



November 14, 2018

Hon. Xavier Becerra  
Attorney General  
1300 I Street, 17<sup>th</sup> Floor  
Sacramento, California 95814

Attention: Ms. Anabel Renteria  
Initiative Coordinator

Dear Attorney General Becerra:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional initiative related to transportation (A.G. File No. 18-0010).

## OVERVIEW

This measure has three major provisions. It:

- Shifts existing state funds and responsibilities to local transportation programs.
- Shifts existing state funds to provide funding for state administration of vehicle and traffic programs.
- Terminates the state's high-speed rail project.

Below, we discuss in detail each of these major provisions and their fiscal effects.

## TRANSPORTATION PROGRAMS AND FUNDING

### Background

***State and Local Transportation Responsibilities.*** The state's transportation system helps to move people and goods around and through the state. The state has responsibility for the state highway system, part of intercity passenger rail services, and the construction of a high-speed rail system, while local governments have responsibility for local streets and roads and transit operations.

***State Transportation Funding.*** Most state funding for transportation comes from certain fuel- and vehicle-related sources. The major sources include (1) excise taxes on gasoline and diesel, (2) sales taxes on diesel, (3) transportation improvement fees (an annual tax paid by vehicle owners), and (4) truck weight fees. The State Constitution restricts these revenues to specified state and local transportation purposes.

***Sales Tax and Insurance Tax General Fund Revenues.*** Currently, a portion of revenues from the state sales tax (including revenues from vehicle purchases) and all revenues from the state tax on insurance premiums (including on vehicle insurance) are deposited into the state General Fund—the state’s main operating account, which supports education, health and human services, criminal justice, and other programs. While the Legislature has discretion over how to spend General Fund monies, the State Constitution contains certain spending requirements. For instance, Proposition 98 (1988) requires the Legislature to provide schools and community colleges a minimum level of funding each year (commonly referred to as the “Proposition 98 minimum guarantee”). In addition, Proposition 2 (2014) requires the state to spend a minimum amount from the General Fund each year, through 2029-30, to pay down specified debts, and makes deposits from the General Fund into a “rainy day” reserve fund.

***License Fee and Sales Tax Special Fund Revenues.*** Currently, nearly all revenues from vehicle license fees (another annual tax paid by vehicle owners) as well as revenues from portions of the sales tax (including on vehicle and fuel purchases) pay for certain county-administered health, human services, and public safety programs. Specifically, they pay for certain program responsibilities (such as for child welfare and low-income health care) that were shifted from the state to counties in previous years—known as 1991 and 2011 realignment. The state provides counties these dedicated special fund revenues to pay for their share of program costs. Another portion of the sales tax was approved by voters in 1993 to pay for local public safety programs.

## **Proposal**

***Establishes Two New Transportation Accounts.*** This measure creates two new trust funds—or state accounts—for transportation and deposits in these accounts existing tax revenues dedicated to transportation, as well as existing tax revenues dedicated for other purposes. First, the measure requires that revenues from state excise and sales taxes on motor vehicle fuel (such as gasoline and diesel) be deposited into a new Citizens’ Lock Box for Road Repairs, Maintenance, and Improvement and be spent on road and highway capital outlay, repairs, and maintenance. Second, the measure requires that revenues from state taxes on (1) the sale of vehicles, (2) vehicle insurance premiums, and (3) vehicles (such as truck weight fees) be deposited into a new Citizens’ Lock Box for Transportation Infrastructure Repair, Maintenance, Operation, and Improvement to support specified transportation purposes, such as research, planning, construction, maintenance, and operations of roads, highways, and transit rails.

***Allocates All Funding to Cities and Counties.*** The measure provides all funding from the two new accounts to cities and counties. It also assigns cities and counties responsibility for maintaining and constructing portions of the state highway system located within their jurisdiction. Additionally, the measure (1) places restrictions on spending on transportation projects with respect to certain labor and wage requirements, (2) prohibits the state from limiting local governments from using competitive bidding and outsourcing on transportation projects, and (3) requires the California State Auditor to annually audit select projects.

