

# Chapter 5

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## Funding our Transportation System



In planning which programs, projects, and actions in Santa Cruz County will advance the region's goals, policies and targets, the Regional Transportation Plan (RTP) must consider how much funding will be available to support the transportation system, including maintaining existing infrastructure and services, and new transit, highway, local road, bicycle, pedestrian, and demand management projects. The total cost of the RTP investment strategy (also referred to as the constrained project list or Action Element) must be "financially constrained" based on revenues that are reasonably expected to be available. The "Financial Element" identifies the current and anticipated public revenue sources available to fund the planned transportation investments described in Chapter 6 – Transportation Investments. Based on financial projections for local, state, and federal revenue sources, approximately \$6.2 billion through 2050 (\$250 million per year) is expected to be available to operate, maintain and improve the multi-modal transportation system in Santa Cruz County.

There are considerable challenges associated with operating, maintaining, and investing in the future transportation system. Projected revenues still only generate less than half of what would be needed to fund all of the projects that have been identified through 2050 (Appendix E). While anticipated revenues are insufficient to fund all of the ongoing costs to maintain the existing transportation system and to implement the full list of projects and programs that have been identified by the community, the Regional Transportation Commission (RTC), cities, the County of Santa Cruz, Santa Cruz METRO, state agencies, and other transportation providers work with the community to set clear priorities for the



constrained funds and work with state and federal representatives to identify new and innovative ways to pay for transportation infrastructure and services.

## AVAILABLE FUNDS

Transportation programs and projects in Santa Cruz County are funded from a variety of local, state and federal funding programs. As shown in Figure 5.1, the public and businesses contribute to transportation funding programs through a variety of taxes and fees, primarily collected at the gas pump and at cash registers. Truck weight fees and a portion of automobile registration fees also help fund some local transportation projects and repay state debt service on past state transportation bonds.

