



1100 K Street
Suite 101
Sacramento
California
95814

Telephone
916.327-7500
Facsimile
916.441.5507

To: County Public Works Directors
CEAC Transportation Committee

From: Kiana Buss, CSAC Legislative Representative
Chris Lee, CSAC Legislative Analyst

RE: FY 2014-15 January Budget Proposal – Transportation Budget Items

Summary

Consistent with the Governor's overarching theme to address remaining budgetary debt and long term funding liabilities, the Governor's FY 14-15 January State Budget Proposal directs \$1.7 billion in additional funding over the current budget year to transportation infrastructure. As described in detail below, this revenue comes from two key sources including appropriation of Cap and Trade auction revenue and the early repayment of transportation loans, which counties will benefit from in part.

Highway User Tax Account Funding

Pursuant to the 2011 Transportation Tax Swap, which replaced the sales tax on gasoline with an additional increment of annually adjusted gasoline excise tax, the Governor's proposed budget estimates that the tax rate will decrease in FY 14-15 by 3.1-cents from 39.5-cents to 36.4-cents. Citing reduced consumption in fuel revenues, a reduction in the tax rate will provide correspondingly reduced revenues to counties and cities for local street and road maintenance as well as to the State for highway preservation. To be clear, the reduction in revenues is not the result of state borrowing or taking of local revenue. CSAC staff is investigating further details to better prepare counties for the anticipated reduction in funding and will share allocation amounts as soon as they are available.

California Transportation Infrastructure Priorities Working Group

Last year's budget directed the Secretary of Transportation to convene the California Transportation Infrastructure Priorities (CTIP) Working Group, which included representation from CSAC, to discuss and prioritize the state's transportation expenditures. The Governor's 2014-15 budget tiers off those stakeholder discussions and identifies the Administration's priorities, specifically:

Maintaining the State's existing transportation infrastructure,
Modernizing rail services, and
Supporting local governments as they implement SB 375.

In support of those priorities, the Governor proposes investing Cap and Trade proceeds for high-speed rail and rail integration and local implementation of sustainable communities projects. The Governor also proposes continued appropriation of Proposition 1B bonds funds, although bond funds for local streets and roads agencies have already been appropriated, and the early repayment of \$351 million in previous transportation loans to the General Fund, including \$100 million in repayments to cities and counties.

The CTIP Working Group will continue to meet in 2014 with a focus on larger structural issues, including implementation of recommendations from the upcoming external review of CalTrans,

implementation of goods movement strategies, and discussion of alternatives to address declining revenues from fuel excise taxes.

Early Repayment of Transportation Loans

The Governor's budget proposes debt reduction of \$11 billion in 2014-15, including early repayment of \$351 million in General Fund borrowing from transportation funding. This loan from FY 2010-11 was most recently set to be repaid in FY 2020-21. The Governor proposes to appropriate \$100 million to counties and cities for preservation projects on the local street and road system. The loan repayment will go through the base gas tax formula, allocating \$31.5 million to counties through Streets and Highways Code Section 2104, and \$32 million and \$16 million to cities and counties through Streets and Highways Code Section 2105 and 2106, respectively, and \$20 million to cities through Streets and Highways Code Section 2107.

In addition to the city and county share, \$137 million is allocated to state highway pavement maintenance and rehabilitation, \$100 million to traffic management mobility projects, \$9 million to bicycle and pedestrian projects and \$5 million to environmental mitigation.

Cap and Trade for Sustainable Communities

The Governor's FY 2014-15 January Budget proposes to appropriate \$850 million in Cap and Trade revenues. \$100 million of this is a partial repayment of the \$500 million FY 13-14 Cap and Trade loan. The proposed allocation is as follows:

<i>Investment Category</i>	<i>Department</i>	<i>Program</i>	<i>Amount</i>
Sustainable Communities & Clean Transportation	High Speed Rail Authority	Rail Modernization	\$300
	Strategic Growth Council	Sustainable Communities	\$100
	Air Resources Board	Low Carbon Transportation	\$200
Energy Efficiency & Clean Energy	Dept. of Community Services and Development	Energy Efficiency Upgrades & Weatherization	\$80
	Dept. of General Services	Green State Buildings	\$20
	Dept. of Food & Ag	Agricultural Energy & Operational Efficiency	\$20
	Dept. of Water Resources	Water Action Plan - Water & Energy Efficiency	\$20
	Dept. of Fish & Wildlife	Water Action Plan - Wetlands & Watershed Restoration	\$30
Natural Resources & Waste Diversion	Dept. of Forestry & Fire Protection	Fire Preservation & Urban Forestry Projects	\$50
	Cal Recycle	Waste Diversion	\$30
TOTAL			\$850

Under the Governor's budget proposal, there is no specific local government funding category for Cap and Trade revenues as CSAC has been advocating for. However, local governments will likely

have access to portions of several different funding categories-- sustainable community funding as well as a portion of the energy efficiency and natural resource categories.

