REPORT

EAC - Agenda Item No. 6
RC - Agenda Item No. 10

DATE: February 4, 2016

TO: Executive/Administration Committee (EAC)
Regional Council (RC)

FROM: Darin Chidsey; Director, Strategy, Policy & Public Affairs; (213) 236-1836; chidsey@scag.ca.gov

SUBJECT: February 2016 Federal and State Legislative Update

EXECUTIVE DIRECTOR'S APPROVAL: Hasan Ikhrata

FEDERAL

Administration Takes Proactive Approach on Driverless Cars

U.S. Department of Transportation (USDOT) Secretary Anthony Foxx last month revealed at the Detroit International Auto Show that President Obama is proposing nearly $4 billion over 10 years to fund pilot projects that help accelerate the development and adoption of safe vehicle automation.

Secretary Foxx's announcement highlights a federal level commitment to enabling this technology. He also announced an update to the National Highway Traffic Safety Administration's (NHTSA) 2013 preliminary policy statement stating that NHTSA is committed to proposing "best-practice guidance to the industry on establishing principles of safe operation for fully autonomous vehicles" **within six months (July 2016)**. The update also noted that, "the governing principal should be that technologies with proven, data-supported benefits that would make roads safer should be encouraged." The updated statement noted as well that "NHTSA will fully utilize its currently available regulatory tools, such as interpretations and exemptions, to more rapidly enable safety innovations." It encouraged, "manufacturers to, when appropriate, seek use of NHTSA's existing exemption authority to field test fleets that can demonstrate the safety benefits of fully autonomous vehicles." Up to 2,500 vehicles will be eligible for exemption for up to two years.

Full text of the announcement of the updated policy can be accessed here: http://www.nhtsa.gov/About+NHTSA/Press+Releases/dot-initiatives-accelerating-vehicle-safety-innovations-01142016

CBO Projects Continued Decline in Gas Tax Receipts

The new budget forecast from the Congressional Budget Office (CBO) projects that receipts from the 18.3 cent-per-gallon federal gasoline tax dedicated to the Highway Trust Fund will continue to decline at an ever-accelerating rate. CBO estimates that the gas tax will bring in $25.2 billion in the ongoing fiscal year (2016) but that will shrink to $20.6 billion in 2026.

However, CBO also projects that the trucking industry will continue to grow, causing diesel fuel excise tax collections to increase by about 1 percent per year (from $9.8 billion in 2016 to $10.9 billion in 2026) and that the excise taxes on the sale of trucks, trailers and tires and on the use of heavy trucks will increase by an even greater percentage (from a total of $6.3 billion in 2016 to $7.8 billion in 2026). These increases will somewhat mitigate the overall revenue reduction in the Highway Trust Fund.

USDOT's Smart City Challenge
USDOT issued a Notice of Funding Opportunity (NOFO) in December that would award up to $40 million to one mid-sized city that "puts forward bold, data-driven ideas to improve lives by making transportation safer, easier, and more reliable." The Smart City Challenge will concentrate federal resources into one medium-sized city, selected through a nationwide competition. More information on this challenge award can be accessed here: https://www.transportation.gov/smartcity/challenge-rules

STATE

Assembly Transportation Committee Information Hearing
On January 25, 2016, SCAG President Cheryl Viegas-Walker and Executive Director Hasan Ikhrata testified before the California Assembly Transportation Committee to provide with other statewide transportation stakeholder groups an update on efforts to develop a sustainable freight action plan. President Viegas-Walker briefed the Committee on the unique economic impacts that freight and goods movement have on the Southern California economy as the nation's global gateway, and also stressed upon the need to utilize the existing allocation mechanism established under the state's Trade Corridors Improvement Fund (TCIF) to apportion future funding to freight projects in California's most congested corridors. We urged the Committee to support allocating any federal formula freight funding from the Fixing America's Surface Transportation (FAST) Act, the long-term transportation authorization bill recently passed by Congress, into the TCIF to expedite funding to needed projects as efficiently as possible, and to leverage that funding with any additional state funding that might arise in this legislative session in Sacramento.

CTC Approves Deprograming of $750 Million of Transportation Projects
Due to significantly decreased gasoline tax revenue, state transportation officials have announced plans to cut funding for road and transit projects by $754 million from the State Transportation Improvement Program (STIP) over the next five years. The California Transportation Commission (CTC) approved the 38% decrease on January 18, 2016. The CTC allocates money raised through the state gasoline excise tax to counties for inter-city rail, state highway improvements and county transit projects. The rate of the tax is tied to gas prices, which have been dropping. The tax was set at 18 cents per gallon a few years ago, but fell to 12 cents per gallon last year and is expected to decline to 10 cents in July. Each penny reduction in the gas tax decreases funding for state transportation projects by approximately $140 million a year. Local transportation agencies have until later this month to come up with a list of projects to be deleted or delayed.

While local agencies are working on identifying projects, SCAG is endeavoring to work with the California Association of Councils of Government (CALCOG) and other statewide stakeholder groups and the legislature to identify other sources of revenue to restore funds to the STIP for these critical projects. Included among these efforts will be examining the structural deficiencies in the STIP funding mechanism and, indeed, endemic within all of California's transportation funding structure, including the proposals currently before the legislature, to cure the structural insufficiency of funding. Staff will provide further updates to the Regional Council as these issues are addressed in the State Capitol throughout this legislative session.

