



INFORMER

#2, February 2014

Professional Engineers in California Government

TRANSPORTATION FUNDING SHORTFALL

Nearly half of California's transportation funds are provided by local government, particularly the 19 "self help" counties whose voters have approved increases in their **local Sales Tax** in recent years for transportation projects. The federal and state governments provide the other half, primarily from **taxes on gasoline**. Most of the funds from **voter-approved bonds** and **federal stimulus** programs have been expended, leaving transportation funding well below program needs.

After voter approval in 2012 for Proposition 30, which provided additional temporary Sales and Income Tax increases to help balance the State Budget and get the economy moving again, the Governor and Legislature have indicated no appetite for additional transportation or other tax increases. A potential Ballot measure to increase the **Vehicle License Fee** to raise \$3 to \$4 billion annually for transportation has been abandoned for this year.



Private funding for transportation is little more than a mirage. Even its advocates acknowledge that the private sector doesn't provide more money, it just makes it available earlier and costs more when the debt is repaid. Public-private partnerships have had a poor track record in California. Turning control of transportation facilities over to the private sector and adding to the "Wall of Debt" which the Governor is trying to eliminate does not appear to be a viable alternative.

In the past, the federal government has been a source of substantial funding for California and other states ever since President Eisenhower initiated the Interstate Highway program in the 1950s. However, that source of funding is also drying up.

Every few years Congress passes and the President signs a federal transportation funding bill to distribute money to the

states. Although typically a five or six year bill, the latest one (MAP-21) was only a two year measure approved in September 2012, set to expire this September.

For many years, the 18.4 cent federal Gas Tax was adequate to provide substantial funding to the states for constructing new projects. That's no longer the case. The tax hasn't increased since 1993 and has lost 40% of its purchasing power.

As a result, the surplus of \$14 billion in the federal Highway Trust Fund in 2012 has been spent, even though additional federal General Fund money has been added to maintain the transportation funding level each year. Now, the fund has gone broke, and it is estimated



that it will have a \$12 billion per year deficit beginning in 2015, compared to the funding needed to just maintain federal dollars going to the states at current levels. The shortfall for transit will be an additional \$5 billion per year beginning in 2016. An added problem is that most of the Gas Tax is scheduled to expire at the end of 2016, although extensions have been the practice in the past.



Congress has begun hearings on development of a new bill to supersede or continue the current authorization. Members of both parties call the



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AND THEN THERE'S WATER...

California's attention has been rightly focused on the severe drought this winter and various proposals to transport water past the Delta and throughout the state.

Meanwhile, Congress has been working on the Water Resources Development Act and appears to be making significant progress, at least when compared to the current stalemate on transportation funding.

Last May, the Senate passed a \$12 billion measure to address port, dam, and flood protection projects. The bill went to the House in October, and an amended \$8 billion bill was passed 417 to 3. In addition to the lesser funding levels, the House bill listed specific projects, while the Senate version included guidelines for which projects could seek approval.

When different versions of a bill pass the Senate and House, they go to Conference Committee. While quick action was hoped for, the bills still remain in Committee awaiting a consensus to be developed to bring it back to the floor of each House.

In California, most of the money from previous voter approved ballot measures and federal (ARRA) stimulus funds has been spent. This month, an additional \$34 million in federal funds has been authorized for water management and conservation programs. The Legislature and Governor are considering placing a water bond on the November ballot.

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problem a crisis but while suggested solutions are plentiful, consensus is not. The fact that Republicans control the House of Representatives and Democrats control the Senate (and the White House) does not make a solution any easier, although transportation has historically been approached in a bipartisan manner. Unfortunately, developing additional tax revenue to address the problem has not been easy.

Increasing the **federal Gas Tax** (which generates \$1.2 to \$1.5 billion for each penny) is always on the table for discussion. Former federal Transportation Secretary Ray LaHood and former Pennsylvania Governor Ed Rendell have recommended a 10 cent per gallon increase indexed to inflation. Representative Earl

 Blumenauer (D-Oregon) introduced a bill to increase the Gas Tax by 15 cents, also tied to inflation. However, he has no cosponsors on his bill and polls have indicated the public opposes a Gas Tax increase, even if it's dedicated to transportation. The Congressional Budget Office says a 10 cent per gallon hike would keep the Highway Trust Fund solvent for ten years. The U.S. Chamber of Commerce supports any increase in the Gas Tax, but its prospects appear dim at the moment.

A so-called **VMT Tax**, or a tax based on the vehicle miles traveled rather than gasoline consumption, was recommended last year by the Government Accounting Office in a report which said it is "more equitable and efficient" than the Gas Tax. A VMT tax is being tested on a pilot basis in Oregon. Major concerns include privacy (would the car have a GPS device on it?) and the cost of collecting the funds.

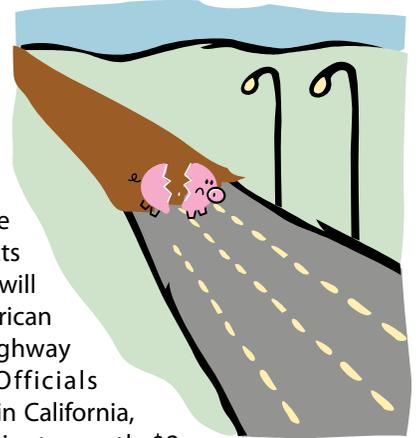


California Senator Barbara Boxer, Chair of the Environment and Public Works Committee, has said the VMT is "the most sensible way to fund" if it doesn't invade privacy but concluded it's just "not happening". She has recommended **taxing oil at the refineries** and has also supported a **Sales Tax** on fuel.

President Obama recommended **corporate tax reform** in his State of the Union speech and using the savings to fund transportation, a theme he first voiced last summer.

In 2012, the looming Trust Fund deficit was addressed by using federal General Fund money to make up the shortfall from shrinking Gas Tax revenue. Senate Finance Committee Chairman Max Baucus (D-Montana), soon to become U.S. Ambassador to China, said another "temporary transfer" of such funds could work if a longer term bill isn't agreed to by September. When the **General Fund transfer** was agreed upon in 2012 there were understandings that it would not occur again, but that was then and this is now.

The last reauthorization bill, as federal transportation funding measures are called, occurred after nine extensions over a three year period after the previous bill expired. However, the Highway Trust Fund was still solvent at that time. While a major transportation measure appears unlikely to occur this summer just prior to the election, something will have to be done or highway projects throughout the country will grind to a halt. The American Association of State Highway and Transportation Officials (AASHTO) predicts that in California, 250 rehabilitation projects worth \$2 billion "will be put at risk" if funding isn't extended.



Some states have begun to find solutions. In California, voters in 19 counties have approved increases in their local Sales Tax to provide transportation funding. Maryland and Vermont approved Gas Tax increases last year and Virginia increased the Sales Tax for transportation.

Inadequate transportation funding has become a problem that everyone agrees must be resolved. The solution, its timing, and maintaining adequate funding in the interim are the major questions.

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