While the details released in the budget are limited, counties are expected to have access to the \$100 million in Cap and Trade funds proposed for sustainable communities for specified transportation purposes, such as active transportation. The Governor intends to allocate this funding to the Strategic Growth Council, which will make grants to regional and local agencies. Based on statements from the State Transportation Agency, CSAC believes that counties outside of the large Metropolitan Planning Organizations that were required to develop Sustainable Communities Strategies pursuant to SB 375 will also be able to apply for grant. According to the budget, eligible projects will include transit and transit-oriented development that includes affordable housing, bike and pedestrian projects, agricultural land preservation, and related planning. It is unclear at this time whether local street and road maintenance is an eligible use under the Governor's plan.

High-Speed Rail

The High-Speed Rail Project – the development of a high-speed passenger train connecting San Francisco to Long Angeles/Anaheim with extensions to San Diego, Sacramento, and points in between – will continue to move forward under the Governor's FY 14-15 January Budget Proposal. As noted above in the Cap and Trade Section, the Governor's proposal directs \$300 million in auction revenues to the Project, \$50 million of which is for competitive grants for existing rail connectivity projects. The remaining \$250 million is for planning, right-of-way acquisition, and construction for the Initial Operating System. The budget also notes that in light of the overall price tag and legal difficulties with the High-Speed Rail bond, the Governor is making an on-going commitment of Cap and Trade revenues to the project.

Five-Year Infrastructure Plan

The Administration intends to release a Five-Year Infrastructure Plan in conjunction with the January State Budget Proposal, although the full plan is not available at the time of this writing. The budget summary indicates that given the State's increased debt burden and General Fund constraints, the plan will not rely heavily on new lease-revenue bonds to solve the State's infrastructure crisis. However, the Administration is committed to beginning to address the deferred maintenance of the State's expanse of critical infrastructure in the next fiscal year. Overall, the budget proposes \$815 million in one-time investments in maintenance of the State's infrastructure including roads and highways, schools, public safety/corrections facilities, state hospitals, etc. as follows:

- Highway User Tax Account Loan Repayment: \$337 million
- K-12 Schools Emergency Repair Program: \$188 million
- California Community Colleges: \$175 million
- Department of Parks and Recreation: \$40 million
- Department of Corrections and Rehabilitation: \$20 million
- Judicial Branch: \$15 million
- Department of Developmental Services: \$10 million
- Department of State Hospitals: \$10 million
- Department of General Services: \$7 million
- State Special Schools: \$5 million
- Department of Forestry and Fire Protection: \$3 million

- California Military Department: \$3 million
- Department of Food and Agriculture: \$2 million

Caltrans Zero-Based Budgeting Review

Pursuant to an Executive Order, the Department of Finance and Caltrans began in 2013 a multi-year plan to conduct a zero-base budget analysis of all Caltrans programs. In 2013, the review focused on Caltrans's Capital Outlay Support Program, which provides the resources for design, environmental review, right of way, and construction oversight for Caltrans's capital projects, and the Caltrans Aeronautics Program.

For the Capital Outlay Program, the review suggested changes to improve the development of initial project budgets through the creation of a predictive tool with inputs for project type, etc; creation of a methodology to allow flexible staff resources; increasing accountability by aligning STIP and SHOPP support cost guideline; and consolidating and streamlining statewide program management manuals and directives across all 12 Caltrans districts.

The review found that the Aeronautics Program had appropriate staffing to complete its duties, the budget recommends transferring funding from an undersubscribed loan program to provide additional state matching funds for federal aviation grants for local airports.

Proposition 1B

The budget proposes allocation of \$1.1 billion in Proposition 1B funds in 2014-15. The vast majority of the funding, \$793 million, will go to transit operators under the Public Transportation Modernization, Improvement, and Service Enhancement Account Program, but there are also significant allocations for intercity rail (\$160 million) and state highway projects (\$113 million), and \$10 million for local bridge seismic retrofitting.