

October 31, 2008

# State Funding For Transportation

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Transportation Committee

Hon. Mark DeSaulnier, Chair





## State Funding for Transportation

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### **Excise Tax on Gasoline and Diesel Fuel**

- **Significant Source of Funding.** The state charges an 18-cents per gallon tax on gasoline and diesel fuel. This excise tax (referred to as the “gas” tax) is estimated to generate about \$3.5 billion in 2008-09, including \$2.9 billion from gasoline and \$620 million from diesel.
- **Funds the State Highway Account (SHA).** The bulk of funds generated by the excise tax are deposited into the SHA. In 2008-09, SHA is estimated to receive about \$2.2 billion from the excise tax.
- **Funds Local Streets and Roads.** One-third of the excise tax revenues are used to fund local street and road improvements. In 2008-09, about \$1.2 billion will be apportioned to cities and counties for local road improvements.



**Truck Weight Fees.** The state charges weight-based fees to commercial vehicles. Revenues from these fees are deposited into SHA and are estimated to be about \$1 billion in 2008-09.



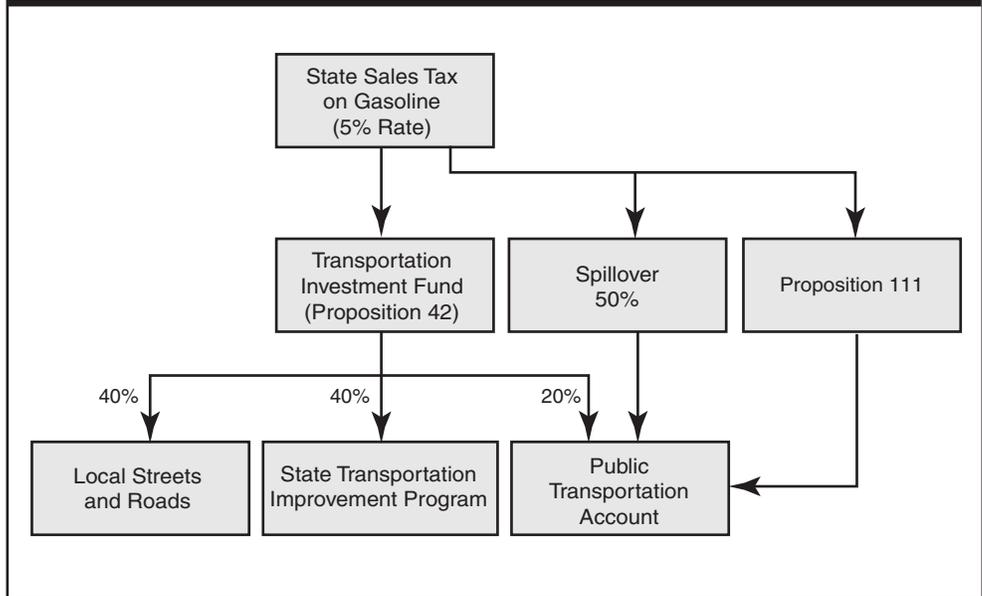
**The SHA Funds Are Used to Maintain and Rehabilitate State Highways.** The SHA is the primary source of state funding for the maintenance and rehabilitation (major repairs and reconstruction) of state highways. In 2008-09, SHA will provide:

- About \$1.5 billion for highway rehabilitation and safety.
- About \$1.2 billion for highway maintenance.



## State Funding for Transportation *(Continued)*

### Allocation of Gasoline Sales Tax Revenues For Transportation Purposes



- Sales Tax on Gasoline.** Revenue from the state sales tax on gasoline, at the 5 percent rate, is used mainly for transportation purposes. In 2008-09, these revenues are estimated to be about \$2.6 billion.

