State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: February 26-27, 2003

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Action Item

Ref: **<u>CASH FLOW ASSUMPTIONS</u>**

Attached is the "Draft State Highway Account and Public Transportation Account Assumptions for Cash Forecast" Report. This item will be presented for discussion at the February 27, 2003 California Transportation Commission's Funding Issues Workshop.

STATE HIGHWAY ACCOUNT & PUBLIC TRANSPORTATION ACCOUNT
ASSUMPTIONS FOR CASH FORECAST

(Draft for Discussion Purposes)

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STATE HIGHWAY ACCOUNT REVENUE FORECAST ASSUMPTIONS

Highway User Tax Account (HUTA)

The HUTA transfer is based on the excise taxes on motor vehicle fuels. The California Department of Finance (DOF) makes the official projections. Fuel Tax revenues were projected to grow at a 2.2 percent average annual growth rate through the 2002 Fund Estimate period. However, DOF projects slowed growth of less than 2 percent in FY 2002-03 and less than 1 percent in FY 2003-04.

Assumptions:

- Utilize the Governor's Budget Level (Updated Forecast) for HUTA, prepared by DOF.
- Assume that HUTA revenues will follow the existing trend, which show revenues increasing at approximately one-half of one percent for FY 2003-04 and future years.
- Assume no negative effect on fuel supply from a potential war with Iraq, or from increasing gasoline prices.

HUTA	2002-03	2003-04
December Forecast	$2,064 M	$2,077 M
Updated Forecast (DOF)	$2,062 M	$2,078 M

Background:

- HUTA payments are stable and generally occur each month, according to a schedule set at the beginning of each fiscal year by the State Controller's Office.

Risks:

- This is a stable revenue source that shows a slight increase on an annual basis.

Weight Fees

Weight Fee revenues are based on the truck and trailer weight license fees paid directly to California or apportioned to California by other states. The growth rate was projected to average 3.8 percent annually through the 2002 STIP Fund Estimate period. The weight fee revenue decreased in the Spring of 2002 coinciding with the implementation of legislation on January 1, 2002 (See SB 2084 under Background). The December Forecast for FY 2002-03 and 2003-04 are based upon these lower levels.

Assumptions:

- Adopt the same assumption as the Governor's Budget; and assume that the Legislature will act and pass legislation that will restore revenues to the levels previous to the implementation of SB 2084.

Weight Fees	2002-03	2003-04
December Forecast	$675 M	$709 M
Updated Forecast	$669 M	$839 M

These revenue levels are a difference of $6 million lower in FY 2002-03 and $130 million higher in FY 2003-04 from the December CTC report.

Background:

- SB 2084 [Ch.861, Statutes of 1999], which modified the basis for commercial truck license fees was implemented on December 31, 2001. The legislation was intended to be revenue neutral. However, in the first six months of 2002-03 revenues were down by $95 million. This decrease, in combination with smaller increases in other portions of this fee, projects to an annual level of $163 million less than what is assumed in the 2002 State Transportation Improvement Program Fund Estimate (FE). The Governor's Budget proposes legislation that intends to restore revenues, on a prospective basis, to pre-2002 levels.

Risks:

- In order for new legislation to impact the entire budget year, it must be implemented by July 1st.
- DMV requires up to 120 days notice to commercial trucking firms prior to implementation of new license fees.
- The assumption is that the new structure will increase the revenue to pre-SB2084 levels despite the complexity of the fee structure.

Federal Reimbursement

FHA Apportionments:

The Department receives the Federal Funds from the Federal fuel taxes deposited in the Federal Highway Trust Fund. California provides about ten percent of the annual Trust Fund payments, but in a typical year receives only eight percent of the annual Federal distribution. Through the Federal Transportation Act (TEA-21) and the Federal budget, the fuel taxes are apportioned and allocated back to each state including California. A share of the Federal Funds is directed to local assistance by a formula in law. A share may be used for support of departmental employees. Funds are also used for capital projects. Before the funds for capital projects can flow back to California, each Federal-aid highway project must be authorized in advance by the Federal Highway Administration and Federal Funds obligated. After this formal authorization process and obligation of funds, Federal Funds are reimbursed based on the monthly expenditure for work accomplished on each authorized Federal-aid project.

Assumptions:

- Federal revenues for FFY 2003 will be based on a national appropriation of $27.7 billion, which is the lowest level of the budget versions pending before congress, or the level approved by Congress if the FY 2003 Budget is passed before the forecast is completed.
- Federal revenues for FY 2004 will be based on $29.3 billion, the national level proposed in the President's proposed FFY 2004 budget released this week.
- Federal revenues beyond FY 2004 will be increased by 3% based upon guidance in the federal budget.

