CHAPTER 5

Funding Our Transportation System

Introduction

In planning which programs, projects, and actions in Santa Cruz County will advance the region's goals, policies and targets, the Regional Transportation Plan (RTP) must consider how much funding will be available to support the transportation system, including maintaining existing infrastructure and services, and new transit, highway, local road, bicycle, pedestrian, and demand management projects. The total cost of the RTP investment strategy (also referred to as the constrained project list or Action Element) must be "financially constrained" based on revenues that are reasonably expected to be available. The "Financial Element" identifies the current and anticipated public revenue sources available to fund the planned transportation investments described in **Chapter 6 – Transportation Investments**. Based on financial projections for local, state, and federal revenue sources, approximately $170 million per year is expected to be available to operate, maintain and improve the multi-modal transportation system in Santa Cruz County.

The 2040 RTP includes new funding from the Measure D sales tax and new Senate Bill 1: Road Repair and Accountability Act of 2017 fuel taxes and vehicle fees to help address some of the backlog of maintenance and other transportation investments to keep people moving. After decades of state and federal underinvestment in the transportation system, a supermajority of Santa Cruz County voters approved Measure D in November 2016 which invests an additional $20 million per year into the multimodal transportation system. In April 2017, the state legislature approved Senate Bill 1 (SB1) which helps stabilize transportation funding throughout the state. SB1 is expected to provide an additional $7 million per year to the County of Santa Cruz and local cities to maintain local streets and roads, an extra $3 million per year for local transit, as well as significant investments to maintain and repair state highways, bridges, and culverts. In total, the 2040 RTP estimates that Senate Bill 1 will provide about $25 million per year on average for local and regional projects.

Unfortunately, even with this recent infusion of funding, there are considerable challenges associated with operating, maintaining, and investing in the future transportation system. Projected revenues still only generate about half of what would be needed to fund all of the projects that have been identified through 2040 (Appendix F). While anticipated revenues are insufficient to fund all of the ongoing costs to maintain the existing transportation system and to implement the full list of projects and programs that have been identified by the community, the Regional Transportation Commission (RTC), cities, the County of Santa Cruz, Santa Cruz METRO, state agencies, and other transportation providers work with the community to set clear priorities for the constrained funds and work with state and federal representatives to identify new and innovative ways to pay for transportation infrastructure and services.

Available Funds

Transportation programs and projects in Santa Cruz County are funded from a variety of local, state and federal funding programs. Based on current and projected revenue sources, approximately $3.75 billion from federal, state, and local funding sources are reasonably anticipated to be available to finance transportation projects in Santa Cruz County through 2040 (**Figure 5.1**). A list of the specific local, state, and federal funding programs and sources is shown in **Appendix E.**

As shown in **Figure 5.2** and **Appendix E,** the public and businesses contribute to transportation funding programs through taxes and fees, primarily collected at the gas pump and at cash registers. Truck weight fees and a portion of automobile registration fees also help fund some local transportation projects and repay state debt service on past state transportation bonds.

Local Revenues: As summarized in **Figure 5.1**, although federal and state funding for transportation is critical, over 50% of anticipated revenues come from local sources, primarily local sales taxes, transit fares, and city general funds.

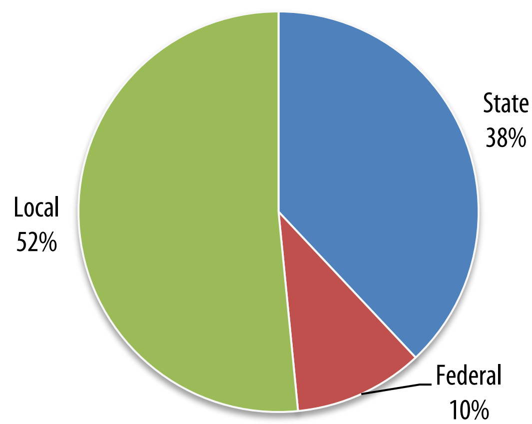

Figure 5.1 – 22-Year Revenue Forecast – $3.75 Billion (2018 Dollars)
Source: SCCRTC

State Revenues. State revenues, including state gasoline and diesel taxes and fees that are allocated by formula to cities, the County of Santa Cruz, and transit, make up approximately 38% of revenues available for transportation projects in Santa Cruz County. About half of state funds expected to be available in Santa Cruz County are allocated by the California Transportation Commission (CTC) to Caltrans to operate, maintain, and improve safety on the state highway system.

