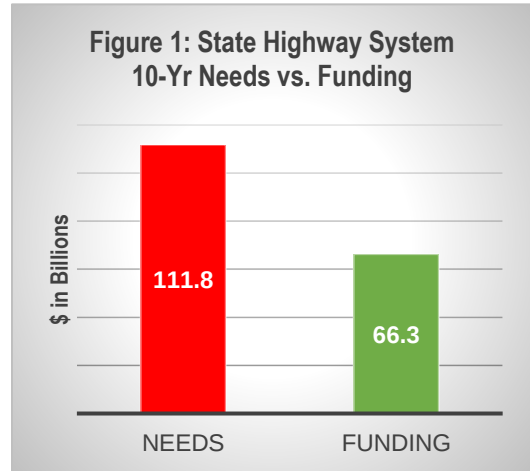


State Highway System Rehabilitation Funding Shortfall

Problem:

The California Department of Transportation's (Caltrans) draft 2025 State Highway System Management Plan (SHSMP) estimates a 10-year shortfall of more than \$45.5 billion for maintenance and rehabilitation necessary to bring the State Highway System (SHS) to the desired state of repair. This includes rehabilitation of major assets, expanded access to multimodal travel options, projects to reduce fatalities and serious injuries (safety), and to improve climate resiliency, all of which are funded through the State Highway Operations and Protection Program (SHOPP).

In addition, the department funds field- and major-maintenance projects, the latter intended to extend the life of system assets. Importantly, SHSMP does not address investments to increase system capacity which are funded separately through the State Highway Improvement Program (STIP).



Source: 2025 Draft State Highway System Management Plan.

The plan estimates needs of approximately \$111.8 billion to rehabilitate and maintain SHS over a 10-year period and available revenues of about \$66.3 billion. This represents about 59 percent of required funding. Moreover, the combination of increased fuel economy standards and state programs to promote use of zero-emission vehicles is expected to adversely affect future motor vehicle fuel excise tax revenue. While this expected decline is considered in Caltrans' 10-year estimate the impact of the policies likely will accelerate beyond that window.

Needs:

To maximize the use of limited resources, in 2017, Caltrans initiated a Transportation Asset Management System (TAMS) to maximize the longevity of system infrastructure, improve safety and achieve performance targets. The department uses TAMS in developing SHSMP to optimize the benefit of its investments, including through use of "major maintenance" projects intended to extend the life of existing assets and forestall the need for full-scale rehabilitation.

The \$111.8 billion estimated need includes \$8.3 billion for maintenance, \$6.3 billion of which is identified for major maintenance projects intended to preserve and extend the life of existing system assets. Because this is a proven, cost-effective strategy, Caltrans budgets and fully funds the expected maintenance need each year as a set-aside.

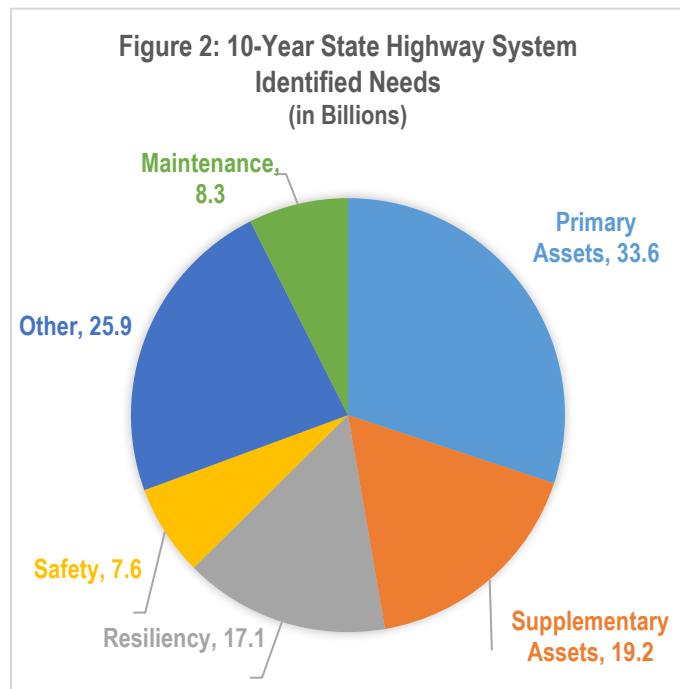
SHSMP identifies the following classes of assets, with expected 10-year funding needs. Due to the funding shortfall, the department relies on SHSMP to prioritize those projects

that are most cost-effective and likely to maximize system performance. The major asset classes include the following:

Primary Assets (\$33.6 billion): The backbone of SHS, this class includes pavement, bridges and tunnels, drainage systems, and transportation management systems. This class has been a key focus of Caltrans' "fix-it-first" efforts.

Supplementary Assets (\$19.2 billion): Includes bicycle and pedestrian facilities, highway lighting, overhead signage structures, roadside rest facilities and various other assets. In many cases, replacements, upgrades or additions of supplementary assets are incorporated into primary asset rehabilitation projects.

