

**ROAD REPAIR AND ACCOUNTABILITY ACT OF 2017
SB 1 (BEALL)
VCTC ANALYSIS**

LEGISLATIVE HISTORY

In early 2015, Governor Brown called a Special Session of the Legislature to address transportation funding, especially road repair. Although no action was taken during the 2015-2016 Session, at the start of the current session transportation finance bills were reintroduced by Assembly Transportation Chair Jim Frazier and Senate Transportation and Housing Chair Jim Beall, with the Administration also issuing a revised proposal. On March 29th, the Governor and Legislative leadership announced an agreement on a transportation funding package, and SB 1 (Beall) was amended to include the provisions of the agreement. SB 1 was passed by a two-thirds vote of both houses on April 6th. It permanently increases fuel taxes and vehicle registration charges to provide an estimated \$52.4 billion of new revenues over 10 years.

A companion bill, ACA 5 (Frazier) was also passed by two-thirds votes, to place before the voters a Constitutional Amendment requiring that the funds provided under SB 1 can only be spent for transportation purposes.

This report includes a flow chart from the California Association of Councils of Governments (CalCOG) summarizing how the SB 1 funds will flow to transportation programs from the various new revenues.

“FIX IT FIRST” EMPHASIS

Consistent with the primary original goal to provide adequate funds for road repair, approximately 65% of the new revenue from SB 1 will go for repair of state highways and local streets. The law specifies that \$400 million per year will be set aside for state highway bridge and culvert maintenance, and the remaining maintenance funds will be divided with 50% going to state highways and 50% going directly to local jurisdictions for streets and roads maintenance, following the existing distribution formula. Local jurisdictions having a pavement condition index of 80 or more have the flexibility to use SB 1 funds for other transportation purposes.

The eleven local jurisdictions in Ventura County are estimated to receive a total of \$9.7 million from SB 1 in FY 2017/18, and in FY 2018/19 (the first full year of the tax) should receive \$25.8 million. By comparison, Measure AA was going to initially provide \$35.0 million per year to the local jurisdictions, although by a different, locally-developed distribution formula.

SB 1 requires that where practical, projects funded with this money must incorporate “complete streets” features. There is a local “maintenance of effort” requirement that each agency continue spend no less than the annual average from its general fund during 2009/10 through 2011/12 for street and road repair. SB 1 also says that local jurisdictions must provide CTC with lists of the projects to receive the funds, although there is some flexibility to change projects after the list was submitted.

REVENUE STABILIZATION PLUS TAX INCREASES

Besides increasing taxes, the State's new funding package addresses some of the long-standing transportation revenue instability problems. Previously, some of the State fuel taxes were set at a fixed amount per gallon resulting in erosion of the buying power over many years. Other fuel taxes contained an adjustment mechanism whereby the tax rate was adjusted based on the price of fuel, causing a significant revenue drop over the last few years. Under SB 1, the entire fuel tax rate as well as the new fees will be pegged to the California Consumer Price Index (CCPI), so that the fuel tax revenues will no longer fluctuate based on the price of fuel, and the buying power of all the revenues should be maintained. Future fuel tax and fuel sales tax revenues will still drop, however, due to fuel efficiency and alternate vehicles. To a certain unknown extent, this drop will be offset by the increase in alternate fueled vehicles paying the new Alternate-Fuel Vehicle Fee.

The following tax increases were approved by SB 1 to raise \$52.3 billion over 10 years:

Gasoline Excise Tax: Increases the tax rate by 12 cents per gallon on November 1, 2017. On July 1, 2019, changes the tax rate again to cancel out adjustments since 2010 due to gasoline price fluctuations.

Diesel Fuel Excise Tax: Increases the tax rate by 20 cents per gallon on November 1, 2017. As with the Gasoline Excise Tax, changes the tax rate again on July 1, 2019 to cancel out adjustments since 2010 due to fuel price fluctuations.

Diesel Fuel Sales Tax: Increases the tax rate by 4% effective November 1st.

Vehicle Registration Fee ("Transportation Improvement Fee"): Adds a fee of \$25 - \$175 per year based on vehicle value, starting with calendar year 2018, subject to adjustment based on CCPI.

Alternate-Fueled Vehicle Fee: Introduces a \$100 annual fee on alternate-fueled vehicle models 2020 and later, subject to adjustment based on CCPI.

