

DRAFT FOR DISCUSSION PURPOSES

Revenue Policy Report for California's Statewide Transportation System Needs

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Executive Summary

With the state's population at over 37 million and growing, California must preserve and enhance the functionality of its transportation system of roads, highways, bridges, airports, seaports, railways, border crossings and public transit to foster economic growth, attract employers, and ensure the safe, reliable mobility needed to improve the quality of life for all Californians. The useful life of the existing system, which represents decades of major investments, is placed at risk due to the lack of necessary funding to meet basic maintenance, operation and rehabilitation needs. Congestion in urban areas, safety and unexpected delays in rural areas, and growing challenges of freight movement are only a few examples of the compelling issues facing California's transportation agencies.

In order to better assess the magnitude of the investment needed to preserve, maintain, and improve the state's transportation system over the next decade, the California Transportation Commission (Commission) launched a statewide multi-modal transportation needs assessment in 2010. This collaborative effort involved chief executive officers of Metropolitan Planning Organizations (MPOs), urban and rural regional transportation planning agencies (RTPAs), the California Department of Transportation (Caltrans), transit agencies, rail, ports and airports.

The needs assessment, completed at the end of 2011, reflects a ten year projection of anticipated federal, state and local revenues and a summary of investment needs for California's transportation system of pedestrian and bike facilities, transit, passenger/commuter rail, highways, local streets and roads, and access to ports, airports and the planned high speed rail system. The needs assessment recognizes the integrated nature of California's transportation system, including both goods and people movement and the interdependence between the various modes, and the corresponding importance the system has to the state and national economy.

The needs assessment concludes that over the next ten years, the projected revenue from all sources is estimated at \$240 billion, while the projected investment needs over the same period is estimated at \$538 billion, exclusive of high speed rail. The resulting funding shortfall is estimated at \$296 billion.

To address the projected funding shortfall, the Commission has since worked with transportation stakeholders to identify potential revenue solutions and process improvements that can be employed at the local, state and federal levels. The Commission formed a workgroup made up of the same organizations that participated in development of the needs assessment to identify specific measures that, if implemented individually or in combination, are likely to address the projected funding shortfall. This report, which is a companion to the 2011 Statewide Transportation System Needs Assessment Report, highlights specific

recommendations by an Executive Committee after consideration of the information prepared by the workgroup. Revenue principles and options developed by the workgroup are included as an appendix to the report for additional reference.

Introduction

The Statewide Transportation System Needs Assessment, completed October 2011, reflects a ten year projection of anticipated federal, state and local revenues and a summary of investment needs for California's transportation system of pedestrian and bike facilities, transit, passenger/commuter rail, highways, local streets and roads, and access to ports, airports and the planned high speed rail system. The needs assessment is comprised of the following three elements each of which identifies system needs (Appendix II):

System Preservation – System Preservation extends the service life of existing infrastructure assets and helps in providing better, safer, and more reliable service at less overall or life cycle cost.

System Management – System Management is aimed at improving the overall performance of the transportation network without resorting to large scale, expensive capital improvements. System Management integrates techniques from across disciplines to increase safety, efficiency and capacity for all modes in the transportation system.

System Expansion – System Expansion provides the desired mobility benefits to the extent that mode neutral investments are targeted towards performance outcomes that provide the most efficient and effective transportation system.

Given the magnitude of the funding shortfall, it is clear that California must unify as one voice and communicate a consistent message to policy makers and system users that sustainable revenue sources and measures to reduce costly practices across all transportation modes are critically needed to address our growing needs and the insufficient levels of existing revenues dedicated to the state's transportation system.

Consistent with the approach used for developing the needs assessment report, the Commission held several workshops around the state in order to facilitate the development of, and agreement upon, the magnitude of the need and the necessary measures to address the projected funding shortfall. A workgroup was formed that included Commission staff, representative staff from Caltrans, MPOs, RTPAs, other transportation agencies, and stakeholder organizations. In addition, an Executive Committee was established representing the executives of the Business, Transportation and Housing Agency, the Department of

Transportation, the Sacramento Area Council of Governments, the Metropolitan Transportation Commission, the Southern California Association of Governments, and the San Diego Association of Governments to vet recommendations provided by the work group and the selection of solutions and measures for presentation in the final report.

