

Smith, Watts & Hartmann, LLC.

Consulting and Governmental Relations

MEMORANDUM

TO: John Cunningham

FROM: Mark Watts

DATE: January 26, 2016

SUBJECT: **TWIC Report:
Transportation Funding, Special Session and the State Budget**

This report provides an overview of the past year's activities related to transportation funding, as well as an overview of the current state of activity.

Recap of 2015 Activities

Legislative Special Session.

In late June, the Governor accompanied by legislative leadership, announced the formation of a Legislative Special Session on Transportation & Infrastructure. As is typically the case, this Special Session ran concurrently with the regular session, and the main advantage of such a Session is that it is free from many of the normal legislative deadlines and rules.

In late summer, the Special Session committee hearings were conducted to consider several bills introduced at that time; prominent among these were SBX1 1 (Beall) and SCAX1 1 (Huff). Senator Beall's bill provided a funding framework that would generate \$4.3 billion, annually, while the measure by Senator Huff was a constitutional amendment to "lock-box" the new revenues that might emerge from the Special Session.

Transportation & Infrastructure Conference Committee.

During the Interim Recess (Fall) a Conference Committee was established and two conference committee meetings were conducted. Although these hearings were very well attended by industry and transportation stakeholders, little or no action was taken by the conference committee members.

Governor's Initial Transportation Funding Proposal.

As the regular legislative session wound down in September, Governor Brown unveiled a \$3.6 billion funding proposal that he indicated he would approve if the Legislature adopted it. A strong coalition of transportation stakeholders, Fix Our Roads, lead by the California Alliance for Jobs, cities, counties

and including others, provided public support for the Governor's proposal, which included many TV and press interviews.

While the legislature was adjourned in the final three months of the year, the Fix Our Roads coalition partners met regularly with conference chairs, Senator Jim Beall and Assemblymember Jimmy Gomez, and various members of the Conference Committee to prepare for a renewed effort in 2016.

Current Developments, 2016

2016-17 State Budget released.

Governor Brown proposed in early January a \$122.6 billion General Fund budget plan for 2016-17 that makes significant increases in funding for education, health care and state infrastructure, while bolstering the state's Rainy Day Fund and paying down state debts and liabilities.

The Governor's budget proposes a supplemental deposit of \$2 billion into the state's Rainy Day Fund - this increases the balance from 37 percent today to 65 percent of its constitutional target of 10% of the General Fund. Building up the fund is a key policy goal of the Governor to hold off deep budget cuts in the next economic downturn.

He also indicated during his presentation that his administration had been planning for the impending end of the Prop 30 taxes by doing multi-year forecasts and assuming it is not re-enacted. Essentially, his team structured the Proposition so that there would be a step down in revenues, with half the sales tax component midway through the fiscal year, then hit fully in the next year; the same approach applies to the personal income tax, which ends in 2018.

Governor Brown's Transportation Budget Proposal.

In the meantime, Governor Brown has formalized the proposal he rolled out last September by incorporating it into the state budget he unveiled earlier this month. His plan remains at approximately \$3.6 billion and includes a number of protections and reforms suggested by the Republican Caucuses last year. It appears the Governor has put his transportation plan into the budget as a demonstration of his interest in helping to reach agreement on a funding solution,

Price Based Gas Tax Adjustment (Tax Swap).

The Transportation Commission has recently alerted the transportation community at public meetings about the shortcomings of annual gas tax swap and how it affects the State Transportation Improvement Program (STIP, for short), as well as city/county roads and state repairs. With the sustained, relatively low price of fuel, the swap mechanism exacerbates the funding picture by reducing transportation revenue at a time when we need to increase investment in our mobility system.

As the Commission considers the upcoming five-year STIP for 2016, the effect of this swap mechanism on a portion of the existing gas tax is projected to be catastrophic. As a result of reduced revenue due to the swap, \$876 million in 2015 alone, the 2016 Fund Estimate adopted by the CTC in August included virtually no money for new projects in the updated program. Now, the Department

of Finance is estimating a further reduction in the excise tax for the coming year and that has prompted Caltrans to prepare a revised fund estimate reflecting the additional decline in revenue. The Commission adopted these revisions at its January meeting.

Last year, due to declining prices, the BOE reduced the gas excise tax by 6 cents (bringing it to 12 cents), generating a loss of almost \$1 billion in revenue this year and if BOE uses the same formula it has been using to calculate its next annual adjustment, it will trigger an additional 3 cents reduction effective July 1, which would create another reduction of about \$450 million.

The Governor's funding proposal includes a plan to replace the tax swap by setting the gas tax at 18 cents (its historical average) and then applying an index annually tied to the CPI.

Revised Senate Plan (SBX1 1, Beall).

Senate Transportation & Housing Chair Jim Beall has also been working on a bill since last April. As co-chair of the conference committee, he has continued to refine and amend his bill to reflect discussions he has had with Senate Republicans, the environmental community and others. It is anticipated that Senator Beall will amend his present bill, SBX1 1, within the next week after he has had opportunity to present his proposal to the Democratic caucus. His new bill will be larger than the \$3.6 billion package that the Governor unveiled last September.

New Assembly Plan (AB 1591, Frazier).

Assembly Transportation Chair Jim Frazier has been meeting with numerous transportation stakeholders throughout the state in an effort to gather input for a transportation proposal he has been working on for more than a year.

Frazier's proposal was released as AB 1591 a day before the Governor released his 2016/17-budget plan. According to Frazier, AB 1591 will raise more than \$7 billion annually to be used for trade corridor improvements and road maintenance and rehabilitation.