as efficiently as possible. Underinvestment in transportation infrastructure increases the backlog of infrastructure construction and repair projects and reduces the ability of companies to meet the basic requirements.” The study further found that increased investment in transportation

infrastructure provides jobs in many sectors, including in construction and manufacturing, while addressing the long-term deficiencies in the state of U.S. infrastructure. As this bill aims to close the funding gap for unmet transportation needs, this bill would also increase the number of well-paying/skilled jobs throughout the state and spur economic growth.

- 6) *Other Proposals.* The 2017-2018 legislative session has commenced with three separate transportation funding proposals. In addition to this bill, AB 1 (Frazier) is a very similar transportation funding proposal which also aims to address the state's unmet transportation funding needs. Additionally, in his 2017-2018 budget proposal, the Governor introduced a transportation funding plan projected to generate \$43 billion over a 10-year period. Primarily, the Governor's plan raises revenues through an annual road improvement charge (\$65), an adjustment of the PBET, and an 11 cent increase in the diesel excise tax.
- 7) *Funding Alternatives?* While all three of the abovementioned proposals aim to close the funding gap through very similar funding mechanisms, other funding mechanisms do in fact exist – however, they have gained minimal traction. The Vehicle License Fee (VLF) is an in lieu of property tax, based on the purchase price/value of the vehicle with funds currently going to cities/counties. A VLF rate increase (on top of the existing .65 percent) could be allocated for transportation purposes. However, historically, VLF adjustments have been a point of contention – the last attempt to raise the VLF resulted in the Governor's recall of 2003. Another funding option currently being studied by the CTC is a fee based on the number of miles a vehicle travels. The pilot program evaluating this vehicle miles travel (VMT) fee will be concluding by June 2018 with VMT implementation recommendations being submitted to the Legislature by December 2018. While VMT implementation has been studied in other states such as Oregon, California's VMT pilot program is the State's first step in considering developing and implementing a statewide VMT fee. While a VMT program does warrant serious consideration, implementation of such a program in the near future is premature.

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

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

**SUPPORT:**

The Honorable Vito Chiesa, Supervisor, Stanislaus County Board of Supervisors  
The Honorable Eric Garcetti, Mayor, City of Los Angeles

The Honorable Belia Ramos, Supervisor, Napa County Board of Supervisors  
Alameda Corridor-East Construction Authority  
American Council of Engineering Companies California  
American Subcontractors Association California, Inc.  
Associated General Contractors  
Associated General Contractors, San Diego Chapter  
Association of Monterey Bay Area Governments  
Bay Area Council  
California Alliance for Jobs  
California Association of Councils of Governments/Self Help Counties Coalition  
California Association of Professional Employees  
California Asphalt Pavement Association  
National Electric Contractors Association  
California Construction and Industrial Materials  
California Professional Firefighters  
California State Association of Counties  
California State Council of Laborers  
California Transit Association  
California Transportation Commission  
Caterpillar, Inc.  
Cities Association of Santa Clara County  
City of American Canyon  
City of Brisbane  
City of Carpinteria  
City of Cathedral City  
City of Ceres  
City of Chino  
City of Colton  
City of Concord  
City of Crescent City  
City of Cupertino  
City of Davis  
City of Fort Bragg  
City of Fremont  
City of Goleta  
City of Hayward  
City of La Mirada  
City of Lafayette  
City of Lakeport  
City of Lodi  
City of Modesto  
City of Monterey

City of Moorpark  
City of Morro Bay  
City of Ontario  
City of Palos Verdes Estates  
City of Pico Rivera  
City of Pismo Beach  
City of Point Arena  
City of Rancho Cucamonga  
City of Riverbank  
City of Rohnert Park  
City of Sacramento  
City of San Carlos  
City of San Gabriel  
City of San Jose  
City of San Leandro  
City of San Luis Obispo  
City of Santa Barbara  
City of Santa Cruz  
City of Santa Maria  
City of Santa Monica  
City of Santa Paula  
City of Sausalito  
City of Temecula  
City of Thousand Oaks  
City of Ukiah  
City of Vernon  
City of Williams  
City of Woodland  
City of Yreka  
City/County Association of Governments of San Mateo County  
Council of San Benito County Governments  
County of Alpine Board of Supervisors  
County of Glenn Board of Supervisors  
County of Humboldt Board of Supervisors  
County of Imperial Board of Supervisors  
County of Los Angeles Board of Supervisors  
County of Marin Board of Supervisors  
County of Monterey Board of Supervisors  
County of Napa Board of Supervisors  
County of Riverside Board of Supervisors  
County of Sacramento Board of Supervisors  
County of Santa Clara Board of Supervisors

