

Statement of Richard G. Little, AICP<sup>1</sup>  
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*before the*  
California Assembly Select Committee on Rail Transportation  
April 3, 2008

Chairman Davis and Members of the Committee, my name is Richard Little and I am the director of the Keston Institute for Public Finance and Infrastructure Policy at the University of Southern California. The Keston Institute was established at USC to explore and evaluate policy solutions to California's on-going infrastructure crisis and it is my pleasure to address you today.

The Assembly Select Committee on Rail Transportation has taken on a challenging topic and I have been asked to comment today on the importance of rail transportation to California and the outlook for transportation funding. I will attempt to do both but I would first like to place my remarks within the context of what has come to be known as a "perfect storm."

A perfect storm is defined as the simultaneous occurrence of events which, taken individually, would be far less powerful than the potentially devastating results of their chance combination. I would suggest that California may be rapidly approaching such a perfect storm in transportation but not necessarily by chance. The factors supporting this position are our burgeoning population, existing and projected highway and airport congestion, and the state's commitment to reducing greenhouse gas emissions through the enactment of AB32. The situation is exacerbated by transportation revenue projections that can only be considered inadequate even under the most optimistic scenario. I will briefly discuss each of these factors.

Population: Statewide population is expected to grow to almost 50,000,000 by 2030. This is growth of more than 30% in a generation. In addition to their other wants and needs, these 12,000,000 new residents will need to travel locally and around the state by various transportation modes.

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Highway Congestion: California still leads the nation in highway congestion. Five of the 15 worst bottlenecks in the nation are in Los Angeles. In urban areas of more than 3 million persons, Los Angeles and San Francisco are projected to continue to have serious mobility restrictions. Mobility in Sacramento and San Diego is also projected to decline. Improvements in the pipeline will do little to alleviate these situations even without projected population increases.

Airport Congestion: Airports in the Bay Area and Southland are operating at or near capacity. Due to environmental concerns and other land use conflicts, there is little likelihood that new facilities or major expansions will be possible.

AB32: With the enactment of this legislation, California made a powerful commitment to reduce greenhouse gas emissions. This could ultimately impact the state's ability or willingness to add measurably to highway capacity, VMT, or the number of flights to and from California airports.

All of these factors suggest that an alternative transportation mode with a low carbon footprint should receive serious consideration.

Transportation Funding: State and local funding for transportation in California has not kept pace with demand for several reasons:

- ❖ California last increased the fuel excise tax in 1994; since that time construction costs have increased 250%
- ❖ General and special tax revenues continue to provide only a portion of the necessary funds required to maintain, rebuild, and expand California's transportation system
- ❖ General obligation bonds are not a sustainable funding source.

At the federal level, the Highway Trust Fund is essentially bankrupt and federal fuel tax revenues face the same challenges as at the state level. The bipartisan National Surface Transportation Policy and Revenue Study Commission recently offered up two fundamentally opposed solutions: double or triple the federal motor fuels tax or greatly expand the use of private capital through arrangements known collectively as public-private partnerships (PPP). Opposition to both these proposals may be expected nationally and within California. The attached table summarizes transportation funding options in California.

### Is rail a viable option?

Although properly designed and located high-speed, electrified trains could provide much needed urban and inter-urban capacity with minimal greenhouse gas emissions, some caution is in order. There is a respected body of empiric research that demonstrates that large transportation projects of all types often suffer from what might be termed “irrational exuberance” on the part of their supporters. Construction costs are underestimated while ridership is inflated. The end result is that all too often, projects cost far more than promised and initially have fewer users to support them. This alleged “disaster gene” in transportation megaprojects is not a myth and needs to be recognized in any rail transportation proposal.

However, despite the fact that rail projects may not “pencil out” in the short term, California needs to consider its options carefully. The rail transportation system of the future will not be competing with cheaper options from the past. Rather, it will be competing with alternatives that are likely to be severely constrained by physical capacity, environmental concerns, and limited revenues. Under these conditions, what appears too costly today may, in fact, be a prudent investment for tomorrow. Rail alone, however, will not solve California’s mobility problems. I would like to reiterate three ideas for a more holistic transportation strategy that are neither novel nor new.

California will need to:

- ❖ Develop a balanced, revenue-supported, multi-modal transportation system for urban and inter-urban travel
- ❖ Encourage transit-oriented land uses and development practices that offer modal choices
- ❖ Use congestion pricing to improve urban mobility, reduce greenhouse gas emissions, and provide a stable funding source for sustainable transportation options

Maintaining a focus on the future, not the past, will be necessary for California to have a transportation system that will support our economic well-being and high quality of life throughout the 21<sup>st</sup> Century. I urge you to consider all options for making this a reality. I thank you for the opportunity to address the Committee today.

## Transportation Funding Sources in California

Source of Funds	Potential as Long-term Transportation Funding Source
Federal Highway Trust Fund	Federal funds reallocated to the states are primarily derived from excise taxes on gasoline (18.4¢/gal) and diesel fuel (24.4¢/gal). California receives about \$4.6 billion annually and this amount should continue or increase slightly in the coming years. Although the amount the state recaptures from its contribution to the Highway Trust Fund has been increasing, it is still projected to remain below 100%. These funds are for construction only and do not fund maintenance and repair. The purchasing power of the federal gas tax has eroded over time and will also continue to decrease as vehicle fuel economy increases. No significant increase in this funding source is anticipated. Federal funds provide about 23% of annual state transportation funding.
State Gas Tax	The state tax on gasoline and diesel fuel is 18¢/gal and generates about \$3.0-\$3.5 billion annually. The gas tax has not been increased since 1994 and suffers from the same limitations as a long-term funding source as the federal fuels tax.
Prop 42 Funds	Proposition 42 allocated a percentage of sales tax revenue from motor fuels to state and local transportation. With the passage of Proposition 1A in November 2006 to prevent future diversions to the General Fund, about \$2.5 billion should be available from this source.
State General Fund	State general funds have been applied to transportation by means of special program allocations or to service the debt on general obligation bonds. Although bonds do provide a source of capital for construction and distribute costs between present and future generations, debt service requirements will impact the ability of the state to finance other program priorities in the long-term. California is also approaching the 6% limitation on debt service as a percentage of expenditures allied by many rating agencies to determine credit-worthiness. The \$20 billion in transportation bonds approved in 2006 will require repayment of about \$40 billion in principle and interest over their lifetime.
Self-Help County Sales Tax Revenue	Local option sales taxes for transportation provide about \$3 billion annually. Although an excellent revenue source, currently only 19 of the states 58 counties have such programs and several ballot initiatives in November 2006 failed to attain the super-majorities required for passage.
Toll Roads & PPPs	Tolls are currently charged on 7 Bay Area Bridges and some highways in Orange and San Diego Counties. The increased use of toll roads and HOT lanes is probably the largest untapped revenue source available for transportation. Toll projects can be built and operated as public, private, or public-private enterprises and each has a set of positive and negative attributes. A key issue is ensuring that the public interest is protected from unacceptable toll increases and that the highways are constructed, operated, and maintained to ensure that safety and efficiency are not compromised.