  - Under current law, one-half of spillover revenue goes to the Public Transportation Account (PTA) for mainly transit purposes. The other one-half goes to the Mass Transportation Fund (MTF) to reimburse the General Fund for transportation-related expenditures. Due to the state’s fiscal condition, in 2008-09 MTF will receive most of spillover.
  - The Transportation Investment Fund funds highway expansion projects in the State Transportation Improvement Program, local streets and roads, and transit programs in PTA.

- Sales Tax on Diesel.** Revenue from the state sales tax on diesel fuel, at the 4.75 percent rate, is deposited in the PTA. In 2008-09, these revenues are estimated to be about \$490 million.



## State Funding for Transportation *(Continued)*

<b>Uses of Proposition 1B Funds</b>	
<i>(In Millions)</i>	
<b>Program</b>	<b>Amount</b>
<b>Congestion Reduction, Highway and Local Road Improvements</b>	<b>\$11,250</b>
Corridor Mobility Improvement	\$4,500
STIP <sup>a</sup>	2,000
Local Streets and Roads	2,000
Highway 99 Improvement	1,000
State-Local Partnership	1,000
SHOPP <sup>b</sup>	500
Traffic Light Synchronization	250
<b>Transit</b>	<b>\$4,000</b>
Local Transit	\$3,600
Intercity Rail	400
<b>Goods Movement and Air Quality</b>	<b>\$3,200</b>
Trade Corridor Improvement	\$2,000
Air Quality	1,000
School Bus Retrofit	200
<b>Safety and Security</b>	<b>\$1,475</b>
Transit Security	\$1,000
Grade Separation	250
Local Bridge Seismic	125
Port Security	100
<b>Total</b>	<b>\$19,925</b>
<sup>a</sup> State Transportation Improvement Program. <sup>b</sup> State Highway Operation and Protection Program.	

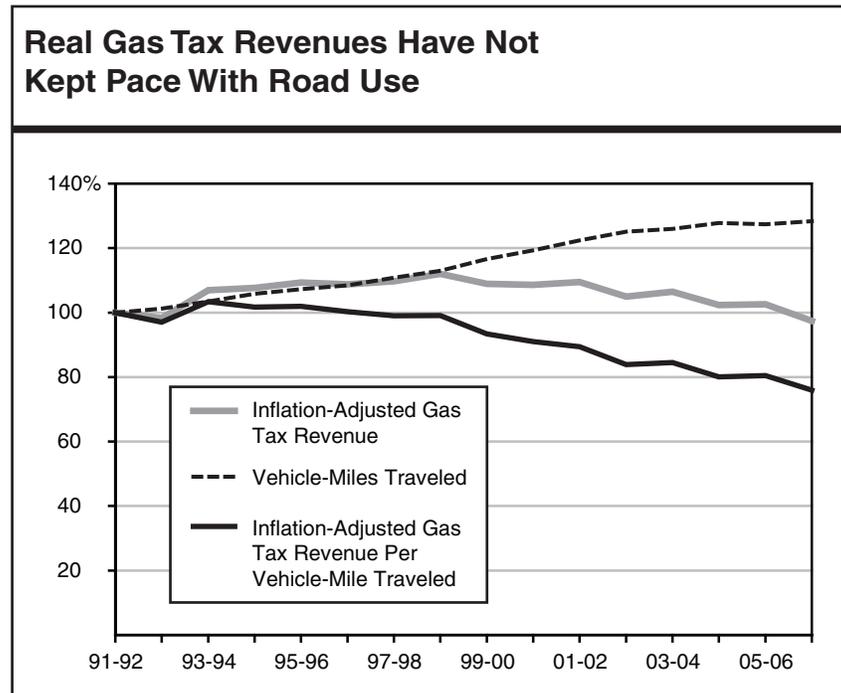


### Proposition 1B Bonds (2006)

- Most of the Proposition 1B funds are dedicated for capacity expansion projects. Of the total bond amount \$500 million is for highway rehabilitation.
- A total of about \$9.1 billion in Proposition 1B funds have been appropriated in 2007-08 and 2008-09.