# MAJOR TRANSPORTATION REVENUES IN CALIFORNIA

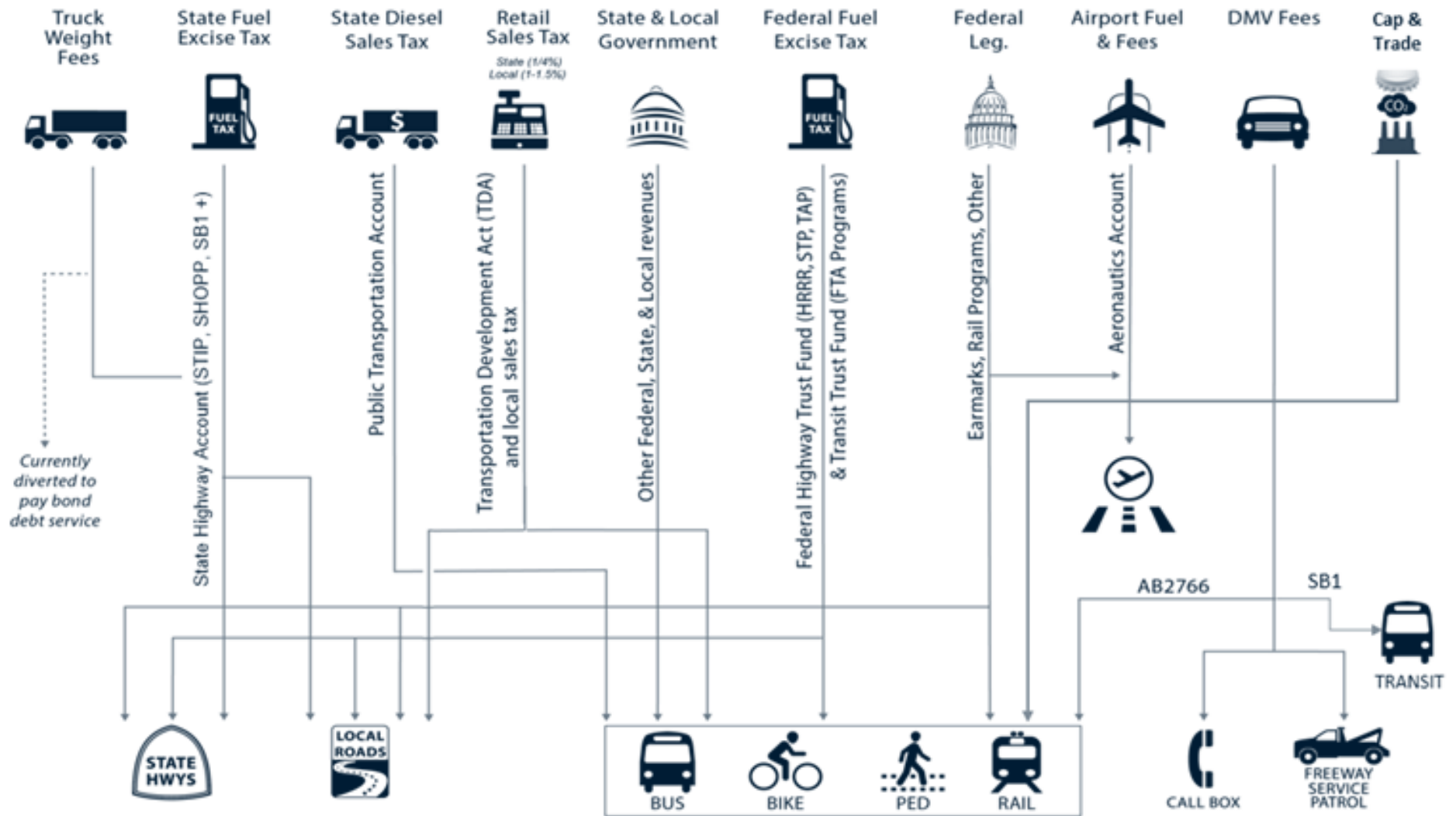
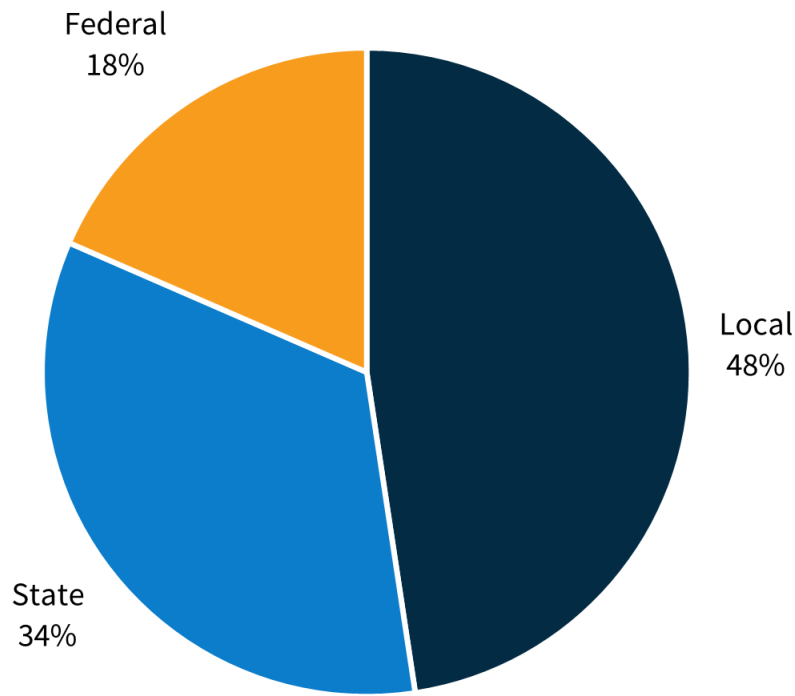


Figure 5.1 – Major Transportation Revenues in California

Source: Caltrans and SCCRTC, 2025

Based on current and projected revenue sources, **approximately \$6.2 billion** is reasonably anticipated to be available to finance transportation projects in Santa Cruz County 2025–2050 (Figure 5.2) from a combination of from federal, state, and local funding sources. A list of the specific programs reasonably available is shown in Appendix D.

