The 2022-23 Budget:

Transportation Infrastructure Package

Summary

Governor Proposes $4.9 Billion General Fund for Various Transportation Purposes. The Governor's budget includes a total of $4.9 billion in General Fund for a package of proposals to support various transportation infrastructure projects, including transit and rail, grade separation, active transportation, climate adaptation, and highway conversion. The proposed package includes (1) $3.4 billion that was agreed to in the 2021-22 budget package, but was reverted to the General Fund because subsequent legislation was not enacted as required, and (2) $1.5 billion that would be allocated between programs from last year's package and a new set of proposed programs.

Assessment of Proposals. Based on our initial assessment of the Governor's proposed package, we have four main findings. First, we find that the proposed spending on transportation infrastructure could complement new federal transportation funding that the state is expected to receive from the Infrastructure Investment and Jobs Act (IIJA) that was enacted in November 2021. Second, we find that it is important to consider the merits and trade-offs of using a competitive process to allocate the transit and rail funding, particularly in terms of ensuring funding allocations are distributed equitably across all regions of the state. Third, we find that although the new proposed programs have merit, the programs could benefit from evaluations to measure the extent to which they are meeting their core objectives. Finally, we note that the proposed spending is excluded from the state appropriations limit (SAL), which limits the Legislature's flexibility to reallocate funding from the Governor's transportation infrastructure package to other purposes.

Recommendations. As a result of the above findings, we have several recommendations for legislative consideration. In order to maximize available funding for transportation, we recommend the Legislature consider the Governor's proposed package in context of the anticipated federal funding, to ensure state funds are used strategically—supporting legislative priorities where federal funds are not as significant or absent, as well as helping California be competitive in receiving discretionary federal grants. In addition, we recommend the Legislature consider geographic equity in transit and rail funding, to the extent that the Legislature prioritizes that some level of base funding for the projects should be provided to all regions of the state. We also recommend the Legislature require evaluations of the new proposed programs to ensure the administration provides key information regarding programmatic outcomes to inform future policy and funding decisions. Lastly, we recommend the Legislature be mindful of SAL considerations in assessing the Governor's proposed package, as any reallocations of this funding will need to be for a similarly SAL-related purpose.

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BACKGROUND

Overview of California's Transportation System. California's transportation system consists of streets, highways, railways, airports, seaports, bicycle routes, and pedestrian pathways. All of these various modes provide people and businesses the ability to access destinations and move goods and services throughout the state. Funding for the state's transportation system comes from numerous local, state, and federal sources, and private investments. State funding primarily comes from various fuel taxes and vehicle fees that are dedicated to specified transportation purposes. Most of the state's transportation funding is dedicated to maintaining, rehabilitating, and improving state highways and local streets and roads, with a smaller amount dedicated to supporting transit operations and capital improvements.

Funding for 2021-22 Transportation Package Reverted Back to General Fund. The 2021-22 budget package included a total of $3.4 billion in General Fund for the California State Transportation Agency (CalSTA) and the California Department of Transportation (Caltrans) to implement a package of proposals focused on various transportation improvements. Provisional budget language made these funds available on the condition that subsequent legislation to guide funding allocations be enacted by October 10, 2021. Given that no such legislation was enacted by this date, the $3.4 billion reverted back to the General Fund, as required in the budget act.

Governor's Proposal

Provides $4.9 Billion General Fund for Various Transportation Purposes. The Governor's budget includes a total of $4.9 billion in General Fund resources for CalSTA and Caltrans to implement a package of proposals focused on transportation infrastructure. (In addition to this package, the Governor continues to request $4.2 billion in bond funds for the state's high-speed rail project.) As shown in **Figure 1**, the proposed package includes the $3.4 billion agreed to in the 2021-22 budget package that was subsequently reverted to the General Fund, as well as an additional $1.5 billion that would be allocated between programs from last year's package and a new set of proposed programs.

Figure 1

Governor's Proposed Transportation Infrastructure Package

General Fund (In Millions)

Activity	Department	Approved in 2021-22 Budget, but Reverted to General Fund[a]	Additional Proposed Augmentations	Total Proposed Package
Statewide transit and rail projects	CalSTA	$1,000	$1,000	$2,000
Southern California transit and rail projects	CalSTA	1,000	250	1,250
Grade separation projects	CalSTA[b]	500	—	500
Active Transportation Program	Caltrans[c]	500	—	500
Climate adaptation programs	Caltrans[c]	400	—	400
Highways to Boulevards Pilot Program	Caltrans	—	150	150
Bicycle and pedestrian safety projects	Caltrans	—	100	100
Totals		**$3,400**	**$1,500**	**$4,900**

[a] Funds reverted to the General Fund because subsequent legislation to allocate the funds was not enacted by October 10, 2021, as required in the 2021-22 budget.

[b] Funds would be competitively awarded through CalSTA, but $250 million included in Caltrans budget to reflect that some portion of funding would be spent on the state highway system.

[c] Programs in Caltrans budget, but the California Transportation Commission would have role in creating program guidelines and awarding funding.