Federal Revenues. Federal funding is generated from per gallon federal gasoline taxes, which have not increased since 1993, and are supplemented by Federal general funds deposited in the "Highway Trust Fund" (HTF). The amount of federal funding available, types of programs funded, and rules associated with those funds is based on the federal transportation act. In 2015, Congress approved the Fixing America's Surface Transportation Act (FAST Act), the first long-term transportation authorization since 2005. In Santa Cruz County, federal revenue sources total about 10% of the projected revenue through 2040. Federal funds are made available to projects in Santa Cruz County primarily through Federal Transit Administration (FTA) grant programs, safety and bridge program grants available to local jurisdictions and approximately $3.5 million per year to the region for the Surface Transportation Block Grant Program (STBG).

Depending on the federal transportation act (currently the FAST Act), annual appropriations bills, the California and local budgets, diesel and gasoline consumption, and the general condition of the local and global economy, funding levels for most funding programs may change significantly from year to year.

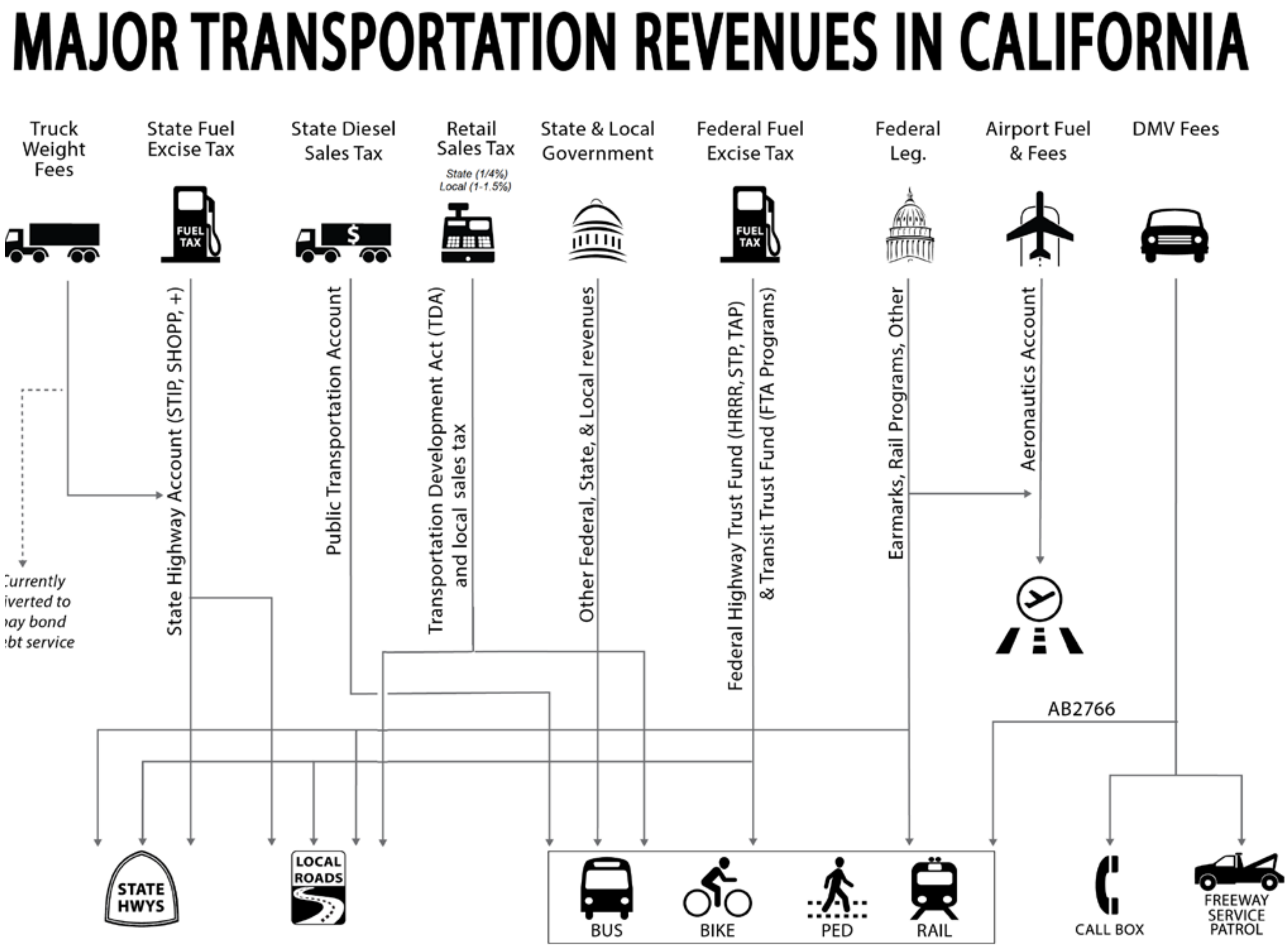

Figure 5.2 – Major Transportation Revenues in California

Source: Caltrans and Santa Cruz County Regional Transportation Commission, 2017

Restricted versus Flexible Funds