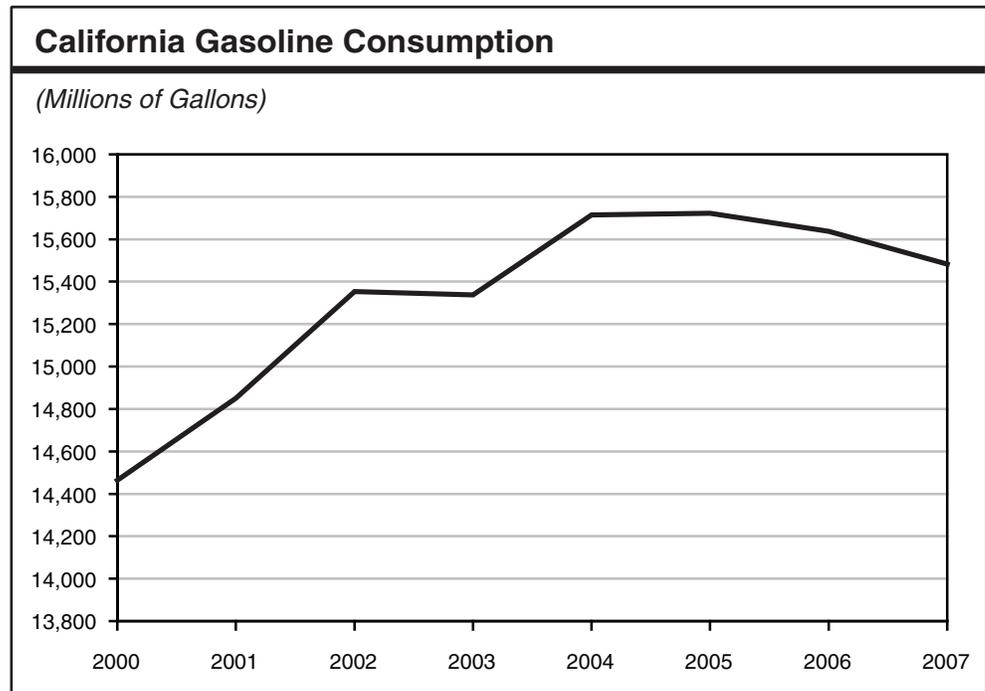
## Significant Shortfall in Funding for Highway Maintenance and Rehabilitation



- According to the Department of Transportation's five-year maintenance plan and ten-year State Highway Operation and Protection Program plan, the state will need to spend an additional \$3 billion annually over the next several years to address all highway maintenance and rehabilitation needs. However, annual gas tax revenues will be insufficient to cover these costs.
- The current state gas tax of 18 cents per gallon went into effect in 1994. Since then, inflation has eroded the value of per gallon tax revenues by 29 percent.
- While travel on California's roads increased by 28 percent between 1991 and 2007, gas tax revenues (adjusted for inflation) have not increased. As a result, the revenue generated per mile traveled declined by more than 20 percent.



## Funding Highway Maintenance and Rehabilitation Over the Long Haul



### Gasoline Consumption Is Declining

- **Fuel Efficiency Likely to Increase.** Over time, gasoline powered vehicles are becoming more fuel efficient.
- **Shift to Alternative Fuel Vehicles.** It is likely that more electric vehicles and vehicles that can run on alternative fuels will be available.



### Use of Alternative Fuels Will Increase; but Taxed at a Lower Rate

- The state has multiple policies and programs to require and encourage alternative fuel use, such as a low carbon fuel standard.
- Current excise tax rates for alternative fuels are less than the rate for gasoline and diesel. For example, ethanol is taxed at 9-cents per gallon.



## Funding Highway Maintenance and Rehabilitation Over the Long Haul *(Continued)*

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### **In the Long-Run Maintenance and Rehabilitation Needs Will Grow**

- Funding for maintenance and rehabilitation is not keeping pace with current needs. In the future needs will grow as the highway system continues to age.
- Vehicle miles traveled on the system will likely grow over time as the state's population increases.