Governors Proposed FY 2016-17 State Budget
On January 7, 2016 the Governor presented the proposed FY 2016-17 state budget to the Legislature. On January 11, 2016 California's non-partisan Legislative Analyst Office (LAO) published a report titled

"The 2016-17 Budget: Overview of the Governor's Budget." The report found that the budget included significant increases in revenues and school funding; revenue estimates for 2016-17 are billions of dollars higher than they were in last year's budget act. Thus the Governor proposes an increase of $4.3 billion over the 2014-15 through 2016-17 for Proposition 98 (education) funding. As for Proposition 2 funding (required “rainy day reserve”), the Governor's budget makes the required deposit of $2.6 billion into the rainy day reserve and proposes an extra deposit of $2 billion.

The Governor's plan allocates $7 billion in discretionary General Fund resources. The Governor proposes increasing total reserves to more than $10 billion and allocates most other discretionary resources to one-time infrastructure spending projects like replacing and renovating state office buildings and county jails, transportation projects, and other maintenance projects that have been deferred. As for education, the budget augments the Local Control Funding Formula by $2.8 billion, shifts $1.7 billion from existing preschool programs into a new preschool block grant, provides $1.2 billion for K-14 discretionary one-time purposes, augments UC and CSU by a combined $250 million and designates $200 million for new community college workforce programs.

Health and Human Services receives an extra $1.3 billion annually with a restructured MCO tax and uses $236 million from the MCO tax to maintain restoration of In-Home Supportive Services service hours. The budget also sets aside $350 million for the 2016 collective bargaining process and provides $323 million for various drought-related response activities.

Transportation Funding

The Governor’s proposed budget provides $16.2 billion total funding for all programs administered by CalSTA. The Governor’s transportation funding package proposes to provide an estimated $3.6 billion annual increase for state and local transportation infrastructure programs. Revenue from the funding package would phase in during 2016–17 and 2017–18 and provide a permanent ongoing increase thereafter. The funding package includes primarily new tax revenues, but also redirects certain existing revenues. Specifically, the funding package includes:

- $2 billion annually from a new $65 vehicle registration tax.
- $1 billion annually from increases in gasoline and diesel excise tax rates, including indexing these rates for inflation. The proposal sets the gasoline excise tax beginning in 2017-18 at the historical average of 18 cents/gal and eliminates the current annual adjustment from the gas tax swap; and would increase by 11 cents/gal the diesel tax beginning in 2017-18.
- $500 million annually from cap–and–trade auction revenues.
- $100 million from efficiencies at the California Department of Transportation (CalSTA) resulting from various minor changes to streamline project delivery processes.

The Governor’s proposed budget will be adjusted through negotiations with the Legislature this session, issuance of the May Revise, and through various budget trailer bills culminating in a final budget hopefully passed by the June 15, 2016 Constitutional deadline. Staff will monitor and apprise the Regional Council of pertinent actions concerning the budget throughout the year.

AB 1591 – Transportation Funding

On January 6, 2016, Assembly Transportation Committee Chair Jim Frazier (D-Oakley) introduced AB 1591 to provide for a long-term sustainable funding solution for transportation focused on relieving congestion, maintaining highways, and improving trade corridors. This bill would provide nearly $8 billion a year in additional transportation funding achieved through a broad portfolio approach to investing in the state's transportation infrastructure by:

- Increasing the excise tax on gasoline by 22.5 cents per gallon and indexing it against the Consumer Price Index every three years thereafter. Almost half of this amount (9.5 cents) will restore funding lost from declining tax revenues in just the last two years due to rate adjustments by the Board of Equalization. Revenue raised from the gas tax increase (over $3.3 billion annually) will be split 50/50 between the state and local transportation authorities for highway maintenance and rehabilitation, after setting a nominal portion aside to encourage state-local partnerships.
- Increasing the diesel fuel tax by 30 cents a gallon and indexing it, too. Revenue raised ($840 million annually) will be directed right to where trucks need it most—the state's trade corridors.
- Increasing the vehicle registration fee by $38 annually and directing those funds ($1.254 billion) to road maintenance and rehabilitation.
- Imposing an electric vehicle surcharge of $165. Consideration will be given to delaying this fee until the second year of ownership and thereafter. Delaying this fee to the second year of ownership allows financial incentives offered at the purchase of such zero-emission vehicles to remain in full effect while ensuring they do their part to help pay for the system they travel on. The $16 million raised will be directed to road maintenance and rehabilitation.
- Requiring repayment of outstanding transportation loans. Because the State's economy has improved and the General Fund is stable, the bill would pay these loans ($879 million) back. Repayments will be sent directly to cities and counties to boost their road improvement efforts.
- Allocating cap-and-trade revenue auctions, as follows:
  - 20% (approximately $400 million annually) for major freight corridors. Communities near our major freight corridors have borne the brunt of the nation's goods movement system. Improving congestion in these corridors will inherently improve air quality.
  - 10% ($200 million) more for intercity rail and transit, for a total of 20% of the auction proceeds.
- Restoring the truck weight fees. The General Fund is now stable so this restores $1 billion in truck weight fees to the State Highway Account, returning transportation funds to transportation.
- Allocates over $1.2 billion annually to Trade Corridors Improvement Fund (TCIF) from the increased excise tax on diesel fuel and cap-and-trade revenues.

Though similar in its approach to the Administration and Senate proposals to raise transportation revenues, it is considerably more ambitious in scale, proposing to raise approximately $8 billion per year, compared to between $4.3 and $4.6 billion raised annually from SBX1-1 by Senator Jim Beall, reported to the Regional Council last year, and $3.6 billion raised annually by the proposal outlined in the Governor's proposed FY 2016-17 budget discussed above.

AB 1591 is referred to the Assembly Committees on Transportation, and on Revenue and Taxation. No hearing is currently scheduled.