Statewide Transportation Needs Assessment Revenue Report Template

Please use the headers below for use when writing a narrative for the report:

Revenue Generator *Infrastructure Bond Initiative*

Application ~~Federal~~ - $\boxed{\text{State}}$ – ~~Regional~~ - ~~Local~~ (circle one)

Introduction

No discussion of funding tools to bridge the funding gap for state transportation needs would be complete without considering a statewide General Obligation (GO) bond package. An initial amount of up to $10 billion is recommend for discussion purposes. Transportation infrastructure is a critical state asset and an important and appropriate investment of state revenue. Much like the historical approach to state GO bonds issued for school facilities, the state should endorse and become accustomed to semi-regular bond issuance for transportation infrastructure purposes.

The bonds could be used for all modes of transportation, but should be reserved for capital improvements to conform to normal bonding practices where debt is secured by underlying capital assets. GO bonds would be an appropriate instrument for investment in system preservation and system expansion; but not likely for system management or operations.

Yield Potential

The potential for revenue generation is high, or approximately $10 billion per individual bond issue, or $1 billion per year assuming a 10-year bond program. According to data from the Strategic Growth Plan Bond Accountability website, www.bondaccountability.ca.gov, Proposition 1B has so far attracted local and federal matching funds on a greater than one-to-one ratio. Assuming $10 billion is allocated among modes following the proportions in the Statewide Needs Assessment, the bond initiative could provide $3.3 billion for public transit, $3 billion for Highways (fungible, similar to Regional Improvement Program), $2.4 billion for Local Roads, $1 billion for the various modes of Goods Movement, $121 million for intercity rail, and $56 million for sustainability/non-motorized projects and programs. Following the proportions of Preservation vs. Expansion in the Statewide Needs Assessment, approximately $650 million could potentially be produced for System Preservation, and $350 million for System Expansion. While expansion projects are normally more attractive to policy-makers and voters, in difficult economic times, there may be a higher relative importance placed on taking care of current assets and making do with what's on hand. This could translate into public support for an initiative which includes significant system preservation spending.

Use/Restrictions

Use of the funding amounts by mode from the Statewide Needs Assessment study are a reasonable starting point for discussion, as they are based on needs data reported directly by regional programming agencies throughout the state. One caution in using these modal shares, however, is that the unfunded portion of the need which the bond initiative seeks to address is not necessarily in proportion to the total need by mode. Table 1-1 indicates that the overall statewide funding need is 45% funded (55% unfunded). However, since revenues are not split out by mode, it is not determined how much of the needs for each mode are funded. For example, seaport needs could be 60% unfunded, while airports could be 40% unfunded.

Bond proceeds are proposed to be used for system preservation and system expansion, but not for system management purposes. This is because typically bond proceeds are used for tangible, long-term capital improvements that will last and protect the value of an asset for the duration of the bond issue, rather than management considerations, which may be shorter-term in nature.

Sustainability

Although GO bond issuance generally represents a one-time investment of resources, the state has some history of semi-regular GO bond issuance for some statewide infrastructure purposes, such as school facilities. It is generally assumed that the state will propose a new school facilities bond every few years and the voters have historically supported this approach. New transportation infrastructure bonds could be proposed to more-or-less coincide with the completion of previous bond-funded programs, similar to the manner in which the state has historically proposed school facilities-related bonds.

The principal state cost for GO bonds is debt service. While not insignificant, these costs are fairly well-known, predictable, and largely understood. Capital investment in transportation infrastructure is not only an appropriate state investment, but one of the most reasonable investments when considering incurring manageable debt. Investment in transportation infrastructure is largely considered one of the best generators of living-wage jobs and related local and state taxes, especially when appropriate multipliers are considered. In addition, under favorable market conditions – as we are enjoying now, during the current economic downturn – costs for these critical improvements are low and the state can realize a tremendous "bang for the buck."

There is a reasonable, if variable, limit to prudent bonded-indebtedness. In recent years, some would argue the state has exceeded that reasonable limit. Debt service costs will likely be a factor in any discussions regarding new GO bonds.

Once a GO bond is passed by the voters, identified administrating entities, such as the CTC, and implementing local entities, will incur on-going program administration costs throughout the life of a specific project, or the life of the program. These costs and efforts are likely to be more significant early in the process and diminish as the program is implemented and funds are allocated and expended. Frequently, reasonable administrative costs are authorized to be funded by the bonds themselves, thus alleviating the costs, if not the effort.

Pros/Cons

The economic equity and overall fairness of the proposed bond initiative depends on many factors, including the programs and projects that are funded, the funding source used to pay the debt service, and the types of jobs created by the expended funds. The package that is under consideration could provide funding for many modes of transportation, and thus has a good likelihood of producing a fair outcome. As general obligation bonds, the source of funds envisioned for debt service would be the State General Fund. General Fund revenues include funding from state income tax, sales tax, and other sources in smaller proportions. Income tax is progressive in California, while sales tax is relatively progressive, thus on balance drawing on General Fund revenues may be considered a reasonably equitable approach.