As shown in **Figure 5.3**, of current and projected future revenue sources, most revenues available for transportation projects and programs identified in the Regional Transportation Plan (RTP) are highly restricted (or "dedicated") by federal, state, or local regulations for use by specific jurisdictions, agencies and/or types of projects. For example, some funding sources may only be applied to projects that support transit or airport facilities, while other sources are exclusively for road maintenance or capital projects on the state highways. This includes nearly $700 million in State Highway Operation and Protection Program (SHOPP) funds that can only be used for maintenance and safety projects

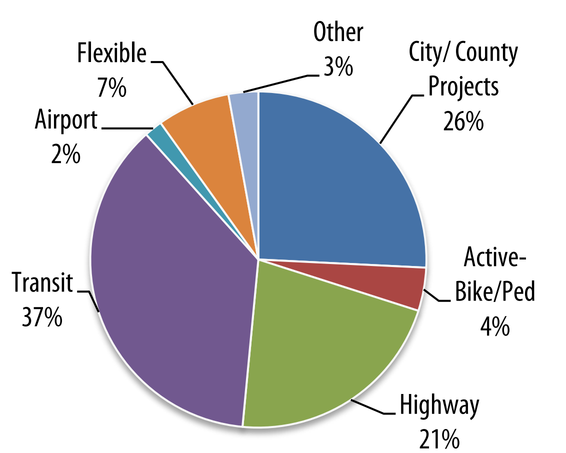

Figure 5.3 – Funding Restrictions by project type

Source: SCCRTC

on state highways through 2040. Over one third (1/3) of local, state, or federal funds can only be used on transit and paratransit projects and operations, including the local ½ cent transit sales tax (approved by Santa Cruz County voters in 1978) and rider fares designated for the Santa Cruz Metropolitan Transit District (METRO), 20% of Measure D revenues, LiftLine rider fares, and funds from the Federal Transit Administration. Most funds allocated to cities and the county can be used on a variety of projects – including local road, bicycle, and pedestrian projects. In selecting projects for the constrained investment strategy, the project list must match with the funds dedicated to specific project types or agencies.

