



July 7, 2025

TO: Board Members, Madera County Transportation Commission

FROM: Gus Khouri, President
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RE: **STATE LEGISLATIVE UPDATE – JUNE**

General Update

The legislature recently voted on legislation before the floor of each house to meet the house of origin deadline of June 6. Policy committees will meet through July 18 to consider bills from the other house. On June 27, Governor Newsom signed SB 101 (Wiener), Chapter 4, Statutes of 2025, the FY 2025-26 State Budget Bill. The Assembly and Senate rejected Governor Newsom's May Revise proposal to eliminate nearly \$1.1 billion in funding for public transportation, so that is not included in the package to close the \$12 billion shortfall. The legislature agreed to utilize \$1 billion from the Greenhouse Gas Reduction Fund (\$500 million over two fiscal years) to offset General Fund obligations and provide resources to Cal Fire for wildfire prevention activities.

This budget deal protects MCTC's remaining share of over \$10 million of the \$18.8 million that is allotted under SB 125, Chapter 54, Statutes of 2023. With respect to the Cal-Fire programming, utilizing some of the GGRF funds could factor into a Cap-and-Trade extension, as there is less capacity, at least in the short term, to augment programs such as TIRCP and the Low Carbon Transit Operations Program, which provide public transportation with additional capital and operations dollars.

Cap and Trade Extension

The Cap-and-Trade Program, established by SB 862 in 2014, is a crucial component of California's strategy to reduce greenhouse gas (GHG) emissions to 1990 levels. The program establishes a declining limit on GHG emissions sources throughout California, covering approximately 80 percent of the State's GHG emissions. The California Air Resources Board (CARB) creates allowances equal to permissible emissions (i.e., the "cap"). One allowance equals one metric ton of carbon dioxide equivalent emissions (using the 100-year global warming potential model). Each year, fewer allowances are created, and the annual cap declines. An increasing annual auction reserve (or floor) price for allowances, combined with a reduction in yearly allowances, creates a steady and sustained carbon price signal to prompt action to reduce GHG emissions. All covered entities in the Cap-and-Trade Program are subject to existing air

quality permit limits for criteria and toxic air pollutants. Proceeds are deposited into the Greenhouse Gas Emission Reduction Fund (GGRF). The program is set to expire in 2030 without an extension. The impetus for Cap and Trade was to create a dedicated source of funding for high-speed rail. The program's extension revolves around how much of the pie high-speed rail will continue to receive—a fixed percentage or a line item.

Over the past three years, individual quarterly auctions have generated an average of \$1.1 billion in revenue, with annual amounts averaging \$4.4 billion. Under current law, most funds are allocated to specific programs, such as high-speed rail (25%), affordable housing and community development (20%), the transit and intercity rail capital program (TIRCP) (10%), and Low Carbon and Transit Operations Program (LCTOP) (5%), and off-the-top line items for specific programs detailed in the chart below. The remaining revenue, roughly 40% (\$1.76 billion), is available for appropriation by the Legislature for discretionary spending programs and to cover state administrative costs through the annual budget process.

Given the commitments to backfill the General Fund, including the additional \$1 billion in Cal-Fire funding that the GGRF must absorb over the next few years, there will be little discretionary funding available to augment programs such as the Low Carbon Transit Operations Program or the Transit and Intercity Rail capital Program, at least in the short-term. GGRF capacity is limited through FY 27-28, barring another raid. There is some discussion that just extending the current program may result in higher-than-expected revenues for the first four to five years. Given the uncertainty of federal funding for high-speed rail, an increase over the \$1 billion line item may be requested, which would reduce the available funds. Last month's [auction proceeds](#) were down, which creates cost pressures for continuously appropriated programs. Nothing will move until the high-speed rail item is resolved.

