# MEMO

**To:** Transportation and Communications Committee

**From:** Arthur Bauer, Finance Consultant to SCAG

**Date:** August 13, 2004

**RE:** **Status of State Transportation Funding and Policy Issues.**

---

**RECOMMENDATION:** For Information Only

**SUMMARY:** There are currently several state transportation funding issues that are related to building the projects in the 2004 adopted Regional Transportation Plan, both in the near term as well as in the outer years of the plan. The constraints on the availability of near-term transportation revenues can have important consequences for achieving conformity in the SCAG Region, as they may impede the construction of transportation control measures (TCMs) by 2010. In this memorandum, the near-term issues of the STIP shortfall, toll bridge financing for the eastern span of the San Francisco-Oakland Bay Bridge and the equity issues associated with the North/South are summarized. The long-term implications of the transportation reform proposed by the California Performance Review report will be briefly discussed.

A thorough review of these issues will be presented at the TCC meeting. By that time the funding issues associated with the Bay Area Toll Bridges should be resolved and its statewide implications, if any, should be obvious.

**BACKGROUND:**

## 2004 STIP Financing

The California Transportation Commission recently adopted the 2004 STIP, California's capital outlay program for capacity increasing transportation projects that are funded entirely or in part by state transportation revenues. However, the CTC does not anticipate releasing funds for new projects until after the November 2004 election. The CTC had anticipated funding $2.2 billion in projects this fiscal year. In fact, the most it might be able to fund is perhaps $500 million in projects. This is because of the loans and transfer of transportation revenues to the state general fund and the lower than estimated federal revenues. About $5 billion has been lost to transportation between the 2002-03 and 20004-05 fiscal years.

The CTC is counting on $1.2 billion in revenues from the new Indian gaming compact, reauthorization of the federal transportation funding legislation and adjusting the taxation of ethanol to recoup over $300 million for California from the federal government to fund this years program.

## North/South Split

The North/South split is a formula to addressing geographic equity in the expenditure of capital outlay funds for highway improvements in the state. Thirteen counties comprise the southern group and 45 counties comprise the northern group. The split is currently 60% to the South and 40% to the North. Within each county group, the eligible revenues are distributed among the counties on a formula based on centerline miles and population.

The revenue sources that are included in the calculation of the North/South split includes the following revenue sources:

- Regional Transportation Improvement Program
- 40% of the Interregional Transportation Improvement Program
- Public Transit Account allocated to Caltrans that may be matched with local revenues to fund transit projects
- Transportation Investment Fund revenues that are used for STIP projects

The Legislature has exempted two capital outlay programs from the split, the SHOPP program and the Seismic Safety Retrofit Program. The Retrofit program has been seen by the Legislature and transportation interest as a statewide safety program to reduce the probability of bridges collapsing during earthquakes and should be exempt from the split. The SHOPP was exempted from the split with the enactment of SB 45 in 1996. The argument for this action was that the SHOPP is a system protection program, based on needs. This is an important point of controversy because the total cost of the SHOPP on a yearly basis is nearly the same as the STIP. Other expenditures not included in the calculation of the North/South split are the following:

- Maintenance of state highways.
- Caltrans' operations, e.g., legal, general administration, planning, civil rights, human resources, etc.
- Local Assistance, including railroad grade crossing maintenance, bicycle transportation account, congestion mitigations and air quality, regional surface transportation programs, local highway bridge replacement and rehabilitation, local seismic retrofit, local hazard elimination and safety and local emergency.
- The Traffic Congestion and Relief Program.
- Environmental Enhancement and Mitigation Program.

In terms of the North/South split, accounting for it programmatically does not account for all the expenditures on highway projects. For example, the settlement of construction projects with contractors occurs long after construction is complete and the value of the claim would not be assigned to a project for the equity calculation. Prior to SB 45, the North/South split was calculated on the basis of the actual project costs.

### Toll Bridge Funding

The funding of the seismic retrofitting and reconstruction of the east span of the San Francisco-Oakland Bay Bridge has been a continuing transportation funding issue for several years. Since the Loma Prieta Earthquake in 1989, there has been a continuing effort to improve the seismic safety of the seven state owned toll bridges in the San Francisco Bay Area. Legislation enacted in 1997, the new Bay Bridge was estimated to cost $1.285 billion. In 1996, the total bridge program was estimated to be $2.6 billion. Today, the total program cost has

ballooned to nearly $9 billion. The new eastern span is estimated now to cost $5 billion, nearly twice the $2.6 billion estimate made in 2001. Funding for the bridge program is from Seismic Retrofit Bonds enacted in 1996, tolls and a portion of $745 million from the State Highway Account for bridge retrofit. The options include raising the tolls, refinancing the bonds and dipping back into the Highway Account. With contracts awaiting to be awarded the legislature has until the end of the seesion to adopt a funding strategy to cover the shortfall.

### California Performance Review

The California Performance Review is a report on reorganizing state government to improve its efficiency and effectiveness. Among the transportation reforms are the following:

- Place the Caltrans functions in an Infrastructure Agency that would also include the functions of the department of water resources, the energy commission and other infrastructure related functions.
- Abolish the California Transportation Commission.
- Transfer 6,500 miles of state highways to local governments.
- Implement more hot lanes and toll roads.
- Transform the gas tax to a vehicle miles traveled fee.