Resiliency (\$17.1 billion): Includes bridge scour mitigation and seismic restoration, major damage restoration (emergency and permanent) and climate adaptation projects. As part of the state's response to climate change, Caltrans increasingly considers system vulnerabilities and threats posed by flood, erosion, wildfire, and other climate stressors in developing rehabilitation, hardening, and in some cases relocation of assets.



Source: 2025 Draft State Highway System Management Plan.

Safety (\$7.6 billion): Caltrans invests in reactive safety projects, developed in response to collision history, and increasingly in proactive investments. The latter includes routinizing the use (where appropriate) of cost-effective countermeasures with a proven history of reducing the incidence or severity of crashes, independent of collision history.

Other (\$25.9 billion): This class includes various assets, including but not limited to Americans with Disabilities Act pedestrian infrastructure, mobility hubs,¹ stormwater mitigation, and bridge goods movement upgrades.²

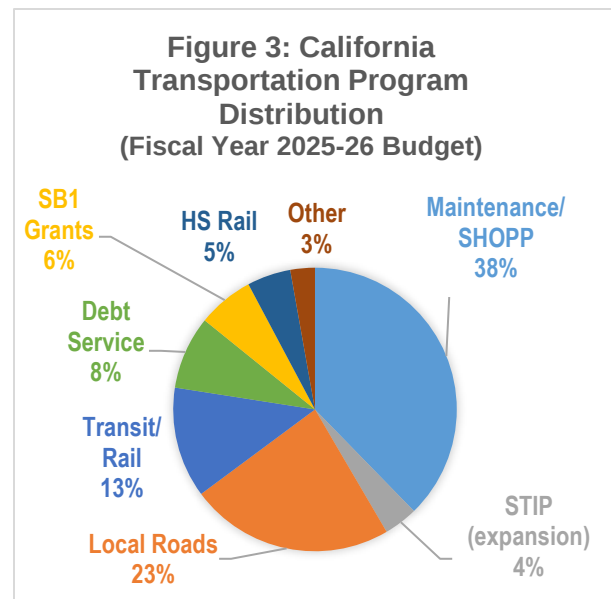
Funding:

SHS maintenance and rehabilitation is funded through a combination of federal and state revenue sources. Federal resources are generated primarily from the federal

¹ The California Department of Transportation seeks to transform many park-and-ride facilities into mobility hubs designed to support multimodal connections, including improved access for pedestrians, bicyclists, micromobility options and public transit/rail.

² The California Department of Transportation seeks to mitigate goods movement restrictions on bridge facilities due to reduced vertical clearance and/or load capacity limits.

excise tax on motor fuel. However, purchasing power of this tax has eroded substantially since it was last raised in 1993. As a result, in recent years, Congress has increasingly used General Fund appropriations to fill the gap between the revenue generated by the tax and the levels of transportation spending specified by Congress in periodic transportation authorization legislation.³ Over the past five years, California has received approximately \$27.5 billion for state and local transportation infrastructure, about 60 percent of which is retained at the state level. The remainder is distributed to local governments through a combination of formula allocations and competitive grants. With the current authorizing legislation expiring in 2026, it is uncertain whether existing funding levels will be maintained. However, Caltrans' projections assume small annual increases in line with historical trends.



Most state funding is generated from state excise taxes on gasoline (currently 59.4 cents per gallon) and diesel (45.4 cents per gallon), portions of which are indexed to inflation, and various fees imposed annually during vehicle registration.⁴ The Transportation Improvement Fee is assessed annually on all vehicles based on market value. In addition, the Road Improvement Fee, a flat \$100, is charged to owners of electric vehicles. In addition, commercial vehicles, including pickups, are assessed fees based on gross vehicle weight.

California's fiscal year (FY) 2025–26 budget includes approximately \$16 billion⁵ in combined federal and state surface transportation funding, which is aggregated by the state and allocated for various purposes pursuant to legislatively prescribed formulas and set-asides (Figure 3).⁶ After those allocations, the FY 2025–26 budget provides approximately \$6 billion (38 percent) for SHS maintenance and SHOPP investments.

Prepared by the [Senate Office of Research](#), (916) 651-1500.

³ The current transportation authorization bill, the Infrastructure Investment and Jobs Act, was enacted by Congress and signed by President Biden in 2021. The law, which covers federal fiscal years 2022–26, authorizes funding for formula apportionments to every state and for competitive grant awards covering numerous transportation programs.

⁴ SB 1 (Beall), Chapter 5, Statutes of 2017, among other provisions, establishes a new incremental excise tax on gasoline and diesel, indexed for inflation, and establishes the Transportation Improvement Fee and Road Improvement Fee to generate additional surface transportation funding.

⁵ This total also includes approximately \$1.2 billion from the state's Greenhouse Gas Reduction Fund, which is funded through the sale of emissions allowances through the California Air Resources Board's Cap-and-Invest Program.

⁶ Program funding estimates provided by the California Legislative Analyst's Office.