Revenue solutions and policy recommendations developed by the workgroup are included in Appendix I to this report. [Given the number of revenue options identified, prioritization criteria were identified in terms of reliability, keeping pace with inflation, nexus between revenue generated and transportation usage, scale of contribution, flexibility of revenue use, broad agency applicability, and relevancy. Based on these criteria, the work group selected the following revenue solutions for emphasis in the report: [This paragraph subject to revision upon consultation with Executive Committee]

[TBD upon consultation with Executive Committee]

The workgroup also developed the following policy recommendations aimed at reducing the cost of transportation improvements:

[TBD]

RECOMMENDATIONS

(NOTE: PLACEHOLDER PENDING EXECUTIVE COMMITTEE)

To address the projected ten-year unfunded transportation need, in addition to implementation of new or enhanced funding alternatives, California must identify new and innovative ways to prioritize the use of its transportation revenues to preserve the existing transportation system and provide enhanced and expanded mobility. It is critical that the transportation community begins to assess investment decisions against performance outcomes, in order to provide the most efficient and effective transportation system at the lowest possible cost. Project sponsors should utilize performance metrics to plan and implement projects, evaluate system performance, identify inefficiencies and take necessary corrective actions. The outcomes should then be used as lessons learned to influence the transportation planning process and target future investments to mobility needs that maximize the efficiency of the system. Furthermore, transportation agencies must undertake a serious assessment of process improvements that can lower the cost of doing business. With this acknowledgement, the revenue, efficiency, and innovative financing recommendations set forth below are presented for consideration by decision makers for purposes of addressing California's unfunded transportation needs.

Revenue Solutions

California's current transportation funding system is based primarily on user fees such as the fuel excise tax, sales tax on diesel fuel, weight fees, bridge tolls, transit fares and local transportation sales tax. For many years, the motor vehicle fuel excise tax was an adequate user fee proxy for a driver's road usage. However, increased automobile fuel efficiency, the emergence of alternate technologies, and fixed taxation rates, have eroded the fuel excise tax's ability to approximate road usage and fund critical improvements and rehabilitation. The gas tax swap enacted in 2010 (ABX8 6, Chapter 11, Statutes of 2010 and ABX8 9, Chapter 12, Statutes of 2010), which increased the gasoline excise tax and eliminated the sales tax on gasoline sales, is basically revenue neutral and does not provide additional stability for transportation funding. In addition, the state's repeated diversions of transportation funds, to meet General Fund shortfalls and to pay debt service on general obligation bonds, created even greater funding gaps, uncertainty and chronic instability.

While there is a growing recognition that California needs to establish a reliable, sustainable and growing transportation funding system, there are no easy solutions. However, it is clear that new revenue sources are needed to address our aging and underfunded transportation infrastructure. Whether these revenue sources are comprised of congestion pricing, implementation of a vehicle miles traveled (VMT) based fee system, conversion of High Occupancy Vehicle (HOV) lanes to High Occupancy Toll (HOT) lanes, or a gasoline excise tax increase, to name a few options, each of these approaches comes with potential challenges and opportunities.

A wide range of revenue and financing options to close the projected ten-year shortfall in transportation funding were identified by the transportation stakeholder workgroup for local, regional, state, and/or federal consideration. The revenue options identified below are presented for consideration either in combination or individually at the state level. Complete information on all revenue and financing options, including revenue principles, identified by the workgroup is provided in Appendix __ for consideration when formulating policy and legislative actions.

[TBD Upon Consultation with Executive Committee]

Efficiency Measures

California's transportation leaders continuously pursue efficiencies through innovations, policies, and regulatory reforms in addition to funding for purposes of comprehensively addressing California's transportation needs. Through collaboration, mechanisms and policy recommendations that, if implemented, would reduce the cost of doing business were identified. The specific efficiency measures identified are as follows:

Project Delivery Efficiencies

Lead: Darin Chidsey (Breaking down barriers, etc., economic projection/analysis will be delayed based on consultant contract)

Operational Efficiencies

Lead: Norma Ortega (recognized staffing reductions, etc.)

Cost of Doing Business

Lead: Norma Ortega (ADA, Stormwater, etc)

Consolidation of Functions/Delegations

Leads: Andy Fremier & Norma Ortega (Toll Facilities, Fastrak, etc.)

CEQA Streamlining - Lead: Mike McKeever/Matt Carpenter (transportation projects included in SCS/RTP conforming to SB 375)

Performance Metrics

Lead: Mike McKeever/Matt Carpenter (accountability & management to meet performance expectations and formulate improved funding decisions/higher performing plans)

Innovative Financing

California's transportation leaders recognize that simply generating new revenue is not enough to effectively address California's transportation needs. Transportation agencies throughout the state are experiencing unprecedented pressure to deliver projects in the most effective and efficient manner. The impacts of increased congestion, higher demand for service, and declining revenues cannot be ignored. Innovative project delivery procurement methods, with their overarching benefits of reduced project costs and expedited project completion, are critical in advancing the delivery of infrastructure improvements. Since a mix of innovative financing and procurement strategies is necessary to accelerate project delivery of critical transportation projects, the following mechanisms are presented for consideration by transportation leaders:

[TBD Upon Consultation with Executive Committee]

Economic Analysis of Effects of Not Obtaining Adequate Funding

[Placeholder – SCAG to Provide]

Conclusion

California can no longer afford to operate as it has been and must find new, stable, and innovative ways of generating transportation revenues while continuing to provide enhanced mobility, and ensuring that funding decisions contribute to the most efficient and effective transportation system. Transportation leaders must continue to work together when actively pursuing revenues and efficiency measures to ensure that transportation decisions and actions are consistent with overarching statewide goals to improve the quality of life for the citizens of California. By uniting together at all levels of government, a strong foundation for a better transportation network to meet the needs of the traveling public and state economy will be realized. Therefore, for successful implementation of the efficiency and revenue recommendations set forth in this report, the spirit of collaboration demonstrated to prepare the 2011 Statewide Transportation Needs Assessment and this report must continue.

Appendix I

Reference Materials Revenue Principles and Solutions

Revenue Principles

Federal and State Revenue Options

1. Airport Passenger Facility Charge Increase
2. General Aviation Fuel Excise Tax Increase
3. Bicycle Tax
4. Cap and Trade
5. Gas Tax Increase/Indexed to Inflation
6. Gasoline and Diesel Sales Tax
7. Heavy Duty Vehicle Fees/Weight Fees
8. National Freight Program
9. Parcel Taxes (for transportation uses)
10. Parking: Correct Disabled Placard Abuse and Recover Lost Revenue
11. Tire Tax / Oil Change Fee
12. Toll Roads/High Occupancy Toll Lanes
13. Vehicle Registration Fee
14. Vehicle License Fee
15. Vehicle Miles Traveled
16. Voter Thresholds for Transportation Special Taxes

Local and Regional Revenue Options

17. Benefit Assessment Districts
18. Community Facilities Districts
19. Cordon Pricing
20. Developer Impact Mitigation Fees
21. Parking-Demand Based Pricing
22. Real Estate Transfer Taxes

Innovative Financing and Procurement Mechanisms

23. Statewide Infrastructure Bond
24. Public-Private-Partnerships (P3)
25. Transportation Infrastructure Finance and Innovation Act (TIFIA)

Revenue Principles

The following six basic core principles form the foundation for the revenue options set forth in this appendix and are recommended for use as policies and/or legislation are developed and enacted:

1. ***Equitable, Sustainable and Reliable Revenue Distribution***

Ensure (1) a unified statewide solution (2) equitable distribution of new revenues between northern and southern California benefiting urban, suburban and rural users alike, (3) provide sources of revenue that are stable, reliable and generated by all users, and (4) ensure that revenue enhancements do not competitively disadvantage drivers of economic growth with respect to the state's role in the international economy.

2. ***System Preservation***

Provide a reliable and sustainable revenue solution(s) focused on system preservation and dedicate a revenue stream for operating and maintaining existing transportation systems that is directly allocated to owners and operators of those systems (i.e. State Highway Operations and Protection Program, Local Streets and Roads, Transit).

3. ***Capacity Enhancing and Goods Movement***

Establish a revenue stream encompassing lifecycle costs of capacity enhancing projects that link performance metrics to regional transportation plans; tie directly to strategies contained in regional sustainable communities strategies; address safety and security needs; provide project delivery streamlining balanced with meeting environmental objectives; consider impacts to communities of concern; consider housing/land use connections; and recognize that we can't build our way out of congestion through highway expansion alone.

Projects include, but are not limited to:

- a. Urban mobility and congestion projects consistent with the sustainable communities strategies set forth in adopted Regional Transportation Plans (RTPs)
- b. Rural mobility / sustainability projects consistent with Blueprint Plans or other greenhouse gas (GHG) reduction strategies from RTPs outside of Metropolitan Planning Organizations (MPO) areas
- c. GHG neutral projects related to safety, interconnectivity, farm to market, visitor travel and system preservation

4. ***Regulatory Requirements***

Reduce regulatory barriers to promote innovative solutions while providing flexibility in use of transportation funding sources in order to obtain adequate funding for needed projects. Reduce cost to implement projects by streamlining project delivery requirements and forms, including streamlining Caltrans, FHWA, and Commission review/oversight requirements (for example: reduce administration required to implement a project).

5. ***Dedicated and Guaranteed Revenue Streams***

Ensure that any revenue enhancements are guaranteed and dedicated for the purposes for which they were intended, and cannot be used for other general fund and/or non-transportation priorities.

6. ***Regional Discretion and Programming Flexibility***

Continue to support the regional analysis of transportation needs and regional programming of funds for priority projects, as supported historically by SB 45 and continued under the Regional Transportation Plan and SB 375 blueprint planning processes.