Federal Reimbursement	2002-03	2003-04	2004-05
December Forecast	$2,039 M	$2,203 M	$2,103 M
Updated Forecast	$2,032 M	$2,146 M	$2,110 M

This is a difference of $7 million in FY 2002-03 and $67 million in FY 2003-04 from the December CTC report.

Background:

- The 2002 STIP assumed a significant increase (18%+) in Federal funds beginning with the FFY 2004.
- Current year levels pending before Congress range from a national level of $27.7 billion approved by the House and a level of $31.8 billion approved by the Senate. A conference committee is working on reconciling the levels and Congress may pass a FY 2003 Budget at anytime.
- Based upon the budget levels proposed in the President's FFY 2004 budget, these higher levels do not appear realistic.

Risks:

- The actual reimbursement level is contingent on the passage of the Federal Budget after Congressional review.
- The actual reimbursement level could be higher or lower than shown depending upon Congressional action and how much revenue the Federal Government actually receives.

Federal "Ready-to-go" Funding

The President's proposed budget for FY 2004 includes $1 billion targeted for state projects that are "ready-to-go". The funding will initially be distributed to states based upon the surface transportation program funding formula. If states do not obligate their funding within six months, the funds will be redistributed to other states with "ready-to-go" projects. In addition, the "ready-to-go" projects must address traffic congestion and improve infrastructure conditions.

Assumptions:

- California will receive "ready-to-go" funds at 10% of the national allocation; this is the 8% basic allocation plus two percent under reallocation of unused funds.
- California has sufficient "ready-to-go" projects to utilize these federal funds.

Federal Reimbursement:	2002-03	2003-04
December Forecast	$0	$0
Updated Forecast	$0	$100 M

Background:

- This is a new funding proposal in the President's FY 2004 budget.
- These funds have not been included in previous forecasts.

Risks:

- The actual reimbursement level is contingent upon the passage of the Federal Budget by Congress.
- There is not yet a definition of "ready-to-go" projects and it is possible California's projects may not qualify for the funding.

Transportation Investment Fund (TIF)

The Transportation Investment Fund (TIF) provides transportation funding as a result of the passage of the Traffic Congestion Relief Act of 2000. Previously, the Transportation Refinancing Plan deferred TIF funding for two years until the FY 2003-04. The source of funds is General Fund transfers derived from state sales taxes on motor vehicle fuels.

Assumptions:

- No TIF transfer will occur in FY 2003-2004. The TIF transfer will be assumed to occur in FY 2004-2005

Transportation Investment Fund	2003-04	2004-05
December Forecast	$110 M	$158 M
Updated Forecast	$0	$161 M

This assumption is a decrease of $110 million in FY 2003-04 and an increase of $3 million in FY 2004-05 from the December CTC report.

Background:

- The Governor's Budget for FY 2003-04 proposes to suspend the TIF transfer for FY 2003-04. Specific legislation will be required in order to suspend the transfer in FY 2003-04.

- The current Cash Forecast assumes a TIF transfer of $110 million the SHA in FY 2003-04, as well as a transfer in FY 2004-05 in the amount of $158 million.

Risks:

- The assumption for the budget year is consistent with the Governor's Budget proposal.
- If the General Fund shortfall proves to be a multi-year problem, it is possible that the scheduled payment for 2004-05 will be affected.
- The Governor and the Legislature can act to defer the General Fund transfer to the TIF in any fiscal year by declaring a fiscal emergency and passing legislation eliminating the transfer.

STATE HIGHWAY ACCOUNT EXPENDITURE FORECAST ASSUMPTIONS

STATE OPERATIONS

Expenditures for State Operations reflect the cost of the Department's capital outlay support, administration, planning, information technology, legal services, and highway maintenance.

General State Operations

Assumptions:

- The levels of funding included in the FY 2003-04 Governor's Budget will be utilized.

State Operations	2002-03	2003-04
December Forecast	$2,420 M	$2,419 M
Updated Forecast	$2,469 M	$2,234 M

Background:

- The Budget includes funding increases necessary to fund required staff benefit and salary related adjustments for departmental personnel.
- The Governor's Budget includes specific reductions to state operations reductions for FY 2002-03 and FY 2003-04 that total $40 million and $137 million respectively. The reduction of $40 million in FY 2002-03 is from various operating expenses of the Maintenance, Planning, Administration and the Equipment programs. The budget year reduction in FY 2003-04 is from personal services attrition ($36.1 million), overtime reduction ($10 million), reduced staffing for Local Assistance enhanced services ($2.8 million), operating expenses reductions ($70 million), and an unallocated reduction ($18 million).

