



September 17, 2018

Hon. John M. W. Moorlach
Senator, 37th District
Room 2048, State Capitol
Sacramento, California 95814

Dear Senator Moorlach:

In a letter dated August 28, 2018, you requested various information about transportation revenues and expenditures. Specifically, you asked that we respond to a series of questions, which are restated below followed by our responses. As we discussed with your staff, we will provide a follow-up response to your questions regarding state and local spending on signs related to Chapter 5 of 2017 (SB 1, Beall) after we receive the necessary information from the California Department of Transportation (Caltrans).

a. How much revenue is generated each year for use by the State of California from the sales tax generated by the sale of new and used cars? Using regular sales tax rates and regular distribution rules to local government of that revenue, how much revenue is generated each year for use by local governments from the sales tax generated by the sale of new and used cars? Are there any legal restraints on the use of these funds by the state or local governments?

Based on the volume of taxable sales transactions for new and used car dealers reported by the California Department of Tax and Fee Administration, we estimate that the state sales and use tax on vehicle purchases generates around \$5.7 billion annually. Of this amount, the state provides \$2.6 billion to local governments, pursuant to various state constitutional and statutory provisions. Figure 1 provides additional detail on how the “base” state sales and use tax revenues are allocated. As the figure indicates, 3.94 percent of the total 7.25 percent rate is allocated to the state General Fund and is available for any purpose. Similarly, 1 percent is allocated to local governments for any purpose. The remaining funds, however, are allocated to specific purposes. (In addition to these revenues, we estimate that optional local sales and use taxes on vehicle purchases generate around \$1 billion annually. Typically, local ballot measures dedicate these revenues to transportation purposes.)

Figure 1		
State Sales and Use Tax Allocations		
Rate	Allocation	Pursuant to
3.94%	State General Fund	Statute
1.06	County public safety programs	Constitution
1.00	City and county general purposes	Statute
0.50	City and county public safety programs	Constitution
0.50	County health and social services programs	Statute
0.25	County transportation programs	Statute
7.25%		

Legislative Analyst's Office
California Legislature
Mac Taylor • Legislative Analyst
925 L Street, Suite 1000 • Sacramento CA 95814
(916) 445-4656 • FAX 324-4281

b. How much revenue this fiscal year is expected to be generated by the gas tax—assuming no repeal of SB 1 by Proposition 6 on the November 2018 ballot? If the SB 1 increased gas tax rate were not in effect, how much revenue would be generated this year?

In 2018-19, the state excise tax on gasoline is set at 41.7 cents per gallon, and the state expects to collect an associated \$6.5 billion in revenue. This estimate includes revenues associated with the 12 cent per gallon increase in the excise tax imposed by SB 1. Without the 12 cent per gallon increase imposed by SB 1, we estimate the state would collect \$4.7 billion in 2018-19. The state dedicates nearly all gasoline excise tax revenues to highway and road purposes.

c. How much revenue is expected to be generated by the car tax imposed by SB 1 this fiscal year—assuming no repeal with Proposition 6? How much funding (exclusive of SB 1 car tax) is collected in car-related registration fees and other fees collected by the Department of Motor Vehicles (DMV) for the operation of a motor vehicle?

In 2018-19, we estimate the DMV will collect \$1.5 billion from the transportation improvement fee (“car tax”) created by SB 1, assuming Proposition 6 does not repeal the fee. In addition to the new transportation improvement fee, the DMV collects various other state taxes and fees on vehicles—totaling roughly \$7.9 billion in 2018-19. This amount includes (1) \$3.3 billion from vehicle registration fees (which mainly pay for the operations of the DMV as well as the California Highway Patrol [CHP]), (2) \$2.9 billion from vehicle license fees (which pay for various city and county programs), (3) \$1.1 billion from truck weight fees (which pay for transportation bond debt service), (4) about \$500 million in state use taxes on private and out-of-state vehicle sales (as discussed above), and (5) around \$57 million in specialty license plate fees (which support environmental and other specific programs). (In addition, the DMV collects about \$500 million in various vehicle fees imposed by local governments, such as for air quality, and around \$100 million in local use taxes on vehicles.)

d. Not including gas tax and car tax and related DMV fees covered in questions a, b, and c, what remaining taxes, mandates, and fees are collected on cars, trucks, and motor vehicle fuels?

In addition to the state excise tax on gasoline discussed above, the federal, state, and local governments levy other taxes on gasoline and diesel fuel. Figure 2 summarizes each of these taxes—including the state excise tax on gasoline—and their associated revenue and current uses. We note that the figure excludes a state Underground Storage Tank Fee of 2 cents per gallon charged to owners of underground petroleum storage tanks. The state expects this fee to generate \$318 million in 2018-19.

Figure 2
Taxes on Gasoline and Diesel
 2018-19 (Dollars in Millions)

	Rate	Revenue	Main Uses
Gasoline			
Excise—State	41.7 cents	\$6,486	Highways and roads
Excise—Federal	18.4 cents	2,862	Highways and transit
Sales—State	2.25 percent	1,047	Various local programs ^a
Sales—Local	1.25 percent	581	Various local programs ^b
Diesel			
Excise—State	36.0 cents	1,205	Highways and roads
Excise—Federal	24.4 cents	816	Highways and transit
Sales—State	13.0 percent	1,138	Transit and various local programs ^a
Sales—Local	1.25 percent	109	Various local programs ^b

^a Includes allocations for city and county general purposes (1 percent), city and county public safety programs (0.5 percent), county health and social services programs (0.5 percent), and county transportation programs (0.25 percent). The diesel sales tax also includes allocations for mass transit (10.5 percent) and additional local public safety programs (0.25 percent).

^b Typically dedicated to transportation programs by the local ballot measures approving the taxes. Rates shown reflect the average local sales tax rate across California.

Your staff also specifically asked if we have estimates available regarding the effect on fuel prices of four mandates: (1) the state’s cap-and-trade program, (2) the state’s low-carbon fuel standard, (3) the state’s refinery reformatting requirements, and (4) the federal renewable fuel standard program. We estimate the cap-and-trade program increases the price of gasoline and diesel in the state by about 12 cents and 15 cents per gallon, respectively. We estimate the state’s low-carbon fuel standard adds about 10 cents per gallon to gasoline and 9 cents per gallon to diesel. We have not estimated the other two requirements’ effects on fuel prices.

e. How much funding was allocated by Caltrans for road maintenance and improvements in the budget adopted in FY 2016-17 and how much funding is being allocated this year? For this year’s budget, what is the remaining (non-road) Caltrans funding amount and what uses/programs are those funds being spent on?

The annual state budget appropriates funding to Caltrans for specified programs and purposes, such as highway maintenance and aeronautics. This funding comes from state and federal sources as well as local reimbursements. From 2016-17 to 2018-19, total funding for Caltrans increased from \$9.2 billion to \$14.2 billion—a 55 percent increase. This includes an increase from \$8.6 billion to \$13.1 billion (52 percent) for Caltrans’ highways program. For 2018-19, the budget appropriates the remaining \$1.1 billion for mass transportation (\$779 million), transportation planning (\$288 million), and aeronautics (\$7.3 million).

Your staff indicated you also would like further detail on the level of state funding provided to Caltrans in 2016-17 and 2018-19. Figure 3 shows the amount of state funding provided to Caltrans in these two fiscal years by program. The 2018-19 budget provides Caltrans with a total of \$7 billion from state funds, of which \$6.4 billion supports the department’s highways program. The remaining \$574 million supports various programs—specifically the mass transportation program (\$388 million), the transportation planning program (\$168 million), the Office of the Inspector General (\$11 million), and the aeronautics program (\$5.8 million).

Figure 3
Caltrans’ State Funding
(Dollars in Millions)

	2016-17	2018-19	Change	
			Dollar	Percent
Highway Program				
Capital outlay projects	\$623	\$2,109	\$1,486	239%
Maintenance	1,299	2,029	729	56
Local assistance	274	1,029	755	276
Capital outlay support	603	772	170	28
Operations	235	260	24	10
Legal	115	140	25	21
Program development	32	41	9	29
Subtotals	(\$3,181)	(\$6,380)	(\$3,199)	(101%)
Other Programs				
Mass transportation	\$311	\$388	\$77	25%
Transportation planning	110	168	59	53
Office of the Inspector General	—	11	11	—
Aeronautics	8	6	-2	-24
Subtotals	(\$429)	(\$574)	(\$145)	(34%)
Totals	\$3,610	\$6,954	\$3,344	93%

f. How much car and gas-tax related funds are used to cover the budget of CHP? What other funding sources are used to cover the CHP budget?

As shown in Figure 4, the 2018-19 budget provides CHP with a total of \$2.6 billion. Of this amount, \$2.4 billion comes from the Motor Vehicle Account (which also funds the DMV and California Air Resources Board) and \$79 million comes from the State Highway Account (which primarily funds Caltrans). The remaining \$150 million of CHP’s budget comes from various other sources.

Figure 4
California Highway Patrol Budget
2018-19 (Dollars in Millions)

	Funding	Percent of Total
Motor Vehicle Account	\$2,374.1	91.3%
State Highway Account	77.8	3.0
Other sources		
Reimbursements	118.0	4.5
Federal funds	21.0	0.8
Supplemental motorcycle registration fees	4.9	0.2
Cannabis taxes	3.0	0.1
Asset forfeitures	2.1	0.1
Donations for peace officer memorial	0.3	— ^a
Hazardous waste violation fines and penalties	0.2	— ^a
Subtotals	(\$149.5)	(5.7%)
Totals	\$2,601.2	100.0%

^a Less than 0.1 percent.

The Motor Vehicle Account receives revenues from over two dozen sources, with the largest percent coming from vehicle registration fees (85 percent) and driver license fees (8 percent). Figure 5 details the account’s revenue sources. The State Highway Account receives state-generated revenues from gas and diesel excise taxes, truck weight fees, transportation improvement fees, and the small amount of miscellaneous sources discussed below in question “j.” Thus, the vast majority of CHP’s budget comes

from car and fuel-tax related funds. We note that the only effect SB 1 had on CHP’s budget was to increase its reimbursements from Caltrans for its costs to participate in the Freeway Service Patrol program. Senate Bill 1 provides \$25 million annually to Caltrans for this program

g. Which taxes and fees that are collected for transportation-related purposes are currently being transferred to the General Fund? Please include in this estimation the annual weight fees, an estimation of weight fees previously transferred/loaned to the General Fund but not yet

Figure 5
Motor Vehicle Account Fund Sources
2018-19 (Dollars in Millions)

	Funding	Percent of Total
Registration fees	\$3,280.1	85.4%
Driver license fees	297.0	7.7
Sales of documents and services to the public	89.4	2.3
Other motor vehicle fees (including OHV fees)	77.3	2.0
Identification card fees	33.3	0.9
Other regulatory licenses, permits, and fees	28.4	0.7
Traffic violations and civil/criminal violation assessments	14.1	0.4
Local agency cost recoveries	11.9	0.3
Investment income	3.0	0.1
Other	5.5	0.1
Totals	\$3,839.9	100.0%

OHV = off-highway vehicle.

spent, the money transferred out of the Motor Vehicle Account, and any other miscellaneous funds (for instance, the money that Caltrans receives from the sale of excess property that is used for administrative purposes).

There are four sources of transportation-related revenues that have been used for the General Fund's benefit:

- While most revenue in the Motor Vehicle Account is restricted for transportation-related purposes under the State Constitution, the revenue DMV collects from certain miscellaneous activities (such as sales of records to credit bureaus and other private companies) is not restricted for transportation purposes. The 2018-19 budget assumes that the DMV will collect \$89 million in such miscellaneous revenue and transfer this revenue from the Motor Vehicle Account to the General Fund.
- The budget also reflects a transfer of \$113 million in gasoline and diesel excise tax revenues derived from fuel purchases for off-highway vehicles, certain agricultural vehicles, and boats to the General Fund. These funds are not restricted for transportation purposes by the State Constitution because the fuel being taxed was not used in motor vehicles operated on public streets and highways.
- In addition to the above General Fund transfers, the state currently uses vehicle weight fee revenues to pay for transportation bond debt service that prior to 2010-11 had been paid from the General Fund. In 2018-19, the state plans to dedicate \$1.1 billion in weight fee revenues it collects for this purpose, as well as \$382 million in weight fees that it collected in prior years. An additional \$768 million in weight fees collected in prior years is available to support debt service payments in future years.
- The 2018-19 budget also dedicates \$60 million from miscellaneous revenues deposited into the State Highway Account to the payment of transportation bond debt service (we describe these revenues further below in question "j").

h. In the past, the LAO has documented the waste in various transportation programs, including a significant number of excess employees in your May 14, 2014 Capital Outlay Support (COS) Program Review. Understanding that a recent May 2018 report has updated the analysis in light of SB 1, but was completed before the final budget was approved by the Legislature and signed by the Governor, can you update the numbers for the current budget year and the out years?

Caltrans' COS program provides the staff necessary to deliver transportation infrastructure projects, such as by designing projects, acquiring land, and managing construction work. In May 2014, our office released a report concluding that the data and methodology used by Caltrans to estimate COS staffing levels was largely unreliable. In the report, we used an alternative approach to roughly assess COS staffing needs, based on the upcoming projected volume of construction work (as measured in dollars). At that time, construction work was expected to decline by about 40 percent due to a projected decline in transportation funding. Thus, we concluded that COS staffing should decline by roughly the same percent—equal to about 3,500 positions.

Since our May 2014 report was released, the department has made some improvements to its methodology for estimating COS staffing levels but we have not yet re-examined the methodology in depth. Thus, we are uncertain whether it accurately reflects the department's current staffing needs. If we were today to use the same alternative approach to roughly assess COS staffing needs that we used in 2014, this approach would suggest that the program currently is overstaffed by more than 1,000 positions (equal to around 10 percent of the program's 10,319 authorized positions). The reason this estimate is

lower than the one from 2014 is because COS staffing levels today are generally the same as in 2014 but construction workload has increased considerably (mainly due to SB 1). In the out-years, construction workload is expected to increase even further, in large part due to more monies being available due to SB 1's inflationary adjustments to fuel and vehicle tax rates.

i. The DMV is receiving SB 1 money to cover their administrative costs of collecting and tracking the new car tax. Can you document how much of the new revenues are being spent for this function.

The 2018-19 budget provides DMV with \$7.8 million to collect the recently enacted transportation improvement fees (car taxes). Specifically, this funding pays for increased credit card transaction costs. These costs equal a little less than one half of 1 percent of the revenues being collected (which total \$1.5 billion, as noted earlier).

j. Please ascertain the size of Caltrans' miscellaneous fund, and identify the source of those revenues and what the funds are being spent on.

The annual state budget appropriates funding to Caltrans from over two dozen different funds. The State Highway Account is the main state fund supporting Caltrans—accounting for two thirds of Caltrans' state funding. This fund primarily receives revenues from fuel taxes and vehicle fees; however, it also receives revenues from a few miscellaneous sources. Specifically, the 2018-19 budget assumes the State Highway Account receives a total of \$118 million from rental property income (\$49 million), public land sales (\$29 million), investment income (\$25 million), regulatory licensing and permitting fees (\$12 million), and other sources (\$4.2 million), such as from the sale of documents and surplus goods. Of these funds, the 2018-19 budget assumes that \$60 million pays for transportation bond debt service. (This is because the state cannot use truck weight fees to pay for this portion of transportation bond debt service, due to state constitutional restrictions.) The remaining funds remain in the State Highway Account and are used to support Caltrans and certain other state agencies (such as the California Transportation Commission).

Besides miscellaneous funds from the State Highway Account, Caltrans also receives about \$1.1 million annually from the rental of state property that is deposited into the Historic Property Maintenance Fund. The state budget appropriates these funds to Caltrans for its COS program. All other state revenues deposited into accounts supporting Caltrans come from fuel taxes (including jet fuel taxes to pay for Caltrans' aeronautics program), vehicle fees, bond sales, cap-and-trade auction revenues, and investment earnings.

If you have any questions about the information in this letter, please contact Paul Golaszewski of my staff at (916) 319-8341 or Paul.Golaszewski@lao.ca.gov.

Sincerely,



Mac Taylor
Legislative Analyst