The RTC has discretion over about 4% of the funds available for transportation projects (approximately $7 million per year). These funds are from regional shares of the State Transportation Improvement Program (STIP), Surface Transportation Block Grant Program (STBG) and SB 1- Local Partnership Program. The RTC typically distributes these funds through a competitive process based on how well projects advance the priorities identified in the RTP policy element (Chapter 4) and criteria established by the California Transportation Commission (CTC) and federal law. In addition to these discretionary funds, State Transit Assistance, Transportation Development Act, and Measure D funds flow through the RTC's annual budget to the Metro, local jurisdictions and other partner agencies by formula for purposes that are restricted by state law and the Measure D ordinance. Other agencies are responsible for selecting projects for the remaining funds.

New Revenues

Measure D. In response to ongoing funding shortfalls and the large backlog of maintenance and other projects, Santa Cruz County voters approved Measure D in November 2016, a 30-year half-percent sales tax dedicated to local transportation projects and programs. Measure D provides approximately $20 million per year in stable funding for projects in Santa Cruz County, which cannot be taken away by the state. Funds are distributed by formula to cities, the County of Santa Cruz, Santa Cruz METRO, and other local transportation agencies and categories of projects, as outlined in the Measure D Ordinance and Expenditure Plan and summarized in **Figure 5.4**. With passage of Measure D, Santa Cruz County became a "self help" county, joining 85% of California's population that lives in counties whose voters approved transportation ballot measures.

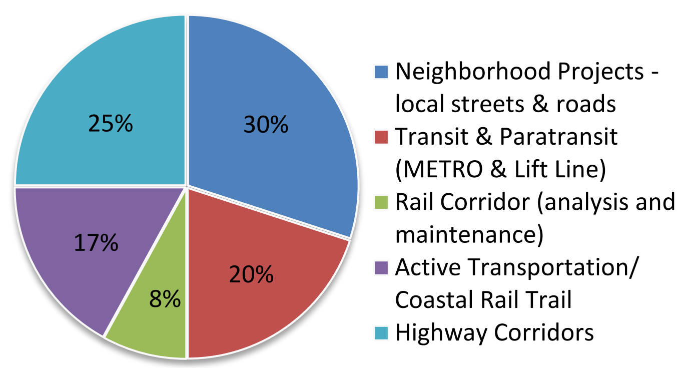

Figure 5.4 – Measure D Investment Categories
Source: SCCRTC

Senate Bill 1. In recognition that traditional state funding sources, such as gas taxes, have not kept pace with demands on the multimodal transportation system and the cost of transportation projects, in 2017 the California legislature stabilized transportation funding through Senate Bill 1 (SB1) - The Road Repair and Accountability Act. SB1 helps address the diminishing value of the state gasoline and diesel tax revenues by adjusting fees to address inflation (the state gasoline tax was last increased in 1994), increased fuel economy of vehicles, and the range of uses of the transportation system, while increasing transparency and accountability measures on how funds are used. About 30% of SB 1 revenues are distributed by formula to cities and counties for local road maintenance and rehabilitation and about 35% to Caltrans to maintain the state highway system.

Because county voters have approved local sales taxes dedicated for transportation purposes, Santa Cruz County will also receive a share of $200 million that is available statewide per year through SB1. This Local Partnership Program recognizes and rewards communities that have approved local "self-help" sales taxes and fees. In addition, SB1 creates a variety of programs under which Santa Cruz County jurisdictions will be able to compete for funding. These include the Active Transportation Program for bicycle and pedestrian projects; Congested Corridors Program for highway, transit, local road, bicycle and pedestrian facilities, and restoration and preservation to protect local habitat ($250 million/year statewide); and the local planning grants program to encourage local and regional planning that furthers state goals ($25 million/year statewide). **The RTP estimates that approximately $500 million in SB 1 funds will be available for highway maintenance (SHOPP), local road, transit, and other projects through 2040.**