## Funding Sources



**Figure 5.2 – Revenues By Source. \$6.2 Billion (2025 dollars)**  
Source: SCCRTC

## Local Revenues

Although federal and state funding for transportation is critical, approximately 48% of revenues available for projects in Santa Cruz County come from local sources, primarily local sales taxes, transit fares, and city general funds. This includes Measure D, a 30-year half-percent sales tax dedicated to local transportation projects and programs, which over two-thirds of Santa Cruz County voters approved in 2016 to address some of the funding shortfalls for transit and local roads and to advance regional transportation infrastructure projects.

## State Revenues

State revenues make up approximately 34% of revenues anticipated to be available for transportation projects in Santa Cruz County. A significant amount of this funding is the result of Senate Bill 1: the Road Repair and Accountability Act, approved by the state legislature in 2017. SBI helped temporarily stabilize fuel taxes and vehicle fees to maintain local streets and roads, provide extra funding for local transit and community transportation services, maintain and repair state highways, bridges, and culverts, and provide funding for competitive grants for congestion relief, bicycle and pedestrian, and goods movement projects. The RTC and partner agencies have been highly successful at using local Measure D revenues to leverage large SBI grants to implement the Watsonville–Santa Cruz Multimodal Corridor program of projects, identified as priorities through the Unified Corridor Investment Study, including new Auxiliary Lanes on Highway 1, the Coastal Rail Trail, and transit and multimodal improvements on Soquel Drive and Freedom Boulevard.

With RTC goals and priorities consistently helping advance the state Climate Action Plan for Transportation Infrastructure (CAPTI), the 2050 RTP assumes higher levels of SBI revenues will be made available for projects in Santa Cruz County than were assumed in prior RTPs. Other state funds include state gasoline and diesel taxes and fees that are allocated by formula to cities, the County of Santa Cruz, and transit agencies. About a third of state funds expected to be available in Santa Cruz County are allocated by the California Transportation Commission (CTC) to Caltrans to operate, maintain, and improve safety on the state highway system.



## Federal Revenues

Federal funding is generated from per gallon federal gasoline taxes, which have not increased since 1993, and are supplemented by Federal general funds deposited in the “Highway Trust Fund” (HTF) and transit programs. The amount of federal funding available, types of programs funded, and rules associated with those funds is based on the federal transportation act. Federal funding amounts and programs are determined through the multi-year federal transportation act. In 2021, as part of negotiations for a multiyear federal infrastructure plan, Congress adopted the federal transportation act – the Infrastructure Investment and Jobs Act (IIJA). The Infrastructure Investment and Jobs Act (IIJA) authorized the largest federal investment in roadways and public transportation in the nation’s history through 2026. Congressional committees are negotiating the next federal “reauthorization” 2025–2026, however it is not uncommon for extensions to be approved. While some programs were modified and some grants canceled by the Trump Administration in 2025, the draft 2050 RTP assumes that generally formula and discretionary programs will continue, consistent with historic averages. Details on what this means for projects in Santa Cruz County will be integrated into future RTP updates. In recent years, federal programs have depended on general fund revenues and raising the debt ceiling for funding, rather than addressing diminishing gas tax revenues with more stable funding. In Santa Cruz County, federal revenue sources have historically made up 15–20% of projected revenue, with over half of the federal funds designated for transit, and the balance available to safety, bridge, and emergency repair projects in Santa Cruz County.

Depending on the next federal transportation act, annual appropriations bills, federal, state and local budgets, diesel and gasoline consumption, and the general condition of the local and global economy, funding levels for many funding programs may change significantly from year to year.

