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## CALIFORNIA TRANSPORTATION COMMISSION

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December 15, 2005

Members of the Legislature:

I am pleased to submit to you the California Transportation Commission's annual report to the Legislature for 2005. State law mandates that the Commission report to you each year identifying timely and relevant transportation issues facing the state and summarizing the Commission's major policy decisions in the past year. The law also mandates that our report summarize the impact of loans from transportation funds to the General Fund.

The good news for 2005 is that the Governor, with support from the Legislature, authorized the first full transfer of gasoline sales tax revenues to transportation under Proposition 42. That transfer provided over \$1.3 billion for transportation investment through the State Transportation Improvement Program, the Traffic Congestion Relief Program, and local subventions for road repair and transit.

The bad news is that state funding for transportation remains unstable, unreliable, increasingly inflexible, and woefully inadequate. For the first time, annual revenues from the basic per-gallon fuel tax and from truck weight fees are insufficient even to meet ongoing state highway maintenance, operations, and rehabilitation costs. As a result, those revenues—which are restricted under the California Constitution to transportation purposes—are no longer available for the construction of transportation improvements. State funding for transportation improvements is now dependent entirely on sales tax transfers, including Proposition 42 transfers (about 70%) and direct transfers to the Public Transportation Account (about 30%). Over the last five years, these transfers have proven to be a notoriously unstable and unreliable revenue source, subject to suspension and diversion in each annual budget. An effective transportation program requires stable and reliable resources because it usually takes several years of environmental, design, and right-of-way work to make a transportation project ready for construction.

Meanwhile, the imbalance of funding from Proposition 42 and Public Transportation Account transfers creates inflexibility—so much so that the Commission anticipates that the 2006 STIP will delete some highway projects while leaving transit funding unprogrammed. In any case, the sales tax transfers alone are insufficient to provide an adequate base of funding for transportation improvements. Originally conceived as supplements to the funding provided by the basic per-gallon fuel tax, these transfers—even when fully authorized—provide no more than about half of the amount the state was making available for transportation improvements just a decade ago.

The Commission is encouraged that the Governor and members of the Legislature have expressed their intent to address the state's infrastructure needs in the coming year. The Commission looks forward to working with you and the Administration to reconcile the need for transportation funding that is stable, reliable, flexible, and adequate with the need to resolve the state's structural budget deficit.

Sincerely,

A handwritten signature in cursive script that reads 'Joseph Tavaglione'.

Joseph Tavaglione, Chair  
California Transportation Commission