Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

S. Joseph Simitian, Chair
Jean Fuller
Alan Lowenthal

Day: Wednesday, May 23, 2012
9:00 a.m.
Room: 2040
Consultant: Mark Ibele

Agenda
Part 1

Transportation

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Items Suggested for Vote Only:

2720 California Highway Patrol

Department Overview: The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for State employees and property.

Budget Summary: In the January Budget, the Governor proposed total expenditures of $1.9 billion (no General Fund) and 11,316 funded positions, an increase of $8.1 million from the adjusted current-year level. The baseline budget of the CHP was approved by the Subcommittee at the March 28 hearing. The budget request below was submitted as an April Finance Letter.

April Finance Letter Budget Request: The Governor proposes one budget change for the CHP to be considered under vote-only.

1. **Vehicle Insurance Augmentation.** The Governor requests an augmentation of $5.6 million (special funds) to fund a cost increase for vehicle insurance. The program is administered by the Department of General Services and the CHP's pro rata share is increasing from $7.7 million in 2011-12 to $13.3 million in 2012-13. According to the Administration, the increase stems from 395 claims against the CHP, which resulted in $12.1 million of incurred auto liability costs for 2010-11.

May Revision Requests: The Governor has proposed various changes to the CHP budget as part of his May Revision request to be considered under vote-only.

2. **Budget Bill Language for Capitalized Leases.** The Governor proposes budget bill language to allow the Department of General Services, with the consent of the CHP, to enter into a lease, lease-purchase with the option to build-to-suit facilities to replace area offices in Santa Ana, Santa Barbara, Stockton, Truckee, Ventura and Westminster, subject to Department of Finance approval of the terms of agreement. Under the language, thirty days prior to entering into any agreement, the DGS must notify the chairs of the Appropriations committee in each house and the Joint Legislative Budget Committee. No costs would be incurred until occupancy by CHP, anticipated to be 2014-15

3. **Reappropriation for Various Capital Projects.** The Governor requests that various appropriations for capital projects be reappropriated. These are: (1) Reappropriation of $18.3 million provided in 2011-12 for the construction phase of the Oceanside Area office replacement project. This was delayed due to the complexity of the Essential Services Building Act and the Division of State Architect needing additional time to review. No additional funds are requested. (2) Reappropriation of $548,000 provided in 2009-10 for working drawings and $3.9 million provided in 2010-11 for

construction of the California Highway Patrol Enhanced Radio System (CHPERS). Two of the sites have faced delays due to a lease required from the US Forest Service which requires a National Environmental Protection Act Review process, and lease negotiations with a private party to ensure state access have proved problematic and may require relocation. (3) Reappropriation of $796,000 provided in 2010-11 for the working drawings at four sites for the CHPERS, two sites of which have been delayed. One site is delayed due to a delay in the completion by the US Forest Service of the National Environmental Protection Act Review process; an additional site has been delayed due to the established need for an extended California Environmental Quality Act (CEQA) review process, including 3-deminsional modeling of the final project.

4. **Reversion of Capital Project Funding.** The May Revision calls for the reversion of $19.6 million in funding for the construction phase of the Santa Fe Area office replacement project. The project had difficulties with the terms of the acquisition agreement and is pursuing an alternative site. Given the delay, the construction funding is not required at this time.

Staff Comment: At the time this agenda was finalized, no concerns had been raised with the proposed April and May budget adjustments for the CHP.

Staff Recommendation: Approve the above CHP budget requests regarding vehicle insurance, capitalized leases, reappropriation for capital projects and reversion of capital funding.

Vote:

2740 Department of Motor Vehicles

Department Overview: The Department of Motor Vehicles (DMV) regulates the issuance and retention of driver licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

Budget Summary: The Governor proposes total expenditures of $964 million (no General Fund) and 8,221 positions; which, after technical adjustments, is fairly similar to the adjusted 2011-12 funding level. The budget includes a reduction of $24.5 million and 213.6 positions related to the Governor's 2011-12 "workforce cap" and other efficiency savings.

May Revision Requests: The Governor has proposed changes to the DMV budget as part of his May Revision request.

1. **Capital Outlay Adjustments.** As part of the May Revision, DMV has requested that $2.9 million in capital outlay funds to be used for the Redding Field Office Reconfiguration Project be reappropriated. These funds were part of the 2010 Budget Act. During the review of working drawings, it was determined that the approach on the HVAC system was not the most cost effective. This is being reconfigured and will lead to delays. It is apparent that the project will not be able to proceed prior to the end of the fiscal year.