## Restricted versus Flexible Funds

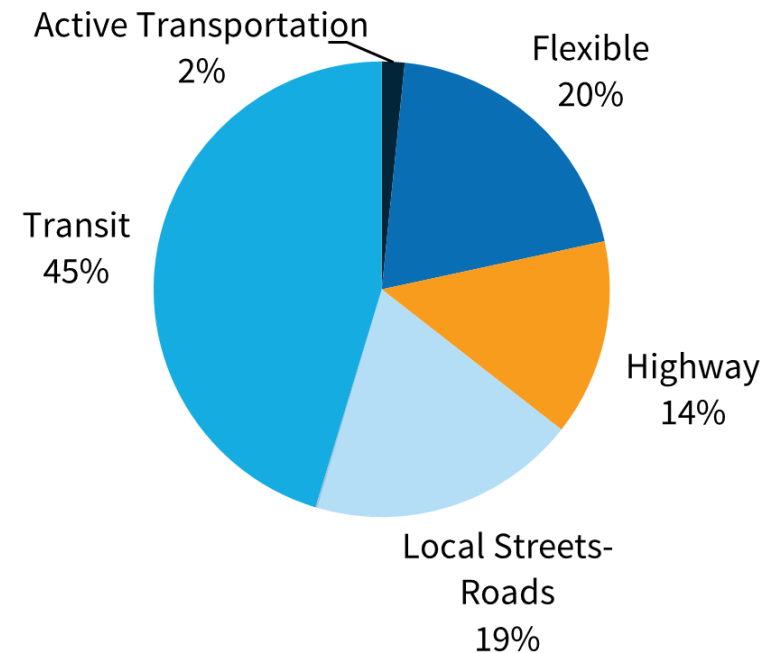
As shown in Figure 5.3 of current and projected future revenue sources, most revenues available for transportation projects and programs identified in the Regional Transportation Plan (RTP) are highly restricted (or “dedicated”) by federal, state, or local regulations for use by specific jurisdictions, agencies or types of projects.

For example, some funding sources may only be applied to projects that support transit or airport facilities, while other sources are exclusively for road maintenance or capital projects on the state highways.

This includes over \$750 million in State Highway Operation and Protection Program (SHOPP) funds that can only be used for maintenance and safety projects on state highways through 2050. Approximately 45% of projected local, state, or federal funds can only be used on transit and paratransit projects and operations, including the local ½ cent transit sales tax (approved by Santa Cruz County voters in 1978) and rider fares designated for the Santa Cruz Metropolitan Transit District (METRO), 20% of Measure D revenues, Lift Line rider fares, and funds from the Federal Transit Administration. Most funds allocated to cities and

the county can be used on a variety of projects – including local road, bicycle, and pedestrian projects. In selecting projects for the constrained investment strategy, the project list must match with the funds dedicated to specific project types or agencies.

## Funding Source Restrictions



**Figure 5.3 – Funding Restrictions by Type**

Source: SCCRTC

## Discretionary Funds

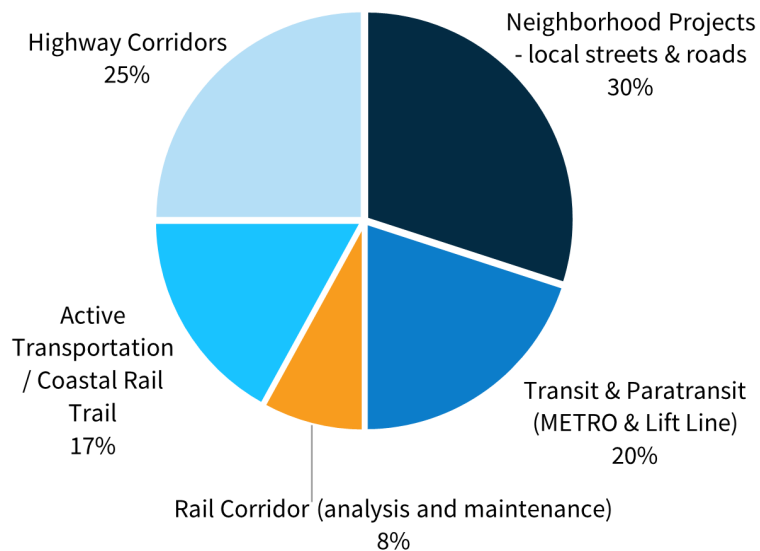
The RTC has discretion over about 3% of the funds available for transportation projects (approximately \$7.5 million per year). These funds are from regional shares of the State Transportation Improvement Program (STIP), Surface Transportation Block Grant Program (STBG) and SBI- Local Partnership Program. The RTC typically distributes these funds through a competitive process based on how well projects advance the priorities identified in the RTP policy element (Chapter 3) and criteria established by state and federal guidelines. In addition to these discretionary funds, State Transit Assistance and Transit State of Good Repair, Low Carbon Transit Operations Program (LCTOP), Transportation Development Act, and Measure D funds flow through the RTC's annual budget to the METRO, local jurisdictions and other partner agencies by formula for purposes that are restricted by state law and the Measure D Ordinance. Other agencies are responsible for selecting projects for the remaining funds.

