

MTC OVERVIEW OF SB 1 (BEALL AND FRAZIER)

Updated on May 3, 2017

NEW & AUGMENTED FUNDING PROGRAMS

Below is a summary of the funding provided by program and the new revenue sources authorized in Senate Bill 1 (Beall and Frazier).

Road Maintenance and Rehabilitation Program

SB 1 establishes the Road Maintenance and Rehabilitation Program (RMRP) to address deferred maintenance on the state highway and local street and road systems. The California Transportation Commission (CTC) will allocate the funds and is required to develop guidelines by January 1, 2018. The bill provides that funds shall be used for projects that include, but aren't limited to, the following:

- Road maintenance and rehabilitation
- Safety projects
- Railroad grade separations
- Complete street components, including active transportation purposes, pedestrian and bicycle safety projects, transit facilities, and drainage and stormwater capture projects in conjunction with any other allowable project
- Traffic control devices

The RMRP, which would receive approximately \$3.7 billion annually once all new revenue streams take effect, is funded by the newly established Road Maintenance and Rehabilitation Account (RMRA), which receives four sources of new revenue. These revenues would be adjusted by Consumer Price Index (CPI) beginning on July 1, 2020. The four new revenue sources are bulleted below:

- A new 12-cent/gallon gasoline excise tax, effective November 1, 2017.
- Monies remaining from a new vehicle registration surcharge (called a Transportation Improvement Fee) after an inflation-adjusted \$600 million annual set-aside for public transit, intercity/commuter rail and a new Congested Corridors program. These programs are described in more detail on pages 2-5. The vehicle surcharge takes effect on January 1, 2018.
- A new \$100/year zero-emission vehicle registration surcharge, which takes effect on July 1, 2020.
- 50 percent of the 20-cent/gallon diesel excise tax increase, effective November 1, 2017.

RMRP Takedowns

Before program funds are distributed to cities, counties and Caltrans, there are several annual takedowns, which are bulleted below. These do not receive inflationary increases.

- Cost of administration – unspecified
- \$200 million for a self-help counties partnership program limited to counties that have voter-approved dedicated transportation taxes or uniform developer fees dedicated to transportation. Funds would be continuously appropriated to a county and each city within the county for road maintenance and rehabilitation purposes.

- \$100 million for the Active Transportation Program
- \$400 million to Caltrans for bridge and culvert maintenance and rehabilitation
- \$25 million for Freeway Service Patrol
- \$25 million for local planning grants to be administered by Caltrans
- \$5 million for the California Workforce Development Board to assist local agencies to implement policies that promote pre-apprenticeship training programs from FY 2017-18 through FY 2021-22.
- \$7 million for transportation research and workforce training including \$5 million for the University of California and \$2 million for the California State University.

Local Street & Road Funding

SB 1 continuously appropriates 50 percent of the RMRA revenues remaining after the takedowns described above to cities and counties using the same formula that applies to the existing base 18-cent per gallon gasoline excise tax. The bill includes a “maintenance of effort” requirement for local funds contributed to street and road repairs to help ensure that the new funding augments existing budgets for road repairs. Specifically, it requires each city and county to spend no less than the annual average from its general fund during 2009-10 through 2011-12. It also requires that a local jurisdiction submit a detailed list of proposed projects to be funded to the CTC prior to receiving an allocation, but authorizes cities and counties to fund projects outside of that list in accordance with local needs and priorities, so long as they are consistent with the program’s project eligibility provisions. If a city or county can demonstrate that it has attained a pavement condition index of 80 or higher, it may spend the funds on other transportation priorities.

State Highway Maintenance & Rehabilitation

The remaining 50 percent of RMRA revenues are provided to Caltrans for maintenance of the state highway system or for purposes of the State Highway Operations and Protection Program (SHOPP). The bill requires Caltrans to report annually to the CTC on its use of these funds, including detailed project descriptions, and its progress to achieving the performance goals listed in the accompanying memo. In addition, the CTC is required to report annually on the department’s progress and may withhold funds if it determines funding is not being spent appropriately.

