

The Importance of Spillover Funding in California

The Governor's Spillover Proposals

The Governor's initial 2006-2007 budget proposal would have diverted so-called "Spillover" revenue from the Public Transportation Account (PTA) to the General Fund. The Administration in the May Revise now proposes shifting these revenues to a new fund dedicated to paying part of the debt service on the new transportation bond. Based on current forecasts, **the Governor estimates that over \$4.1 billion in transit "spillover" revenues will be diverted over the next 10 years**, with an initial diversion of \$669 million in 2006-07 and another diversion of \$336 million in 2007-08.

2006-07 Proposed Cuts to the PTA		
YEAR	\$ Loss	Where PTA Funds Would Go
2006-07	\$544 million	Transfer "spillover" to the bond debt service
	\$125 million	Transfer "spillover" to the Bay Bridge Toll Account
Total	\$669 million	

The History of Spillover Funds

Spillover funding was created as part of the Transportation Development Act (TDA) in 1971. Spillover revenue occurs and is transferred to the Public Transportation Account when collections from the sales tax on gasoline increase at a faster rate than all other taxable items. **The spillover amount is variable, but the formula was specifically designed to increase transit funding when gas prices are high.** This is so transit agencies can cover their own higher fuel costs and meet demands for more transit from motorists priced out of their cars.

The transfer is based on a calculation required by law to be made by the Board of Equalization and Department of Finance every year. This calculation compares the revenue estimated to be generated by a state sales tax of 5% on all goods *except* gasoline to the revenue generated by a sales tax of 4.75% on all goods *plus* gasoline. (These rates come from a historical agreement between counties and the state to preserve revenue neutrality for the state General Fund.) Per Revenue and Taxation Code section 7102(a)(1), if the amount calculated at 4.75% is greater, the difference or "Spillover" is transferred to the Public Transportation Account.

This money is then split 50/50 between state transit priorities and the State Transit Assistance (STA) Program. STA funds are distributed by formula statewide, and then apportioned regionally to local public transit agencies. While these funds can be used for operations, maintenance and capital, **the State Transit Assistance Program is the only state program dedicated to funding transit operations.**

The Inefficiency and Inequity of Using Spillover Dollars for Debt Service

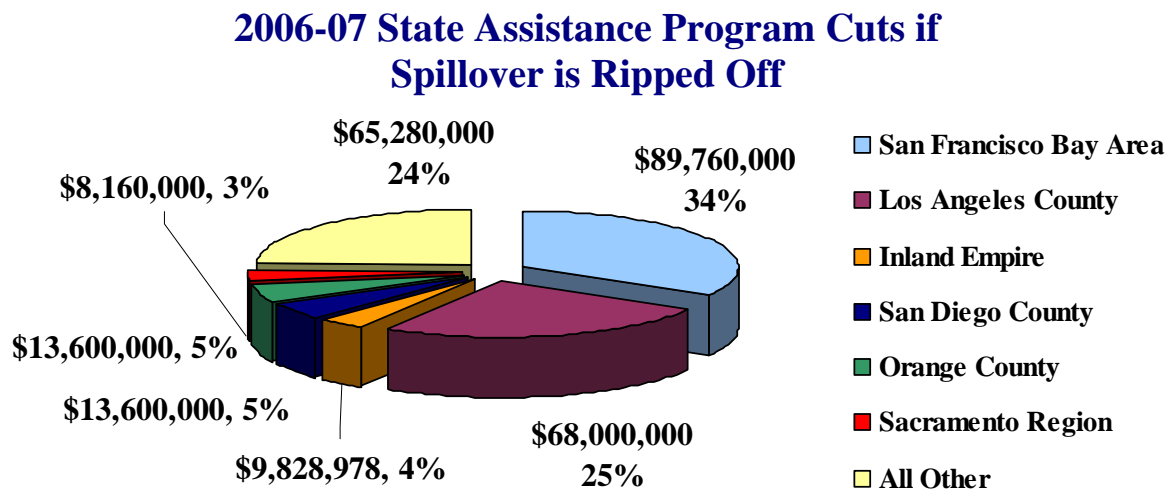
The Governor acknowledged that, "Over the last two decades, the bulk of the spillover funds have been redirected to the General Fund." **Yet, the Administration's new proposal would divert another projected \$4.1 billion in funds away from transit – more than the \$4 billion included for transit capital in the new transportation bond measure! Thus, the bond deal actually costs transit money!** It's also **inefficient**, wiping out funds that transit agencies would need to operate any new transit capital, buses or rail transit systems they might fund through the bond measure.

Using dedicated transit funds to pay the debt service on a General Obligation bond measure that is 75% road-and highway-oriented is also **inequitable for those who depend on transit.** Spillover funds help offset the

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burden of high fuel prices on residents and transit agencies at the times when Californians rely most heavily on transit services to reach work, school, medical appointments, shopping, services and more.

The chart below shows the STA funding cuts that would take place throughout the state if “spillover” dollars are not transferred to the Public Transportation Account in 2006-07.



The Public Transportation Account has already been hit with huge cuts over the last five years:

PTA's Revenue Losses Since FY 2000-01		
	\$ Loss	Where PTA Funds Went
2000-01	\$70 million	Loan to Toll Bridge Seismic Retrofit Program
	\$275 million	Loan to the Traffic Congestion Relief Fund
2002-03	\$100 million	Loan to the General Fund
2003-04	\$87.5 million	Transfer “spillover” to General Fund
	\$93.4 million	Suspension of the PTA's share of Proposition 42
2004-05	\$108 million	Divert revenue from sale of Caltrans property
	\$105.8 million	Suspension of the PTA's share of Proposition 42
	\$140 million	Transfer “spillover” to other programs
2005-06	\$380 million	Transfer “spillover” to other programs
Total	\$1.36 billion	

With the Governor's new proposal, the Public Transportation Account will face **another large cut of \$669 million dollars this year**, resulting in:

\$1.36 billion + \$669 million = **\$2.029 billion TOTAL CUTS**

In the face of continuing high gas prices, please support Californians' needs for public transportation services by protecting Spillover funds for transit!