California State Association of Counties

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March 27, 2015

To: CSAC Executive Committee

From: Kiana Buss, CSAC Legislative Representative
Chris Lee, CSAC Legislative Analyst

Re: New Transportation Revenue Proposals

Background. CSAC staff presented a report to the Board of Directors on February 19, 2015 regarding the pressing need for additional funding for the maintenance and preservation of the existing state and local transportation system as well as the Governor's acknowledgement of these significant needs in his state of the state address. As you recall, local streets and roads currently have an annual shortfall of approximately $8 billion to bring the local system into a state of good repair over the next decade, whereas the state highway system has a similar ten-year $6 billion annual shortfall. Finally, staff presented CSAC's existing policies in support of new revenue for local transportation and outlined several immediate, short-term and long-term issues and solutions.

Since February, there has been increasing recognition from the Legislature that action is needed to address the substantial and persistent funding shortfalls, and proposals in both the Assembly and the Senate that aim to address the issue are beginning to take shape. CSAC has participated in regular discussions with a coalition of transportation stakeholders as well as meetings with legislators and staff who are working on specific revenue proposals.

Policy Considerations. As staff reported in February, CSAC has long-standing policy in support of new revenues for transportation. Relevant policy principles from the CSAC Platform are provided below. Additionally, the CSAC Board of Directors reaffirmed existing CSAC policy in May 2012 in support of flexible new revenues for transportation that could include a gas tax increase, indexing the gas tax, increasing the vehicle license or registration fee, or a combination of these or other options (attachment one).

Transportation systems must be regularly and consistently maintained in order to preserve the existing public infrastructure (current revenues are not keeping pace with needs of the local road or state highway or transit systems), reduce the future costs to tax-payers, and to protect the environment. All users of the system have a responsibility to adequately invest in the transportation infrastructure that is so critical to every-day life.

Transportation financing needs exceed existing and foreseeable revenues despite growing recognition of these needs at all levels of government. Further, traditional sources of revenue for transportation are declining as communities develop more sustainably and compactly in order to reduce vehicle miles traveled and GHG emissions to meet statewide climate change goals. Additional funding is required and should be supported and any new sources of funding should produce enough revenue to respond significantly to transportation needs.

Potential Solutions. CSAC has participated in discussions regarding immediate transportation funding solutions proposed for 2015-16 fiscal year, as well as short-term solutions, which are likely be temporary with approximately 5-year sunset dates. In each instance, CSAC has continued to advocate for equal sharing of revenues between local streets and roads and state highways. While actual bills have yet to be introduced for the short-term solutions being developed, the Legislature seems to be heavily focused on the preservation and maintenance of existing streets and highways, including county roads. At the same time, the California Transportation Commission's road usage technical advisory committee has continued its work studying the potential of replacing the state's gas tax with a new user fee over the long-term.

Immediate Solutions

1. Tax Swap Excise Rate Smoothing: Staff previously reported to the Board of Directors the impending reduction in gas excise tax revenues for local streets and roads maintenance in 2015-16 as a result of the revenue-neutrality provisions of the gas tax swap. Since that report, Senator Jim Beall has introduced SB 321, an urgency measure that aims to reduce the volatility of revenues from the adjustable excise tax that replaced the prior sales tax on gasoline under the gas tax swap.

   CSAC has participated in a working group that has examined potential means of reducing volatility. Consensus appears to be emerging that a formula that relies more heavily on historical gas prices and less on future projections will benefit local governments' ability to plan transportation budgets. For 2015-16, this approach would also reduce the currently-anticipated $477 million reduction in local transportation funding to a one-year $221 million cut. Moreover, based on a retrospective analysis of revenues during the last four fiscal years, this approach to setting the excise rate would reduce future swings in revenues without sacrificing revenue neutrality or the automatic adjustments for inflation that are inherently included in a price-based tax.

2. Tax Swap - Hold Transportation Revenues Harmless: While the rate smoothing effort outlined above would partially offset the anticipated one-year reduction in gas tax revenues for transportation programs, additional adjustments would be necessary to hold transportation programs completely harmless in FY 2015-16.

   CSAC staff believe it is more prudent to provide tax swap excise rate smoothing to address the immediate impacts to transportation funding in the budget year and focus our efforts on short-term funding solutions to provide new revenue over the next five years rather than find a one-time hold-harmless solution. The concern is that it would take a two-thirds vote to hold harmless FY 2015-16 revenues and could impact our more valuable and meaningful short-term solutions which also require a two-thirds vote. As provided for above, smoothing would also blunt the FY 2015-16 impact so it can be viewed as a partial solution to our immediate year funding problem.

