December 27, 2013

Hon. Kamala D. Harris
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Ashley Johansson
Initiative Coordinator

Dear Attorney General Harris:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional initiative related to funding for transportation programs (A.G. File No. 13-0046).

Background

Transportation Funding. California spends an estimated $27 billion a year from a combination of state, federal, and local funds to maintain, operate, and improve its highways, streets and roads, passenger rail, and transit systems. About one-half of the funding comes from various local sources, such as sales and property taxes and transit fares. About one-quarter of the funding comes from the federal government and the remaining one-quarter comes from the state. The portion of transportation funding provided by the state comes from several sources.

- ***Fuel Excise Taxes.*** Currently, the state charges excise taxes of 39.5 cents per gallon on gasoline and 10 cents per gallon on diesel fuel used in vehicles operating on public roads. These taxes generate about $6 billion annually for state and local transportation programs.
- ***Vehicle Weight Fees.*** The state charges weight fees on vehicles that carry a heavy load, such as commercial trucks. These fees generate about $1 billion annually, which repay bonds that finance state and local transportation projects.
- ***Diesel Sales Tax.*** The state currently charges a sales tax on diesel fuel of 6.94 percent, which generates about $610 million annually for state and local transit.
- ***Miscellaneous Transportation Revenues.*** The state collects about $65 million annually from miscellaneous sources, such as rental income from properties owned by the California Department of Transportation. These funds are deposited in the state General Fund.

Local Government Finance. The vehicle license fee (VLF), also called the motor vehicle in-lieu tax, is a tax on the ownership of a registered vehicle in place of taxing vehicles as personal property. The VLF is paid annually upon vehicle registration in addition to other fees, such as the vehicle registration fee, air quality fees, and commercial vehicle weight fees, all of which fund specific state programs. In 1998, the Legislature began a series of reductions in the VLF. The fee was reduced from a level of 2 percent down to a rate of 0.65 percent. Revenues from the VLF fund a variety of county and city services.

Proposal

New Tax on Vehicles. This measure amends the State Constitution to create a new tax on vehicles. Specifically, the measure creates an annual property tax on all vehicles registered in the state, at the rate of 1 percent of a vehicle's value upon full implementation beginning on January 1, 2018. Under the measure, the tax would be phased in over four years in annual increments of 0.25 percent beginning on January 1, 2015. The Department of Motor Vehicles (DMV) would collect the tax when vehicles are registered each year.

The measure specifies that commercial vehicles would be exempt from the new tax until July 1, 2016. If the state increases the excise tax on diesel fuel by at least three cents per gallon before July 1, 2016, then commercial vehicles would continue to remain exempt from the new vehicle tax established in the measure. If, however, the state does not increase the diesel excise tax before July 1, 2016, then the new tax would be charged on commercial vehicles beginning July 1, 2016.

Additional Revenues for Transportation Programs. The measure requires that revenues from the vehicle tax be deposited in a new special fund—the California Road Repairs Fund. Monies in the California Road Repairs Fund would be continuously appropriated without further legislative action for the maintenance and repair of various transportation systems.

- 40 percent for state highway repairs, with half of the funds for projects at any location in the state and half of the funds allocated to counties for qualified projects.
- 25 percent for county roads.
- 25 percent for city streets.
- 10 percent for public transit.

In addition, the measure redirects the state's existing miscellaneous transportation revenues from the state General Fund to the California Road Repairs Fund. These funds would be continuously appropriated specifically for repairs and preventive maintenance on the state's highways.

The measure specifies that revenues in the California Road Repairs Fund shall be used only to supplement existing levels of funding for state and local highways, streets and roads, and public transit and that none of the funds shall be used to supplant existing fund sources generally available for such purposes. The measure also requires the state and local governments to report on how the additional funding provided is spent.

Fiscal Effects

Increased State Revenues. This measure would result in increased state revenues from the new tax on vehicles. As noted earlier, these revenues would be deposited in the California Road Repairs Fund to support state and local transportation programs. We estimate that state revenues would increase by about $400 million in the first year of implementation in 2015 and increase to between $3 billion and $4 billion annually upon full implementation beginning in 2018.

Redirection of Existing Revenues. This measure would redirect about $65 million annually in miscellaneous revenues from the state General Fund to the California Road Repairs Fund, with the funds used to increase funding for state and local transportation programs. This would have the effect of reducing General Fund resources available for non-transportation programs by a corresponding amount.

Increased Administrative Costs. This measure would result in increased administrative costs to the state and local governments. For example, the DMV would incur one-time costs to charge and collect the new vehicle tax. Under the provisions of this measure, these costs would be supported by a portion of the revenues generated from the new tax on vehicles. In addition, the new reporting requirements contained in the measure would result in a minor increase in administrative costs for state and local governments, which would be supported by the funding provided in this measure.

Other Fiscal Effects. For many taxpayers, this vehicle tax would be deductible from their state income taxes and would therefore reduce the amount of revenue the state collects from income taxes. In many years, this reduction in General Fund revenues would reduce required state funding for schools and community colleges. The net reduction in General Fund resources typically would be in the tens of millions of dollars annually.

Summary of Fiscal Effects. We estimate that this measure would have the following fiscal effects:

- Increased state revenues from a new tax on vehicles of $3 billion to $4 billion annually for state and local transportation programs.

Sincerely,

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Mac Taylor
Legislative Analyst

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Michael Cohen
Director of Finance