



Funding Our Transportation System

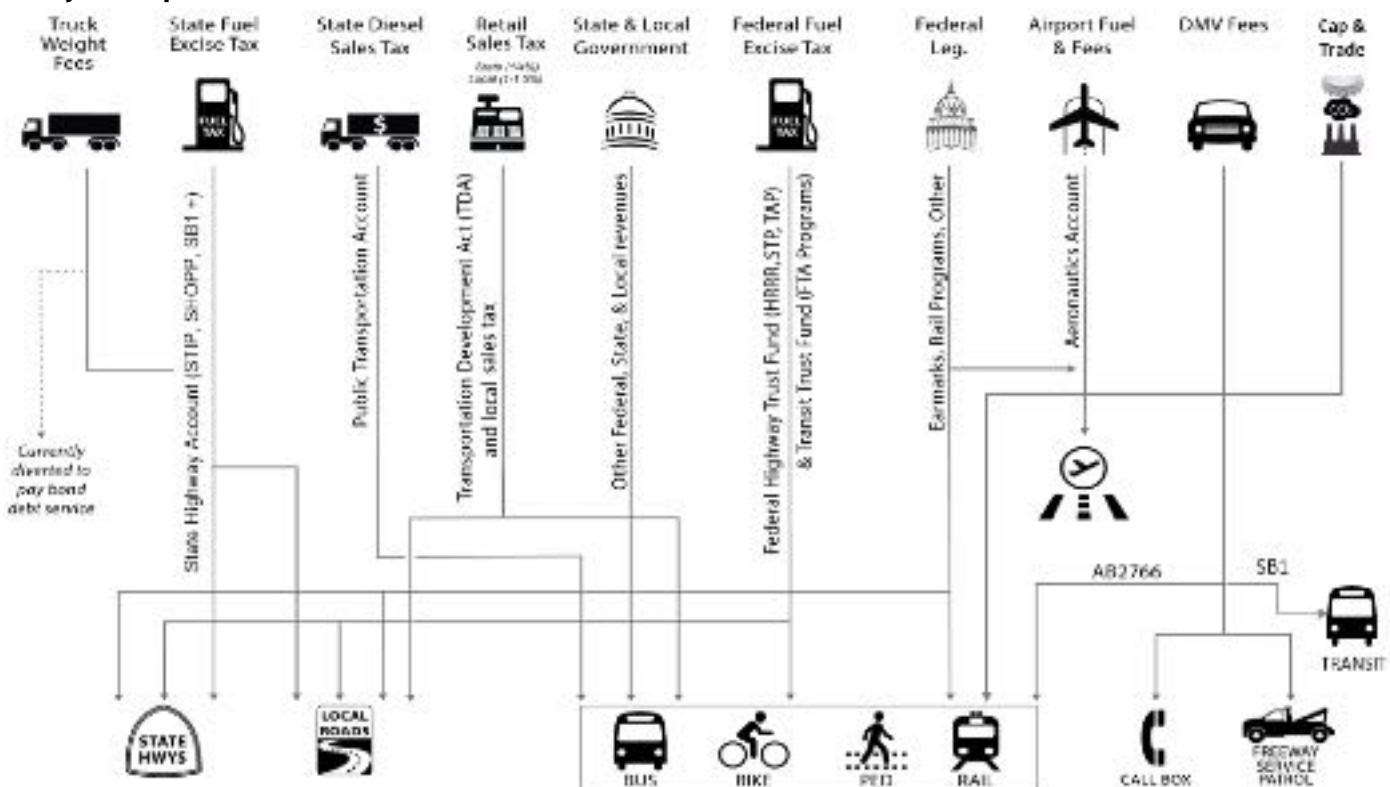
Santa Cruz County's Transportation System

Santa Cruz County has a rich multi-modal transportation network. The county's existing transportation network comprises a broad range of transportation facilities and modes. These include six state highways, nearly 900 miles of local streets and roads, an extensive bus system that typically (pre-COVID) carries millions riders each year, a specialized transport system for seniors and people with disabilities, a significant network of sidewalks, over 200 miles of bikeways, an airport and a publicly-owned rail line. Maintaining and improving the multimodal transportation system requires a combination of state, federal, local, and even private revenue sources.

Available Funds

Transportation programs and projects in Santa Cruz County are funded from a variety of local, state and federal funding programs. Based on long term estimates for the Regional Transportation Plan (RTP), \$5.3 billion from federal, state, and local funding sources are anticipated to be available to operate, maintain and improve the multi-modal transportation system in Santa Cruz County through 2045. As shown below, the public and businesses contribute to transportation funding programs through taxes and fees, primarily collected at the gas pump and at cash registers. A portion of automobile registration fees also help fund some local transportation projects.

