

Memorandum

To: Chair and Commissioners

Date: August 27-28, 2008

From: John F. Barna, Jr., Executive Director

File No: Item 4.9
ACTION

Ref: Fund Estimate Update

At the Commission's July meeting, the Commissioners reached a consensus on the need to reprogram the 2008 State Transportation Improvement Program (STIP) if Proposition 42 is suspended by the Governor and the Legislature as a part of the 2008-09 Budget. The Commissioners also expressed a desire to adopt a revised 2008 STIP as early as January 2009. Meeting this deadline will require completing a process that normally takes eighteen months in less than six months. Therefore, by necessity, developing a Revised 2008 STIP will require a more streamlined and limited process than is normally used to develop a STIP.

The first step in the development of the STIP is the development and adoption of a STIP Fund Estimate. The purpose of the Fund Estimate is to provide an estimate, in annual increments, of all federal and state funds reasonably expected to be available for programming in the STIP.

The first step in the Fund Estimate development process is the preparation and subsequent adoption of Fund Estimate assumptions and methodologies. The Fund Estimate is based on assumptions and methodologies to forecast revenues and expenditures in order to determine the estimated remaining cash available for programming. These assumptions are adopted by the Commission based upon recommendations from the Department and in consultation with Regional Transportation Planning Agencies and county transportation commissions.

In order to expedite the Fund Estimate development process, staff has asked the Department to be prepared to discuss Fund Estimate assumptions at the Commission's August meeting. Staff recommends that the Commission adopt at its August meeting changes in methodologies and assumptions limited to those related to Proposition 42, including:

- Estimated repayment reschedule.
- Programming and allocation methodology (limiting programming and allocation to the Transportation Investment Fund [Proposition 42] and Transportation Facilities Account [Proposition 1b] revenues available in a given year versus programming and allocating based on the estimated expenditures of projects).
- Impact to the Public Transportation Account.

Staff recommends other portions of the Fund Estimate be updated, as necessary, based upon current revenue estimates and appropriation levels in the 2008-09 Budget, without changes to the underlying assumptions and methodologies.

Chair and Commissioners

August 27-28, 2008

Page 2

Lastly, staff recommends that the Commission direct the Department, contingent upon a suspension of Proposition 42, to prepare a limited revision to the 2008 STIP Fund Estimate and present a Revised 2008 STIP Fund Estimate for adoption at the Commission's September 24-25 meeting.

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To: CHAIR AND COMMISSIONERS

CTC Meeting: August 27-28, 2008

Reference No.: 4.9
Information Item

From: CINDY McKIM
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Budgets

Subject: **FUND ESTIMATE UPDATE**

BACKGROUND:

In January 2008, the Governor proposed to fully fund the 2008-09 Proposition 42 transfer of \$1.432 billion. However, with the current state of the budget, the suspension of the Proposition 42 transfer remains a possibility.

A suspension of the 2008-09 Proposition 42 transfer would have an immediate impact on the 2008 STIP since the Fund Estimate assumed a 2008-09 Proposition 42 transfer with \$692 million available for the State Transportation Improvement Program (STIP). A suspension would result in an estimated delay of projects across the fund estimate period, as follows:

- 18 percent of the 2008-09 projects delayed to 2009-10
- 70 percent of the 2009-10 projects delayed to 2010-11
- 90 percent of the 2010-11 projects delayed to 2011-12

The Department of Transportation (Department) is aware that if Proposition 42 is suspended, the California Transportation Commission (Commission) has stated in a letter to the Legislature that it would postpone allocations for projects in the STIP, prepare and adopt a new STIP Fund Estimate for the 2008 STIP period, and reprogram the 2008 STIP. The Department will prepare a revised 2008 STIP Fund Estimate when the 2008 Budget is enacted, if the 2008-09 Proposition 42 transfer is suspended.

FUND ESTIMATE SCOPE AND KEY ASSUMPTIONS/UPDATES

Should a revised STIP fund estimate become necessary, the Department and Commission will be faced with accelerating an 18-month long process into a very short time frame. In order to provide the Commission with the best information for reprogramming decisions, given the urgency of the current situation, the Department recommends the scope of the revised fund estimate be limited to the STIP program capacity for the Transportation Investment Fund (TIF) and Transportation Facilities Account (TFA).

A revised STIP fund estimate would be based on the 2008 STIP Fund Estimate, but would need to reflect several key areas in which the Department would need direction from the Commission, including:

- **Proposition 42 Repayment.** If Proposition 42 is suspended, the Department will assume repayment at the end of the three-year period as required by Proposition 1A. No further suspensions would be assumed during the STIP period unless the budget contains provisions that would guide the Department otherwise.
- **2008-09 Budget Projections.** The 2008-09 proposed budget contained revised revenue and expenditure projections compared to the adopted 2008 STIP Fund Estimate.
- **FE Outlook Issues.** Based on the current revenue and cost projections over the fund estimate period and the final allocations of TFA, program capacity will decrease significantly over the remainder of the fund estimate period. Given this outlook:
 - Capital Outlay Support (COS) Workload Projections – How should the fund estimate assume future levels of support? The COS workload has been developed based upon the programmed STIP. Unless COS staffing levels and effort are reduced, COS costs will use a large part of the remaining capacity for construction. At a minimum, fund estimate assumptions for COS expenditures need to reflect lower programming, but a policy decision needs to be made on whether a shelf needs to be maintained in order to deliver projects if funding becomes available.
 - Right-of-way Projections - Should right of way costs in the fund estimate be adjusted to reflect recent cost increases, or decreased commensurate with a lower projected program? If right of way acquisitions are delayed, it could also result in higher long term costs.