



To: RCRC Board of Directors
From: Paul A. Smith, Vice President Governmental Affairs
Date: April 17, 2017
Re: Update on Senate Bill 1 (Beall) - Transportation Funding

Summary

This memo provides an update on the recent enactment of Senate Bill 1 (Beall), which addresses funding for improving our state and local transportation needs.

Background

California's state and local transportation systems remain woefully underfunded. State and federal transportation funding has been in a steady decline, while basic maintenance needs of state and local transportation systems continue to increase.

In general, the excise taxes and fees on gasoline and diesel fuel serve as the foundation for funding road maintenance and construction at the state and local levels. Also, fees derived from vehicle registrations are placed in the Motor Vehicle Account and help fund the activities of the Department of Motor Vehicles and the California Highway Patrol. Finally, truck weight fees are currently used to satisfy State General Fund debt associated with Proposition 1B, the transportation bond proposal enacted in 2006.

In March 2017, the RCRC Board of Directors adopted a "Support" position for SB 1 and its Assembly counterpart, Assembly Bill 1 (Frazier), to better fund state and local transportation needs. Shortly after the endorsement, SB 1 was amended to reflect an agreement with Governor Brown. Much of that agreement retained the provisions of SB 1 that were supported by the RCRC Board of Directors.

Issue

In the late hours of April 6, 2017, both houses of the Legislature provided the necessary 2/3rds vote to send SB 1 to the Governor for his expected signature. SB 1 provides approximately \$52 billion in new transportation revenues (over a 10-year period) to address the approximately \$6 billion annual State and \$8 billion annual local transportation maintenance backlog. Specifically, SB 1 would address:

- **Transportation Loan Repayments:** SB 1 repays \$706 million in transportation loans made to the State General Fund. Most of these repayment funds will be used to fund the road maintenance backlog;

- **Gas Excise Tax:** SB 1 increases the gas tax by \$0.12 per gallon, and also eliminates the Gas Tax Swap, thereby resetting the price-based gas tax to its 2010 level of \$0.173. The entirety of the gas excise tax would be indexed to inflation once a year, commencing in 2020. When fully implemented, the cumulative state excise tax rate would be \$0.473 per gallon (the current cumulative state excise tax rate is \$0.278 per gallon);
- **Diesel Excise Tax:** SB 1 increases the diesel excise tax by \$0.20 per gallon and indexes the tax to inflation. Half of the proceeds from the increase in the diesel excise tax would fund trade corridors improvements for freight mobility and the other half for road maintenance (the current state diesel excise tax is \$0.16 per gallon);
- **Diesel Sales Tax:** SB 1 increases the sales tax on diesel from the current 1.75 percent to 5.75 percent to better fund rail and transit operations, the only source that can fund transit operations under existing state constitutional requirements;
- **Zero Emission Vehicles:** SB 1 imposes a \$100 surcharge on zero emission vehicles at the time of renewal for model years 2020 and later. This is in addition to the proposed increase in the VRF on all vehicles (zero emission vehicles currently do not contribute to road maintenance); and,
- **Vehicle Registration Fee:** SB 1 increases the Vehicle Registration Fee (VRF) by an amount based on the market value of the vehicle in the following manner:

Vehicle value range	Annual rate	Percent of registered vehicles
\$0 - \$4,999	\$ 25	46.3%
\$5,000 - \$24,999	\$ 50	41.1%
\$25,000 - \$34,999	\$ 100	7.0%
\$35,000 - \$59,999	\$ 150	4.6%
\$60,000 and up	\$ 175	1.0%

More than 60 percent of the proceeds raised directly from SB 1 are to be split evenly between the State and local governments. The anticipated \$1.5 billion annual local government share would be divided equally between cities and counties for local streets and roads under existing distribution formulas. The California Transportation Commission (CTC) shall annually evaluate each agency receiving funds to ensure that the funds are spent appropriately.

The anticipated \$1.5 billion annual State share of the revenues would be directed to the State Highway Operation and Protection Program (SHOPP). Proceeds would be available for addressing deferred maintenance on the existing State highways.

In addition, SB 1 makes a number of transportation-related reforms, including:

- Creating the Office of Transportation Inspector General within the State Department of Transportation to oversee state spending on transportation; and,
- Increasing CTC oversight and approval of the SHOPP program.

To secure the votes needed, in the hours leading-up to the final vote, of the following specific transportation projects were included:

- An extension of the Altamont Corridor Express line to locations in the Central Valley;
- A corridor to connect Highway 99 to UC Merced;
- Construction of a connector between State Route 91 and Interstate 15 North in Riverside County;
- A bridge to take McKinley Street over busy railroad tracks in Riverside; and,
- Mitigation monies for heavy-duty trucks that service warehouse facilities in San Bernardino County.

Also, Senate Bill 496 (Cannella) – which addresses indemnification for design professionals - is expected to be approved in the coming weeks. Furthermore, the Governor agreed to provide a number of recently incorporated cities in Riverside County additional funding due to a loss these jurisdictions experienced when 2011 Realignment was enacted.

One of the most discussed aspects of the SB 1 conversation was the redirection of truck weight fees from bond-debt service to direct funding of transportation projects. The Governor was firm in his belief that this not occur due to its impact on the State General Fund. As such, it was not included in the transportation funding package.

Finally, as part of the agreement, Assembly Constitutional Amendment 5 (Frazier) will be placed before the voters in November of 2018. This measure would apply constitutional protections to the diesel sales tax increase and the VRF and zero emission vehicle impositions prescribed in SB 1. If approved, these new sources of revenue must be utilized for transportation purposes, as are excise taxes on motor vehicle fuels under Article XIX of the State's Constitution.

Staff Recommendation

Information Only.

Attachments

- Copy of SB 1 (Beall)
- RCRC Letter on SB 1 (Beall)
- SB 1 Gas Tax Chart
- Local Government Distribution Charts
- SB 1 (Beall) One-Page Fact Sheet