CalSTA = California State Transportation Agency and Caltrans = California Department of Transportation.

The components of the Governor's transportation infrastructure package include the following:

- ***Statewide Transit and Rail Projects ($2 Billion).*** The Governor's budget includes funding for the Transit and Intercity Rail Capital Program (TIRCP), which allocates grants through a competitive process for capital improvements on intercity rail and transit (bus and rail) systems to reduce greenhouse gas emissions, vehicle miles traveled, and congestion. Funding would be allocated by CalSTA to all regions of the state—including Southern California, which has a specific set aside in the Governor's budget (discussed below).
- ***Southern California Transit and Rail Projects ($1.3 Billion).*** The Governor proposes funding through TIRCP for projects specifically within the Southern California region. As part of the transportation budget package approved last year, this funding was originally set aside to support critical projects for the 2028 Los Angeles Olympic Games. Under the Governor's proposed package, the use of the funding would be available for any eligible transit and rail project in the broader Southern California region.
- ***Grade Separation Projects ($500 Million).*** The Governor's proposal includes funding through TIRCP specifically for high-priority grade separations—projects that create a physical separation between railroad tracks and roadways.
- ***Active Transportation Program (ATP) ($500 Million).*** The ATP, which is administered by the California Transportation Commission (CTC) and Caltrans, provides grants to local and regional entities through a competitive process for projects that encourage an increased use of active modes of transportation, such as biking and walking. Similar to last year's package, the Governor proposes allocating the requested funding to support high-scoring projects that did not receive funding in previous ATP grant cycles. According to CTC, the cost to fund all of the projects that had clearly met the evaluation criteria would be about $1.5 billion.
- ***Climate Adaptation Programs ($400 Million).*** The Governor's budget includes funding for (1) Caltrans to plan and implement state climate adaptation projects, (2) CTC to administer a new competitive grant program to implement local climate adaptation projects, and (3) Caltrans to administer a new competitive program to support local adaptation planning that identifies transportation system vulnerabilities and climate-related risks.
- ***Highways to Boulevards Pilot Program ($150 Million).*** The Governor proposes allocating funding to Caltrans for a new pilot program that would provide competitive planning and implementation grants to local entities for the conversion or transformation of underutilized highways to benefit residents of underserved communities.
- ***Bicycle and Pedestrian Safety Projects ($100 Million).*** The Governor's budget includes funding for bicycle and pedestrian safety projects through Caltrans' Highway Safety Improvement Program. Funding would be split evenly between state and local projects, with local projects being selected on a competitive basis.

Reflects Anticipated Federal Infrastructure Funds. In addition to the funding in the above package, the Governor's budget includes a five-year federal fund augmentation for Caltrans' Capital Outlay Program and Local Assistance Program associated with the Federal Infrastructure Investment and Jobs Act (IIJA) enacted in November 2021—$1.7 billion in 2021-22 and increasing annually each year to $2.2 billion in 2025-26. (These amounts include the formula-based funding the state is expected to receive from IIJA for electric vehicle charging infrastructure, which we assess in a forthcoming brief.) Future Caltrans budget proposals related to IIJA are expected in the coming months, such as for the Capital Outlay Support Program. (Please see the box on the next page for more detailed information on the transportation funding the state is anticipated to receive from IIJA.)

Assessment

State Spending Could Complement Increased Federal Funds. As mentioned above, IIJA is expected to provide the state with a significant increase in formula-based transportation funding over a five-year period. At the same time, the act also will make available over $100 billion in new funding for federal competitive grants nationwide. We find that spending state resources on transportation infrastructure provides an opportunity for the state to complement and leverage the anticipated federal funding—both formula-based and competitive. In particular, state spending could complement federal funds by focusing on state priorities where funding from IIJA might not be as large or available. Additionally, state spending could better position state and local projects in obtaining competitively awarded federal grants, such as by providing the funding needed to advance project readiness and feasibility.

Trade-Offs in Using Competitive Process to Distribute Transit and Rail Funding. The state currently has several programs that fund transit and rail projects, with some allocating funds competitively and others providing formula-based funding. As previously discussed, the Governor proposes to distribute additional funding for transit and rail projects through TIRCP, a competitive grant program. Under TIRCP, applications for funding are selected based on how well they meet the grant criteria. While a competitive allocation process could better ensure that the highest quality projects are funded, it also could result in funding allocations that are not distributed equitably across all regions of the state. Moreover, as proposed, Southern California would be the only geographic region in the state guaranteed to receive some level of funding for transit and rail projects. Alternatively, distributing funds for transit and rail projects through a formula-based program, such as the State Transportation Improvement Program or the State Transit Assistance program, would ensure that every region receives some level of funding.

Overview of New Federal Funding for Transportation

In November 2021, the federal government enacted the Infrastructure Investment and Jobs Act (IIJA), a $1.2 trillion spending package for various types of infrastructure, including transportation, energy, water, and broadband. Within IIJA, there is a new five-year federal surface transportation reauthorization that replaced the expired Fixing America's Surface Transportation (FAST) Act. In total, IIJA authorizes $567 billion in spending for federal transportation programs over five years, which is an increase of $274 billion above previous FAST Act spending levels over five years. Funding will go to existing and new federal transportation programs (formula-based and competitive) that support highways, transit, rail, and freight.

