Agenda Item 4

METROPOLITAN
TRANSPORTATION
COMMISSION

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Memorandum

TO: Legislation Committee DATE: December 6, 2013

FR: Deputy Executive Director, Policy W. I. 1131

RE: Vehicle License Fee Proposal

Background

In late November, the *California Alliance for Job*s and *Transportation California* formally requested the California Attorney General to draft a "Title and Summary" for a proposal referred to as the "California Road Repair Act." This Act would seek voter approval to raise the vehicle license fee (VLF) in order to generate new funding for transportation. The proposal would raise the VLF from its current rate of 0.65% to 1.65% in equal 0.25% annual increments over four years, beginning on January 1, 2015. When the rate reaches 1.65% in 2018, it is forecast to raise an additional $2.9 billion, providing nearly $25 billion over the first ten years. In response from concerns from the trucking industry, the measure proposes to exempt heavy trucks from the VLF increase for the first 18 months. If the Legislature enacts a 3-cent per gallon increase in the diesel excise tax before July 1, 2016 — estimated to generate approximately $75 million per year, equivalent to a 1% VLF on heavy trucks — the VLF exemption will remain permanent, otherwise it will expire July 1, 2016.

The submittal for title and summary marks a preliminary first step in the long process of placing a measure on the ballot for voter consideration. The sponsors intend to conduct further polling in January 2014 to determine whether or not to move forward to collect signatures for a ballot measure at the General Election in November 2014.

Funding Distribution

The proposal would distribute the funds using a new formula (referred to as "50/40/10" with the 50% referring to the local street and road share split between cities and counties) as follows:

- 25% to all **cities** in California distributed for local streets and roads on a formula allocation based on population.
- 25% to all **counties** in California for local streets and roads distributed per a formula allocation equal to 75% based on the number of fee-paying vehicles and 25% or road miles.
- 40% to the state highway system based on a formula whereby half of the funds would be allocated based on a long-standing formula known as the North/South Split that is used in

the State Transportation Improvement Program (60% to Southern California, 40% to Northern California), and half on the basis of "highest need" statewide.

- 10% to public transit system maintenance, rehabilitation and vehicle replacement based on the current State Transit Assistance (STA) formula.

Attachment A shows the individual amounts each Bay Area jurisdiction and transit operator would receive under the proposal as well as the distribution under various alternative distribution formulas with higher shares to public transit.

Dedicated Funding

The proposal would constitutionally dedicate the new revenue exclusively for road, bridge and transit system maintenance, rehabilitation and transit vehicle replacement. It also would require funds be used strictly on a "pay as you go" basis; it does not permit bond financing to advance projects.

Discussion

A New Fee for a Long-Standing Need

MTC has long championed the need for a higher statewide fuel tax to preserve and improve California's long neglected basic transportation infrastructure. While there will never be a perfect revenue mechanism — nor a perfect time for ballot placement for that matter — an increase to the VLF is a reasonable revenue mechanism to consider for a number of reasons, including a strong nexus to transportation and its progressive nature (i.e. those with greater ability to pay a higher fee based on the value of their vehicle). In contrast to a per-gallon gas tax, this revenue stream keeps pace with inflation and use of the system each year due to the increase in the value of vehicles operated in the state. Given the large capital shortfalls facing all major modes of transportation in California, the VLF measure's exclusive focus on repair and rehabilitation is also welcome.

Transit's Share Needs to be Increased

Transit's share of any statewide package ought to be increased. As you will recall, over the last decade, a 40/40/20 formula was settled upon as the appropriate split between local streets and roads, the State Transportation Improvement Program (STIP) and public transit with respect to the distribution of gasoline sales tax revenue under Proposition 42 (2002). Staff analyzed how the region's local streets and roads and public transit systems would fare under a few different scenarios, as shown in detail in Attachment A.

As proposed (Scenario 1 in Attachment A), by 2018 when the rate reaches the full 1.65%, the Bay Area would receive $378 million per year combined. If the 40/40/20 formula were applied, the region would receive twice as much transit funding, but would incur a 20% loss in local street and road funding resulting in an overall 13% net gain in funding. Under an equal formula where each category receives one third of the funds, the region would receive three times as much public transit funding, 33% less local street and road funding, and 41 percent more funding combined. In short, raising the transit share is not only good policy, it produces a better financial result for our region.

State Highway Repair Should Be Need-Based
Since the passage of Senate Bill 45 (Kopp, 1997), State Highway Operation and Protection Program (SHOPP) funds have been allocated throughout California strictly on a needs basis. Unfortunately, the VLF proposal reintroduces the north/south split for 50% of the state highway repair funds generated by the measure. This aspect of the proposal is fixing something that is not broken and we believe it should be removed.

Next Steps
This is a significant funding proposal that is generating interest and discussion at this early date. We look forward to your comments.

Ann Flemer

Ann Flemer

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