## Measure D

In response to ongoing funding shortfalls and the large backlog of maintenance and other projects, Santa Cruz County voters approved Measure D in November 2016, a 30-year half-percent sales tax dedicated to local transportation projects and programs. Measure D provides over \$28 million per year to fund projects in Santa Cruz County, which cannot be taken away by the state.



Measure D provides funding for five categories of program investments, as shown in Figure 5.4. About half of the funds are distributed by formula to cities, the County of Santa Cruz, Santa Cruz METRO, and Lift Line. The balance of funds are designated for regional categories of projects, as outlined in the Measure D Ordinance and Expenditure Plan. The RTC is required to allocate, administer, and oversee the expenditure of all Measure revenues which are not directly allocated by formula to other agencies, consistent with the Expenditure Plan and the Measure D Strategic Implementation Plan. Because county voters approved Measure D and the METRO sales taxes dedicated for transportation purposes, agencies in Santa Cruz County can access a share of \$200 million that is available statewide per year through the SBI Local Partnership Program (LPP). The LPP state program recognizes and rewards communities that have approved local transportation “self-help” sales taxes and fees.



**Figure 5.4 – Measure D Investment Categories**

Source: SCCRTC

## FUNDING UNCERTAINTIES

Financial projections developed for the RTP reflect the best estimates available in 2025/26. These projections are meant to be used as a general tool to assist the RTC, local jurisdictions and other project sponsors in determining what projects are reasonable to pursue and prioritize in the short and long term. However, forecasting the amount of funding that will be available for transportation is a challenging and somewhat speculative exercise. Actual revenues will vary from year to year.

The availability of the funding identified in the 2050 RTP is also dependent on state, federal, and local taxes, fees, and other sources continuing to exist or being replaced with other funding mechanisms. The reliability of funding projections can also be impacted by changes in the economy, state and federal laws, environmental mandates, fuel consumption, and related gas tax revenues.

## FUNDING SHORTFALLS – A LOCAL, STATE, AND FEDERAL CHALLENGE

As noted earlier, while approximately \$250 million per year and \$6.2 billion over 25 years may seem like a lot of money, local agencies and the public have identified over \$17.3 billion in projects and programs through 2050 (Appendix E). This significant shortfall in transportation funding is not unique to Santa Cruz County. Existing state, federal, and local revenues designated for transportation are insufficient to fully cover the cost to operate, maintain, and address growing needs of our multimodal transportation network. Aging infrastructure, heavier trucks and buses, rising construction costs, and regulatory requirements impact project costs. Increasing traffic, expanded use of transit service, and bicycle and pedestrian facilities also place additional demands on the transportation system.

A significant challenge is that transportation projects, programs, and services have historically been funded by revenues generated at the gas pump, which decline

with better vehicle fuel efficiency and adoption of electric vehicles. While use of transportation facilities and services is ever increasing, the purchasing power of state and federal gas taxes and fees has not kept pace with the cost to operate and maintain the transportation system. As more vehicles get better gas mileage or use alternative fuels or electricity, fewer gas taxes are collected for the same amount of vehicle miles traveled; so even when gas prices increase, gasoline tax revenues decline as compared to how much people drive, resulting in significantly less funding for transportation projects.

Since Federal gas taxes have not been increased since 1993, the Highway Trust Fund is regularly on the brink of going bankrupt, forcing Congress to repeatedly shift general funds to bail it out. Unless Congress provides the highway trust fund with a more sustainable source of dedicated revenues, additional bailouts from other revenues will be needed to cover an ever-growing funding gap.