Risk:

- The above amounts are those proposed in the FY 2003-04 Governor's Budget by the Department for State Operations. The Department has made plans to achieve these reductions.

TCRP Capital Outlay Support

Assumptions:

- Assume that $66 million of the $104 million reduced in the FY 2003-04 Governor's Budget for TCRP support will be necessary to fund ongoing support costs for TCRP Projects. The Department will propose a Finance Letter to amend the state operations budget as part of the May Revision of the Governor's Budget.

Background:

- With the suspension of funding for the TCRP Program, the Department's support budget was reduced by 1241 PY's and 145.9 contract PY equivalents at total estimated cost of $104 million.
- In the budget, there is language that commits to restoring these activities if TCRP projects continue with other funding. $66 million of SHA funds was identified as a reserve for this purpose.

Risk:

- The annual zero base budget for Capital Outlay Support must justify this level of resources.
- There will be significant pressure to utilize these funds to restore other reductions in the budget.

LOCAL ASSISTANCE

Expenditures for Local Assistance reflect federal and state subventions to local agencies for locally programmed and managed projects per state statutory formulas. Specific programs include the Regional Surface Transportation Program, Congestion Mitigation and Air Quality, Transportation Enhancement Activities, Environmental Enhancement and Mitigation. . These expenditures also include locally administered STIP projects off the State Highway system. Additionally, this component includes Department's COS expenditures for local assistance projects, which is determined by staff in the Local Programs unit.

Subventions

Assumptions:

- Assume that all Local Assistance cash is allocated
- Assume that commitment level with be consistent with yearly expenditure patterns

Local Assistance	2002-03	2003-04
December Forecast	$838 M	$835 M
Updated Forecast	$878 M	$840 M

Risk:

- Base expenditures in local assistance have been constant over the past three years.
- There is no indication that spending by local governments will decrease.

Governor's Budget Reductions to Local Assistance

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Assumptions:

- Updated forecast levels assume savings for local assistance reductions included in the Governor's Budget. The budget proposed reductions in local assistance spending for five programs: Seismic Bridge Retrofit Match, Community Empowerment Grants, Community Based Planning Grants, Community Based Planning Grants, Environment Mitigation Grants and Freeway Service patrols.

Local Assistance (savings)	2002-03	2003-04
Updated Forecast	-$19 M	-$41 M

Risk:

- These are proposals that are included in the Governor's Budget that are before the Legislature for approval.

TCRP Local Assistance and Capital Outlay Expenditures

Assumptions:

- The Governor's Budget assumes a fixed level of TCRP expenditures based upon suspending funding for the program.

TCRP Expenditure Levels	2002-03	2003-04
TCRF capital outlay and local assistance	$377 M	$0 M

Risk:

- TCRP expenditures may increase beyond this level. This should be determined based upon the CTC survey information.

CAPITAL OUTLAY

Expenditures for Capital Outlay include acquisitions, new construction, alterations, renovations, extensions, and betterments. Also, this category includes costs that may result in the acquisition, new construction, alteration, renovation, extension or betterment of real assets, regardless of character of appropriation for the expenditure. The cash/budget forecast for Capital Outlay specifically includes expenditures for Departmentally administered STIP and SHOPP projects, including Right of Way and contracted construction costs, as well as expenditures for locally reimbursed projects on the State Highway system. Includes capitalized leases as well as processes that may result in a capital acquisition, such as leases with purchase options.

Assumptions:

- Develop the alternate capital outlay forecast method (see background below) to determine the cost of all current commitments.

- To the extent possible, modify the forecast using information gathered from the CTC survey of STIP and TCRP projects.

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Background:

- Traditional Expenditure Forecast Procedure:

  The annual expenditure forecasts for most categories are determined by cash flowing program levels approved by the CTC over several years based on historical cash flow ratios. This information is subsequently modified based information used to develop the Department's budget. Annual expenditure forecasts are broken down into monthly expenditure forecasts based on historical expenditure patterns.

  Additionally, the traditional Cash Forecast assumes that some expenditure categories will not spend the full amount forecast at the beginning of the year. This assumption has been verified by comparing historical annual forecasts in these categories to what was actually spent. The cash savings rates applied in the forecast are the based on the under-expenditure percentages for each of the past three years. Applying the historical average cash savings rates to the forecast levels in the Cash Forecast provides a more realistic picture of the amount that will actually be spent. The categories affected are STIP Highway, STIP Right of Way, and Local Assistance.

