

Smith, Watts & Company, LLC.

Consulting and Governmental Relations

MEMORANDUM

TO: John Cunningham

FROM: Mark Watts

DATE: February 18, 2015

SUBJECT: Legislative Report

Board of Equalization Fuel Tax Rate

Under the State-enacted Fuel Tax Swap, the 2010/2011 legislative approach to funding Proposition 1B bond debt service from transportation revenues, the Board of Equalization is required to annually establish a revenue neutral fuel tax rate that equals what the older Proposition 42 Sales Tax on Fuels would have otherwise raised.

This coming week the Board has announced their intent to reduce the fuel tax rate by 7.5 cents per gallon (CPG) for the 2015-16 fiscal year. The current excise tax rate that is subject to this annual process totals 36 CPG; the new tax rate would be 28.5 CPG. If adopted this action would result in the elimination of \$1.1 billion from state and local transportation programs.

The table below depicts the impact of this adjustment for the coming Budget Year. The direct impact on streets and roads is highlighted in grey.

Gas Tax Revenues	Current Year-CY 2014-15	Budget Year-BY 2015-16	% Change CY to Revised BY	
Based on DOF projections for Caltrans	January	January Revised		
Estimated Gallons Purchased (billions)	14.742	14.742	14.742	
Increment Tax Rate per Gallon	\$0.180	\$0.125	\$0.105	-41.67%
Base Tax Rate (\$)	\$0.180	\$0.180	\$0.180	0.00%
Total Excise Tax Rate (\$)	\$0.360	\$0.305	\$0.285	-20.83%
Incremental Increase Needed	\$0.035	\$(0.055)	\$(0.075)	
Total Excise Tax - Base	\$2,654	\$2,654	\$2,654	0.00%
Total Excise Tax - Increment	\$2,654	\$1,836	\$1,548	-41.68%
Increment Expenditures				
Weight Fee Backfill (debt service)	\$992	\$1,015	\$1,015	2.32%
General Fund Transfer	\$118	\$82	\$69	-41.40%
STIP	\$679	\$325	\$204	-69.96%
LSR	\$679	\$325	\$204	-69.96%
SHOPP	\$185	\$89	\$56	-69.92%
Total Expenditures	\$2,654	\$1,836	\$1,548	-41.68%

The immediate effect of this is to reduce funding for local streets and roads (LSR) and the STIP for 2015/16 by 70%, each. A broad-based coalition has been formed to develop and implement a strategy to mitigate to the extent feasible this loss of transportation revenues.

Thus far, detailed policy and fact-finding discussions have been conducted with the leadership of the Board of Equalization, seeking potential areas where adjustments could be made, as well as discussions with legislative leadership and committee chairs in both houses.

Although the significant reduction in revenues for local roads is devastating, the prospect of the elimination of STIP resources by 70% is equally alarming. Ironically, it appears that the potential need for immediate action by the CTC to modulate STIP allocations may not yet be necessary, as the present status of overall allocation capacity will cover expected requests in the near term.

Tolling and Managed Lanes

In contrast to the disappointing outcome last year with the failure of the Assembly Appropriations committee to approve SB 983 (Hernandez), which would have extended indefinitely the California Transportation Commission's (CTC's) authority to approve regional transportation agencies' applications to develop and operate high-occupancy toll (HOT) lanes, and to also expand the authority to include applications submitted by Caltrans, 2015 has started out in a more positive vein, with several measures expected to be available to consider.

AB 194 (Frazier) was introduced in response to a request by the Self Help County Coalition (SHCC). Essentially, the bill reflects the regional agencies' approach and is modeled after the elements that were in last year's measure. At present, the treatment of eligible entities is under review by some counties; the bill includes a requirement that defined eligible implementing agencies (i.e., MTC in the SF Bay Area) must consult on any proposed projects within the jurisdiction of the local transportation agency.

SB 194 (Cannella) is a "spot bill" introduced to ensure there is a viable measure to develop in the Senate.

In addition, the Administration, pursuant to the relevant recommendation from the Secretary's 2014 Transportation Work Group, known as the California Transportation Infrastructure Priorities (CTIP), concluded that it was a viable time to move forward to clarify the process for determining use of toll revenues, and streamlining the statutory process to use tolling and pricing where appropriate. They have proposed Budget Trailer bill language (TBL) that sets forth their vision for the state and local entities to secure authority to implement tolling or managed/express lane systems. The Self Help Counties Coalition is working collaboratively to identify differences and similarities between the two versions.

Assembly Speaker Atkins's Transportation funding proposal

On February 4th, Assembly Speaker Toni G. Atkins announced her proposal to increase transportation infrastructure funding to improve safety and efficiency on California's highways, bridges, and roads.

The Assembly plan would provide \$10 billion for transportation infrastructure—\$2 billion per year over the next 5 years—starting in 2015-16, and specifically includes:

- \$1 billion per year by returning truck Weight Fees to transportation instead of using them to repay general obligation debt.
- \$200 million per year for transportation funding by accelerating repayment of transportation loans.
- \$800 million per year in new net funds for transportation by establishing a new "Road User Charge".

Cap and Trade Project Allocations

Transit and Intercity Rail Capital Program (TIRCP)

On February 9, the California State Transportation Agency CalSTA released their Call for Projects for the Transit and Intercity Rail Capital Program (TIRCP) with \$124.7 million in available funding. Project applications are due on **April 10, 2015** and transit agencies may submit one project application per mode. CalSTA will announce project awards by **June 30, 2015**.

The release of the Call for Projects comes on the heels of CalSTA finalizing the guidelines for the 2015 TIRCP. Generally speaking, CalSTA made some minor modifications to the initial guidelines, including a multi-year commitment of funds, clearer language regarding the eligibility of bus projects, and the ability for agencies to submit more than one project.

Affordable Housing and Sustainable Communities Workshops Underway

On January 30, the Strategic Growth Council (SGC) released the Notice of Funding Availability for the Affordable Housing and Sustainable Communities Program (AHSCP). As part of the process of selecting projects, the SGC intends to review project applications in two stages, first as concept proposals and then, if the project is selected by SGC, as full-blown project proposals subject to the criteria and scoring system outlined in the Final AHSCP Guidelines.

To assist applicants in developing concept proposals, SGC has held a series of technical assistance workshops that conclude Thursday in Oakland. Additional information from the workshops can be found [here](#). Concept proposals were due **February 19**, with full project proposals due **April 15**.

Key Planned Legislative Hearings

Both Transportation committees have scheduled important informational hearings for the benefit of new committee members and the public in the immediate future:

February 23:

Assembly Transportation Committee:

Basics of Transportation funding. Additionally, the Chair will investigate the Board of Equalization annual excise tax rate adjustment process.

February 24:

Senate Transportation & Housing committee, jointly with Senate Budget Sub #2:

Funding the Transportation Maintenance Backlog.

Note: Credit for Fuel Tax Table, CSAC staff