California Cap & Trade Program. As part of the implementation of AB 32 (the Global Warming Solutions Act of 2006), the California Air Resources Board (ARB) established a cap-and-trade program to cap greenhouse gas emissions (GHG) statewide. The program sets a limit or *cap* on the total amount of greenhouse gas that may be emitted and collects fees from businesses that emit greenhouse gases. While revenues from cap-and-trade auctions have fluctuated significantly, beginning in Fiscal Year 2015/16, state statutes were approved which continually designate 25% of proceeds for High Speed Rail, 10% to the Transit and Intercity Rail Capital Program (TIRCP), 5% to the Low Carbon Transit Operations Program (LCTOP) for new or expanded bus or rail service and capital projects that reduce greenhouse gas emissions, and 20% for Affordable Housing and Sustainable Communities Program (AHSC). While most of these are competitive programs that favor larger regions or areas that meet a state definition of "disadvantaged communities" (which does not apply to almost all of Santa Cruz County), the 2040 RTP assumes that local transportation programs will secure at least some of these funds over the next 22 years (nearly $30 million).

Funding Uncertainties

Financial projections developed for the RTP reflect the best estimates currently available. These projections are meant to be used as a general tool to assist the RTC, local jurisdictions and other project sponsors in determining what projects are reasonable to pursue and prioritize in the short and long term. However, forecasting the amount of funding that will be available for transportation is a challenging and somewhat speculative exercise. Actual revenues will vary from year to year.

The availability of the funding identified in the 2040 RTP is also dependent on state, federal, and local taxes, fees, and other sources continuing to exist or being replaced with other funding mechanisms. The reliability of funding projections can also be impacted by changes in the economy, state and federal laws, environmental mandates, fuel consumption, and related gas tax revenues. Since adoption of the 2010 RTP, several funding sources that agencies had historically relied upon have been eliminated, such as the sales tax on gasoline for transportation (Proposition 42) and federal programs eliminated in 2012 with adoption of the federal transportation act MAP-21. Many local jurisdictions were particularly hard hit in 2010 by the elimination of redevelopment agencies and related funding. In Santa Cruz County, redevelopment agencies had spent millions of dollars annually on transportation projects, including roadway repairs, new sidewalks, bicycle lanes, highway projects, and transit facilities, before they were dissolved by the California State Legislature and redevelopment funds redirected to the State General Fund.

Additionally, SB 1 revenues, approximately 14% of the constrained revenues (about $25 million/year) have been threatened and it is possible that a repeal initiative will be on the November 2018 statewide ballot. Without SB1, there would be more potholes, less funding for safety projects on highways and local roads, and Santa Cruz Metro will not be able to replace as many buses as are needed to maintain existing bus service.

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Funding Shortfalls – A Local, State, and Federal Challenge

As noted earlier, while $170 million per year and $3.75 billion over 22 years may seem like a lot of money, $7 billion in projects and programs have been identified by local agencies and the public through 2040 (**Appendix F**). The significant shortfall in transportation funding is not unique to Santa Cruz County. The combination of state, federal and local revenues designated for transportation no longer pay for transportation projects at the same levels they have in the past. Aging infrastructure, heavier trucks and buses, rising construction costs, and new regulatory requirements could also impact project costs. Increasing traffic and expanded use of transit service, bicycles and pedestrians facilities also place increased demands on the transportation system.

Another major challenge is that transportation has historically been funded by revenues generated at the gas pump, which decline with better vehicle fuel efficiency. While use of transportation facilities and services is ever increasing, the purchasing power of state and federal gas taxes and fees has not kept pace with the cost to operate and maintain the transportation system. As more vehicles get better gas mileage or use alternative fuels or electricity, fewer gas taxes are collected for the same amount of vehicle miles traveled; so even when gas prices increase, gasoline tax revenues decline as compared to how much people drive, resulting in significantly less funding for transportation projects.