Requirements and Policies Applicable to RMRP Funding

SB 1 provides that, to the extent possible and cost effective, Caltrans and local agencies:

- Use materials that reduce the life cycle cost and minimize greenhouse gas (GHG) emissions.
- Accommodate advance automotive technologies, such as charging or fueling for zero-emission vehicles.
- Include features in the project that make it more resilient to climate change risks, such as fire, flood and sea level rise.
- Incorporate complete streets elements that improve the quality of bicycle and pedestrian facilities, where feasible and practicable.

There is also a requirement that by July 1, 2023, Caltrans and local agencies that receive RMRA funds follow new workforce training guidelines developed by the California Workforce Development Board, pursuant to SB 1.

PUBLIC TRANSIT FUNDING

Public Transit Formula Funding

SB 1 provides a significant infusion of funding for public transit, including formula-based and competitive funding. The State Transit Assistance (STA) program, the state's flexible transit funding program which may be used for capital or operating purposes, would be boosted by approximately \$250 million per year from an increase in the diesel sales tax rate of 3.5 percent, though actual revenues will depend on the price of diesel fuel. These funds would augment the existing STA program and would not be subject to additional requirements or conditions. MTC estimates the Bay Area would receive approximately \$70 million more per year in revenue-based STA funds and \$24 million more per year in population-based funds.

Another \$105 million per year would also be distributed using the STA formula but would be limited largely to capital improvements focused on modernizing transit vehicles and facilities. The Bay Area would receive approximately \$39 million per year total from this capital-only component, including \$29 million in revenue-based STA funds and \$10 million more per year in population-based funds. Recipient transit agencies must submit documentation to Caltrans listing proposed projects and detailing expenditures. This would be funded through a \$350 million inflation-adjusted set-aside of revenues generated from the new Transportation Improvement Fee (TIF) – STA would receive 30% of the set-aside and the rest would supplement the competitive Transit and Intercity Rail Capital Program (TIRCP). Finally, the bill provides a one-time TIRCP infusion as well as new funding for intercity and commuter rail, as described below.

Transit and Intercity Rail Capital

SB 1 provides additional one-time and ongoing funding to the TIRCP, a heavily oversubscribed program that is currently reliant upon somewhat unpredictable Cap-and-Trade funds and administered by the California State Transportation Agency (CalSTA). The TIRCP would receive a one-time infusion of at least \$236 million as a result of a General Fund loan repayment as well as an additional \$245 million annually from the TIF starting in FY 2017-18. As above, the amount is set forth in the statute at 70% of \$350 million, but will be adjusted beginning on July 1, 2020 as part of the annual indexing to the CPI.

Intercity and Commuter Rail Funding

The bill boosts funding for intercity rail and commuter rail by dedicating a new 0.5 percent diesel sales tax to this purpose. Similar to the TIRCP, projects would be selected by CalSTA. Funds may be spent for operations or capital. Of the approximately \$37.5 million available each year (actual revenues will depend on diesel prices and sales), funds will be distributed as follows:

- 50 percent to CalSTA for "state-supported intercity rail services." Of that amount, at least 25 percent shall be allocated to each of the state's three intercity rail corridors that provide regularly scheduled intercity rail service (the Capitol Corridor, San Joaquin, Pacific Surfliner routes).
- 50 percent to CalSTA to be allocated to public agencies responsible for commuter rail service. For FY 2018-19 and FY 2019-20, each of the state's five commuter rail agencies (including ACE, Caltrain and SMART) would receive 20 percent. Subsequent to that, CalSTA would allocate funds pursuant to guidelines to be adopted by July 1, 2019. Note that it is not clear how funds would be distributed to commuter rail agencies for FY 2017-18 even though funding will be collected beginning on November 1, 2017.

OTHER PROGRAMS

State Transportation Improvement Program (STIP) Funding

While the bill doesn't include any specific provisions applicable to the STIP, effective July 1, 2019, it boosts funding for the STIP by virtue of eliminating the annual adjustment pegged to the price of fuel for what is known as the "price-based excise tax." Instead, SB 1 sets the rate at 17.3 cents/gallon on July 1, 2019, plus an annual adjustment to keep pace with inflation that will begin in July 1, 2020.¹ This tax is a major source of STIP funding, receiving 44 percent of its revenue after backfilling the SHOPP for the loss of weight fees. Since the existing rate of 9.8 cents/gallon already offsets weight fees, any increase above that is distributed directly according to a 44/44/12 percent formula where the other 44 percent goes to cities and counties for local streets and roads, and the 12 percent goes to Caltrans for highway maintenance and rehabilitation.

