California: Infrastructure bill part of state budget revision

David M. Kall | Friday, May 26, 2017

South Carolina is not the only state determined to do something about its crumbling infrastructure. California also recently passed a bill, SB 1, but in contrast to the Palmetto State's situation, which we detailed last week, California's Gov. Jerry Brown happily signed it. In a press release describing the measure, he declared that it will "provide $54 billion in new funding over the next decade, split evenly between state and local funding."

According to the most recent analysis, $26.6 billion of that total amount would be dedicated for local expenditures and $25.8 billion for state purposes. By year, overall revenues are estimated at $2.78 billion in 2017-18, $4.55 billion in 2018-19, and $4.88 billion in 2019-20. After that, revenues are generally expected to rise annually, once all sources are fully implemented, and the specified adjustments are made each year by the California Consumer Price Index. Revenues are calculated to eventually reach approximately $6.5 billion by 2026-27.

The new funds are to be directed toward deferred maintenance on the state highways and local streets and roads, and to improve the state's trade corridors, transit, and active transportation facilities.

More specifically, revenues are to be put toward the following:

- Focusing on "fix-it-first" investments to repair neighborhood roads and state highways and bridges
- Making key investments in trade and commute corridors to support continued economic growth and implement a sustainable freight strategy

- Matching locally generated funds for high-priority transportation projects
- Investing in passenger rail and public transit modernization and improvement

To accomplish this, SB 1 imposes the following new tax changes:

- Increases the excise tax on gasoline by $0.12 per gallon, starting Nov. 1, 2017
- Increases the excise tax on diesel fuel by $0.20 per gallon, starting Nov. 1, 2017
- Increases the sales tax on diesel fuels by an additional 4% increment, starting Nov. 1, 2017.

In addition, the legislation creates a new annual Transportation Improvement Fee (TIF), starting Jan. 1, 2018, based on a vehicle's market value, as follows:

- $25 per year for vehicles with a market value of $0 - $4,999
- $50 per year for vehicles with a market value of $5,000 - $24,999
- $100 per year for vehicles with a market value of $25,000 - $34,999
- $150 per year for vehicles with a market value of $35,000 - $59,999
- $175 per year for vehicles with a market value of $60,000 and higher

Beyond these taxes and fees, SB-1 creates the Road Improvement Fee of $100 per vehicles for zero-emission vehicles, starting in 2020 for model year 2020 and later.

Among other measures contained in the bill are these:

- Starting July 1, 2019, the annual adjustment required by the "Gas Tax Swap," of 2010 is eliminated. Instead, SB 1 imposes a more stable tax by re-establishing the Price Based Excise tax (PBET) at its original rate of $0.173 per gallon, and requires revenues generated from the PBET adjustment to be allocated under the existing statutory framework, with 44 percent for the State Transportation Improvement Program (STIP), 44% for cities and counties for local streets and roads, and 12 percent for the State Highway Operations and Protection Program (SHOPP).
- The requirement that the tax rates and fees specified in the bill, other than the diesel sales tax, are adjusted annually based on the California Consumer Price Index.
- The repayment of outstanding transportation loans from the general fund totaling $706 million.
- The creation of the Road Maintenance and Rehabilitation Program, from funds raised by the gasoline excise tax, $.10 of the diesel excise tax increase, the Transportation Improvement Fee, and Zero-Emission Vehicles fee. All funds are to be spent on basic road maintenance and rehabilitation, critical safety projects, and several other transportation programs;
- The creation of the Congested Corridors Program, using annual allocations of $250 million from the TIF for projects that provide congestion relief within the state's most heavily used transportation corridors. Eligible projects can be nominated by both the state and regional transportation agencies, however, only up to half of the annual appropriation may be allocated for state-only nominated projects.
- The creation of a "useful life" period, whereby truckers subject to future, undefined regulations can get a return on their investment before being asked to replace or modify the vehicle. For example, if the California Air Resources Board adopts future in-use regulations, trucks will not be required to turnover until they have reached 13 years from the model year the engine and emission control systems are first certified or until they reach 800,000 vehicle miles traveled; however, no longer than 18 years from the

model year the engine and emission control systems are first certified for use.

May Budget Revision

Gov. Brown boasted that the state's economic recovery is now “stretchi[ng] into an eighth year - two years short of the longest on record.” Even so, “[w]e have ongoing pressures from Washington and an economic recovery that won't last forever." The budget revision calls for a smaller shortfall, of $3.3 billion, vs. $5.8 billion forecasted in January, and “is considerably more constrained than in any year since 2012.”

Despite these circumstances, the “modestly improved fiscal outlook allows the May Revision to advance several key priorities,” including these:

- Increased funding for schools
- Keeping child care funding on track
- Maintaining county fiscal health
- Reducing pension liabilities
- The above described improvements to California's transportation system by way of SB 1

In particular, the May Revision includes funding for:

- The rising state minimum wage, which is scheduled to increase to $11 per hour in 2018 and to $15 per hour over time
- The expansion of health care coverage to undocumented children and the millions of Californians covered under the federal Affordable Care Act
- The provision of preventative dental benefits to adults covered by MediCal
- The first cost of living adjustment for Supplemental Security Income/State

Supplementary Payment recipients since 2005

- The repeal of the maximum family grant rule in CalWORKs, which denied aid to children who were born while their parents were receiving aid
- California’s first ever Earned Income Tax Credit to help the state’s poorest working families

Despite the good news, the governor warned that California “must also continue to plan for and save for tougher budget times ahead…A recession at some point is inevitable.”

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Team member bio