2. **Fund Reversion.** The DMV requests the reversion of $2.1 million in funds that were appropriated as part of the 2010 Budget Act for the construction phase of the Oakland Field Office Reconfiguration Project. The space is no longer required.

Staff Comment: At the time this agenda was finalized, no concerns had been raised with the proposed May Revision budget adjustments for the DMV.

Staff Recommendation: Approve the capital outlay and fund reversion budget requests from DMV.

<u>Vote:</u>

2660 Department of Transportation

Department Overview: The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The Department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

January Budget Overview: The January Governor's Budget proposed total expenditures of $11.2 billion ($83 million General Fund) and 20,438.5 positions. According to the Administration, the position totals include the elimination of 1,057 positions for savings of $90.0 million – these savings are associated with last year's "workforce cap" reduction, and position reduction efforts in prior years.

Proposed Budget as Revised: In April 1 Finance Letters (FL), the Governor proposes to significantly increase 2012-13 budget funding in the areas of Proposition 1A and Proposition 1B. Proposition 1A is the High-Speed Passenger Train Bond Fund and the proposal would augment Caltrans' budget by $812 million to fund capital projects that would improve connectivity to high-speed rail for intercity, regional, and urban rail operators. That proposal was heard with the High-Speed Rail Authority at the April 18 hearing. Proposition 1B includes various bond special funds and funds highway capital projects, as well as some rail and mass transit capital. Additional proposals in the May Revision would reduce staffing and budget authority as well as result in the shift in special funds to the General Fund for budget relief.

April 19 Subcommittee Hearing: The Subcommittee heard the Governor's budget for Caltrans at the hearing held on April 19. Action was taken on many of the budget requests. The issues on this agenda for Caltrans are those held open at the April 19 hearing to allow for additional review or so that additional information could be provided by the Administration. In addition, the agenda will address the new items proposed in the May Revision.

May Revision Requests: The Governor has proposed changes to the Department of Transportation budget as part of his May Revision request.

1. **Amtrak Fuel Cost Increase:** The May Revision includes a proposal to add budget bill language to allow the transfer savings from the Public Transportation Account to fund an unanticipated increase in its intercity rail operations agreement with Amtrak in order to fund unanticipated fuel costs.

   The budget bill language would apply to Item 2660-001-0046 (Public Transportation Account):

Provisions:
X.XX Of the funds appropriated in this item, the Department of Finance may transfer expenditure authority among schedules to accommodate increases in Amtrak contract costs related to fuel.

Staff Comment: As of the date of the Agenda, there were no concerns raised regarding this proposal.

Staff Recommendation: Adopt Administration's proposed budget bill language.

Vote:

Summary of Vote-Only Issues:

Page	Department	Item	Recommendation
1	California Highway Patrol: Issue 1	April Finance Letter—Vehicle Insurance Augmentation	Approve
1	California Highway Patrol: Issue 2	May Revision Request—Budget Bill Language for Capitalized Leases	Approve
1	California Highway Patrol: Issue 3	May Revision Request—Reappropriation for Capital Projects	Approve
2	California Highway Patrol: Issue 4	May Revision Request—Reversion of Capital Project Funding	Approve
3	Department of Motor Vehicles: Issue 1	May Revision Request—Capital Outlay Adjustments	Approve
3	Department of Motor Vehicles: Issue 2	May Revision Request—Fund Reversion for Oakland Field Office	Approve
4	Department of Transportation: Issue 1	May Revision Request—Amtrak Fuel Cost Increase Budget Bill Language	Approve

Items Suggested for Discussion and Vote:

2740 Department of Motor Vehicles

Issues proposed for Discussion and Vote:

1. **General Fund Loan from Motor Vehicle Account.** As part of the2012-13 budget solutions, the Governor proposes in the May Revision to transfer $300 million from the Motor Vehicle Account (MVA) to the General Fund a loan.

   January Proposal: In January, the Governor requests trailer bill language and budget adjustments to reduce vehicle registration fees by $5 (to $38) for DMV customers who complete vehicle registration renewal transactions through the mail, Internet, phone, business partners, auto clubs, or a self-service terminal, but maintain the fee at the full $43 for customers who come to an office and submit payment to a DMV employee. The Governor's budget assumed that this proposal would result in a 10 percent decline in field office vehicle registration renewals. The proposal would have reduced the amount of Motor Vehicle Account (MVA) revenue collected in 2012-13 by $75 million and by about $100 million each year thereafter, while resulting in savings of about 19 positions and $531,000 in 2012–13, and 25 positions and $706,000 in 2013–14. This issue was heard March 28.