Gas Tax Successor Source Conversation

Senate Bill 1121 (Gonzalez, Chapter 508, Statutes of 2022) requires the California Transportation Commission (CTC) to prepare a needs assessment to quantify the costs of operating, maintaining, and expanding the state and local multimodal transportation system over the next 10 years. This needs assessment, consistent with the California Transportation Plan, considers climate resiliency needs, forecasts expected federal, state, and local agency revenues, quantifies revenue shortfalls, and provides recommendations on how to address these shortfalls. The CTC issued a draft policy report in February of this year, which utilized information gathered from the Interim State and Local Transportation System Needs Assessment Report submitted in 2024. The Full State and Local Transportation System Needs Assessment Report is due in 2025 and is scheduled to be updated every 5 years thereafter. The needs assessment must include improvement costs from the California State Rail Plan, the State Highway System Management Plan, and the Regional Transportation Plans; address climate change impacts to provide system resiliency; utilize existing reports or analyses for the needs assessment; and involve consultation with stakeholders.

Based on the unconstrained needs identified in each regional transportation plan, the results from a 2024 extended fiscal needs survey, and an assessment of transit and rail systems, climate adaptation, and tribal transportation needs, the total transportation funding needs over the next 10 years, they are estimated to be approximately \$757.5 billion. With a projected revenue stream of \$572 billion (state, local, federal), the CTC estimated a \$216.4 billion funding gap over ten years.

The state gas tax is the primary focus of the needs assessment. According to the Department of Finance, the Governor's FY 2024-25 State Budget estimates that 59.6 cents will generate \$7,851,320,000. In

December of 2023, the Legislative Analyst's Office (LAO) released a [report](#) stating that the state's gas tax revenues are projected to drop by \$6 billion over the next decade. Those declines in tax dollars will be partially offset by the state's road improvement fee, which drivers pay when they register their electric cars. However, the LAO emphasized that, overall, the state will still experience a \$4.4 billion funding drop, representing a 31% decline over a decade. Therefore, the Legislature and the governor must devise substantial new funding sources. The CTC's policy recommendations, some of which are questionable, are detailed below.

Scenario 1: Do nothing – Maintain existing revenue mechanism structures

This scenario includes maintaining the existing revenue mechanism structures. The current sources of revenue collection would remain unchanged. This approach is not recommended because it is not sustainable and fails to support the first principles. That is, doing nothing would hinder the state from further achieving critical goals for safety, sustainability, equity, and economic development. This is clearly not an option. The reason the state is in this predicament is that, aside from bonds such as Proposition 1B in 2006, the state did not invest in transportation and, at a minimum, did not index gas tax revenues between 1994 and 2017 to keep up with inflation. It severely compromised the purchasing power of gas tax revenues and has not kept up with the increase in construction costs. According to the [Bureau of Transportation Statistics](#), construction costs alone could reduce funding allocated to the Infrastructure Investment and Jobs Act (IIJA) by 40% (2022 to 2026) nationwide. A [Needs Assessment](#) published by the California State Association of Counties and the League of Cities, among others, states that construction costs have increased by 32% since the COVID-19 pandemic.

Scenario 2: Increase existing funding mechanisms

In this scenario, several existing revenue mechanisms were identified that could be increased. The first and immediate assumption was to increase the existing state fuel excise tax. A second assumption was to increase the transportation improvement and road improvement fees. The latter two fees are paid with vehicle registration but are distinct from the base vehicle registration fee. The perceived benefit of the scenario is that increasing these fees, from a technical standpoint, may facilitate more straightforward implementation due to the existing revenue collection structure. The fuel tax would continue to be collected through the California Department of Tax and Fee Administration. The CTC expresses concerns that since these fees are either flat or tied to the vehicle's value rather than the miles driven, this raises concerns about fairness and equity. That is, the amount paid for a registration fee is not related to how much one uses the roadway system, which generates costs for road maintenance and repairs.

Scenario 2 questions whether the vehicle registration fee is fair and equitable, but it is the fairest and most equitable solution because it is based on the valuation of a vehicle, which is emblematic of a person's ability to pay. The current vehicle registration fee and road improvement fee are also indexed annually.

Disadvantaged communities often have lower-valued vehicles and must travel longer distances to get to school, work, or seek medical attention, which seems unfair compared to those who can afford to live in developments or housing near amenities. Density is a significant issue along the Coast, Eastern Sierra, Inland Empire, San Joaquin Valley, and Super North regions (encompassing at least 40 counties).

