



GOVERNOR'S PROPOSED 2010-11 BUDGET: COUNTIES RESPOND

Transportation Funding Swap Means Significant Long-Term Losses to Transportation Funding

The Governor's proposed "transportation funding swap" would eliminate the sales tax on gasoline (Proposition 42) and the four core transit revenue streams and replace it with a 10.8-cent excise tax on gasoline (Highway User Tax Account or HUTA).

The state scores \$1.765 billion in general fund savings under the proposed revenue swap from transportation by funding transportation-related bond debt service and through a reduction in the Proposition 98 guarantee.

Additionally, the Administration touts that the swap provides a tax cut to consumers equivalent to 5-cents per gallon, which would gradually be reinstated as the debt service obligation increases.

Significant Issues

- ✓ The swap is NOT revenue neutral for future transportation investments. The proposed swap removes any state obligation for funding transit by eliminating four core revenue streams with no replacement revenue. Further, while providing replacement revenue for highways and local streets and roads, the proposal exchanges sales taxes on fuels with an average growth rate of 4% annually for an excise tax with an average growth rate of 1% annually.

When comparing what transportation would get under existing law over the next five years to the revenues generated under the swap scenario, transportation revenues would decline by an estimated \$2.53 billion between 2010-11 and 2014-15.

- ✓ The proposal means a loss of substantial constitutional protections and certainty. The proposed funding swap eliminates the substantial constitutional protections afforded to Proposition 42 as they do not apply to HUTA funds. Proposition 42 revenues can only be borrowed twice in ten years and requires payback before borrowing again. Further, payback must occur within three years and with interest. Currently, the constitution allows the state to borrow HUTA with required payback within three fiscal years, but with no interest requirements and no restriction on consecutive or limited year borrowing.

The Bottom Line

While the proposal does not affect the current distribution of the 18-cent HUTA of which counties receive about \$500 million annually, it does jeopardize the future growth potential and protections for counties' share of Proposition 42, which is currently estimated at about \$300 million in 2010-11.



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Further, the Governor's proposed swap reduces the growth potential for all transportation funding in the state for the state system, cities and transit resulting in the reduction of job growth and economic development into the future.

Lastly, the swap would provide less certainty and stability by reducing restrictions on the borrowing of transportation funds into the future.

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