   May Revision: Under the new borrowing proposal, the $300 million loan will be repaid no later than June 30, 2016. According to the analysis conducted by the Department of Finance, the loan would not hinder the activities funded by the account. It is expected that the loan would draw down the balance of the fund from the forecasted balance of approximately $505 million in 2012-13. The estimated balance for 2011-12 is $427 million, as of the January budget. Consistent with the May Revision proposal, the administration has withdrawn its January plan regarding the reduced fee for internet and mail vehicle registration transactions. Since this January proposal also reduced staff requirements, the May Revision requests an increase of 18.8 positions and $531,000.

   Staff Comment: The Governor’s original proposal on the reduced fee had merit. LAO also commented on the possibilities in this regard, and offered an alternative approach. The May proposal reflects the continuing stress in the General Fund and recognizes that despite the attractive qualities of the original proposal, the revenue loss is too great to absorb at this time. The May Revision uses the increase in revenues from the elimination of the reduced fee as a component of the new borrowing. The May Revision proposal is a prudent response to the continuing General Fund stress.

   Staff Recommendation: Approve the May Revision request.

   Vote:

2660 Department of Transportation

Issues proposed for Discussion and Vote:

1. **Reduction in Research Expenditures:** The Administration requests a reduction of $7 million (State Highway Account) in the Caltrans research budget – reducing funding from $39 million to $32 million. The reduction would be achieved by eliminating 4 positions ($342,000) and by reducing research operating expenses ($6.7 million). Caltrans indicates it far exceeds its required match for federal research funds, and that State funding could be reduced while still achieving the highest-priority research. Federal funding is about $15 million per year, and would not decrease if State funding is reduced from $24 million to $17 million – the federal match requirement is only 20 percent. The subcommittee first heard this issue at its April 19 hearing.

   Background and Detail: According to the Administration, the Department's Research Program manages a comprehensive portfolio of research to develop, test, and evaluate transportation innovations. These innovative products and services in methods, materials, and technologies enable the Department to provide continual improvement to the management of public facilities and services; protect public investment in transportation infrastructure; and enhance mobility and safety. The Department manages between 175 and 200 research projects annually covering research topics in safety, mobility, design, construction, environmental stewardship, geotechnical, structural, maintenance, preservation, pavement, transit, and other modes.

   Additional Information from Caltrans: At the request of the subcommittee, on Caltrans submitted a letter on May 16th that provided additional information regarding the nature of the proposed research cuts. According to this letter, the $7 million reduction would be achieved as follows:

Item	Amount (millions)
Research Support Centers	$1.6
Defer Seismic Research	1.3
Reduce and Delay Developmental Research Activities	1.0
Suspend 15 Research Projects	2.0
Use Federal Funds for Projections	0.8
Research Staff Reduction	0.3
Total	**$7.0**

   Staff Comment: It is reasonable to evaluate the research budget to see if the funding level is appropriate given other priorities such as pavement maintenance and highway rehabilitation. A portion of research funds are directed to State universities for programs such as the Institute of Transportation Studies at UC

Berkeley. In reviewing this budget request, the Subcommittee may want to hear from Caltrans on how the reduction would affect university research and other programs. In particular, the reduction to Research Support Centers without information may be unwise, particularly in view of the potential impact on other funds that universities may leverage with these monies to generate innovative transportation research. The Subcommittee should have a clearer understanding of how the Centers will function overall prior to taking steps to reduce funding for this component. The Caltrans letter also included a detail of potential seismic projects delayed due to the proposed reduction. Given California's transportation network's vulnerability to seismic events and the potential impact on health and safety of the traveling public, this component should be retained.

Staff Recommendation: Adopt $4.1 million reduction to Research funding, but retain $2.9 million for Research Support Centers and Seismic projects.