## Fiscal Effects

The measure specifies that the above provisions would take effect in January 2021—consequently, the 2021-22 fiscal year would be the first full year of their implementation.

**Shifts in Existing Revenue.** This measure would not increase or decrease state revenues. However, it would shift annual state revenues between program areas and between state and local governments as follows:

- **Increased Revenues Dedicated for Transportation.** The measure would increase state revenues dedicated for transportation by roughly \$10 billion annually. In addition, it would shift existing state transportation revenues (about \$12 billion annually) to local governments.
- **Decreased Revenues for Realignment (Dedicated to Local Health, Social, and Public Safety Programs) and Other Local Public Safety Programs.** The measure would reduce state revenues for local governments by roughly \$3 billion for 1991 realignment (local administration of health and social programs), \$2 billion for 2011 realignment (local public safety services), and \$1 billion for other local public safety programs.
- **Decreased State General Fund Revenues.** The measure would reduce state General Fund revenues by roughly \$4 billion annually.

**Impacts on State Spending.** The proposal would have the following impacts on state spending:

- **Increased State Spending on Realignment (Local Health, Social, and Public Safety Programs).** The State Constitution requires the state to backfill counties for any loss of local public safety funds that were part of 2011 realignment. Thus, the state would have to spend an additional \$2 billion to make up for this lost revenue. The state would face pressure to backfill counties for revenues designated for local administration of health and social programs that were part of 1991 realignment. This would increase state spending by roughly \$3 billion, in addition to the \$2 billion to make up for the loss of the local public safety funds. (If the state did not provide this backfill, 1991 realignment could come undone, with major impacts on state and local revenues and spending.)
- **State Spending on Transportation Bond Debt Service.** The state likely also would have to use another fund source to pay for state transportation bond debt service that currently is paid for by truck weight fee revenues. This is because the measure provides all truck weight fee revenues to cities and counties. This debt service currently totals over \$1 billion annually.
- **Proposition 98 and Proposition 2 Spending Requirements.** Because the measure reduces General Fund revenues, it also would reduce the Proposition 98 minimum school funding requirement by around \$1.6 billion annually. How this affected state General Fund spending on schools would depend on future decisions by the

Legislature. The measure also could either positively or negatively affect the reserve deposits and General Fund debt payments that are required under Proposition 2.

## VEHICLE AND TRAFFIC PROGRAMS

### Background

***State and Local Responsibilities.*** The Department of Motor Vehicles (DMV) is responsible for regulating the use, operation, and registration of motor vehicles, while the California Highway Patrol (CHP) is responsible for the enforcement of traffic laws on the state highway system. Local governments are responsible for enforcing traffic and vehicle law violations on their local streets and roads. Disputes over traffic and vehicle law violations typically are resolved through the state trial court system.

***State Funding for DMV and CHP.*** State funding for DMV and CHP combined currently totals about \$3.8 billion. Most of this funding comes from vehicle registration and driver license fees. The State Constitution restricts revenues from these and other state fees related to the use and operation of vehicles to specified transportation purposes, such as state administration and enforcement of vehicle and traffic laws.

***Traffic Fine and Fee Revenue.*** In California, individuals convicted of traffic and vehicle violations are often required to pay various fines and fees as part of their punishment. The total amount owed can consist of a base fine, as well as various additional charges. Revenue from these payments is deposited in a number of state and local funds to support various programs and services—a number of which may not directly relate to traffic violations. Examples of supported programs and services include trial court operations, courthouse construction, victim restitution, peace officer training, DNA forensic labs, and various local purposes.