The vehicle registration fee is agnostic to fuel source, fuel economy, and travel patterns, protecting privacy and providing a stable, predictable, and growing source of funding. Even with indexing, as cars depreciate, car owners would pay less. It is possible to convert entirely to a vehicle registration fee,

while eliminating the state gas tax (currently 59.6 cents), and reducing the Road Improvement Fee (RIF), which is the fee collected on electric vehicles. Car owners can save between 77% and nearly 87% by fully converting to a VRF versus the current VRF and gas tax. California has over 32 million registered vehicles (32,088,801), and electric vehicles make up only 1,080,390, or less than 3.4% of all registered vehicles. In 2024, the New Car Dealers Association reported, as cited in a Los Angeles Times [article](#), that 1.75 million vehicles (cars and trucks) were sold statewide, with 387,368 of those being electric vehicles, roughly one in every four vehicles sold. Even when considering Governor Newsom's Executive Order [\(N-79-20\)](#), which requires that all cars in the state be electric vehicles, it would take over 18 years to fully convert to an all-electric vehicle fleet, and this is before considering the removal of federal rebates and incentives for electric vehicles, which could further stagnate conversion.

Scenario 3: Phased-in Road Charge

A road charge is a fee based on the number of miles traveled, regardless of vehicle fuel source. The CTC states that studies suggest a road charge is considered a fairer revenue mechanism than fuel taxes because drivers pay based on the amount they use the road, rather than how much gasoline or diesel fuel they consume, which is especially important considering zero-emission vehicles do not consume traditional fuels. Furthermore, the CTC asserts that a road charge is regarded as a sustainable revenue source that will not diminish as drivers shift to zero-emission vehicles.

Scenario 3 includes maintaining the state fuel excise tax, applying a road charge initially to zero-emission passenger vehicles (which do not pay fuel taxes), and fully transitioning all vehicles (passenger, medium-duty, and heavy-duty) to a road charge by 2035 when the fuel tax, under this scenario, would be eliminated for all vehicles.

The CTC asserts that the benefits of a phased-in approach include maintaining the existing revenue system (i.e., the state excise fuel tax) while applying a more equitable revenue mechanism to zero-emission vehicles first, and then phasing in a road charge, regardless of vehicle type, over time. Under this scenario, the road charge would replace the state fuel excise tax and would supersede the road improvement fee currently paid by zero-emission vehicles. Initial challenges with this scenario include the traveling public's unfamiliarity, implementation, and associated administrative costs.

Scenario 4: Fully implemented Road Charge

This scenario replaces the state fuel excise tax with a road charge with no transition period. Like Scenario 3, this scenario is linked to road usage regardless of the vehicle type and addresses and stabilizes the existing transportation revenue. The CTC contends that another potential benefit of fully implementing a road charge is the ability to collect revenue from all vehicles, as opposed to a phased-in approach. Some initial challenges with Scenario 4 include the traveling public's unfamiliarity, implementation, and associated administrative costs. The challenges would be heightened compared to Scenario 3 because there would be no transition period.

In 2014, the Legislature initiated a pilot program (SB 1077) to study a road charge model as an alternative to the gas tax. The legislation requires the Road User Task Force to consider options as specified in Vehicle Code Section 3090 (e). However, further work is needed to recommend an appropriate charge rate due to the limited number of participants from rural and low-income areas, as well as the truncated timeline. Issues include protecting privacy relating to data collection, enforcement, and compliance. A recent pilot program assessed a 2.5-cent-per-mile charge on each driver, although it is believed that 2.8 cents is a necessary assessment to account for inflation by the time legislation is enacted.

Full VRF Conversion is A Viable Solution

On average, each registered driver pays about \$292 or \$261 per registered vehicle in gas tax annually. Each registered driver in Madera County would pay an average of \$375-\$440 for a 2.5-cent-per-mile road user charge, or \$420-\$493 at 2.8 cents per mile (both more than the current state gas tax), and still have to pay the current registrations fee ranging between \$32 to \$227 per vehicle, plus a road improvement fee (RIF) for electric vehicles of \$118.

If the legislature were to consider a complete conversion to a VRF, ranging from \$285 to \$550, which includes a reduced RIF of \$4 assessed on all vehicles to keep the revenue, over 97% of Madera County residents would save money compared to a road user charge per driver and the current VRF and RIF fees. A modified VRF would enable 100% of all city residents in Chowchilla and Madera to save money compared to a road user charge. The legislature will continue to conduct information hearings to discuss options.