Vote:

2. **Project Initiation Documents (PIDs)—Staffing and Funding:** The Administration is proposing to increase budgeted positions for PIDs workload from 264 positions to 331 positions and fund 53 of these new positions from local reimbursements. The overall funding for PIDs would increase $2.2 million (from $33.3 million to $35.4 million) from the State Highway Account (SHA) and would increase by $8.4 million (from $265,000 to $8.7 million) from local reimbursements. A "PID" is a preliminary planning document, or tool, that includes the estimated cost, scope, and schedule of the project—information needed to decide if, how, and when to fund the project. The subcommittee first heard this issue at its April 19 hearing.

   Recent History of PIDs Issue in the Budget: Since the 2009-10 budget, staffing for PIDs has been "zero-based" to reflect that year's anticipated workload. Caltrans worked with local agencies and the California Transportation Commission to streamline PIDs by focusing the scope to avoid duplicative work and reduce cost. While the streamlined product exists, it is unclear if it is being applied to the right number and types of projects.

   During the 2011-12 budget process, the Legislature rejected the Administration's proposal to shift the fund source from state highway funds to local reimbursements for Caltrans' PIDs workload related to locally-sponsored highway projects. The 2011-12 budget enacted by the Legislature maintained state highway funds for that purpose, but Governor Brown subsequently vetoed those funds from the final budget. While the Legislature's funding level tied to the Administration's identified workload, the veto left this workload unfunded in the budget. In September 2011, the Department of Finance submitted a Section 28.00 request, which enabled Caltrans to receive reimbursement for PIDs work. This year, the Administration continues to propose that local agencies reimburse Caltrans for PIDs work for locally sponsored capital projects on the state highway system.

   Legislative Analyst Findings: According to the LAO, Caltrans typically requires PIDs to contain a substantial amount of information. Generally, PIDs include:

   - Review and study of geological hazards, utilities, and environmental constraints.
   - Development of travel forecasts, traffic models, surveys and maps.
   - Development and analysis of potential project alternatives.
   - Studies of the effects of potential project alternatives on traffic, noise, scenic resources, habitat and wildlife, community impacts, water quality, hazardous waste, cultural resources, air quality, and floodplains.
   - Preparation of preliminary geotechnical, structural, storm water, and construction cost estimates and reports.
   - Application for permits from numerous state and federal regulatory agencies.
   - Partial design of project alternatives, and preparation of design and engineering reports.

It takes a significant amount of time to produce a PID, due in part to the numerous studies and reports that must be produced to generate all the required information. Based on information from Caltrans and local agencies, the LAO indicates that PIDs generally take from one to three years to complete. The cost to produce a PID ranges from the tens of thousands to low millions of dollars. For PIDs that are programmed for construction, a portion of the PIDs analysis is repeated in the environmental review phase of the project. The LAO believes that Caltrans is not utilizing the streamlined process for enough PIDs and is therefore generating unnecessary delay and cost for projects. Additionally, the LAO indicates the Caltrans level of workload exceeds that which would be needed for the anticipated level of construction funding.

LAO Recommendations: The LAO has recommended the Legislature reject the Governor's funding augmentation and enact trailer bill language requiring streamlining of PIDs. Specifically, the LAO recommends that the Legislature reject the Governor's requested increase and maintain PID funding at the current level of $33 million (SHA) and 264 positions. Finally, the LAO recommends the Department submit a report by May 1, 2013 detailing the changes implemented and the time and cost savings achieved.

Action in Assembly Budget Subcommittee #3 on March 21: At the March 21 hearing, Assembly Subcommittee 3 voted to replace reimbursement funding with funding from the State Highway Account, but to leave the remainder of the issue open pending the results of a workgroup led by Caltrans. The workgroup included local representatives and other interested parties and was to provide recommendations on the PIDs streamlining issue, including those raised by the LAO. Caltrans was directed to complete the working group effort by May 1, 2012.

Working Group Report: Caltrans convened a PIDS Working Group Meeting on April 12, 2012. For the meeting, Caltrans brought a group of local transportation agencies as well as state staff. The workgroup achieved consensus that significant progress had been made towards streamlining PIDs. According to Caltrans, some local agencies were hoping that the streamlining efforts would have more immediate reductions in costs and schedule savings, but it was acknowledged that the new PIDs process has been in effect for less than six months.

On April 27, 2012, Caltrans submitted a letter to the Subcommittee that documented the workgroup meeting and included a seven-page report on progress of the PIDs streamlining effort. According to Caltrans, the Department has implemented 18 of the 21 recommendations of the 2010 PIDs streamlining report. The report also included information about the extent to which the streamlined PIDs will be used in the budget year.