While it's impossible to predict exactly how this will affect STIP funding in the future relative to what would have occurred if the rate were pegged to the price of fuel, the Department of Finance estimates a net benefit to the STIP over 10 years of \$1.1 billion, or \$825 million for the Regional Transportation Improvement Program. For the Bay Area, this amounts to approximately \$140 million over 10 years. This estimate may be on the conservative side. If we assume the price-based excise tax would not go above the 11.7 cents/gallon rate in effect on July 1, 2017 then the 17.3 cents/gallon rate amounts to a 5.6 cents/gallon increase – equating to \$840 million more per year statewide, including approximately \$370 million per year in new STIP funding statewide. Note that this increase will not begin until the FY 2019-20 year.

State-Local Partnership Program for "Self-Help" Counties

As noted above, SB 1 authorizes \$200 million per year to be continuously appropriated for a new program for counties that have dedicated transportation funding from uniform developer fees or voter-approved taxes. The program is similar to the State-Local Partnership Program established by Proposition 1B except it is limited to counties, so unfortunately transit agencies with voter-approved taxes are not eligible. Another important difference is that funds are to be distributed to counties and each city within the county and are limited to local road maintenance purposes as set forth in the RMRP program (which does include complete streets elements). The bill requires the CTC to adopt guidelines for the program on or before January 1, 2018.

Bicycle and Pedestrian Access Improvements

In addition to augmenting the Active Transportation Program by \$100 million per year, SB 1 requires that Caltrans update the Highway Design Manual to incorporate the "complete streets" design concept. No other limitations or conditions on the use of funds are included in the bill.

Local Planning Grants

As noted above, the bill provides \$25 million from the RMRA to be available to Caltrans for local planning grants on an annual basis, subject to appropriation. The bill states that the purpose of the grants is to "encourage local and regional planning that furthers state goals as provided in

¹ 17.3 cents/gallon is the rate that was set when the price-based excise tax was established as part of the Gas Tax Swap, replacing the state portion of the sales tax on gasoline (see AB x8-6 (2010), SB 70 (2010) and AB 105 (2011)). It was set at this rate so as to be revenue neutral to the sales tax on fuel. The legislation required an annual adjustment to maintain this revenue neutrality and it has caused a steep cut in the rate, currently set at 9.8 cents/gallon but scheduled to rise to 11.7 cents/gallon on July 1, 2017.

the regional transportation guidelines” adopted by the CTC. The bill requires Caltrans to develop a grant guide in consultation with the Air Resources Board, the Governor’s Office of Planning and Research and the Department of Housing and Community Development. In addition, up to \$20 million is available on a one-time basis from FY 2018 through FY 2020 for grants to local and regional agencies for climate change adaptation planning. This is funded from the Public Transportation Account as a result of a General Fund loan repayment.

Congested Corridors Program

The bill establishes a new “Solutions for Congested Corridors Program” and authorizes \$250 million per year for annual appropriation in the budget act from revenue generated by the TIF. The program, to be administered by the California Transportation Commission (CTC), focuses on multi-modal solutions to the most congested corridors in the state and takes a performance-based approach. To qualify for funding a project must be included in a “comprehensive corridor plan designed to reduce congestion in highly traveled corridors by providing more transportation choices for residents, commuters and visitors to the area of the corridor while preserving the character of the local community and creating opportunities for neighborhood enhancement projects.”

Eligible projects for this new program 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 lanes (HOV) and high-occupancy toll (HOT) lanes or non-general purpose lane improvements designed primarily to improve safety for all modes of travel, such as auxiliary lanes, truck-climbing lanes or dedicated bicycle lanes.

The bill requires the CTC to score each project on the following criteria:

- Safety
- Congestion
- Accessibility
- Economic development and job creation and retention
- Furtherance of state and federal air quality and GHG reduction
- Efficient land use
- Matching funds
- Project deliverability

Either Caltrans or agencies responsible for developing the Regional Transportation Improvement Program (RTIP) (MTC in the Bay Area) can nominate projects, but a maximum of 50 percent can be awarded to projects nominated *only* by Caltrans. With respect to how projects will be scored, the bill emphasizes that preference will be given to projects that are developed as a result of collaboration between Caltrans and regional or local agencies “that reflect a comprehensive approach to addressing congestion and quality-of-life issues within the affected corridor through investment in transportation and related environmental solutions.”

