



METROPOLITAN
TRANSPORTATION
COMMISSION

Agenda Item 3a

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Memorandum

TO: Legislation Committee

DATE: February 6, 2015

FR: Executive Director

W. I. 1131

RE: Governor's FY 2015-16 State Budget Request

Overview

Transportation is a top priority for Governor Brown in 2015, featuring prominently in his State of the State Address and the official summary of the FY 2015-16 Governor's State Budget. Securing additional funds to address the state's deteriorating highways and bridges has been the main focus of his attention. The Governor has not proposed a revenue package yet, indicating in interviews that the next step is for his Administration to convene transportation stakeholders to determine the best funding options. The budget summary calls out one specific mechanism worth exploring — truck weight fees — but makes it clear that there are many options on the table.

Gas Tax Cut Imminent

One of the most significant and troubling items in the FY 2015-16 State Budget is buried in "Schedule 3, Appendix 7" of the budget summary: Due to the nearly 40 percent decline in gasoline prices over the last nine months — which fell from \$4.22 last April to \$2.60 in January 2015 — the California Department of Finance (DOF) forecasts that the State Board of Equalization (BOE) will need to cut the variable portion of the state's gas tax by 5.5 cents, resulting in a reduction of approximately \$770 million in motor fuel tax revenue that would otherwise go to local streets and roads (44 percent), the State Transportation Improvement Program (44 percent) and the State Highway Operation and Protection Program (12 percent).

The reason for this mandatory adjustment dates back to the Gas Tax Swap of 2010, which replaced the state's share of the sales tax on gasoline with a variable excise tax that the BOE is required to adjust each February based on a forecast of price and consumption for the next fiscal year. This looming funding cut presents a near term crisis that must be addressed prior to July 1, 2015 when the mandatory tax adjustment is scheduled by law to take effect. At a minimum, we will support efforts to suspend this mechanism during FY 2015-16.

Cap and Trade Funding

The budget includes an estimate of \$1 billion for the amount of revenue to be generated by the state's Cap and Trade program in FY 2015-16. This amount is more of a placeholder than a real forecast since the DOF cannot predict the results of quarterly auctions. Transportation fuels came under the cap in January 2015, but the first auction to occur with fuels under the cap takes place in February so there is still significant uncertainty about the overall amount of revenue to be generated. We expect that the "May Revise" will provide a much better financial picture for the actual amount of Cap and Trade revenues available in FY 2015-16. Since the transportation

programs are continuously appropriated (based on SB 862, 2014), they will simply receive their respective share of the total revenue, thereby avoiding legislative battles over these funds. Assuming the \$1 billion level, the statewide amounts for the transportation programs are:

- High Speed Rail: \$250 million (25%)
- Affordable Housing and Sustainable Communities Program: \$200 million (20%)
- Transit and Intercity Rail Capital Program: \$100 million (10%)
- Low Carbon Transit Operations Program: \$50 million (5%)

With respect to the remaining 40 percent of funds, the budget proposes the following expenditure plan, which is very similar to the programs funded in FY 2014-15:

Non-Transportation/Housing Cap and Trade Expenditures Proposed for FY 2015-16
(Dollars in millions)

Department	Program	Amount
Air Resources Board	Low Carbon Transportation	\$200
Department of Community Services & Development	Energy Efficiency Upgrades	\$75
Energy Commission	Energy Efficiency for Public Buildings	\$20
Department of Food and Agriculture	Agriculture Energy & Operational Efficiency	\$15
Department of Fish and Wildlife	Wetlands and Watershed Restoration	\$25
Department of Forestry Fire Protection	Fire Prevention and Urban Forestry Projects	\$42
Cal Recycle	Waste Diversion	\$25
Total		\$402

State Transit Assistance (STA)

The budget forecasts STA funding of \$388 million. This is \$2 million above estimated revenues in FY 2014-15 which are now \$13 million higher than the State Controller’s original estimate, reflecting a modest 3 percent increase operators may enjoy this year. However, given STA’s reliance on the sales tax on diesel fuel, whose prices have fallen significantly, this increase may not be realized. For the Bay Area, the revenue-based funds for FY 2015-16 — which go directly to transit operators – are estimated to be \$105 million, while population based funds are estimated to total \$38 million. STA funds are continuously appropriated and therefore not subject to debate as part of the budget.

High Speed Rail

The budget proposes \$1.1 billion in Proposition 1A bond funds to be spent entirely on the local/regional components of the high-speed train system, referred to as the “blended system.” No specific details are provided in the budget as to which parts of the local system are proposed for funding.

Key Changes Proposed for FY 2015-16 Caltrans Budget

Near Term Funding to Accelerate Road Usage Charge Pilot Program

The budget requests \$9.4 million and five new Caltrans positions to support the Road Usage Charge Pilot Program commencing this year pursuant to SB 1077 (DeSaulnier, 2014). The legislation established a 15-member Road Usage Charge Technical Advisory Committee (to which MTC Commissioner Scott Haggerty has been appointed) to guide the development of a pilot program to study the potential for a road usage charge as an alternative to the gas tax. The additional funding is intended to help expedite the pilot program, which the California State Transportation Agency is required to implement by January 1, 2017. A report to the Legislature is due by June 30, 2018.

Transportation Management Systems

The budget requests almost \$7 million and 64 new positions to maintain and improve the transportation management system (TMS) elements, such as ramp meters, and associated communication links with traffic management centers. Of this amount \$3 million and 20 positions are requested to conduct a pilot study of the effectiveness of TMS in “increasing throughput and managing capacity” in two primary corridors, one in Northern California and one in Southern California. MTC staff has concerns that such a study may not be a wise use of funds given that the effectiveness of traffic operational strategies has been decisively demonstrated on various highway corridors throughout our region.

Building a New Shelf of Projects

The budget also requests 25 new positions to work on project initiation documents for \$300 million in new SHOPP projects and build a shelf of \$500 million in “pavement, bridge, mobility and roadside projects” so the state is prepared to take advantage of new funding opportunities.

Budget Incorporates Several Policy Statements

The budget summary references a number of policy changes that the Administration intends to pursue, likely through budget trailer bill language. These include:

- Restoration of the California Transportation Commission's ability to approve new express lanes (a goal included in MTC's 2015 Advocacy Program).
- Streamlining the process for the state to relinquish state highways to local government so that relinquishment can be done administratively rather than requiring legislation.

Next Steps

Budget hearings will begin in March. In the meantime, MTC staff and our lobbyists will be meeting with legislators, policy committee and budget committee staff to ensure steps are taken to avert the gas tax cut from going into effect on July 1, while also participating in discussions for a transportation funding package to augment current state funding for transportation.



Steve Heminger

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