### Proposal

***Establishes New Account for Vehicle Regulation and Traffic Enforcement.*** This measure requires that all revenues from (1) state fees on the use and operation of vehicles (such as registration fees and driver license fees) and (2) fines and penalties imposed for the violation of traffic and vehicle laws be deposited in the aforementioned account—the Citizens' Lock Box for Transportation Infrastructure Repair, Maintenance, Operation, and Improvement. These funds would support the administration and enforcement of laws regulating the use of vehicles, including traffic laws, as well as related court costs. Additionally, the measure requires the California State Auditor to conduct a performance and efficiency audit of the DMV at least every three years, starting in 2024.

### Fiscal Effects

The main fiscal impact of the above provisions relates to revenue from traffic and vehicle violations. We note, however, the actual impact is uncertain and difficult to estimate, as it would significantly depend on how the measure is interpreted and implemented. For example, it is uncertain which specific charges currently assessed for traffic violations would be subject to the measure. It is also uncertain what existing state and local program costs that are currently

supported by fines and penalties imposed for the violation of traffic and vehicle laws could be supported from the new account established by the measure.

***Shifts in Existing Revenue.*** This measure would not increase or decrease state revenues from traffic and vehicle violations. However, the measure would shift up to hundreds of millions of dollars annually to vehicle and traffic programs from various programs not related to traffic and vehicles.

***Potential Increase in State and Local Spending.*** To the extent state and local governments chose to maintain existing service levels for programs not related to traffic and vehicles, this would increase state and local spending.

## HIGH-SPEED RAIL PROJECT

### Background

In 1996, the Legislature and Governor created the High-Speed Rail Authority to plan and construct an intercity high-speed train system to link the state's major population centers. In 2015, the authority began the construction of a 119-mile segment in the Central Valley. Under its current business plan, the authority expects to extend construction to San Francisco in the north and Bakersfield in the south to create an initial operating segment by 2029 that eventually would extend to Los Angeles and Anaheim. The authority estimates the cost to complete the San Francisco to Anaheim segment to be about \$77 billion. Currently, it only has funding authorized for a fraction of the total cost. This funding comes from voter-approved (Proposition 1A) high-speed rail bonds, cap-and-trade auction revenues, and federal grants.

### Proposal

***Terminates High-Speed Rail Project.*** The measure requires the state to cease all publicly funded activities on the high-speed rail project by June 30, 2021. It further prohibits the state from taking any action that would "have the effect of extending activity or supporting the successful completion of the project." The measure also prevents the state from selling high-speed rail bonds, and it requires any unspent bond proceeds be used to retire outstanding bond debt.

### Fiscal Effects

***Reduced State Expenditures.*** By terminating the high-speed rail project, the measure would reduce state expenditures on the high-speed rail project. The magnitude of the reduction would depend on the pace of construction spending between now and 2021, as well as how much the state would have spent on the project absent the measure. For example, if the state would have completed the San Francisco to Anaheim segment absent the measure, we estimate the measure would reduce expenditures on the project by close to \$70 billion. The actual reduction in state expenditures would depend on the extent that additional state funds were authorized in the future. Because the state likely would not have completed a usable intercity rail segment by 2021, it likely would have to repay around \$3 billion in grant monies to the federal government.

## SUMMARY OF FISCAL EFFECTS

We estimate that this measure would have the following major fiscal effects:

- A shift of roughly \$10 billion in ongoing state revenues from state and local non-transportation programs to local transportation programs. Increased ongoing state spending of several billions annually to backfill certain programs affected by this shift. Also, roughly \$12 billion in existing ongoing state revenues for transportation would be provided to local governments.
- A shift of up to hundreds of millions of dollars ongoing from certain state and local programs to the enforcement of traffic and vehicle laws. Potential increased ongoing spending by the state and local governments to backfill programs affected by this shift.
- Reduced state expenditures on the high-speed rail project in the tens of billions of dollars from stopping the project.

Sincerely,

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Mac Taylor  
Legislative Analyst

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Keely Martin Bosler  
Director of Finance