RELATIVELY SMALL SHARE FOR VCTC PRIORITIES

Aside from the significant amount of money apportioned by formula to the local jurisdictions for street repair, there is also a much smaller amount that provides a guaranteed share to Ventura County for priorities established by VCTC. These funds fall under the following programs:

Flexible Transit Funds: 3.5% of the 4% Diesel Fuel Sales tax increase, approximately \$250 million per year, will be provided to increase the State Transit Assistance program which provides money by formula which can be used for transit operations and capital. Over the past several years these allocations have dropped so this increase will more than offset the prior losses. For example, in FY 2012/13 Ventura County received \$5.0 million but the current FY

2017/18 estimate (without SB 1 included) is \$3.6 million. It should also be noted that the formula cap-and-trade funds received by VCTC for transit service improvements are also dropping significantly, raising the possibility that STA will eventually be needed to continue those new services.

Due to the lag in distributing the new funds VCTC anticipates little change for 2017/18, but in 2018/19 SB 1 should provide for an increase of \$3.1 million. Under the STA formula, \$0.4 million of the county's apportionment is designated for Gold Coast Transit and Metrolink, leaving \$2.7 million of the new funds for VCTC priorities. VCTC's policy has been to use its ongoing STA share for VCTC Intercity Bus and Metrolink operations.

Transit State of Good Repair: Besides the "Fix it First" emphasis for highways and streets, SB 1 also provides that \$105 million per year from the new Vehicle Registration Fee, adjusted for California CPI, will be distributed by the STA formula for transit state of good repair costs including projects to maintain, repair, rehabilitate or modernize transit vehicles and facilities, or to purchase vehicles or construct facilities that improve transit services. Prior to receipt of funds project sponsors must submit to Caltrans a list of the projects that will use the funds. Staff anticipates Ventura County will receive about \$1 million per year from this fund.

State Transportation Improvement Program (STIP): The STIP will receive a share of the anticipated revenue increase resulting from the stabilization of the existing fuel tax rate. Over ten years these funds are estimated to add \$1.1 billion STIP projects, of which VCTC's county share would be \$18 million. While these new funds are certainly welcome it is important to recognize that the approval of the last 5-year STIP required the removal of \$750 million worth of projects which will not be fully offset by the new \$1.1 billion over 10 years, so the increased funds might not be enough to allow the programming of new projects in the 2018 STIP. One likely short-term benefit to VCTC of the new STIP funds is that VCTC had anticipated in 18/19 a significant cut in the 5% of its county share available for Planning, Programming and Monitoring, but now that impending cut will be significantly lessened or possibly even eliminated.

OTHER APPORTIONED FUNDS LIKELY TO BENEFIT VENTURA COUNTY

The various regional rail agencies in California had advocated for direct formula subventions for commuter and intercity rail, and SB 1 provided these set asides, utilizing 0.5% of the 4.0% increase in the diesel fuel sales, as follows:

Commuter Rail: SB 1 provides 0.25% of the 4.0% diesel sales tax increase by formula to the commuter rail operators, for an estimated total of \$20 million per year. Despite the large variance in rail system size, the funds are initially divided equally among the 5 commuter rail agencies, so that Metrolink will get about \$4 million. Starting in 2020 the funds are to be distributed according to a formula developed by the State Transportation Agency. The funds can be used for capital or operations.

Intercity Rail: Another 0.25% of the 4.0% diesel sales tax increase is to be distributed to the state's three intercity rail agencies, one of which is LOSSAN. The distribution formula will be determined by the State Transportation Agency, although each of the 3 agencies must receive a minimum of 25%, meaning that LOSSAN will get at least \$5 million per year. These funds can be used for capital or operations.

APPORTIONED FUNDS THAT WILL NOT INITIALLY GO TO VENTURA COUNTY

SB 1 makes permanent the "State/Local Partnership" program, to provide \$200 million per year for jurisdictions that have approved local tax measures to support transportation. Specifically excluded are local general taxes such as those in Oxnard, Ventura, Port Hueneme and Santa Paula. Therefore, with no local transportation tax Ventura County will not be eligible for these funds.

SIGNIFICANT EXPANSION OF STATEWIDE COMPETITIVE PROGRAMS

Although the primary emphasis is on "State of Good Repair," there is a significant amount of funding in SB 1 for transportation improvements. These funds will be primarily distributed to projects selected by the state through competitive grants. Funds will go to the following programs:

Active Transportation Program: This program will be augmented by \$100 million per year starting in FY 2017/18, nearly doubling the size of the program. Furthermore, since the funds are committed through adoption of a five-year program, it will be possible to program the next five years of SB 1 funds at once. As a result, the next funding cycle will likely be a one-time opportunity to program far more projects than usual. Although the current program includes a guaranteed minimum of funds going to Ventura County projects, this provision is related to the requirements of federal funds currently going to the program, so the state could program all of the funds added by SB 1 without increasing the county minimums.

