



# ***Danger in Cutting Transportation Funds***

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## ***Background:***

### **Budget Actions Cut Local Transportation Funding:**

- The Budget Conference Committee has voted to “take” \$986 million of the local share of the gasoline excise tax from counties and cities and use the funds instead for transportation related bond debt service in 2009-10 and “take” an additional \$745 million in local gas taxes for debt service in 2010-11 and not pay it back.
- The Department of Finance has also proposed to delay or suspend the first two quarters of the local portion of Prop 42 in FY 2009-10, equivalent to another \$288 million. The proposal is to payback these funds to local governments in May 2010.

**TOTAL LOSS: \$2.019 billion**

### **AGC’s Position:**

The Associated General Contractors (AGC) urge the Legislature to reject any proposal to take and/or borrow gas tax funds to use for general fund purposes. California voters sent an unequivocal message to lawmakers on May 19, “Deal with the budget responsibly and provide long-term structural change. No more borrowing. No more gimmicks.”

### **Importance of These Revenues to Cities and Counties**

This action of diverting the gas taxes will result in a loss to cities and counties of nearly \$1 billion in 2009-10 and \$745 million in 2010-11. There is a serious concern that this will be a permanent annual loss. The Prop 42 borrowing would result in an additional loss of \$288 million to counties and cities.

A combination of redirecting gas taxes and borrowing Prop 42 represents nearly a complete loss of personnel cost to staff public works’ transportation departments and city and county ability to meet the needs of the public. These funds will have a ripple effect thru the private sector for the construction industry and material providers for road work.

### **The Impact**

- Job losses will be in the thousands (3,950 and counting for county public works departments alone) with a ripple effect resulting in further job losses in other county departments as well, particularly to Internal Service Funds such as Fleet Management, Countywide Admin, Communications, etc.
- Additional job losses will occur in the private sector, including in the hard hit construction industry and with material providers (asphalt, oil, aggregate, etc.).
- \$1 billion spent on highway and road construction creates over 21,000 jobs that in turn contribute to the California economy.
- Mobility and safety needs of the public will be severely compromised.
- Loss of federal funds due to the lack of match available to keep projects moving.
- The current revenue shortfall for preservation of the local system is already \$71 billion over the next decade. Costs to taxpayers to fix roads will grow exponentially.

## **Negates Federal Stimulus Dollars**

This loss will erase any benefit of the federal economic stimulus monies at the local level. California only received \$2.5 billion in highway funding from the American Recovery and Reinvestment Act (ARRA) with about \$600 million targeted to reach the local level. The proposed reductions are twice that amount.

AGC fully understands the difficulty of resolving a budget deficit of this magnitude. However, the decisions made today will either start California on its steep climb back to fiscal health, or will further exacerbate our budget problems and deepen our structural deficit in future years.

- ***California would lose out on the creation of tens of thousands of jobs and billions in economic activity at the worst possible time.*** With contractors typically coming in at 20-40% under engineers' estimates on public works projects, California is getting the best value it has had in many years on infrastructure investment. Lawmakers should be taking steps to grow our state's economy and generate revenue for the general fund. Every \$1 billion invested in infrastructure generates \$5 billion in economic activity and 21,000 jobs. Much of this economic activity is put immediately to work -- as contracts are awarded, contractors begin purchasing equipment and materials, hiring workers, paying payroll and generating sales and income taxes to state and local governments. A survey of our construction industry indicates that a construction project in the range of \$10-20 million can provide an immediate employment to an average of 100 trade workers and 8-10 salaried professionals, providing spending and tax revenue back to the economy within less than a week from contract award.

Borrowing gas tax funds – even temporarily – will result in thousands of job losses, billions in lost economic activity, millions in lost revenues for the state and added pressure on state coffers to pay unemployment and other benefits for those who lost their jobs.

- ***Raiding transportation funding goes against the will of voters.*** Voters overwhelmingly voted several times to make sure that all taxes on gasoline go to road improvements. As such, proposals to borrow or repeal funding dedicated to transportation ignore the clear mandate set by voters. In 2006, 77% of voters approved Proposition 1A, preventing the state from using sales taxes on gasoline for non-transportation purposes. Furthermore, a PPIC poll last year found that only 9% of voters think borrowing is an acceptable solution to our budget problems. Finally, the May 19 vote couldn't have been clearer, "no more budget gimmicks, no more borrowing."
- ***Raiding gas tax funds disproportionately impacts the construction industry, its employees and contractors.*** The construction industry is already facing 20% unemployment due to the global recession. Local governments across the state are already laying off public works staff. Raiding all of the state tax on gas would disproportionately impact an industry that is already reeling and could literally put many contractors and public works departments out of business.

California leaders must make the tough and fiscally responsible decisions that will finally put an end to our structural problems, while also stimulating our economic recovery. We urge you to protect gas tax funds for infrastructure improvements as a means of setting California back on track for a sound economy.