Since Federal gas taxes have not been increased since 1993, the Highway Trust Fund is regularly on the brink of going bankrupt, forcing Congress to repeatedly shift general funds to bail it out and Federal funds have been making up a declining percentage of transportation funding, down to 20% nationwide. Because our county does not have as many facilities that are considered "nationally significant" as some other areas (such as large metropolitan areas and areas serving ports or major truck routes), Federal funds make up only 12% of the transportation funds in Santa Cruz County. By 2020, unless Congress provides the highway trust fund with a more sustainable source of dedicated revenues, additional bailouts from other revenues will be needed to cover an estimated $18 billion annual gap. While federal funds make up only a portion of transportation budgets, state transportation agencies and transit agencies nationwide anticipate having to delay or cancel projects and services because of the long-term uncertainty in federal funding.

In 2018, Congress began debating a possible infrastructure funding plan, which could provide additional funding for transportation, water, and other infrastructure projects. The Trump Administration proposes using federal funds to incentivize private financing, with federal funds expected be offset by spending reductions in other areas. Given uncertainties surrounding proposals, new funding from a potential infrastructure plan are not included in the 2040 RTP. If passed, new federal funds might expedite delivery of priority projects and allow additional projects to be implemented through 2040. While Congress and President Trump agree that the nation's infrastructure is a priority, there has been no consensus around specific programs that would be funded or how to pay for transportation system projects.

Potential Future Revenues

Since existing revenue sources are insufficient to address all of the needs in the region, the RTP also identifies some additional strategies that could address some of the funding gaps. Potential revenue sources that do not currently exist, but which could supply significant transportation funds for our region in the future, include new vehicle weight fees and replacement of state and federal gas taxes with road user charges.

Road User Charges. The decline in purchasing power of gas tax revenues due to inflation and decline of revenue on a per-mile basis as vehicles become more fuel-efficient has caused leaders around the U.S. to look for alternatives for funding the transportation system. A number of states are looking towards a road usage charge (a.k.a. mileage based user fee or vehicle miles traveled-VMT fee) where drivers would pay for the roads, as they do other public utilities, based on how much they use them. With technological advancements this new approach to directly charge roadway users has become feasible. This type of system can be implemented while still protecting the privacy of road users. Road user charges will cost more to collect than the gas tax but will produce greater and more stable net revenue.

In 2016 and 2017, California conducted a pilot program to study the feasibility of a mileage-based fee to replace existing gas taxes in California. While federal and state agencies are investigating replacing the deteriorating gas tax with a road user charge based on the number of miles driven this funding option is unlikely to be realized for many years.

Local Vehicle Registration Fees. The RTP also assumes that a new local $10 vehicle registration fee will be approved that raises $31 million by 2040, as allowed under Senate Bill 83.

Other potential revenues. While not assumed to be available for constrained projects through 2040 in this RTP, examples of some of funding mechanisms other areas and states have implemented to fund transportation projects include: special assessment districts, transit benefit districts, users fees and fares, regional development fees, state general obligation bonds, tolls, vehicle sales taxes, truck and other vehicle weight fees, utility partnerships, hotel/motel lodging fees, increased general fund investments, private investments, and special grant programs.

Methodology for Projecting Available Funds

The financial projections in this RTP are based on reasonably foreseeable revenues. The projections were calculated based on a combination of historical averages, current trends, and/or state and federal actions. In most instances, base-year figures for formula funding sources (those that the region typically receives every year according to population, road miles, or fixed factors) reflect the amount of funding available in Fiscal Year 2017/18. In other instances, historical averages were used to calculate anticipated revenues. For sporadic funding sources, the RTP's calculations use a fixed percentage of the total statewide amount available for the base-year figure, based on Santa Cruz County's share of the state population.

Financial projections were developed in coordination with partner agencies in the Monterey Bay region, including the Association of Monterey Bay Area Governments for federally-mandated Metropolitan

Transportation Plan (MTP), cities, the County of Santa Cruz, Santa Cruz METRO, and other agencies providing transportation services. Projections are consistent with those figures shown in the California Transportation Commission's (CTC) State Transportation Improvement Program Fund Estimate and Federal Transportation Improvement Program (FTIP).