County of Santa Cruz Board of Supervisors  
County of Yolo Board of Supervisors  
East Bay Leadership Council  
Engineering Contractors Association  
FEHR & PEERS  
Fix Our Roads Coalition  
Flasher Barricade Association  
Gateway Cities Council of Governments  
General Engineering Contractors  
Golden Empire Transit District  
Golden State Gateway Coalition  
Granite Construction Incorporated  
Humboldt County Association of Governments  
Lake County/City Area Planning Council  
League of California Cities  
Los Angeles Area Chamber of Commerce  
Los Angeles County Business Federation  
Los Angeles County Division  
Los Angeles County Metropolitan Transportation Authority  
Marin County Council  
Merced County Association of Governments  
Metropolitan Transportation Commission  
Mill Valley Chamber of Commerce and Visitor Center  
Napa Valley Transportation Authority  
North State Super Region  
Northern California Carpenters Regional Council  
NVTA  
Operating Engineers Local 3  
Orange County Business Council  
Placer County Transportation Planning Agency  
Professional Engineers in California Government  
Rural Counties Task Force  
Sacramento Area Council of Governments  
Sacramento Regional Transit District  
San Gabriel Valley Economic Partnership  
San Luis Obispo Council of Governments  
San Francisco Bay Area Rapid Transit District (BART)  
Santa Clara Valley Transportation Authority  
Santa Cruz County Business Council  
Santa Cruz County Regional Transportation Commission  
Santa Cruz Metropolitan Transit District  
Silicon Valley Leadership Group

Siskiyou County Local Transportation Commission  
Skanska  
Solano Transportation Authority  
Solar Turbines  
Sonoma County Transportation Authority  
South Bay Association of Chamber of Commerce  
Southern California Contractors Association  
Southern California Partnership For Jobs  
Torrance Area Chamber of Commerce  
Town of Danville  
Town of Windsor  
Town of Yountville  
Transportation Agency for Monterey County  
Transportation California  
Trinity County Departments of Transportation  
United Contractors  
Urban Counties of California  
Ventura Council of Governments

**OPPOSITION:**

A to Z Families for Safe Streets  
Air Quality and Climate Change  
Albany Strollers & Rollers  
American Lung Association in California  
Amigos de Los Rios  
Asian Pacific Environmental Network (APEN)  
Automobile Club of Southern California  
Bay Area  
Bike East Bay  
Bike San Gabriel Valley  
Bike Santa Cruz County  
Bike SLO County  
Brightline Defense  
California Bicycle Coalition  
California Environmental Justice Alliance  
California League of Conservation Voters  
California Walks  
Campaign for Sensible Transportation  
Capital Region Organizing Project  
Catholic Charities, Diocese of Stockton  
Center for Climate Change and Health  
Center for Community Action & Environmental Justice

Center for Environmental Health  
Central California Asthma Collaborative  
Central Coast  
Centro la Familia  
ChangeLab Solutions  
Circulate San Diego  
City Heights Community Development Corp.  
Climate Action Campaign  
Climate Resolve  
ClimatePlan  
Coalition for Clean Air  
Coalition for Sustainable Transportation  
Cultiva la Salud  
East Yard Communities for Environmental Justice  
Environmental Health Coalition  
Environmental Justice  
Gamaliel of California  
Genesis  
Housing Leadership Council of San Mateo County  
Investing in Place  
Justice Overcoming Boundaries  
LA County & Inland Valley  
Leadership Counsel for Justice & Accountability  
Los Angeles County Bicycle Coalition  
Los Angeles Walks  
Marin County Bicycle Coalition  
Mission: Pedestrian  
Move LA  
National & Statewide  
Natural Resources Defense Council  
North Bay Organizing Project  
Pathway's to Right-of-Way's Inc.  
Planning & Conservation League  
PolicyLink  
Prevention Institute  
Public Advocates Inc.  
Public Health Institute  
Rails-to-Trails Conservancy  
Redwood Community Action Agency  
Regional Asthma Management and Prevention  
Sacramento & North State  
Safe Routes to School National Partnership

San Diego  
San Diego County Bicycle Coalition  
San Francisco Bicycle Coalition  
San Francisco Transit Riders  
San Joaquin Valley  
Santa Barbara Bicycle Coalition  
Sequoia Riverlands Trust  
Shasta Living Streets  
Sierra Club California  
Sonoma County Bicycle Coalition  
Sunflower Alliance  
The Arc of California  
The Greenlining Institute  
The Trust For Public Land  
TransForm  
Urban Habitat  
Valley LEAP  
Walk & Bike Mendocino  
Walk Long Beach  
Walk Oakland Bike Oakland  
Walk San Francisco  
WALKSacramento  
One individual

**-- END --**