- Alternative Capital Outlay Forecast Method:
  The Capital Outlay forecast will be based upon our inventory of existing contracts and allocations made by the CTC. This will provide as assessment of the cash needs of all current commitments by fiscal year. Because this approach has not been thoroughly tested, there is some risk in this approach. However, since the purpose of this effort is to determine the extent to which cash is available to program new projects, this appears to be a sound approach.

- Survey of Project Status
  The CTC is currently in the process of collecting survey of project status data that may be used to compile cash flow demands for the STIP and TCRP. However, until the Department has the data and is able to analyze it, it will be unclear to what extent the Department will be able to integrate the data into the Cash Forecast.

Risk:

- The analyses should provide a sound estimate of the cost of capital commitments made by the CTC through December 2002.
- The process is a new approach that may reveal flaws as the estimate is built.

OTHER BUDGET ACTIONS:

Apportionment to Cities and Counties

As originally enacted, the TCRP apportioned funds from the TIF to cities and counties beginning in FY 2001-02.

Assumptions:

- The updated forecast assumes all 2002-03 apportionments occur.
- The updated forecast reflects DOF's latest revenue estimates.

SHA Apportionment	2002-03	2003-04
December Forecast	$161 M	$0 M
Updated Forecast	$168 M	$0 M

Background:

- AB 438 (Chapter 113, Statutes of 2001) delayed the transfer of General Fund money to the TIF for two years. In order to shield cities and counties from this action, AB 438 funded these apportionments from the SHA in 2001-02 and 2002-03.
- In December 2002, the Administration proposed funding only one quarter of the 2002-03 apportionments.
- Both Houses of the Legislature modified the Governor's proposal's to continue funding these apportionments through FY 2002-03.

Risk:

- Both the State Assembly and the State Senate denied the proposed suspension of the SHA transfer to Local Streets and Roads in the current year. So far in FY 2002-03, $65 million has been apportioned to the cities and counties.

Level of SHA loan to the TCRF for TCRP Expenditures:

The TCRF was initially funded with a $1.5 billion transfer from the General Fund and $500 million in sales tax revenue. Much of this General Fund money has been returned to the General Funds as loans or transfers creating the need to transfer money from other funds to the TCRF.

Assumptions:

- As reflected in the 2003-04 Governor's Budget, the SHA will transfer $167 million to the TCRF. This transfer occurred in January.

Loan to TCRF from SHA	2002-03	2003-04
December Forecast	$167 M	$0 M
Updated Forecast	$167 M	$0 M

Background:

The 2002-03 Budget includes authority to loan $474 million from the SHA to the TCRF. The loan proposed in the budget is for $167 million based upon estimated expenditures at the time the budget was constructed.

Risk:

- If TCRF expenditures exceed current forecasts of $377 million in 2002-03 and $3 in 2003-04, it is likely that the SHA will be required to fund them under this loan authority.

Loan payback from TCRF

Assumptions:

- Assume no loan repayment planned for 2003-04.
- Assume loan payback in FY 2004-05 with funds allocated from the TIF.

Loan Payback Schedule	2003-04	2004-05
Current forecast: TCRF to SHA	$50 M	$149 M
Updated forecast: TCRF to SHA	$0	$149M

Background:

- The Governor's Budget defers a scheduled repayment of $50 million.

Risk:

- No payback included in FY 2003-04 Governor's Budget.
- There is a higher risk to assume payback in FY 2004-05 from TIF funds because overall state revenues may preclude TIF funding in FY 2004-05.

Other General Fund Pressures

Assumptions:

- Assume the Vehicle License Fee realignment cost is $39 million and the realignment of the Motor Vehicle Account for CHP activities is $16 million.

Vehicle License Fee Realignment	2002-03	2003-04
December Forecast	$0	$0
Updated Forecast	$0	$39 M

Motor Vehicle Account Realignment	2002-03	2003-04
December Forecast	**$0**	**$0**
Updated Forecast	**$0**	**$16 M**

Background:
- Assumption reflects Governor's Budget.

Risk:
- These proposals are included in the Governor's Budget that is before the Legislature for approval.

Mining Unused Obligational Authority

Assumptions:
- Assume the Governor's Budget initiative to save $125 M over two years by finding and reusing old Federal Obligational Authority.

Background:
- The Department has identified both state and local capital projects for which no reimbursement activity has occurred for more than one year.
- The Department is reviewing these projects to identify federal Obligational authority that is no longer necessary for these projects. The federal authority will be reassigned to federally eligible projects in need of authority to claim federal funds.
- The net effect of these transactions will be to make federal cash available to projects in need of cash.

"Mining" Unused OA	2002-03	2003-04
Updated Forecast	$50 M	$75 M

Risks:
- The Department has data on a significant number of old projects for which there has been no recent billing activity.