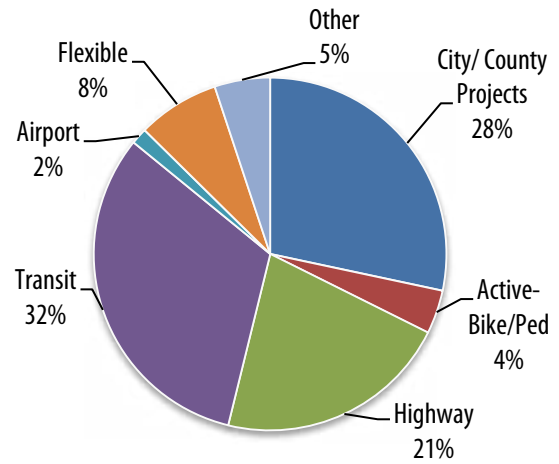
Major Transportation Revenues in California



Local sources (such as general funds, local sales taxes, and gas taxes designated for cities and counties) account for more than half of revenues available transportation projects in Santa Cruz County, with approximately a third from state sources (including funds from SB1) and 10-15% from federal sources.

Most Revenues Restricted

Of current and projected future revenue sources, most revenues 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 State Highway Operation and Protection Program (SHOPP) funds that can only be used for maintenance and safety projects on state highways. About a third (1/3) of anticipated 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.



Funding Restrictions by project type

Source: SCCRTC

Deciding Where the Money Goes

While most funding sources are restricted to certain types of projects, who decides the specific uses of the funds varies. For instance, the California legislature has given the California Transportation Commission (CTC) discretion over Senate Bill 1 and Active Transportation Program (ATP) competitive grant programs, but local agencies decide on which specific projects to submit applications. The Measure D Expenditure Plan set limits on how much funding goes to each city, the county, METRO and Lift Line, but those agencies have the flexibility on how to spend their formula share of funds, based on decisions made by their governing boards after holding a public hearing. **The Regional Transportation Commission (RTC) has discretion over less than 5% of the funds available for transportation projects (\$5-9 million per year). These funds are primarily from regional shares of the State Transportation Improvement Program (STIP) and Regional Surface Transportation Program (RSTP).** The RTC evaluates applications for these funds based on goals, priorities, performance metrics, and evaluation criteria identified in the Regional Transportation Plan (RTP) policy element and criteria established by the California Transportation Commission (CTC), state and federal laws.

Funding Uncertainties

While the Regional Transportation Plan (RTP) estimated that approximately \$200 million per year is available for transportation in Santa Cruz County on average, this is less than half of what is needed to fully fund ongoing maintenance, operations, and priorities identified in the RTP.

Additionally, revenues can be incredibly unpredictable. Forecasting the amount of funding that will be available for transportation can be a challenging and somewhat speculative exercise. The reliability of funding projections can be impacted by several factors, including changes in the economy, state and federal laws, fuel consumption and related gas tax revenues. Depending on the federal transportation act (currently the Infrastructure Investment and Jobs Act (IIJA)), annual appropriations bills, state and local budgets, gasoline consumption, and the general condition of the local and global economy, funding levels for many funding programs can change significantly from year to year.

State and federal actions can result in elimination of certain funding programs or diversion of transportation funds to the State General Fund, as has happened regularly to transit funds over the past several years. Since 2010, 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. The “gas tax swap” of 2010 resulted in the State Board of Equalization annually adjusting per gallon gas tax based on gasoline prices – making funding for local streets and road, the State Transportation Improvement Program (STIP), and the SHOPP increasingly unstable.

On the positive side, over the past 15 years, SB1, Measure D, statewide transportation bonds, special federal funding programs (such as economic stimulus bills), special legislative budget actions, and new grants have infused funding into the region. Inevitably, the actual amount of funding sources available will depend on a number of factors including decisions made by voters and the state and federal governments.

Funding Shortfalls – A Local, State, and Federal Challenge

As noted earlier, while \$200 million per year may seem like a lot of money, over \$10 billion in transportation projects and programs have been identified by local agencies and the public through 2045. 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 also impact project costs. Increasing traffic and expanded use of transit service, bicycle infrastructure, and pedestrian 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. While the recently passed Infrastructure Investment and Jobs Act (IIJA) provides a significant boost in funding for some programs, most facilities in Santa Cruz County are not considered as “nationally significant” as some other areas (such as large metropolitan areas and areas serving ports or major truck routes), which can make it challenging to compete for federal grants for projects in Santa Cruz County.

Potential Future Revenues

Since existing revenue sources are insufficient to address all of the needs in the region, agencies have identified 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.

California has been conducting pilot programs to study the feasibility of mileage-based fees to replace existing gas taxes. While federal and state agencies are investigating replacing the deteriorating gas tax with other user fees, this funding option is unlikely to be realized for several more years.

Other potential revenues. Examples of some of funding mechanisms other areas and states have implemented to fund transportation projects include: service area fees, 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.

Want to Learn More?

Check out these resources for more information:

- *Draft 2045 Santa Cruz County Regional Transportation Plan (RTP) Chapter 5 and Appendix E:*
www.sccrtc.org/rtp (final RTP is scheduled for adoption June 2022)
- Caltrans *Transportation Funding in California* guide
(<https://dot.ca.gov/programs/transportation-planning/division-of-transportation-planning/data-analytics-services/transportation-economics/transportation-funding-in-ca>)
`\\rtcserv2\shared\fact sheets\transportationfundingoverviewscr.docx`