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In recent years, debt service on General Obligation bonds has been paid for by the diversion of various types of transportation revenues. Currently, vehicle weight fees are used. Expenses previously paid for by weight fees are in turn paid for from the State Highway Account, which is funded through excise taxes on fuel. Thus, ultimately, debt service for Propositions 1A and 1B is paid for taxes levied on fuel purchases. Fuel taxes are generally regressive, as fuel expenditures do not vary directly with wealth. However, since weight fees are fully pledged to Proposition 1A and 1B debt service, a potential future bond package, should it occur in the not-too-distant future, would truly be funded by the State General Fund. Because the State Legislature has very limited resources to meet its many General Fund obligations, there may be limited eagerness on the part of state legislators to consider GO bonds for transportation. On the public side, however, there may be good support. Proposition 1B passed with 61.4% of the vote in 2006. http://www.sos.ca.gov/elections/sov/2006_general/sum_amended.pdf Proposition 1A, the High Speed Passenger Train Bond Act, passed with 52.7% of the vote in 2008. http://www.sos.ca.gov/elections/sov/2008_general/7_votes_for_against.pdf

On balance, a bond package is fair and is worth pursuing, though perhaps at modest funding levels.

Implementation

The level of effort required to implement a bond initiative is anticipated to be relatively high. In order to effectuate a GO Bond for these purposes, it is likely that legislation will need to be introduced and passed by the Legislature; signed by the Governor; put on an appropriate statewide ballot; and passed by the voters. After passage, various guideline development processes will likely need to be implemented by CTC and other state agencies, departments or boards.

The time required to initiate a bond package would be long-term, most likely exceeding two years. The cost of implementation, if successful, would likely be medium, and include some kind of statewide campaign, assuming legislation is passed and the measure is put before the voters. The hard campaign costs would be borne, however, by private sector interests. Public costs would include ballot review and preparation by the Attorney General and Secretary of State; election considerations by County Registrars; time and effort for support of the measure by public officials. In addition, if passed by the voters, the general fund debt service for the bonds could be considered significant, but reasonable. The following steps are required to bring about an infrastructure bond package:

a. Introduction of Legislation;
b. Passage by the Legislature;
c. Signed into law by the Governor;
d. Placed on a statewide ballot and put before the voters;
e. Development and implementation of related statewide campaign;
f. Development of related guidelines (assuming passage by the voters);
g. Review of applications and allocation of funds;
h. Audit of programs.

A number of policy considerations would likely be included in the development of appropriate legislation, and could include achieving significant environmental benefits, supporting the development of sustainable communities' strategies, and mitigating local impacted community concerns.

Conclusion/Recommendation
Infrastructure bond programs are a viable way to provide significant funding for transportation capital needs. Since implementation requires approval of both state legislation and a statewide initiative, it may be most effective to keep the size of each bond package manageable, while bringing forward new bond initiatives every five to ten years. This approach can keep constituents familiar with and thus more familiar and comfortable with planning ahead for transportation needs. The composition of the next bond package in terms of modes is something that will require discussion by many stakeholders and policy-makers. The transportation modal needs data that have been collected as part of the statewide needs assessment are an excellent starting point for these discussions.

Next Steps would begin with further fleshing out a transportation infrastructure preservation and expansion bond package. If time permits one step worth considering would be to extend the work of the Statewide Needs Assessment by determining the proportion of need for each transportation mode that is projected to be unmet over the next ten years. The following step would be to seek and author and begin drafting the appropriate legislation.

Reference Materials
Proposition 1B was supported by the following organizations, as well as others:

- Automobile Club of Southern California (AAA) www.calif.aaa.com
- California Air Resources Board www.arb.**ca**.gov
- California Alliance for Jobs www.rebuildca.org
- California Chamber of Commerce
- California Highway Patrol www.chp.**ca**.gov
- California Taxpayers Association
- California Transit Association www.cal**transit**.org
- California Transportation Commission www.catc.ca.gov

Statewide Transportation System Needs Assessment Revenue Report Worksheet

	- Include Projected $M -																								
Proposed Revenue Sources	**Highways**	**Local Roads**	**Public Transit**	**Inter-City Rail**	**Freight Rail**	**Seaports**	**Airports**	**Land Ports**	**Intermodal Facilities**	**Bike/Ped**	**System Preservation Annual Yield Projected ($M)**	**System Expansion Annual Yield Projected ($M)**	**System Management Annual Yield Projected ($M)**	**(Total Yield) Potential Net Annual Funds Generated ($M)**	**Assumptions**	**Authority or Responsibility for Implementation? (Federal, State, Regional)**	**Existing or New Funding Mechanism**	**Requirements for Implementation? (High, Moderate, Low)**	**Period for Implementation (Short Term - less than 2 Yrs; Long Term 2 Yrs +)**	**Sustainability (Long-Term Viability) Long Term or Moderate or Short Term**	**Application**	**Description of Policy, Legislative or Other Action Required**	**Publications Supporting Proposal**	**Notes**
Statewide Infrastructure Bond Initiative	$3,017	$2,430	$3,313	$121	$420	$224	$286	$19	$114	$56	$652	$348	$0	$1,000	10-year bond program of $10 billion. Annual yield is $1 billion.	State	New	High	Long Term	Long Term	Multi-modal	State legislation; bond initiative approved by voters; CTC program guidelines	Statewide Needs Assessment, Proposition 1B Guidelines, Bond Accountability	Highway Funds to be fungible, similar to RIP funds. Environmental benefit to be included in criteria for selecting projects.