As for the mechanics of the program, the CTC is required to develop guidelines for the program in consultation with the Air Resources Board and after conducting at least one hearing in northern California and one hearing in southern California. CTC is also required to provide draft guidelines to the Joint Legislative Budget Committee and the transportation policy committees in

each house and adopt the guidelines no sooner than 30 days after that submission to the Legislature. The bill requires the CTC to adopt an initial program based on the first appropriation of funds, but such program may cover a multiyear programming period. Subsequently, the program shall be adopted on a biennial basis. Beginning in March 2019, the CTC is required to provide project updates in its annual report to the Legislature, including an assessment of how each project is performing relative to the quantitative and qualitative measurements outlined in its application.

Trade Corridors

SB 1 creates a new Trade Corridor Enhancement Account, and allocates to this account 50 percent of the diesel excise tax increase, or approximately \$300 million annually. In an unusual move, the bill provides the Legislature with full discretion over project selection for this program specifying only that funds shall be available for “corridor-based freight projects nominated by local agencies and the state.”

Advance Mitigation

SB 1 requires \$30 million to be set aside annually from FY 2017 through FY 2020 from funding appropriated for the STIP and the SHOPP for an Advance Mitigation Program to protect natural resources through project mitigation, accelerate project delivery and to fully mitigate environmental impacts of transportation projects. The bill provides that the annual budget act or subsequent legislation may provide additional provisions for the program.

Job Training/Contracting Provisions

SB 1 requires that Caltrans develop a plan by January 1, 2020 to increase by up to 100 percent the dollar value of contracts and procurements awarded to small business, disadvantaged business enterprises, and disabled veteran business enterprises. In addition, the bill requires the Legislature appropriate \$5 million per year for five years starting in FY 2017-18 to the California Workforce Development Board to assist local agencies with promoting pre-apprenticeship programs. As noted above, SB 1 also requires Caltrans and cities and counties receiving funding from the RMRA follow guidelines to be developed by the California Workforce Development Board regarding pre-apprenticeship training programs no later than January 1, 2023.

EFFICIENCY, ACCOUNTABILITY & OTHER RELATED PROVISIONS

New Caltrans Audit Office Established

The bill requires the creation of an Independent Office of Audits and Investigations within Caltrans. The director of the office, whose title would be inspector general, would be appointed for a six-year term by the Governor and confirmed by the Senate, with significant restrictions and transparency required for his/her removal from office. The office would be responsible for ensuring compliance by Caltrans and all entities receiving state and federal transportation funds with state and federal requirements and ensuring Caltrans follows accounting standards and practices and manages its programs in a financially responsible manner. The inspector general shall be required to report annually on any audit or investigation findings and recommendations.

Capital Outlay Support and SHOPP Oversight Strengthened

The bill adds additional transparency requirements with respect to Caltrans support funding for projects in the State Highway Operation & Protection Program (SHOPP), requiring that such costs be identified up front for every SHOPP project by project phase and a delivery date for each project phase, including “project approval,” be provided. In addition, starting July 1, 2017,

the bill requires that the CTC allocate the department’s capital outlay support (COS) resources by project phase to provide greater transparency in the development of the Caltrans budget.

Caltrans is Required to Implement Efficiency Measures

The bill requires Caltrans to implement efficiency measures with goal of saving \$100 million/year in savings to invest in maintenance and rehabilitation of the state highway system. No specific efficiency measures are suggested in the bill.

