

May 28, 2009

May Revision Overview: Transportation

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented to:
Budget Conference Committee



Overview of Transportation Funding

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- ☑ ***Transportation Programs Funded Mainly From Special Funds.*** Transportation funding comes mainly from taxes and fees on fuels and vehicles. Generally, the use of these funds is restricted to various transportation purposes.
 - ***“Gas Tax” Revenues.*** The state charges an 18-cents per gallon excise tax on gasoline and diesel fuel. The State Constitution restricts the use of these revenues to mainly highway and road purposes.
 - ***“Spillover” and Diesel Sales Taxes.*** The state charges sales tax on the purchase of fuels. A portion of the sales tax on diesel fuel and a portion of the sales tax on gasoline including spillover are traditionally deposited into the Public Transportation Account (PTA) for mass transportation purposes. Current law, however, redirects all spillover to the Mass Transportation Fund for purposes of General Fund relief through 2012-13.
 - ***Proposition 42.*** A portion of the revenues from the state sales tax on gasoline is deposited into the General Fund, and is required by Proposition 42 to be transferred to transportation uses.

- ☑ ***The Constitution Allows Transportation Funds to Be Borrowed.*** The Constitution allows the Proposition 42 transfer of gasoline sales tax revenues to be suspended under specified circumstances. The suspended amount must be repaid with interest in three years. The Constitution allows similar borrowing of gas tax revenues for General Fund purposes. Both the suspension of Proposition 42 and borrowing of gas tax revenues are options the state has exercised in prior years.

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May Revision Proposes \$1.1 Billion General Fund Help From Transportation Funds. The May Revision includes two proposals to use transportation funds to help the General Fund.

- ***Use Additional Spillover for Transportation Debt Service.*** The May Revision projects significantly higher spillover revenues in the budget year than in the February budget. The May Revision proposes to use all projected additional spillover (\$337 million) to reimburse the General Fund for past transportation debt-service payments.
- ***Use Portion of Gas Tax to Pay Transportation Debt Service on Ongoing Basis.*** The May Revision proposes to use 25 percent of the state's gas tax revenues (about \$750 million) to reimburse the General Fund for debt service on transportation bonds on an ongoing basis. The redirected funds would come from the portion of gas tax revenues that would otherwise be subvented to cities and counties for local streets and roads. In the budget year, this would reduce local subventions from about \$1 billion to about \$300 million.

LAO Options

- Use All Spillover (\$427 Million) for Transportation Debt Service.** Similar to May Revision proposal, but includes \$90 million provided in February budget for home-to-school transportation.
- Reduce Home-to-School Funding to Pay Debt Service and Regional Center Transportation.** This option would eliminate PTA funding for home-to-school transportation. Instead, funds would be used for transportation debt service, and to provide additional support for regional center transportation, in lieu of the General Fund. Total General Fund benefit would be about \$288 million.
- Pay \$135 Million in Debt Service From Highway Account.** Debt service on voter-approved transportation bonds is an allowable use of State Highway Account (SHA) funds. This option would use SHA funds to pay \$135 million in Proposition 192 debt service in 2009-10. (This is the latest estimate.)
- Suspend Gas Tax Subvention to Local Governments for One Year.** This option would suspend the subvention of about \$1.03 billion in gas tax funds to cities and counties for one year. The suspended amount would have to be repaid with interest within three years. The reduction in funding for local streets and roads could be partially mitigated by appropriating \$700 million in Proposition 1B funds, which remain available for similar purposes.
- Partially Suspend Proposition 42 Transfer.** This option would suspend 80 percent of the Proposition 42 transfer projected for 2009-10—roughly \$1.2 billion. This would result in less funding for state highway projects and for local streets and roads. The suspended amount must be repaid with interest within three years.
- Shift Non-Article XIX Funds in Motor Vehicle Account to General Fund.** This option would transfer \$70 million to the General Fund in 2009-10. These revenues are not constitutionally restricted and can be used for general purposes.