Short-Term Solutions

While specific proposals have yet to be released as of the time of this writing, the Legislature is expected to soon consider proposals which would, taken together, incorporate to varying degrees each of the potential revenue options that were outlined in CSAC staff's February report to the Board of Directors. As a reminder, those options included:

1. Increase the base gas tax. Each additional cent of gas tax levied would generate approximately $150 million a year at current consumption rates.

2. Increase the vehicle license fee. A one-percent increase in the vehicle license fee (from the current 0.65% to 1.65%) would generate approximately $2.9 billion annually. Since the license fee is based on the value of a vehicle, it is-- at least in some cases-- less regressive than a gas tax increase.

3. Increase the vehicle registration fee. There are approximately 33 million registered vehicles in California, which includes some fee-exempt vehicles. Each additional dollar in registration fees would generate approximately $30 million annually. A registration fee could also be used to ensure that vehicles that do not use gas or diesel contribute to the maintenance of highways and streets.

4. Redirect Weight Fees back to Transportation. Pursuant to the 2010 transportation tax swap, approximately $1 billion in weight fee revenues that would otherwise go to transportation projects is dedicated to paying off transportation related general obligation bond debt service. This revenue could go back to local streets and roads and state highways on a permanent basis or even one-time to address the immediate needs in FY 15-16.

Separately, Assembly Member Jim Frazier, chairman of the Assembly Transportation Committee, has introduced ACA 4, which accomplish the fifth potential revenue option outlined in our February memorandum: reduction of the voter threshold for local sales tax measures. Twenty counties have adopted countywide local sales tax measures for transportation. Another 15 counties predict success if the voter threshold is reduced. This would generate $300 million for transportation annually and about $120 million more for the local system.

Action Requested. No action is requested at this time.

Staff Contact. Please contact Kiana Buss (kbuss@counties.org or (916) 327-7500 x566) or Chris Lee (clee@counties.org or (916) 327-7500 x521) for additional information.

Attachment One

CSAC Memo on Options for New Transportation Revenue

CSAC
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May 31, 2012

To: CSAC Housing, Land Use, and Transportation Policy Committee

From: Mike Penrose, Chair, CEAC Transportation Committee
DeAnn Baker, CSAC Senior Legislative Representative
Kiana Buss, CSAC Senior Legislative Analyst

Re: Recommendations for New Transportation Revenues

Background

During the CSAC Housing, Land Use, and Transportation Policy Committee (HLT Committee) meeting in November 2011, after a presentation on the California Transportation Commissions' Statewide Transportation System Needs Assessment Report (CTC Report), Chair, Supervisor Efren Carrillo (Sonoma County), directed staff to develop a list of revenue options for the HLT Committee to consider to address California's enormous and still growing needs on the transportation network. As reported to the HLT Committee, the CTC Report found that the total cost of system preservation, system management, and system expansion over a ten-year period in California is roughly $536.2 billion. With a total estimated revenue of $242.4 billion over the same period, Californians are facing a $293.8 billion shortfall in order to bring the transportation network into a state of good repair and maintain it in that condition into the future.

CSAC staff has worked with the County Engineers Association of California (CEAC) to develop a list of possible revenue sources for new transportation funding. In addition to developing the list of possible revenue sources, the CEAC Transportation Committee developed a set of principles for evaluating each possible revenue stream to see how well each option fits within existing CSAC policy and the goals of the HLT Committee and Association as a whole. Staff has also listed the major pros and cons related to each possible revenue stream.

After an in-depth discussion on eleven various revenue options, CEAC agreed that four in particular were the most appropriate to fund the transportation needs that are most important to counties (i.e. local streets and roads, state system, and transit). They are listed in alphabetical order and do not reflect any sense of priority.

Principles

I. Unified Statewide Solution. All transportation stakeholders must stand united in the search for new revenues. Any new revenues should address the needs of the entire statewide transportation network.
II. Equity. New revenues should be distributed in an equitable manner, benefiting both the north and south and urban, suburban, and rural areas alike.

III. System Preservation. Given the substantial needs for all modes of transportation, a significant portion of new revenues should be focused on system preservation. Once the system has been brought to a state of good repair (the most cost effective condition to maintain the transportation network), revenues for maintenance of the system would be reduced to a level that enables sufficient recurring maintenance.

IV. All Users Based System. New revenues should be borne by all users of the system from the traditional personal vehicle that relies solely on gasoline, to those with new hybrid or electric technology, to commercial vehicles moving goods in the state, and even transit, bicyclists, and pedestrians who also benefit from the use of an integrated transportation network.

V. Alternative Funding Mechanisms. Given that new technologies continue to improve the efficiency of many types of transportation methods, transportation stakeholders must be open to new alternative funding mechanisms. Further, the goal of reducing greenhouse gases is also expected to affect vehicle miles traveled, thus further reduce gasoline consumption and revenue from the existing gas tax. The existing user based fee, such as the base $0.18-cent gas tax is a declining revenue source. Collectively, we must have the political will to push for sustainable transportation revenues.

Local Streets and Roads Revenue Options

I. Gas Tax Increase and Indexing. Increase the excise tax on gasoline and/or index the new revenues along with the base $0.18-cent gas tax to keep pace with inflation. Another option is to just index the existing $0.18 base portion of the gasoline tax. Per every one-cent gas tax increase, approximately $150 million is generated. The California Statewide Local Streets and Roads Needs Assessment Report identified a $79.9 billion shortfall over the next ten years or an $8 billion annual need just to address the preservation of the local street and road system. Thus, this equates to a 56-cent gas tax increase just to meet local system preservation needs.

Pros	Cons
User-based fee; pay at the pump to use the system	Declining revenue stream – vehicles are more efficient, hybrid and electric technology, less consumption. Further, greenhouse gas reduction goals strive to reduce vehicle miles traveled, less consumption
Indexing makes the tax sustainable by keeping pace with the cost of living and construction costs	

Tax payers pay over time, not in a lump-sum	

II. Sales Tax on Gasoline Options. Reinstate the sales tax on gasoline and/or reduce the voter threshold for the imposition of local sales tax measures for transportation purposes. The two options could be implemented individually or together as a package of changes to the sales tax on gas. The sales tax on gasoline would have generated approximately $2.8 billion in FY 2012-13 if it were still in place. If shared between the State, transit, and cities in the same manner as the previous sales tax, it would generate $560 million for counties in the same fiscal year. Regarding the local sales tax option, the self-help counties coalition estimates another 15-17 counties could pass local measures with a reduction to a 55% voter threshold.

Pros	Cons
Increasing revenue stream; generates more revenues as the price of gas increases	Unlikely to have support from the Legislature and Governor given the transportation tax swap and 2012 November ballot initiatives
Tax payers pay over time, not in a lump-sum	Also effected by reduced consumption
	Political viability since Prop 42 was passed by the voters to direct sales taxes on gasoline to transportation and was then replaced with the new HUTA by the Legislature in the swap

III. Transportation System User Fee. Institute a one-percent annual vehicle registration fee based on the value of a vehicle and dedicate revenues to transportation. Research indicates 27 million vehicles would be subject to the fee. Funds would be distributed in the same manner of the old sales tax, 40% to counties and cities, 40% state highways, and 20% transit. The fee would generate $2.7-$3 billion annually, which would provide counties $540-600 million. The Transportation System User Fee is especially intriguing as Transportation California, representing business, construction, and labor groups, has already drafted a proposal and is undertaking an education and outreach campaign to build support for a near-term ballot measure.

Pros	Cons
New idea; different from conventional sales tax or gas tax proposals	Annual fee so taxpayers feel the burden all at once

Sustainable; captures revenues from all vehicle operators of the road system including operators of electric vehicles and other alternative fuel vehicles	A fee based on value of a vehicle is close to VLF, which can be a hot button issue, voters react to it, i.e. Schwarzenegger reducing the VLF and taking over as Governor

IV. Vehicle Miles Traveled Fee. Institute a fee based on a vehicle miles traveled per registered vehicle, personal and/or commercial. This could require GPS tracking devices to be installed in vehicles or perhaps reporting on a quarterly, semi-annually, or an annual basis to the State on the total number of miles driven per registered vehicle. It is unclear how much such a tax would need to be set at to generate the funds necessary to address California's transportation revenue shortfalls. In 2010, there was 327 million vehicle miles traveled in the state.

Pros	Cons
User based revenue; pay to use the system	Concerns about privacy rights related to a GPS tracking device
Can link fee to peak driving times like congestion pricing on toll roads	It is a potentially declining revenue source as greenhouse gas reduction goals attempt to reduce VMTs
	Implementation would be significant given there isn't the same or similar process already set up

The CEAC Transportation Committee also considered the following revenues possibilities but did not conclude that these options were as viable or sustainable or otherwise did not meet the overarching principles:

- Weight Fee Increase
- Regional Fee
- Local Fee
- Public-Private Partnerships
- Infrastructure Bank
- Toll Roads
- Congestion Pricing

Recommendation.
Again, the four aforementioned revenue options appear to be the most viable and sustainable opportunities for increased revenues to address the significant funding shortfalls for transportation in California. The CEAC Transportation Committee recommends that the HLT Committee take action to recommend that the CSAC Board of Directors support these options to fund our transportation needs. Policy direction should be broad enough to allow CSAC to support any of the options that meet our overall policy goals.