OVERVIEW OF REVENUE INCREASES

| Funding Source | Estimate of 10-Year Revenue (in 1,000s) |
|---|--|
| 12-cent per gallon gas tax | \$24,400,000 |
| Vehicle Registration Surcharge (Transportation Improvement Fee) | \$16,300,000 |
| 20-cent/gallon diesel excise tax | \$7,300,000 |
| 4% increase in diesel sales tax | \$3,500,000 |
| \$100 zero emission vehicle fee | \$200,000 |
| General Fund loan repayments | \$706,000 |

Gasoline and Diesel Fuel Tax Increases

SB 1 increases the fuel tax on gasoline by 12-cents per gallon and the diesel excise tax by 20-cents per gallon effective November 1, 2017. In addition, the bill eliminates the variable portion of the gasoline excise tax, which is currently set at 9.8-cents per gallon, but is scheduled to rise to 11.7-cents per gallon on July 1, 2017 due to the statutorily required adjustments that the Board of Equalization makes each year based on the price of fuel. On July 1, 2019, the bill restores the portion of the gas tax to 17.3-cent per gallon rate that was in effect when the gasoline tax swap was enacted in 2010. Given the Board of Equalization forecasts an increase in gasoline prices over the next several years, establishing a rate of 17.3-cent per gallon on July 1, 2019 may in fact not constitute an increase at all. Effective July 1, 2020, all fuel taxes will be indexed annually each July by the Department of Finance based on the California Consumer Price Index.

New Annual Vehicle Registration Surcharge

Section 31 of the bill creates a new annual Transportation Improvement Fee (TIF), based on the value of the vehicle, as shown below, which would go into effect on January 1, 2018.

| Vehicle’s Value | Amount of Fee |
|------------------------|----------------------|
| \$0-\$4,999 | \$25 |
| \$5,000-\$24,999 | \$50 |
| \$25,000-\$34,999 | \$100 |
| \$35,000-\$59,999 | \$150 |
| \$60,000 + | \$175 |

Commercial vehicles weighing more than 10,000 pounds would be exempt from the tax. Effective January 1, 2020 and annually thereafter, the fee would be indexed annually by the Department of Finance based on the Consumer Price Index. The new fee is estimated to generate \$16.3 billion over ten years, with \$350 million annually dedicated to public transit and TIRCP, \$250 million set-aside for the new Congested Corridor Program and the remaining revenues allocated to the new RMRA account.

Diesel Sales Tax

SB 1 increases the diesel sales tax rate by an additional 4 percent, bringing it to a total of 13 percent. The new funds would be deposited in the Public Transportation Account. Of this 4 percent rate, 3.5 percent is for the State Transit Assistance (STA) program, while 0.5 percent is for the new Intercity and Commuter Rail program.

OTHER PROVISIONS AND RELATED LEGISLATION

Zero-Emission Vehicle Registration Surcharge

SB 1 includes a \$100 vehicle registration surcharge applicable to zero-emission motor vehicles model year 2020 and later vehicle that takes effect on July 1, 2020. The charge is indexed to inflation with the first adjustment scheduled for January 1, 2021 and subsequent adjustments to be made every January 1 thereafter. The charge is estimated to generate about \$20 million per year.

Truck Emissions

SB 1 includes a provision that limits the State Air Resources Board (ARB) from requiring truck owners to retire or retrofit trucks that meet existing ARB emissions standards (by 2023, all trucks must have 2010 model year engines or equivalent) before they are 13 years old or reach 800,000 miles. According to the California Trucking Association, this will ensure truck owners have time to recoup their investment in more efficient technology before being faced with a newer, stricter mandate. Environmental and health advocates raised concerns that the provision was overly broad and would prevent regulators from developing other air quality rules, such as capping emissions at warehouses and ports. In response, SB 1 was amended to clarify that the provision is not intended to undermine regional efforts. Though ARB expressed support for the deal, it was not sufficient to alleviate the aforementioned concerns and a number of groups opposed the bill.

Related Legislation

In parallel to the negotiations on SB 1 to secure two-thirds support, several other bills were enacted including, SB 132, a budget trailer bill and SB 496. SB 132 includes several very large earmarks, notably:

- \$427 million for the Riverside County Transportation Efficiency Corridor for five specific projects, including grade separation projects, bridge widening, an interchange and the 91 Toll Connector to Interstate 15 North
- \$400 million for the extension of the Altamont Commuter Express to Ceres and Merced from the TIRCP
- \$100 million for the University of California, Merced Campus Parkway Project from the State Highway Account

In addition, SB 496 (Canella) was also enacted as part of the overall package of bills. It provides that with respect to all contracts for design services entered into after January 1, 2018, indemnity

agreements are unenforceable, except under certain circumstances. The bill is similar – though not identical – to SB 885 (Wolk, 2016), which MTC opposed last year and which did not ultimately reach the Governor’s desk.