

Memorandum

To: CHAIR and COMMISSIONERS

Date: February 24-25, 2010

From: BIMLA G. RHINEHART
Executive Director

Reference No. 4.9
Action

Ref: Recommendations to the Legislature on the Proposed 2010-11 Budget

ISSUE

The most significant issues for transportation in the Governor's proposed 2010-11 Budget are the fuel tax swap and the elimination of state funding for transit. The Commission directed staff to develop recommendations for the Legislature on the proposed budget.

RECOMMENDATION

Below are proposed recommendations to the Legislature for the key transportation issues raised by the Governor's Proposed 2010-11 Budget:

Fuel Tax Swap

- **Recommendation:** The Legislature should increase the fuel excise tax and use a portion of the revenue generated to fund debt service. The remainder of the revenue should be distributed pursuant to existing statutes to address the backlog of transportation needs.

State Funding For Transit

- **Recommendation:** Absent alternative revenue strategies to fund transit, the Legislature should retain the state sales tax on gasoline but eliminate the "spillover". The sales tax revenue would flow through the Proposition 42 distribution. This would provide state funding for transit through mode neutral STIP funding and more directly through the Public Transportation Account.

BACKGROUND

Pursuant to Government Code Section 14523, the Commission may prepare an independent evaluation of Caltrans' budget and submit recommendation the Legislature by April 1. In January, Commission staff raised concerns about several facets of the Caltrans' budget as proposed by the Administration on January 8, 2010.

Fuel Tax Swap

The Governor's Budget includes a fuel tax swap. The proposal would increase the fuel excise by 10.8¢ per gallon while eliminating the state portion of the sales tax on fuels (including eliminating Proposition 42 funding). This fund swap would be a net decrease to transportation revenues of nearly \$1 billion, and would decrease the price paid by consumers by about 5¢ or 6¢ per gallon (the actual impact depends upon fuel price).

The tax swap would generate revenue that would be used to fund debt service on general obligation bonds issued for transportation. The remainder of the increased excise tax revenue would also be used to fund the STIP and for local streets and roads. The proposal eliminates the Public Transportation Account (PTA) as a funding source for STIP transit projects.

The complete elimination of the PTA would result in STIP transit projects, the Intercity Rail program and a portion of Caltrans and Commission support activities being funded from the General Fund.

The Commission has, in its recent annual reports to the Legislature, discussed the funding problems facing the state's transportation system. Most recently, the Commission stated that California should explore new or innovative revenue sources, and develop a funding structure that retains user fees and that allows consumers to choose mobility options that are appropriately priced.

State Funding For Transit

We believe it is both necessary and desirable for the State to play a role in transit funding. The Commission believes that a healthy transportation system in California is one in which all modes are perform well. Automobiles, transit, trucks, rail, and air travel interact to move people and goods to and through this state. When one part of the system is suffering, the other parts feel the pressure. As evidenced by our mode neutral approach to STIP allocations, the Commission recognizes that the State should provide funding for transit capital and operations as we do for state highways and local roads. We concur with the elimination of the state portion of the sales tax on gasoline but only if it is combined with the generation of other revenues that would be available to fund transit.

Additionally, the State's inability to provide funding for transit will adversely impact our ability to achieve reductions in greenhouse gas emissions. California is leading the nation in addressing the issues of climate change. It is estimated that the transportation sector is the largest contributor of greenhouse gas emission, contributing an estimated 38 percent of the state's total greenhouse gas emissions. With the diversion of state funding for transit, operator across the state have been raising fares and cutting service. In this environment, it is difficult to see how the emission reduction goals of Assembly Bill 32 and Senate Bill 375 will be achieved.