Staff Comment: Caltrans has reduced the size and scope of PIDs in response to oversight from the Legislature and feedback from local partners. Since PIDs inform funding decisions and identify project risks, the deliberative process insures that due diligence of the PID is still intact. As more state transportation projects are

funded with local funds, it is worth revisiting state interest in PID for projects with limited to no state financial participation. Staff believes that regardless of funding source, insuring that project risks are known to the extent possible through a consistent and verifiable process is an essential role for the State. The proposal to use local funds for expanded PIDs has been twice rejected by the Legislature. Given the integrated nature of the state highway system, it would seem reasonable to fund these using state resources. The State should continue to pay for PID review with state funds.

Staff Recommendation: For the budget proposal, replace local reimbursement with state funding from state highway account, conforming with Assembly action.

Vote:

3. **Capital Outlay Support Reduction:** The May Revision proposes a reduction to Capital Outlay Support staff to reflect a decline in workload from the expiration of Americans Recovery and Reinvestment Act (ARRA) funds. Due to mid-year adjustments and removal of one-time ARRA funds included in the Governor's budget, support requirement will drop. The proposal will reduce the number of state staff in the capital outlay support program from the existing 2011-12 Governor's Budget level.

   Background and Detail: The May Revision proposes a reduction to Caltrans Capital Outlay Support staff to reflect a decline in workload primarily associated with the completion of projects funded by the American Recovery and Reinvestment Act. It is requested that the Capital Outlay Support Program be decreased by $14,527,000 and 340.0 full-time equivalents, including 330.0 state staff positions.

   Caltrans indicates that the request fully takes into consideration the statutory deadlines for contract awards for bond projects, the need to fully obligate federal funds, creation of jobs generated by delivering state and federal capital outlay programs, utilization of available capital funding, and the need to work on the development of projects to be delivered in future years.

   The department has maintained a ratio of 90/10 of state employees to contract staff. This proposed level of staffing will establish an 89/11 percent split of state staff to architectural and engineering consultant contracts. According to the Department of Finance, this is consistent with the State Auditor's recommendation that Caltrans utilize flexible contract-staff resources to ramp down state staff based on future workload needs, which are expected to decrease as Proposition 1B projects approach completion.

   This request also includes Budget Bill language to enable Caltrans to seek an increase in additional reimbursement authority of up to $4.2 million for additional workload associated with these projects to the extent work proceeds to later phases earlier than currently anticipated.

   Staff Comments: The proposal results in a disproportionate impact on state staff as opposed to contract staff and works against previous budget actions by the Legislature. Given this established approach, the reductions could be applied equally to both contractors and staff. If the Subcommittee choses to adopt this proposal, contracts and staffing level should be adjusted to return to this ratio. The remainder of the proposal is a reasonable means to address anticipated additional workload.

   Staff Recommendation: Adopt May Revision Proposal and budget bill language but adjust capital support staff and contracting in order to maintain traditional state staff/contracting ratio of 90/10.

   Vote:

4. **Special Fund Loan Extensions—General Fund Solution:** As part of the May Revision, the Governor proposed significant adjustments regarding internal borrowing. As part the Governor's solutions for the budget year is a proposal to delay the repayment of certain special fund loans. These loans remain obligations of the General Fund, but to the extent repayment is delayed, the use of the funds can help provide a solution for the 2012-13 budget. The special fund loans continue to accrue interest, which must also be paid.

   Detail of Proposal: The proposal will result in additional General Fund relief by extending the repayment of $307.1 million of special fund loans. The specific loans are listed below along with proposed repayment dates:

   Loans currently due June 30, 2011
   - Extend repayment of $150.0 million from the State Highway Account until June 30, 2014.
   - Extend repayment of $6.0 million from the Bicycle Transportation Account until June 30, 2017.
   - Extend repayment of $8.0 million from the Motor Vehicle Fuel Account until June 30, 2017.
   - Extend repayment of $4.4 million from the Environmental Enhancement and Mitigation Fund until June 30, 2017.
   - Extend repayment of $2.0 million from the Historic Property Maintenance Fund until June 30, 2014.
   - Extend repayment of $1,715,000 from the Pedestrian Safety Account until June 30, 2017.

   Loans currently due June 30, 2012
   - Extend repayment of $135.0 million from the State Highway Account until June 30, 2015.