PUBLIC TRANSPORTATION ACCOUNT REVENUE ASSUMPTIONS

The Public Transportation Account (PTA) is a trust fund established for transportation planning and mass transportation purposes.

Sales Tax

PTA sales tax revenue comes from:

- The state sales tax of 4.75% on 9 cents of the state excise tax on gasoline. This 9 cents was add by Proposition 111 (1990).
- The state sales tax of 4.75% on diesel fuel.
- The "spillover" of all taxable sales taxed at 4.75% less a 5% tax rate applied to all taxable sales except gasoline. This amount must be greater than the amount generated by the sales tax on 9 cents of the excise tax on gasoline. The spillover formula was added when gasoline was added to the sales tax base and the state sales tax rate was reduced by 1/4 percent. The idea was that adding gasoline to the sales tax base wasn't supposed to increase General Fund revenues because the revenue loss from the 1/4 percent reduction was supposed to offset the additional revenue from taxing gasoline. To make sure that the General Fund didn't benefit from taxing gasoline, the spillover formula was added. It says that when the revenue from gasoline sales is greater than 1/4 percent of all other sales, the additional revenue (the "spillover") goes to the PTA.

Assumptions:

- Recommend updated Governor's Budget level forecast sales tax prepared by DOF.

Sales Tax	2002-03	2003-04
December Forecast	$196 M	$185 M
Updated Forecast	$191 M	$201 M

Note: Current forecast levels assume no sales tax on gasoline spillover

Background:

- Sales tax payments generally occur every quarter, according to a schedule set at the beginning of each fiscal year by the State Controller's Office.

Risks:

- DOF is the official forecast for sales tax revenue.
- Recent estimates have been accurate.

Transportation Investment Fund (TIF)

The TIF was created by AB 2928 (Chapter 91, Statutes of 2000) as a part of the Traffic Congestion Relief Program. The PTA was to have received transfers from the TIF beginning in 2003-04.

Assumptions:

- No TIF transfer will occur in FY 2003-2004, but the transfer will occur in FY 2004-2005.

Transportation Investment Fund (TIF)	2003-04	2004-05
December Forecast	$74 M	$80 M
Updated Forecast	$0	$80 M

Background:

- Originally, the TIF transfer was initially to start in FY 2001-02. The transfer was postponed for two years by Assembly Bill 438 (Chapter 113, Statutes of 2001).
- The Governor's Budget postpones the TIF transfer an additional year.

Risks:

- If the General Fund shortfall proves to be a multi-year problem, it is possible that the scheduled payment for 2004-05 will be affected.

State Transit Assistance Program

These funds are appropriated to the State Controller for allocation to local transportation agencies for the State Transit Assistance (STA) program. This program provides funding for the operating costs of transit operations.

Assumptions:

- Recommend the updated Governor's Budget sales tax forecast prepared by DOF.

STA Transfer	2002-03	2003-04
December Forecast	$159 M	$122 M
Updated Forecast	$96 M	$100 M

Background:

- Statute requires that 50% of the PTA sales tax revenue and 50% of the transfer from TIF be apportioned to locals through the State Transit Assistance program.

Risks:

- DOF is the official forecast for sales tax revenue.

PUBLIC TRANSPORTATION ACCOUNT EXPENDITURE ASSUMPTIONS

Assumptions:

- Updated forecast is based on the expenditure levels in the Governor's Budget.

Expenditures:	**2002-03**	**2003-04**
State Operations December Forecast	$120.3 M	$143.7 M
State Operations Updated Forecast	$125.3 M	$125.4 M
Local Assistance December Forecast	$23.2 M	$15.5 M
Local Assistance Updated Forecast	$8 M	$2.8 M
Capital Outlay December Forecast	$17.6 M	$20.1 M
Capital Outlay Updated Forecast	$26 M	$30.1 M

Background:

- The PTA 24-month cash forecast presented to the CTC in December was the first PTA cash forecast prepared by the Department.
- Developing a PTA cash forecast was not necessary prior to the transfer $275 million from the funds to the TCRF.
- Expenditure Forecast Methodology:
  The annual expenditure forecast for the different expenditure categories are determined by cash flowing program levels over several years. Various divisions within Caltrans provide this information during the Fund Estimate process. This information is subsequently modified based on periodic updates from the programs and information used to develop the Department's budget. Annual expenditure forecasts are broken down into monthly expenditure forecasts based on estimated expenditure patterns developed using historical data.

Risks:

- Because there is no previous PTA cash forecast experience, the methodologies being used have not been tested. Therefore, there is a moderate risk of either overestimating or underestimate the PTA forecasted cash balance.