VCTC will work with CTC as the guidelines are revised for the next funding cycle, and will continue working with local agencies as resources allow to help develop competitive grant applications for the next round are submitted to CTC.

Transit and Intercity Rail Capital Program: SB 1 provides about \$245 million per year for this competitive grant program administered by the State Transportation Agency. The program had previously been funded largely by cap-and-trade funds. VCTC will likely need to work with local bus and rail operators to support transit capital applications to the state, working especially with SCRRRA and LOSSAN to identify and apply for possible priorities on the Ventura County rail line for which VCTC has significant responsibility.

Trade Corridor Enhancement Fund: Ten cents of the diesel fuel per-gallon tax increase, an estimated \$3.3 billion over 10 years, will flow directly to this program, which will take the place of the Trade Corridor Improvement Fund that was funded through Proposition 1B. The Commission will recall that the Proposition 1B Trade Corridor funds were distributed based on

regional priorities developed by a Consensus Group for each corridor, with the Southern California program including \$33 million for the Rice/101 Interchange, the 101/23 Interchange, and the Hueneme Road Widening. The change in program name, and the legislative language, appears intended to provide for a more state-driven rather than corridor-driven prioritization process.

There is no legislative language delegating authority for project selection to an agency such as CTC, so that decision remains with the Legislature for now. VCTC will need to continue to monitor this process and determine how to best advocate for freight movement projects such as the Rice Road Bridge and Port of Hueneme Flow Improvement.

Solutions for Congested Corridors Program: This program will provide about \$250 million per year for a competitive program for projects to be selected by CTC that “are part of a comprehensive corridor plan designed to reduce congestion in highly traveled corridors.” Eligible projects include improvements to state highways, public transit facilities, local streets and roads, bicycle and pedestrian facilities, and restoration or preservation work that protects critical local habitat or open space. Highway capacity expansion projects are not eligible with the exception of high-occupancy vehicle and high-occupancy toll lanes or other non-general purpose lanes such as auxiliary lanes or truck-climbing lanes.

VCTC will need to work with the other regional agencies to be involved with CTC in the development of guidelines, and will need to consider possible Ventura County projects that could use these funds in the future.

Local Planning Grants: SB 1 sets aside \$25 million per year for local planning grants to be selected by Caltrans. Staff expects to monitor the program as information becomes available, to consider possible grants for local planning work in Ventura County.

NUMEROUS MISCELLANEOUS PROVISIONS

SB 1 contains a host of other provisions addressing transportation issues. Items of interest to VCTC or Ventura County agencies include:

- Loan Repayment: In addition to new tax revenues SB 1 also commits to the repayment over three years of \$706 million of old loans taken from transportation accounts to balance the state budget, and provides for the distribution of this money primarily for road rehabilitation and the Transit and Intercity Rail Capital Program which will receive \$236 million.
- Termination of Transportation Congestion Relief Program: SB 1 terminates this program by which the Legislature in the early 2000’s earmarked state budget surplus funds to designated projects. There was one project in Ventura County, namely the Route 101 California Street Off Ramp project in Ventura which had a \$15 million earmark. The City of Ventura was unable to identify sufficient resources to fully-fund that project, so now that prior earmark has been eliminated.

- Environmental Streamlining: The bill includes provisions to expand the CEQA exemption for road repair and to establish an Advanced Mitigation Program.

RELATED LEGISLATION

In parallel to the negotiations on SB 1 to secure two-thirds support, two other bills have been passed:

- SB 132 (Budget Committee) includes earmarks of \$927 million from state transportation funds for projects in Riverside and Merced Counties, plus \$50 million for an Air Resources Board program for low-emission warehouses.
- SB 496 (Canella) provides that design service contract indemnity provisions are unenforceable except under certain circumstances. This bill had been opposed by the Self-Help Counties Coalition.

