Proposition IA

Transportation Funding Protection. Legislative Constitutional Amendment.

Background

California spends about $20 billion a year to maintain, operate, and improve its highways, streets and roads, passenger rail, and transit systems. About one-half of the funding comes from various local sources, including local sales and property taxes, as well as transit fares. The remainder comes from the state and federal levels, largely from gasoline and diesel fuel taxes, and truck weight fees.

Currently, the state levies two types of taxes on motor fuels:

- An excise tax of 18 cents per gallon on gasoline and diesel fuel. (This is generally referred to as the gas tax.)
- A statewide 6 percent tax on the sale of gasoline and diesel fuel ("sales tax").

Gas Tax. Revenues from the state excise tax on gasoline and diesel fuel used on public roads total about $3.4 billion per year. The State Constitution restricts the use of these revenues to specific transportation purposes. These include constructing, maintaining, and operating public streets and highways, acquiring right of way and constructing public transit systems, as well as mitigating the environmental effects of these facilities.

Sales Tax. The state's sales tax on gasoline and diesel fuel currently provides about $2 billion a year. Until 2002, most of the revenues from the state sales tax on gasoline were not used for transportation purposes. Instead, these revenues were used for various general purposes including education, health, social services, and corrections. Proposition 42, which was approved by voters in 2002, amended the State Constitution to dedicate most of the revenue from the sales tax on gasoline to transportation uses. Specifically, Proposition 42 requires those revenues that previously went to the General Fund be transferred to the Transportation Investment Fund to provide for improvements to highways, streets and roads, and transit systems. Proposition 42, however, allows the transfer to be suspended when the state faces fiscal difficulties. Proposition 42 is silent as to whether suspended transfer amounts are to be repaid to transportation.

Since 2002, the state has suspended the Proposition 42 transfer twice because of the state's fiscal condition. In 2003-04, the transfer was suspended partially, and in 2004-05, the full amount of the transfer was suspended. Existing law requires that these suspended amounts, with interest, be repaid to transportation by 2008-09 and 2007-08, respectively.

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Proposal

This measure amends the State Constitution to further limit the conditions under which the Proposition 42 transfer of gasoline sales tax revenues for transportation uses can be suspended. Specifically, the measure requires Proposition 42 suspensions to be treated as loans to the General Fund that must be repaid in full, including interest, within three years of suspension. Furthermore, the measure only allows suspension to occur twice in ten consecutive fiscal years. No suspension could occur unless prior suspensions (excluding those made prior to 2007-08) have been repaid in full.

In addition, the measure lays out a new schedule to repay the Proposition 42 suspensions that occurred in 2003-04 and 2004-05. Specifically, the suspended amounts must be repaid and dedicated to transportation uses no later than June 30, 2016, at a specified minimum annual rate of repayment.

Fiscal Effects

This measure would have no direct revenue or cost effect. By limiting the frequency and the conditions under which Proposition 42 transfers may be suspended in a ten-year period, the measure would make it more difficult to use Proposition 42 gasoline sales tax revenues for nontransportation purposes when the state experiences fiscal difficulties. As a result, the measure would increase the stability of funding to state and local transportation in 2007 and thereafter. However, the state's authority to direct available funds to meet other nontransportation priorities in the event the state faces fiscal difficulties would be somewhat reduced.

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