California is estimated to receive almost $40 billion from formula-based transportation programs over five years under IIJA, which is an increase of $10 billion when compared to previous allocations from the FAST Act. Specifically, the state is estimated to receive the following in guaranteed formula-based transportation funding: (1) $29.5 billion from federal-aid highway programs ($19.4 billion under the FAST Act), (2) $9.5 billion from federal transit programs ($8.1 billion under the FAST Act), and (3) $384 million from a new federal program to support the expansion of electric vehicle charging infrastructure.

Funding the state receives from federal-aid highway programs largely is provided to Caltrans. Historically, 60 percent of the funding is used for state activities—such as highway maintenance and rehabilitation—and 40 percent is apportioned to local agencies. In contrast, most of the funding from federal transit programs is allocated to transit agencies in the state directly from the federal government.

New Highways to Boulevards Pilot Program and Climate Adaptation Programs Have Merit, but Lack Evaluation Components. The Governor's budget includes funding and budget trailer legislation to establish the Highways to Boulevards Pilot Program and several climate adaptation programs. Overall, we find that these programs appear reasonable and could provide several benefits. For instance, the climate adaptation programs would support state and local transportation systems in planning for and adapting to climate change impacts—such as from sea-level rise undermining coastal roadways and bridges. Moreover, the Highways to Boulevards Pilot Program would support local entities in planning and implementing projects that increase access to biking, walking, transit infrastructure, and green space in underserved communities by converting or modifying underutilized highways.

In addition, we find that allocating one-time funding to these new programs would provide the opportunity to pursue and pilot different types of projects of varying scope to help guide future budget and policy decisions. However, as currently proposed, the budget trailer legislation to implement these programs does not include any statutory requirements for Caltrans to evaluate programmatic outcomes. In order to guide future legislative decisions, we find that it is particularly important for the state to conduct robust program evaluations to measure the extent to which new programs are meeting their core objectives. Having these evaluations would better inform the Legislature on the successes and challenges of the programs, and, in turn, guide whether (and at what level) to continue funding these programs, or if any programmatic modifications are needed. For instance, if enhancing multimodal connectivity along state highways is an objective of the Highways to Boulevards Pilot Program, it should be evaluated—using measurable metrics—to assess the extent to which the program meets this goal.

Proposed Spending Excluded From State Appropriations Limit (SAL). The California Constitution limits how the state can spend revenues that exceed a specific threshold. Appropriations for capital outlay are excluded from the limit. The proposed spending in the transportation infrastructure package meets the definition of capital outlay under the SAL, and so this spending is excluded under the Governor's budget. As a result, the Legislature has limited flexibility to reallocate funding from this proposal to other purposes that would not be excluded. That is, the Legislature would generally need to repurpose the associated funding for other SAL-related purposes, such as tax reductions or an alternative excluded expenditure. (In our recent report, *The 2022-23 Budget: Initial Comments on the State Appropriations Limit Proposal*, we cover SAL issues in more detail.)

Recommendations

Consider Governor's Proposed Package in Context of Anticipated Federal Funds. Over the next several years, California is expected to receive a significant amount of federal funding for transportation. The Legislature will want to consider how additional state funding for transportation infrastructure can complement these federal funds—supporting legislative priorities where federal funds are not as significant or are absent—as well as how state funding can help California be competitive in receiving discretionary federal grants.

Consider Geographic Equity in Transit and Rail Funding. If the Legislature believes that some level of base funding for transit and rail projects should be provided to all regions of the state, it could consider allocating a portion of the proposed funding for transit and rail projects on a formula-basis, or providing additional dedicated funds for different regions. For example, the Legislature could provide some of the funding for transit and rail projects through existing formula-based programs, such as the State Transportation Improvement Program or the State Transit Assistance program, to ensure some level of geographic funding equity across the state.

Require Robust Evaluations of New Programs Funded. We recommend the Legislature add requirements—through budget trailer legislation—for program evaluations of any new transportation programs that are established and funded in the budget. For example, to the extent the Legislature approves funding for the proposed Highways to

Boulevards Pilot Program and climate adaptation programs, it could require Caltrans to evaluate and report on the outcomes of each program. These requirements could include measuring specific metrics that the Legislature would find useful in (1) determining whether the programs are meeting their intended objectives and (2) guiding future budget and policy decisions regarding how to support these efforts going forward.

Consider SAL Implications. In considering the proposed transportation infrastructure package, we recommend the Legislature be mindful of SAL considerations. In particular, if the Legislature were to reject or approve a lower amount of General Fund spending than the administration on transportation infrastructure, it likely would need to repurpose the associated funding to other SAL-related purposes.

LAO PUBLICATIONS

This report was prepared by Frank Jimenez and Eunice Roh, and reviewed by Anthony Simbol. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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