VCTC ACTIONS FOR THE UPCOMING YEAR

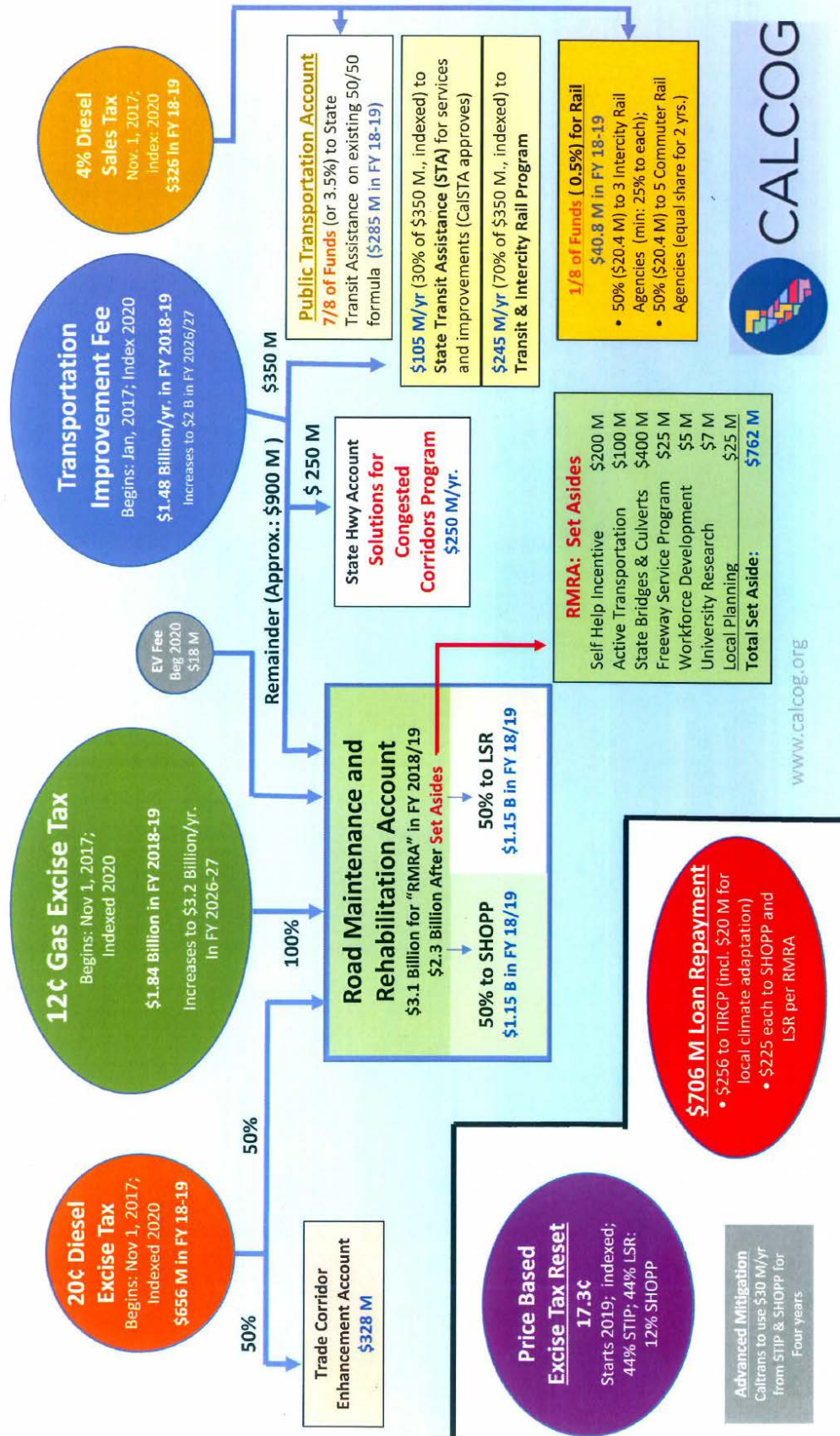
In the coming months VCTC will need to develop priorities for new transit funds to be included in its apportionment. With the new taxes going into effect November 1st, and the time lag in distribution of funds from the state, it would be premature at this time to include new monies in the FY 2017/18 budget, but these new funds will affect the transit priorities in the FY 2018/19 budget, as well as the availability of PPM funds in that year.

During the upcoming year, VCTC will need to work extensively with SCRRA and LOSSAN to consider strategies for using the new direct subventions to those agencies. As has been described VCTC will also need to work with the local agencies consider strategies for possible projects from the other competitive programs, while at the same time working with CTC, Caltrans, and the other regional agencies to engage in the guidelines development process for the various new funds.

At its April meeting TTAC requested periodic updates on SB 1 implementation. Staff believes this suggestion would be appropriate for the Commission and the other committees as well so during the upcoming year these periodic updates will be provided.

SB 1: TRANSPORTATION ACCOUNT FLOWS (DRAFT)

FY 18-19 Estimates from Senate
Appropriations Committee Analysis



UNSPECIFIED ABBREVIATIONS FROM CALCOG GRAPHIC:

“B” = Billion

“Beg” = Begins

“EV Fee” = Electric Vehicle Fee

“CalSTA” = California State Transportation Agency

“FY” = Fiscal Year

“LSR” = Local Streets and Roads

“Jan” = January

“M” = Million

“Nov” = November

“SHOPP” = State Highway Operations and Protection Program

“STIP” = State Transportation Improvement Program

“TIRCP” = Transit & Intercity Rail Capital Program