## POTENTIAL FUTURE REVENUES

Since existing revenue sources are insufficient to address all of the needs in the region, the RTP also identifies some additional strategies that could address some of the funding gaps. Potential revenue sources that do not currently exist, but which could supply significant transportation funds for our region in the future, include new vehicle weight fees and replacement of state and federal gas taxes with road user charges.



## Road User Charges

The decline in purchasing power of gas tax revenues due to inflation and decline of revenue on a per-mile basis as vehicles become more fuel-efficient has caused leaders around the U.S. to look for alternatives for funding the transportation system. California, along with several other states, have been studying and piloting a road usage charge (a.k.a. mileage-based user fee or vehicle miles traveled-VMT fee) where drivers pay for the roads, as they do other public utilities, based on how much they use them. With technological advancements this new approach to directly charge roadway users has become more feasible. This type of system can be implemented while still protecting the privacy of road users. Road user charges could produce greater and more stable net revenue.

While federal and state agencies are investigating replacing the deteriorating gas tax with a road user charge based on the number of miles driven this funding option is unlikely to be realized for many years.

## New Local Taxes and Fees

Santa Cruz METRO, local cities, the County of Santa Cruz, and the RTC are also looking at other options to fund ongoing maintenance and operations. This may be in the form of a new local \$10 per vehicle registration fee (as allowed by State Senate Bill 83), or new sales or property taxes and fees. While Measure D has allowed agencies to leverage over \$450 million in other revenues, it does not fully cover the cost to build and maintain the rail and trail corridor, expand METRO bus service, or maintain local streets and roads.

## VMT Mitigation Banks

With passage of SB743 (2013), the County of Santa Cruz, with input from RTC and local cities, prepared a Santa Cruz County Regional VMT Mitigation Program study. A regional VMT mitigation fee would provide the County and participating local cities with a regionally coordinated mechanism to mitigate VMT impacts associated with economic development and capacity increasing transportation improvements. The fees collected through this program can be used to fund projects throughout the region that decrease VMT and greenhouse gas (GHG) emissions, improve safety, combat climate change, and improve the quality of infrastructure within disadvantaged communities.

## Other Potential Revenues

While not assumed to be available for constrained projects in this RTP, examples of some funding mechanisms other areas and states have implemented to fund transportation projects include: special assessment districts, transit benefit districts, users fees and fares, regional development fees, state general obligation bonds, tolls, vehicle sales taxes, truck and other vehicle weight fees, utility partnerships, hotel/motel lodging fees, increased general fund investments, private investments, and special grant programs.

## METHODOLOGY FOR PROJECTING AVAILABLE FUNDS

The financial projections in this RTP are based on reasonably foreseeable revenues. The projections were calculated based on a combination of historical averages, current trends, and/or state and federal actions. In most instances, base-year figures for formula funding sources (those that the region typically receives every year according to population, road miles, or fixed factors) reflect the amount of funding available in Fiscal Years 2025 and 2026. In other instances, historical averages were used to calculate anticipated revenues. For sporadic funding sources, the RTP's calculations use a fixed percentage of the total statewide amount available for the base-year figure, based on Santa Cruz County's share of the state population.

The Association of Monterey Bay Area Governments led the development of the financial projections, in close coordination with the RTC and other partner agencies in the Monterey Bay region, including cities, the County of Santa Cruz, Santa Cruz METRO, and other agencies that implement transportation projects and provide transportation services. Projections are consistent with estimates in other state, federal and regional plans and programs. Projections are consistent with the RTC's Regional Transportation Improvement Program (RTIP) which in turn is consistent with those figures shown in the California Transportation Commission's State Transportation Improvement Program (STIP) Fund Estimate, Interregional Transportation Improvement Program (ITIP), and Federal Transportation Improvement Program (FTIP). STIP revenue estimates were based on a historical averages, recent programming actions, and the 4-year STIP fund estimate.

