
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anthony Portantino, Chair
2021 - 2022 Regular Session

AB 604 (Daly) - Road Maintenance and Rehabilitation Account: apportionment of funds: accrued interest

Version: February 11, 2021
Urgency: No
Hearing Date: July 15, 2021

Policy Vote: TRANS. 17 - 0
Mandate: No
Consultant: Mark McKenzie

Bill Summary: AB 604 would continuously appropriate interest earnings derived from revenues deposited into the Road Maintenance and Rehabilitation Account (RMRA) to the Department of Transportation (Caltrans) for maintenance of the state highway system or for purposes of the State Highway Operation and Protection Program (SHOPP).

Fiscal Impact:

- Continuous appropriation of approximately \$30 million annually in interest earnings from the RMRA to Caltrans for highway maintenance or SHOPP purposes. These funds would no longer be available for other allowable uses. (RMRA)

Background: Existing law, as enacted by SB 1 (Beall), Chap. 5/2017, establishes the RMRA in the State Transportation Fund, into which is deposited approximately \$3 billion annually in state revenues from gasoline excise taxes, diesel excise taxes, transportation improvement fees (assessed on registered vehicles), and zero-emission vehicle fees. These revenues are realized over the course of a fiscal year as they are collected. The revenues are used to support the following programs, as specified: (1) \$200 million for the Local Partnership Program; (2) \$100 million for the Active Transportation Program; (3) \$400 million for state bridge and culvert maintenance and rehabilitation; (4) \$25 million for freeway service patrols; (5) \$5 million for workforce development programs (until 2021–22); \$25 million for specified local planning grants; and (6) \$7 million for research. The balance of the revenues deposited into the RMRA are continuously appropriated and divided equally between the SHOPP and the Local Streets and Roads Program.

Proposed Law: AB 604 would continuously appropriate interest earnings derived from revenues deposited into the RMRA to Caltrans for maintenance of the state highway system or for purposes of the SHOPP.

Related Legislation: AB 2310 (Daly), which was referred to the Assembly Transportation Committee last year but not set for hearing, was identical to this bill. The contents of AB 2310 were later amended into AB 2285 (Committee on Transportation), Chap. 11/2020, but those provisions were amended out of the bill in this committee.

Staff Comments: The California Transportation Commission's 2019 Annual Report included a recommendation that the Legislature statutorily dedicate RMRA interest earnings to the SHOPP. The report notes the following:

“As is the case for the General Fund and other special funds, the Road Maintenance and Rehabilitation Account has a cash balance associated with it to ensure the availability of funds. This cash balance is invested in interest-bearing financial instruments through the state’s Pooled Money Investment Account. The Road Maintenance and Rehabilitation Account then receives associated interest earnings. For 2019–20, these interest earnings are estimated to equal \$20.3 million. It is important to note that Road Maintenance and Rehabilitation Account funds associated with the Local Streets and Roads Program do not contribute toward these state interest earnings, because interest on these funds is earned in local investment accounts. Whereas SB 1 dedicates the revenues deposited into the Road Maintenance and Rehabilitation Account to specified programs, the legislation does not contain statutory language dedicating interest earnings to specific programs. Thus, the interest earnings effectively end up in the account’s cash balance. To ensure these interest earnings do not accumulate unnecessarily, the Commission recommends that the Legislature statutorily dedicate interest earnings to the SHOPP. This is consistent with the legislative intent for the SHOPP to receive the balance of funds remaining in the Road Maintenance and Rehabilitation Account after the fixed distributions. It also recognizes that interest is earned in local investment accounts for Road Maintenance and Rehabilitation Account funds dedicated to the Local Streets and Roads Program.”

The CTC’s 2020 Annual Report continues the recommendation that the Legislature assign interest earnings in state transportation accounts to specific programs, noting that RMRA interest should be dedicated to the SHOPP. The report notes that the RMRA is expected to earn approximately \$30 million in interest in 2020-21.

Staff notes that the language in AB 604 goes further than the recommendation in the CTC reports by *continuously appropriating* the interest earnings to Caltrans for either SHOPP purposes or for general maintenance of the state highway system. Continuous appropriations of funds remove legislative discretion and flexibility over state expenditures. The Constitutional authority to appropriate rests with the Legislative branch of government, and the appropriation of funds allows for the oversight and monitoring of programs.

Citing the importance of protecting the investments made in the state highway system, Governor Newsom included a Budget Change Proposal (BCP) in the May Revision to the 2021-2022 State Budget to appropriate accrued and future interest, through 2027-28, from the State Highway Account, RMRA, and the Trade Corridor Enhancement Account to accelerate SHOPP projects. The State Budget recently adopted by the Legislature, AB 128 (Ting), incorporates this proposal by appropriating roughly \$73 million in accrued interest in the RMRA to the SHOPP for the budget year. The BCP projects that \$34 million in interest will accrue annually in the RMRA.

The Committee may wish to consider whether interest earnings should be automatically dedicated to SHOPP and general state highway maintenance, as specified in this bill, or if legislative discretion and oversight should be maintained by deleting the continuous appropriation and instead requiring that interest earnings in the RMRA be available annually for expenditure by Caltrans, upon appropriation by the Legislature, for maintenance of the state highway system or for purposes of the SHOPP.