



APPENDIX D

Transportation Funding in California Fact Sheet: Proposition 42, the March 2010 Transportation Tax Swap, and Propositions 22 and 26





When the 2008 California Statewide Local Streets and Roads Needs Assessment was released, the state charged an 18-cent per gallon excise tax on gasoline dedicated to transportation purposes (also known as the Highway User Tax Account or HUTA) as well as a sales tax on each gallon of gasoline sold in California. The sales tax revenues were dedicated for transportation purposes by voters when Proposition 42 was passed in 2002.

Prop 42 would have generated approximately \$1.52 billion for improvements to the state highway system, the local streets and roads network, and transit in FY 2010-11. However, in March 2010, the Legislature approved and the Governor enacted the Transportation Tax Swap package. Among other things, the Transportation Tax Swap eliminated the sales tax on gas (Prop. 42) and replaced it with a 17.3-cent excise tax increase on gasoline (new HUTA), indexed to keep pace with what the sales tax on gasoline would have generated in a given fiscal year to ensure true revenue neutrality. The sales and excise taxes were also adjusted to provide similar results for transit funding. Finally, the Transportation Tax Swap provided the state significant general fund relief by dedicating a portion of the new HUTA to transportation related bond debt service.

Under the new funding scenario, the state now levies a 35.3-cent excise tax on gasoline for transportation purposes and transportation is funded at the same level as under the previous funding environment. The Legislature was motivated to enact the Transportation Tax Swap so as to remove transportation funding from the annual budget debate in the state.

In November 2010, voters passed Propositions 22 and 26, both which have potentially negative consequences for transportation funding in the state related to invalidating certain actions authorized under the Transportation Tax Swap. Prop. 22 prevents the state from using new HUTA revenues for bond debt service as agreed to under the transportation Tax Swap. Prop. 26 invalidates the replacement 17.3-cent excise tax because it was not enacted by a two-thirds vote of the Legislature.

While the state of transportation funding is unknown at the time of this final report, there are efforts among transportation stakeholders and a general agreement within the Legislature and Brown Administration to enact a fix that would keep intact the 17.3-cent excise tax and the same level of transportation funding into the future.