   Staff Comments: Department of Finance has indicated that it has reviewed fund activities associated with the various accounts and has determined that the additional repayment terms should not impair activities funded by the various accounts. Given the continuing stress on the state's General Fund, the additional time for repayment is a reasonable alternative.

   Staff Recommendation: Approve budget bill language allowing for additional time for various special fund loan repayments.

   Vote:

5. **Weight Fee and Special Fund Transfer Proposed Trailer Bill:** The Governor has proposed trailer bill language that would provide substantial General Fund relief through mechanisms to offset General Fund debt service obligations and transfer certain unrestricted revenue generated by the fuel tax swap to the General Fund.

   January Budget Proposal: The Governor's budget included a General Fund solution of $350 million from continuing to use truck weight fee revenue to fund transportation-related general obligation bond (GO bond) debt service. Current law permanently directs truck weight fee revenue to the General Fund for eligible debt service in a given fiscal year. In the absence of this provision, the weight fee revenue would otherwise be used to fund highway repair projects and the administration of Caltrans. Annual truck weight fee revenue currently exceeds eligible debt service, but excess truck weight fee revenue has been transferred to the General Fund in 2010-11 and 2011-12 as a pre-funding of out-year bond debt. Both types of transfers to the General Fund, either for current-year or for out-year GO bond debt, provide a General Fund budget benefit in the year the transfer is made. Current law does not provide the authority in 2012-13 and ongoing to pre-fund out-year debt, but that is proposed by the Governor to realize a General Fund solution.

   In addition, the January budget proposal included language meant to clarify that existing law requires gasoline excise tax revenues fully backfill the State Highway Account for any reduction of revenues due to truck weight fee transfers to the General Fund. Also, the language provides that any excise revenue from the fuel swap that was generated from gasoline purchased for off-highway vehicles is intended to be deposited in funds used for state and local highway and road improvements, not off-road programs or other uses.

   May Revision Proposal: The May Revision maintains the plan to shift weight fees to the General Fund for current and future debt service payments. This action is now estimated to result in a benefit of $385 million for the budget year 2012-13. In addition, new language proposed in the trailer bill would instead direct that fuel-swap excise taxes that are generated from gasoline purchased for off-highway vehicles be transferred to the General Fund. These transfers will result in additional General Fund relief of $184 million in 2011-12 (constituting a combination of 2010-11 and 2011-12 revenues) and $128.2 million in the budget year and on-going. These off-highway funds are not restricted by the Constitution, unlike the on-highway funds that are restricted by Article XIX to transportation purposes. This proposal would leave in place the backfill of the former Proposition 42 allocation, with $708.5 million for cities and counties for local roads, and $901.7 million for highways. Likewise, revenues for off-highway vehicle programs – those funded from the base 18 cent excise tax – would not be affected by this proposal.

   Background: Proposition 22 of 2010 imposed additional restrictions regarding eligible uses of tax revenue derived from gasoline and diesel fuel sales, and in most cases, made that revenue ineligible for payment of GO debt on transportation

related bonds. (Earlier reforms had already directed the sales tax on gasoline to be used for transportation purposes, rather than just going to the General Fund). AB 105, Statutes of 2011, reenacted the "Fuel Swap" legislation to conform to Prop 22 and discontinue the use of fuel revenue for GO debt. Instead, truck weight fee revenue was substituted as a source of payment for GO debt. In general, the Fuel Swap legislation lowered the sales tax on gasoline and increased the excise tax on gasoline. This transportation refinancing was revenue neutral for consumers but made transportation funds more flexible to fund a greater variety of transportation programs, including restoration of certain mass transportation programs. Another benefit of the Fuel Swap was that "Prop 42" funding for highways and local roads was preserved. Additional detail on the Fuel Swap is available on the Committee's website in the Transportation section of the "Redbook" Overview Summary published in February 2012.

Staff Comments: The $385 million General Fund budget solution proposed by the Governor would continue the budget solution of directing weight fee revenue for future GO bond costs related to transportation. Continuation of this practice seems justified in the context of the ongoing budget challenges facing the State. The trailer bill language would also clarify some of the existing fuel swap language to specify that gasoline excise revenues fully backfill the State Highway Account for any reduction of revenues due to truck weight fee transfers. Finally, the trailer bill language would direct that any off-highway fuel purchases associated with the fuel swap be transferred to the General Fund – this solution totals $312 million.

Staff Recommendation: Approve the Administration's placeholder trailer bill language to achieve General Fund solutions totaling $697 million.

Vote: