



**BOARD OF DIRECTORS
FEBRUARY 23, 2018**

ACTION REQUESTED: DISCUSSION

SAN DIEGO FORWARD: THE 2019-2050 REGIONAL PLAN – File Number 3102000
FUNDING SCENARIOS

Introduction

The Regional Plan is a federally- and state-mandated document that presents the overall vision for how the San Diego region will grow through 2050, including all transportation-related investments that will be needed to support that vision. It is updated every four years, and must be fiscally constrained, meaning the cost of projects and programs included must be supported by current revenue sources as well as reasonably expected new sources.

This report outlines recommendations for revenue scenarios to be evaluated as part of the development of the 2019 Regional Plan. These recommendations were informed by Board discussion during its annual retreat in February.

Discussion

Revenue scenarios determine how much funding is reasonably expected to be available to support the projects and programs included in the Regional Plan, and are meant to reflect a region's long-term vision, needs, and appetite for large scale transportation improvements. In general, a more optimistic revenue scenario—meaning one that includes more revenue sources and higher overall funding levels through the life of the Regional Plan—allows for a greater number of transportation projects or programs to be included. More optimistic revenue scenarios also would entail additional planning and engineering work to help position projects to compete for funds for project implementation. The converse is a less optimistic revenue scenario that includes less sources and therefore limits the number and type of projects, programs, and planning/engineering work that can be included in the Regional Plan.

The inclusion of revenue sources that have varying degrees of certainty differs in Regional Plans across the nation. The revenue scenario used for the 2015 Regional Plan falls between the less and more optimistic approaches as compared to other regions, particularly as it relates to the inclusion of new local sales taxes, assumptions for future federal fuel tax increases, and future vehicle miles traveled (VMT) fees.

2015 Regional Plan

The 2015 Regional Plan assumes nearly \$204 billion in federal, state, and local revenues that are reasonably expected to be available from 2014 to 2050 (Attachment 1)¹. These revenue assumptions, listed broadly from more to less certain, include:

- Current revenues, including *TransNet*, state and federal formula funds, as well as funding sources that flow directly to member and partner agencies like developer impact fees, existing fuel taxes, passenger fares, and highway maintenance dollars, among others.
- Assumptions for the continuation, renewal, or extension of current revenues; for example, the continuation of existing fuel taxes, re-authorization of federal transportation bills and/or statewide transportation funding measures, and extension of *TransNet* beyond its current sunset of 2048.
- New revenue sources, including a new local sales tax for transportation, potential future increases to fuel taxes, and potential VMT fees.

Given the forward-looking nature of revenue forecasting, these revenue forecasts are subject to changes in law, economic cycles, and other factors that must be periodically reviewed and updated. Prior to the Board of Directors adopting the 2015 Regional Plan, the Federal Highway Administration and Federal Transit Administration reviewed and concurred with the reasonableness of the revenue assumptions in the 2015 Plan.

2019 Regional Plan

As part of the development of the 2019 Regional Plan, an update to the revenue forecast must be conducted. As part of this process, all revenue assumptions are being reviewed; adjustments will be made to ensure continued reasonableness based on factors such as the current economic environment, more recent trends of revenue receipts, and updated forecasts of future revenue collections. Any significant changes that have taken place since the adoption of the 2015 Regional Plan also will be incorporated, such as the addition of new revenue sources and the deletion of others that may have sunset or are not likely to materialize.

At its annual retreat this month, the Board of Directors discussed different possibilities for potential revenue sources that could help fund the projects and programs included in the 2019 Regional Plan. Based on this feedback, staff plans to develop three revenue scenarios for the Board to consider as part of the 2019 Regional Plan development process. One scenario would include only existing sources—except for Senate Bill 1 (SB 1) (Beall, 2017) due to pending repeal efforts. The other scenarios would include different mixtures of potential sources like new fuel taxes, VMT fees, and new local sales taxes for transportation. Different revenue scenarios would help frame the discussion about the projects and programs that could be included in the 2019 Regional Plan. The Board of Directors would ultimately determine which revenue scenario would be used to develop the plan.

Each of the revenue scenarios outlined in Table 1 below would be considered reasonable and therefore deemed appropriate by the federal transportation agencies to use for the 2019 Regional Plan. They would differ in that they would be reasonably conservative or reasonably aggressive, but all

¹ Per federal law, however, all assumptions included in a revenue-constrained scenario must be reasonably expected.

assumptions supporting each scenario would be based on revenue sources, rates of growth, transportation funding policies at the state and federal level, and potential new sources commonly accepted and used by transportation planning agencies across the country. The final numbers for the various revenue sources currently are being finalized; however, a preliminary range of estimated total revenues for each scenario is included for comparison purposes.

Table 1. Potential Revenue Scenarios for San Diego Forward: The 2019-2050 Regional Plan

Revenue Source	Adopted 2015 Regional Plan	Scenario 1	Scenario 2	Scenario 3
Existing Federal, State, Local Revenue Sources	Included	Include	Include	Include
Continuation, Re-Authorization and Extension of Existing Local, State and Federal Sources Growing at Reasonable Rates	Included	Include	Include	Include
Future State Revenues for Transportation	Included	Don't include	Don't include	Don't include
SB 1	Not Included	Don't include	Include	Include
Potential Future Federal Fuel Tax Increases (Starting in 2024)	Included	Don't include	Include	Include
Potential Future State VMT Fees (Starting in 2024)	Included	Don't include	Include	Include
New Local Sales Tax @ 0.25% (Starting in 2024)	Included	Don't include	Include	Include (as part of 0.5% below)
New Local Sales Tax @ 0.50% (Starting in 2024)	Not included	Don't include	Don't include	Include
Approximate Total	\$203.8 billion	\$115 to \$135 billion	\$150 to \$180 billion	\$160 to \$190 billion

The revenue scenarios outlined above range from a low of about \$115 billion to \$135 billion for Scenario 1, to a potential high of between \$160 billion and \$190 billion for Scenario 3.

The bulk of the assumptions in Scenario 1 include long-standing, existing revenue sources currently flowing from federal, state, and local sources. These revenues are proposed to be included for all scenarios based on historic trends. Reasonable rates of growth, reviewed by and discussed with federal agencies, would be assumed for these sources.

In the case of Scenarios 2 and 3, to be conservative, the inclusion of new revenue sources would not begin until 2024; therefore, the revenues assumed for the first five years of the 2019 Regional Plan would be consistent with the current Regional Transportation Improvement Program, which only includes existing or committed funds from federal, state, and local sources.

The main difference between the three scenarios is whether or not to include one or more of the following funding sources: SB 1 revenues, new local sales tax measures (either at a quarter- or half-cent), new future federal fuel tax increases, and new future VMT fees. A brief description and considerations for each of these revenue sources are included in Attachment 2.

Considerations

It should be noted that while a portion of the total revenues provided by each scenario would be assumed to support local streets and roads and maintenance projects, the bulk of the funds would be assumed to support many of the projects currently included in the Regional Plan. Absent these funds, many projects currently included in the Regional Plan likely would need to be deferred beyond 2050. In addition, completion of projects that remain in the Regional Plan likely would be moved towards the later years of the Regional Plan.

Next Steps

Staff will continue working to finalize estimates for the various revenue scenarios. In addition, over the next few months, staff will return to the Board of Directors with potential transportation networks (the menu of projects and programs) that would “fit” within the various revenue scenarios to help illustrate the potential impacts of including or not including certain potential new revenue sources.

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Attachment: 1. San Diego Forward: The Regional Plan, Table 3.1
2. Description of Potential New Revenue Sources

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Table 3.1
Revenue Sources

	Estimated Revenues (in millions of YOE dollars) ^a			
	FY 2014-2020	FY 2021-2035	FY 2036-2050	Total
<i>Local</i>				
TransNet	\$1,796	\$7,454	\$13,574	\$22,824
TransNet (Bond Proceeds)	\$1,257	\$1,870	\$405	\$3,532
Transportation Development Act	\$1,019	\$3,695	\$6,729	\$11,443
Developer Impact Fees	\$191	\$438	\$393	\$1,022
City/County Local Gas Taxes	\$871	\$1,903	\$2,438	\$5,212
General Fund/Miscellaneous Local Road Funds	\$1,990	\$5,942	\$9,257	\$17,189
Future Local Revenues for Transportation	\$169	\$3,727	\$6,787	\$10,683
Toll Road Funding (I-5/I-15/SR 11/SR 241)	\$494	\$0	\$7,454	\$7,948
Public Private Partnerships/Transit Oriented Development	\$5	\$119	\$192	\$316
FasTrak® Revenues	\$48	\$337	\$1,274	\$1,659
Passenger Fares	\$942	\$4,771	\$9,567	\$15,280
Motorist Aid Services - Call Box Program	\$56	\$147	\$198	\$401
Prior Year Funds in Regional Transportation Improvement Program	\$410	\$111	\$0	\$521
	Subtotal	\$9,248	\$30,514	\$58,268
			\$98,030	
<i>State</i>				
Active Transportation Program	\$67	\$248	\$617	\$932
State Transportation Improvement Program	\$262	\$947	\$2,379	\$3,588
State Transit Assistance Program	\$175	\$492	\$906	\$1,573
State Highway Operations and Preservation Program and Operations/Maintenance	\$1,334	\$4,587	\$9,529	\$15,450
Future State Revenues for Transportation	\$128	\$4,380	\$6,219	\$10,727
Cap and Trade	\$97	\$895	\$1,343	\$2,335
Transportation Bond/Infrastructure Programs	\$263	\$4,138	\$8,348	\$12,749
State Managed Federal Programs	\$403	\$1,397	\$2,905	\$4,705
High-Speed Rail	\$0	\$0	\$17,182	\$17,182
Prior Year Funds in Regional Transportation Improvement Program	\$254	\$0	\$0	\$254
	Subtotal	\$2,983	\$17,084	\$49,428
			\$69,495	
<i>Federal</i>				
Federal Transit Administration Discretionary	\$876	\$4,314	\$1,695	\$6,885
Federal Transit Administration Formula Programs	\$700	\$1,992	\$5,811	\$8,503
Congestion Mitigation and Air Quality/ Regional Surface Transportation Program	\$485	\$1,496	\$4,593	\$6,574
Federal Highway Administration Discretionary	\$4	\$37	\$86	\$127
Other Financing (Grant Anticipation Notes)	\$547	\$0	\$0	\$547
Future Federal Revenues for Transportation	\$184	\$3,270	\$5,377	\$8,831
Federal Railroad Administration	\$39	\$487	\$787	\$1,313
Corridors and Borders Infrastructure/Other Freight Funds	\$21	\$842	\$2,287	\$3,150
Prior Year Funds in Regional Transportation Improvement Program	\$305	\$14	\$0	\$319
	Subtotal	\$3,161	\$12,452	\$20,636
			\$36,249	
Grand Total Revenue Sources	\$15,392	\$60,050	\$128,332	\$203,774

^a Year of Expenditure (YOE)

Description of Potential New Fund Sources

Senate Bill 1 (SB 1) (Beall) Revenues: In April 2017, the Governor approved SB 1, a multi-billion-dollar program focusing on “fix-it first” activities, including fixing potholes and pavement along the state highway and local street network, with additional funds to address congested and freight corridors, and active and public transportation. SB 1 funds these programs with fuel tax and registration fee increases, among other sources. Fuel taxes were adjusted beginning in November 2017 to reflect this new law. It is estimated that SB 1 would contribute between \$13 and \$15 billion dollars of funding that could be added to the Regional Plan

A proposal to repeal the measure is in the signature gathering process, and if the ballot measure is successful, would stop the collection of SB 1 dollars.

New Local Sales Tax Measure: The 2015 Regional Plan includes an assumption for a quarter-cent new San Diego regional tax for transportation starting in 2020. In 2016, Measure A, a half-cent tax was approved by about 58 percent of voters, but failed to gain the required two-thirds majority for passage. In addition to SANDAG’s legislative authority to place county-wide ballot measures for transportation sales taxes, Assembly Bill 805 (Gonzalez Fletcher, 2017), provides additional flexibility to transit agencies to consider sub-regional sales tax measures. At the 2018 Annual Board of Directors retreat, members considered the possibility of region-wide as well as sub-regional sales tax measures, and considered the timing of these could be as early as the next presidential election (2020) to as much as ten years away. Based on these developments, it is reasonable to assume that a sales tax measure may be brought to the voters by either SANDAG or by either one or both of the transit agencies by 2024.

It is estimated that the quarter-cent assumption could raise approximately \$8.3 billion, and the half-cent assumption could raise approximately \$16.6 billion between 2024 and 2050. The exact timing for approval of such sales tax measures, however, result in a higher level of uncertainty.

Potential Future Federal Fuel Tax Increases: The federal government has maintained gas taxes fixed at 18.4 cents per gallon since 1993. Because these gas taxes are on a per-gallon basis, due to inflation the value of the tax has decreased by about forty percent, to an equivalent of 11 cents. Although fuel tax collections and deposits to the Highway Trust Fund have continued to grow due to increases in the number of gallons sold, periodic one-time infusions from the General Fund have been necessary to maintain the solvency of the Highway Trust Fund. It is reasonable to assume that the federal government between now and 2050 would address these periodic insolvency issues; there is continuing discussion at the federal level about investing in transportation infrastructure. Therefore, it would be reasonable to assume future increases to federal fuel taxes, similar to the historical increases to federal fuel taxes experienced in the 1980s and early 1990s. While it is recognized that anticipated decreases in the amount of fuel consumed in the long-term make this a less reliable and significant source in the future, this assumption remains a reasonable one.

It is estimated that new future fuel taxes, including a 15-cent increase in 2024 (it would take about a 15-cent increase at that time to return to the purchasing power of an 18.4-cent per gallon tax in 1993), and an average annual penny increase through 2050, could raise approximately between \$6 billion and \$8 billion.

Potential Future State Vehicle-Miles Travelled (VMT) Fees: The premise of using fuel taxes as an equivalent “user fee” to help pay for the maintenance and upgrade of the transportation system was predicated on fuel consumption keeping up with the needs of the system. Estimates of future fuel consumption, however, have been significantly reduced over time. In 2009, for example, Caltrans forecast that over 2.2 billion gallons of gasoline would be consumed by 2030 in San Diego County. Today, SANDAG’s models are forecasting less: slightly more than 800 million gallons by the same year. As vehicles are becoming more fuel efficient and increasingly pay less than their fair share of the cost to maintain and upgrade the existing transportation system, there has been increased focus on revenue mechanisms that allow users to pay into the system through fees based on the number of miles travelled. The implementation of these mechanisms has faced concerns ranging from questions about loss of privacy to how would the collection be done in a way that is easy, efficient, and equitable. The State of California implemented a pilot project for a Road User Charge in FY 2016-2017, and other pilot projects have been implemented or are being implemented in other states, notably Oregon and Washington. As the number of very efficient or electric vehicles, including automated vehicles, becomes substantial, it is reasonable to assume that some states, including California, may implement some form of VMT-based user fee that could wholly or partially replace or supplement existing at-the-pump collection systems.

It is estimated that a VMT fee, starting at about a half-penny per mile—which is substantially less than assumed by Oregon (1.5 cents per mile) or Washington State (2.4 cents per mile)—with gradual increases over time could raise approximately \$10 billion to \$14 billion.