An LAO Report

Public Transportation Account:
Options to Address Projected Shortfall

Background

The Public Transportation Account (PTA) provides a source of state funds primarily for transit (including bus and rail) purposes. In view of a projected shortfall in the PTA, the Legislature directed the Legislative Analyst's Office to report on potential options to provide for the PTA's continued solvency.

LAO Findings

- ❖ The projected shortfall is primarily the result of expenditure demands on the PTA exceeding revenues into the account.
- ❖ Over a four-year period, from 2000-01 through 2003-04, the PTA is projected to have a shortfall of approximately $53 million. Beyond 2003-04, the shortfall would increase significantly.
- ❖ Because of the shortfall, there will be no funds available for new transit capital improvement projects through at least 2005-06.

LAO Options and Recommendations

Revenue Options. For illustration purposes, we provide three options which would redirect, to varying degrees, existing tax revenues from the state General Fund to the PTA.

Expenditure Options. These include:

- Eliminate set-aside funds for two new intercity rail routes because the merit of these services has not been assessed.
- Delay the expansion of intercity rail service in existing corridors. While this may delay service improvements designed to raise ridership, this option would be the *de facto* result of a PTA shortfall.
- Suspend funding for toll bridge seismic retrofit from the PTA and fund the retrofit from the State Highway Account instead.
- Reduce PTA funding share for the State Transit Assistance program.

Recommendation to Relax Article XIX Limitation. Under the State Constitution (Article XIX), transit rolling stock (including buses and rail cars or locomotives) is the only type of transit capital expenditures that currently cannot be funded with revenues generated from gasoline and diesel excise taxes. Relaxing this limitation would provide an alternative fund source for transit rolling stock, thereby providing more flexibility in funding public transportation improvements which currently compete for PTA funds.

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January 4, 2000

INTRODUCTION

The *Supplemental Report of the 1999 Budget Act* directed the Legislative Analyst's Office to report to the Legislature on the fiscal condition of the Public Transportation Account (PTA). Specifically, our office was required to report on the following:

- Anticipated capital and operational expenditures for intercity rail and mass transit over the next four years given the existing level of service and current plans for expansion.
- Potential revenue sources to provide for the continued solvency of the PTA.

As regards the solvency of the PTA, we review the purpose, revenue structure, and statutory requirements of this account. We then review the projected condition of the account, including the projected revenues, expenditures, and account shortfall six years into the future. Then we provide several specific options, including revenue-related and expenditure-related options that would, in combination, ensure the continued solvency of the PTA. We also point out, however, that in addressing the PTA fund condition, the Legislature should reexamine the state's role in funding public transportation, including rail, bus transit, and ferries. Within this broader context, it should determine the appropriate structure and level of state funding for public transportation, of which the PTA is only one element.

PTA: REVENUE SOURCES AND USES

The PTA, formerly the Transportation Planning and Development Account, was established by the Transportation Development Act (TDA) of 1971. The purpose of the PTA is to promote the development of a public transportation infrastructure by providing a source of funds to local and state transportation agencies primarily for transit (including bus and rail) purposes.

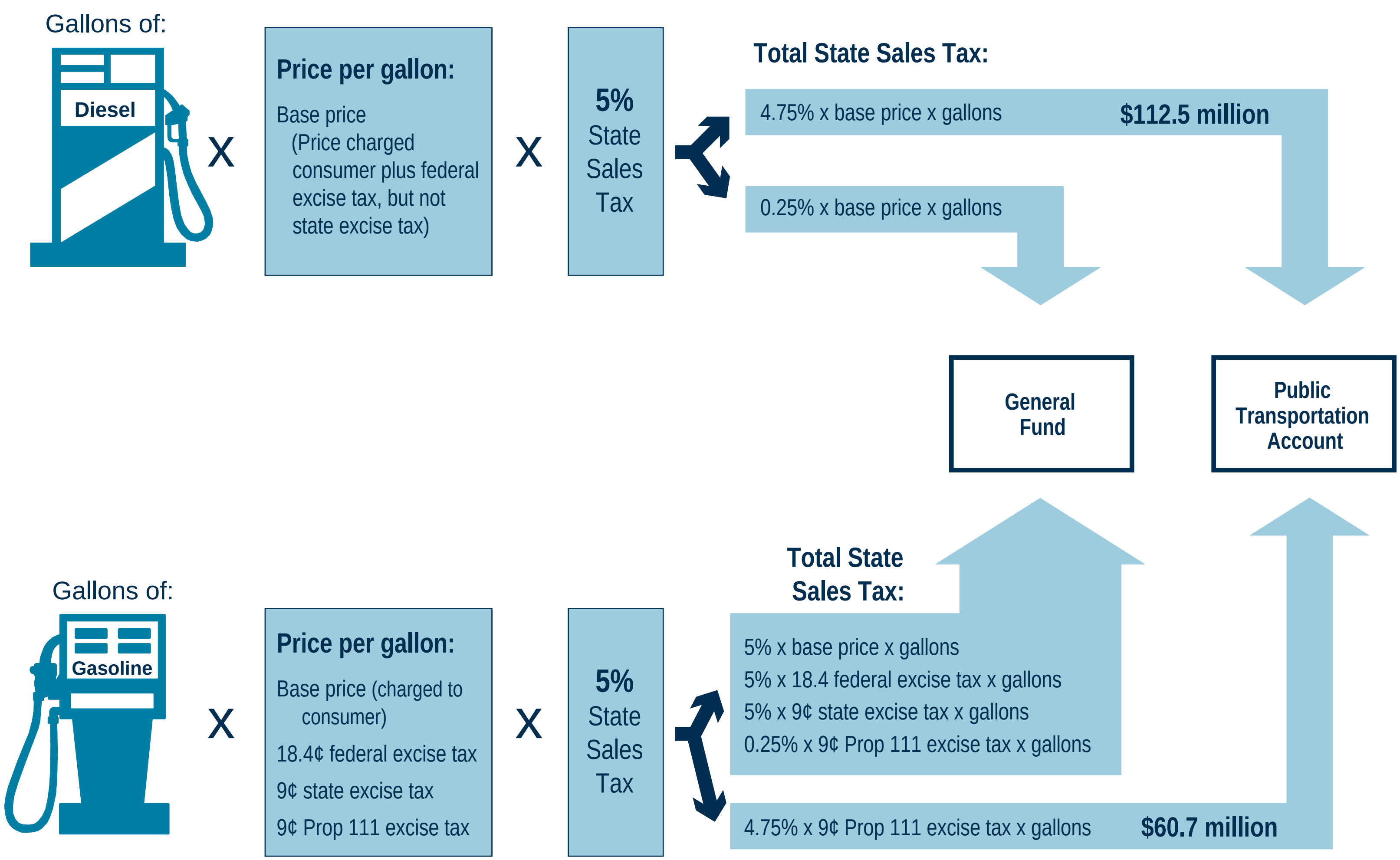
Sales Taxes on Diesel and Gasoline Two Main Sources of PTA Revenues. The state currently collects for state expenditure purposes a 5 percent sales tax on all goods sold in California. The TDA designates a portion of these revenues to the PTA, with the remaining sales tax revenues deposited in the state General Fund. As Figure 1 shows, the PTA derives its revenues primarily from sales and use taxes on diesel fuel and gasoline as follows.

- The largest revenue source is a 4.75 percent (out of the 5 percent) sales tax on diesel fuel. It is estimated to generate about $112.5 million in 1999-00, providing 65 percent of total account revenues.

Figure 1

Funding for the Public Transportation Account[a]

1999-00



[a] Excluding "spillover."

- The second major source is a 4.75 percent sales tax on 9 cents of the state excise tax on gasoline. Specifically, Proposition 111, the Traffic Congestion Relief and Spending Limitation Act of 1990, raised the state's excise tax on gasoline by 9 cents per gallon over five years to a total of 18 cents per gallon. The law requires that 4.75 percent of the sales tax on the 9 cent Proposition 111 excise tax increase be provided to the PTA. In 1999-00, this amount is estimated to be approximately $60.7 million, or 35 percent of total account revenues.

- The third funding source is referred to as "spillover." Generally, this occurs when sales tax revenues (at 4.75 percent) on all sales (including gas) exceed revenues (at 5 percent) on all sales (excluding gas). Because of the relatively large growth in nongasoline retail sales in recent years, no spillover has occurred nor is projected for 1999-00 or the near future.

PTA Primarily Supports State Transit Assistance, Intercity Rail, and Transit Capital Improvements. Under current state law, the State Transit Assistance (STA) program has first claim on at least 50 percent of annual PTA revenues. These funds are disbursed by formula to transportation planning agencies and county transportation commissions for allocation to public transit operators. Funds may be used for operating assistance, capital acquisition and improvement, and community transit services.

The remaining funds in the PTA support various other public transportation purposes, including:

- Intercity rail service.

- Capital improvements of transit systems, including track and facilities improvement as well as equipment acquisition and improvement.

- Rail and mass transportation planning and support for the intercity rail program and the Department of Transportation (Caltrans) mass transportation program.

- High-speed rail development.

- Passenger rail safety.

- Departmental administration and technical services.

- California Transportation Commission (CTC) activities.

- Transportation research through the University of California.

In addition, Chapters 327 and 328, Statutes of 1997 (SB 60 and SB 226, Kopp), stipulated that up to $130 million in PTA funds would be used to fund the seismic retrofit of state-owned toll bridges.

Historically, the three largest expenditures from the PTA have been the STA program, intercity rail services, and transit capital improvement projects. In recent years, however, due to increasing expenditures for intercity rail services and STA, there has not been funding for new transit capital improvement projects.

Transportation planning activities constitute another significant expenditure from the PTA. However, these costs are fully offset by transfers from the State Highway Account (SHA). For 1999-00, these expenditures amount to about $57.6 million.

Figure 2 summarizes the use of PTA funds in 1999-00. The figure shows that PTA expenditures for 1999-00 total about $224.8 million—about $46 million more than anticipated revenues of $178.7 million.

Figure 2

PTA Supported Programs 1999-00

(In Millions)

	Estimated Expenditures
State Transit Assistance	$100.3
Intercity rail service	64.0
Transit capital improvements	31.2
Planning, administration and technical services	21.7
High speed rail	3.0
Passenger rail safety	2.4
California Transportation Commission	1.2
Transportation research	1.0
Total	**$224.8**

The figure also shows that the STA is funded at $100.3 million, which is higher than the "50 percent of account revenues" minimum level required by law. This higher funding level results from a decision by the Legislature and the administration to maintain program funding at the 1998-99 level. This decision results in a smaller portion of PTA revenues available for the remaining authorized uses. In order to fund the remaining expenditures, the 1999 budget transfers $28 million from SHA to pay certain transit capital improvement projects for which funding commitments have been made in prior years. The 1999 budget also draws down the account's cash reserves which have been committed to transit capital improvement projects in prior years.

PTA FUND CONDITION: LOOMING SHORTFALL PROJECTED FOR FUTURE YEARS

Past Projection Predicted Account Shortfall; Recent Estimates Show Larger Shortfall. In our *1999-00 Analysis* (please see page A-22), we noted that the CTC had adopted a fund estimate that projected a $38 million shortfall in the PTA through 2003-04. The projected shortfall, however, has been revised upward in recent months. Specifically, the 2000 Fund Estimate (which covers 2000-01 through 2003-04), adopted in August 1999, projects a $49.7 million shortfall through

2003-04. One of the primary reasons for the increased shortfall is that the previous projection overestimated the amount of sales tax revenues from diesel and gasoline. Based on more recent data, Caltrans has now revised its revenue projections downwards.

Our review of the 2000 Fund Estimate, however, shows that the shortfall will be even slightly higher—by approximately $3.2 million—due to an error in Caltrans' cost estimates for new intercity rail service. Caltrans concurs with our finding and advises that the error will be corrected in future fund estimates.

Adjusting for this error, Figure 3 summarizes the 2000 Fund Estimate projections of revenues and expenditures for the PTA. Specifically, the fund estimate projects approximately $1.05 billion in total resources and about $1.1 billion in expenditures over four years, resulting in a total shortfall through 2003-04 of approximately $53 million.

Six-Year Projection Through 2005-06 Identifies Potential $158 Million Shortfall. Our analysis shows that beyond 2003-04, the shortfall would increase significantly through 2005-06 (the 2002 STIP [State Transportation Improvement Program] period). As shown in Figure 3, we project resources to total about $1.6 billion and expenditures to reach approximately $1.7 billion from 2000-01 through 2005-06. Thus, over this extended six-year period, the account will face a shortfall of about $158 million.

Figure 3

PTA Fund Condition
2000-01 Through 2005-06

(In Millions)

	2000-2003 Four-Year Total	2000-2005 Six-Year Total
Resources		
Revenues		
Sales tax on diesel	$475.4	$729.1
Sales tax on gasoline—Proposition 111	256.3	393.0
Other[a]	320.3	448.0
Totals	**$1,052.0**	**$1,570.1**
Expenditures		
State Transit Assistance	$365.8	$561.0
Support Costs		
Mass transit and rail	85.1	130.5
Other[b]	258.9	395.5
Program		
Intercity rail—existing service	271.0	416.0
Intercity rail—new service	74.6	145.6
Transit capital improvement	—	—
Transfer to Toll Bridge Retrofit Account	40.0	70.0
Reserve for economic uncertainties	9.5	9.9
Totals	**$1,104.9**	**$1,728.5**
Shortfall	-$52.9	-$158.4

[a] Includes beginning reserve in 2000-01, interest, and various transfers.
[b] Includes transportation planning, administration, CTC, rail safety, high speed rail development, and transportation research.

The significant increase in the shortfall is the result of a number of factors. In particular, the costs of expanded intercity rail services are projected to increase substantially beginning in 2002-03 and these higher costs would continue through 2005-06. Additionally, the fund estimate assumes that a significant portion of PTA funding for toll bridge seismic retrofit would occur beyond the 2000 STIP period.

Our projections are based on the same assumptions used by Caltrans in preparing the 2000 Fund Estimate. These assumptions include:

- All revenues and most expenditures continue to grow in 2004-05 and 2005-06 at a 2.2 percent annual rate as projected for the 2000 STIP period. (When developing the fund estimates, Caltrans is required by statute to use an inflation rate determined by the Department of Finance in its revenue and expenditure projections. The rate is currently set at 2.2 percent.)
- Beyond 2003-04, we estimated future intercity rail expenditures to grow at a 2.3 percent annual rate—the rate used by Caltrans to project increases in the intercity rail program expenditures.

Shortfall Impacts Not Only Transit Capital Funds Now, But Other Programs in Future. Because of the projected shortfall in the account, there will be no PTA funds available for new transit capital projects through 2003-04. Our projections show that this trend will continue through 2005-06, meaning that the state will not be able to fund any new transit capital improvements in the 2002 STIP period. The shortfall, however, will also impact other program areas. For example, expenditures for certain programs, such as the intercity rail service, would have to be curtailed.

FUTURE UNCERTAINTIES AFFECTING PTA CONDITION

The fund estimate projection and our six-year projection of the PTA condition are based on assumptions regarding revenue and expenditure growth. However, uncertainties exist. Below, we highlight two main areas of uncertainties.

Size of Shortfall Sensitive to Fluctuations in Revenues. If the consumption of gasoline or diesel fuel were to decrease in the future (absent an offsetting change in diesel price), revenues into the PTA would likewise decrease, resulting in a larger shortfall. Even a slower-than-projected growth in fuel consumption would increase the size of the shortfall. For example, the fund estimate projects that gas sales tax revenues will increase by 2.2 percent annually, despite the fact that gasoline consumption has grown at an average annual rate of about 1 percent since 1990-91. At this lower growth rate, projected revenues for the four-year period would be reduced by about $8 million, everything else being the same. Because of the funding split between the STA program and all other programs, the size of the projected shortfall would increase by about $4 million to a total of $56.8 million over the 2000 STIP period.

Similarly, PTA revenues fluctuate with the change in diesel fuel prices and consumption levels. While using a 2.2 percent annual growth rate in diesel sales appears reasonable based on historical experience, future sales could be substantially lower to the extent the use of diesel fuel is affected by any policy changes in response to environmental concerns over the air quality impact of diesel use. For example, the California Air Resources Board is currently in the process of promulgating new emission standards for public transit buses where diesel engines would be phased out of service and replaced with alternative fuel vehicles.

State Expenditures for Intercity Rail Tied to Amtrak's Financial Condition. The state contracts with Amtrak for its intercity rail services. The costs of these services are covered by fare revenues, federal operating grants, and state funds. The state's share of costs for the program are estimated to be $64 million in 1999-00 and over $100 million by 2003-04. These increasing costs are, in large part, a result of the federal government reducing its share of intercity rail costs in response to the Amtrak Reform and Accountability Act (ARAA) of 1997. This act, in an effort to force Amtrak to become financially self-sufficient, stipulates that Amtrak will lose all federal operating assistance funds after 2002. In response, Amtrak has begun reducing the federal share of operating costs for intercity rail service on the three corridors—the Capitol, San Diegan, and San Joaquin—within California, and shifted these costs to the state.

While the state has paid for an increasing share of Amtrak's costs to provide intercity rail service, the future state-share of intercity rail costs remains uncertain. This is because it is not known whether Amtrak will shift even more of its costs to the state for operating the rail services. Specifically, the ARAA also created the Amtrak Reform Council, an independent commission to evaluate Amtrak's financial performance and make recommendations for cost containment, productivity improvements, and financial reforms. If after 1999 the council finds that Amtrak is not meeting its financial goals or that Amtrak will require federal operating funds after December 2002 to stay solvent, the council is to submit to Congress a plan to restructure the national intercity passenger rail system. Under such a scenario, it is unclear what share of the intercity rail costs the federal government would continue to pay and what the state's costs would be.

ADDRESSING PTA SHORTFALL IN THE IMMEDIATE FUTURE

The primary fiscal problem the PTA faces is clear—an imbalance exists between revenues and expenditures. In this section, we focus on the narrow issue of addressing the immediate funding shortfall. We offer a number of options for reducing or eliminating the projected shortfall, and discuss the pros and cons. The options fall into two broad categories—increasing account revenues and reducing expenditures. In addition, we discuss our recommendation for the relaxation of the limitation imposed by Article XIX of the State Constitution. Doing so would provide an alternative funding source for transit rolling stock which currently can be funded only by PTA and the state General Fund. Most of the options, when considered separately, do not eliminate the projected shortfall entirely. However, when options are used in tandem, they would address the PTA's projected insolvency.

As we point out in a later section, however, we think that in the long run the Legislature should address the PTA condition within the broader context of the state's role in public transportation. Doing so would call for reexamining the Legislatures' objectives and priorities relative to public transportation, and determining the overall state funding structure and level for public transportation.

Revenue Options. There are a multitude of revenue options the Legislature could pursue in order to address the projected shortfall. These options range from redirecting, to varying degrees, tax revenues generated from diesel and gasoline sales to public transportation instead of being available for general purposes, to imposing new taxes specifically dedicated to public transportation. For illustration purposes, we provide the following three options which rely on a redirection of existing tax revenues from the state General Fund. We have chosen these options in order to show the different magnitude of funds that could be redirected.

To the extent General Fund revenues are reduced due to the deposit of sales tax revenues into the PTA, there would potentially be a corresponding reduction in Proposition 98 minimum funding level for education depending on how the redirection is accomplished. Similarly, the redirection of sales tax revenues could prevent the future triggering of a vehicle license fee reduction.

1. ***Deposit All 5 Percent of the State Sales Tax on Diesel Fuel and on Gas Excise Taxes Into PTA Instead of the General Fund.*** As explained above, the state currently levies a 5 percent sales tax on gasoline and diesel fuels. From this sales tax, 4.75 percent of the diesel fuel sales tax and 4.75 percent of the sales tax on the 9 cent excise tax on gasoline (Proposition 111) are allocated to the PTA. The rest of the sales tax revenues accrue to the state's General Fund. By increasing the PTA's share from 4.75 percent to 5 percent, this option would marginally increase rev-

enues into the PTA by about $10 million in 2000-01 and annually thereafter. This option would provide the full amount of state sales tax on diesel fuel and on the 9 cent gasoline excise tax for public transportation by diverting a relatively small sum annually from the General Fund. The magnitude of additional PTA revenues, however, would not be sufficient to fully address the account's projected shortfall.

2. ***Deposit 4.75 Percent of Sales Tax on Federal and State Gasoline Excise Taxes Into PTA Instead of the General Fund.*** This option, similar to that proposed in an early version of AB 276 (Longville), would divert approximately $185 million from the General Fund to the PTA in 2000-01 and annually thereafter. This option would work as follows. Currently, 36.4 cents of federal and state excise taxes are levied on every gallon of gasoline sold in California, and the 5 percent state sales tax is applied to this amount of excise tax. As mentioned above, 4.75 percent of the sales tax on the 9 cent excise tax on gasoline (Proposition 111) is currently deposited into the PTA, while the sales tax revenues on the remaining 27.4 cents of state and federal excise taxes are deposited in the General Fund. By allocating the sales tax revenues from the remaining 27.4 cents of excise tax to the PTA, revenues into the account would increase substantially.

3. ***Deposit Increments of the 5 Percent State Sales Tax on Gasoline, Up to the Full 4.75 Percent Into PTA Instead of the General Fund.*** This option would treat gasoline sales tax revenues similar to diesel sales tax revenues and dedicate them to public transportation. If the Legislature diverted the full 4.75 percent gasoline sales tax revenues to the PTA, it would result in a redirection of about $836 million annually beginning in 2000-01—an amount significantly more than needed to avert a shortfall in the PTA. Alternatively, each incremental 0.25 percent sales tax on gasoline diversion from the General Fund to the PTA increases revenues by about $44 million annually.

Expenditure Options. The following options limit or reduce projected expenditures from the PTA:

4. ***Eliminate Set Aside Funds for Two New Intercity Rail Routes.*** In addition to funding existing intercity rail services, the 2000 Fund Estimate sets aside funds to expand rail services. Specifically, the fund estimate includes $55.3 million for additional service in the three existing rail corridors—the Capitol, San Diegan, and San Joaquin—and $19.3 million for services on two new routes:

   - Coast route (San Francisco to Los Angeles) beginning in 2002-03—$17 million.
   - Monterey route (San Francisco to Monterey) beginning in 2003-04—$2.3 million.

   These two new service routes have not been recommended for implementation in the state's current ten-year rail plan. Also, whether the two routes merit state-funded services has yet to be assessed. Consequently, it is not known whether the two proposed new services ought to be funded and when service should begin. Setting funds aside for these services is therefore premature. By not reserving funds for these services, the shortfall would be smaller by about $19.3 million within the 2000 STIP period, or approximately $42 million over six years through 2005-06.

5. ***Delay Expansion of Intercity Rail Service in Existing Corridors***. As mentioned above, the 2000 Fund Estimate projects a substantial increase in service on the three existing intercity rail routes, beginning in 2000-01. These expanded services would total $55.3 million over the four-year 2000 STIP period, and $103.7 million through 2005-06. Delaying the expansion of these services will defer these expenditures, thereby significantly reducing the shortfall over the six-year period. However, under this option, intercity rail services will remain at their current level, which may not be most cost-effective. Based on the ten-year rail plan, for the three existing routes to operate on a more cost-effective basis and achieve a significantly higher level of ridership, service frequency has to be increased. Nonetheless, if revenues into the PTA are not increased or expenditures are not reduced, this option may be the *de facto* result of the account's projected shortfall; the account may not be able to afford intercity rail service expansion.

6. ***Suspend Funding Toll Bridge Seismic Retrofit From PTA; Fund Retrofit From SHA Instead.*** Current law requires that up to $130 million from the PTA is to be used toward the cost of seismic retrofit of state-owned toll bridges. Statute also allows certain SHA savings to be applied to these costs in order to reduce the PTA contribution. Caltrans currently estimates the total contribution expected from the PTA to be $80 million. In 1998-99, $10 million was transferred from the PTA to the Toll Bridge Retrofit Account, and the 2000 Fund Estimate plans additional transfers of $40 million through 2003-04, leaving an outstanding $30 million obligation to be transferred beyond 2003-04. This option would suspend the remaining PTA contribution for toll bridge retrofit. Instead, toll bridge retrofit would be funded from the SHA. Doing so would reduce the shortfall by $70 million over six years.

7. ***Reduce PTA Funding Share for State Transit Assistance.*** As indicated above, current law designates 50 percent of PTA revenues derived from the sales and use taxes on diesel fuel and gasoline to the STA program. Transit operators have the discretion to prioritize the use of STA funds for operating assistance, capital acquisition and improvement, and community transit services. The remaining 50 percent of PTA revenues is split among Caltrans' support costs, intercity rail services, and transit capital improvement projects. Under this option, the Legislature would modify the revenue allocation formula so that

the STA would receive less than 50 percent of PTA revenues. Though this option would free up revenues for intercity rail services and transit capital improvement, transit operators would receive less STA funds. As a result, they would also have less flexibility in their use of the funds.

Existing PTA Fund Allocation Formula Affects Revenue Options. Figure 4 summarizes the fiscal impact of the above seven options. Specifically, the figure shows the additional resources made available to the PTA over four years from 2000-01 through 2003-04 and over six years (through 2005-06).

We note that under current law, options that generate additional revenue into the PTA (Options 1 through 3) would increase correspondingly (by 50 percent of the additional revenues) STA funding. This leaves the remainder (50 percent of revenues) to reduce the shortfall and, where available, to provide for additional expenditures for intercity rail and transit capital improvements. This is important because while an option may divert or generate substantial additional revenue for the PTA, once statutory allocations are made to the STA program, the remaining available resources may not be enough to cover the projected shortfall. On the other hand, every dollar of expenditure reduction (such as in Options 4 and 5) would result in a dollar reduction in the projected shortfall.

Relax Article XIX Limitation. In addition to the revenue and expenditure options discussed above, the Legislature should take steps to increase the flexibility of how transportation funds can be used. Specifically, we have previously recommended that the Legislature enact a constitutional amendment to permit expenditure of gas tax revenues for transit rolling stock. (Please see our 1998 report *Developing and Funding an Efficient Transportation System*.) Doing so would provide an alternative funding source for transit rolling stock which, based on current projections, the PTA would not be able to fund.

Under Article XIX of the State Constitution, transit rolling stock (such as buses and rail cars or locomotives) is the only type of transportation capital outlay that currently cannot use the revenues generated from gasoline and diesel excise tax. Currently, the PTA funds are the only source of state funds, other than the state General Fund, for transit equipment and rolling stock. The projected shortfall means that, absent other corrective actions, no state funds would be available for transit equipment or rolling stock.

While relaxing Article XIX does not address the PTA shortfall directly, it would provide an alternative fund source for transit rolling stock, thereby providing more flexibility in funding public transportation improvements, and enabling local and regional agencies to use transportation funds more efficiently according to their priorities for highways, roads, and transit. In 1974, voters similarly relaxed Article XIX to allow individual counties, by Board of Supervisors resolution, to opt to spend gas tax revenues for mass transit guideways. A similar amendment to Article XIX to authorize expenditure of gas tax revenue for transit rolling stock would not change the amount of transportation revenue available to any county, but would provide greater flexibility in the use of that revenue.

Figure 4

Public Transportation Account
Fiscal Impact of Revenue and Expenditure Options

(In Millions)

	Four-Year Total		Six-Year Total	
Options	Total Resources	Resources for Covering Shortfall[a]	Total Resources	Resources for Covering Shortfall[a]
Revenue Options				
Option 1:				
Modify sales tax sharing formula	$40.0	$20.0	$60.0	$30.0
Option 2:				
Transfer sales tax on all gas excise tax	740.0	370.0	1,110.0	555.0
Option 3:				
Divert 0.25 percent increments of sales tax on gas	176.0	88.0	264.0	132.0
(Up to 4.75 percent)	(3,344.0)	(1,672.0)	(5,016.0)	(2,508.0)
Expenditure Options				
Option 4:				
Eliminate set asides for new intercity rail service	$19.3	$19.3	$41.9	$41.9
Option 5:				
Delay expansion of existing intercity rail service	55.3	55.3	103.7	103.7
Option 6:				
Fund bridge retrofit from SHA	40.0	40.0	70.0	70.0
Option 7:				
Reduce funding share for STA	—[b]	—[b]	—[b]	—[b]

[a] Resources in excess of projected shortfall would be available for additional expenditures.
[b] Amount cannot be determined, and would depend on how funding formula is modified.
N/A - not applicable.

LONGER-TERM SOLUTION TO PTA SHORTFALL

The Legislature can pursue various options in order to avert a projected shortfall in the PTA. We believe, however, that in addressing the account's financial condition, the Legislature should take a broader approach and reexamine its objectives and priorities regarding the state's role in funding public transportation. In doing so, the Legislature can determine the appropriate overall structure and level of state funding for public transportation, including the PTA, as well as the appropriate allocation of state funds between state programs and those services that are provided by regional and local agencies. The Legislature should also examine the extent to which current state-funded programs, including the STA, intercity rail service, and transit capital improvements meet the Legislature's objectives and priorities in order to ensure that state funds are used most efficiently and effectively to provide mobility through public transportation.

For instance, the recent SR 8 (Burton) report by the CTC identifies a significant funding shortfall over the next ten years in all areas of public transportation in the state. These include: regional and local bus and rail transit operations to maintain existing service levels; transit equipment acquisition and capital improvement to enhance and expand services; and the state's intercity rail service. The Legislature's determination of the extent to which state funding should be provided to meet the funding demands of public transportation would in turn affect the funding structure and level of the PTA.

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