



Funding Update | February 22, 2010

Executive Committee Sets Course for Budget Negotiations

Last week, the Association's Executive Committee set a course for budget negotiations with the State Legislature after review of recent legislative budget proposals as they relate to funding for public transportation. The governor and Legislature continue to pursue a "gas tax swap," which includes eliminating the sales tax on gasoline and increasing the excise tax on gas. As the elimination of the sales tax on gas evaporates historical core revenue sources for transit, the Executive Committee maintains a position of opposition on this budget element. However, current law provides no state funding for transit. Taking this into account, the Executive Committee agreed that, since the Legislature's intent is to eliminate the sales tax on gas over our strong objections, the following must be included in any final budget package:

- Maintain the sales tax on diesel fuel as a revenue source for the Public Transportation Account (PTA).
- Increase the sales tax rate on diesel fuel to make this revenue source for transit more robust.
- Appropriate \$400 million in the current year from the existing Public Transportation Account balance for the State Transit Assistance program (STA).
- Dedicate non-Article XIX revenues to the PTA.

Our negotiations with legislative leaders, directed by the above Association policy, have yielded positive results for public transportation funding out of the most recent legislative proposal. The latest budget proposal:

- Increases the sales tax rate on diesel to 6.75%, starting in 2011-12. This revenue for the Public Transportation Account is projected to increase over time. The sales tax on diesel would be split 75% to the State Transit Assistance program and 25% to the Intercity Passenger Rail program and other historic "state" obligations of the PTA.
- Appropriates, in the period between now and June 30, 2011 (i.e. "current year + budget year"), \$400 million from the PTA balance to the STA program.
- Appropriates some non-Article XIX funds to the PTA.

Please click [here](#) to see the specific bill language (PDF, 345KB).

The budget proposal also authorizes metropolitan planning organizations, subject to voter approval, to impose a regional fee on motor vehicle fuels. The Association's Executive Committee adopted a "neutral" position on this element of the proposal.

The Legislature included this regional fee element as a way of creating new revenue streams for transit in some regions, so that transit agencies don't have to rely on an unpredictable state budget process. While several of our member agencies hold differing positions on this element (resulting in the Association's overall "neutral" position), we encourage Association members to communicate their position on the regional fee directly to legislative leadership and their respective legislative delegation.

Additional details of the budget proposal:

The Executive Committee's goal is to achieve an annual STA program of at least \$350 million. For 2011-12, the sales tax on diesel fuel, even at the new rate, is not enough to generate a \$350 million STA program (given the 75%/25% split), so, under the budget proposal, \$72 million in available non-Article XIX funds from the State Highway Account would be deposited in the PTA, and the sales tax on diesel fuel revenue stream would be supplemented with a \$23 million appropriation from those non-Article XIX funds, to generate a \$350 million STA program that year. Similarly, for 2012-13, another appropriation, of \$12 million from the non-Article XIX funds in the PTA, would be made to get to a \$350 million STA program that year. Thereafter, the sales tax on diesel fuel, at the new rate, is projected to provide at least a \$350 million STA program annually. For instance, it is currently projected to produce an STA program of \$511 million by 2020-21.

Beginning in 2011-12, after the small supplemental appropriations are made from the non-Article XIX funds to the STA program, all other non-Article XIX funds in the PTA would be available for appropriations to the Intercity Passenger Rail program and other Caltrans costs. The current projection is that the IPR program and Caltrans costs will receive \$162 million in 2011-12, growing to \$242 million by 2020-21.

The budget package will still generate, from the excise tax on gas increase, an increase to streets & roads and highways funding, starting at +\$200 million and growing to +\$450 million over time, compared to current projections for Prop 42 funding.

Today is the last day of the 8th Extraordinary Legislative Session. We have been informed that Senate and Assembly leadership don't plan to take action until later this week on the transportation package. We will keep you apprised of further information as it develops.