State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

M e m o r a n d u m

To: CHAIR AND COMMISSIONERS
CALIFORNIA TRANSPORTATION COMMISSION

CTC Meeting: May 11-12, 2011

Reference No.: 4.7
Action Item

From: NORMA ORTEGA
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Subject: **2012 FUND ESTIMATE ASSUMPTIONS**

RECOMMENDATION:

The Department of Transportation (Department) recommends the California Transportation Commission (Commission) approve the assumptions for the 2012 State Transportation Improvement Program (STIP) Fund Estimate and the 2012 Aeronautics Account Fund Estimate.

ISSUE:

The assumptions for the 2012 STIP Fund Estimate provide the basis for forecasting available capacity for the 2012 STIP and the 2012 State Highway Operation and Protection Program, while the assumptions for the 2012 Aeronautics Account Fund Estimate determine available capacity for the Aeronautics Account.

On March 23, 2011, the Department presented the Draft 2012 STIP Fund Estimate Key Assumptions and requested for the Commission to consider selecting an alternative from the assumptions in the Options category. At the May 11-12, 2011, Commission meeting, the Department will be requesting the Commission to approve an alternative from the following assumptions located in the first attachment titled "2012 STIP Fund Estimate Key Assumption Options:"

- Economic Recovery and Impact on Revenues (pages 1-3)
- Motor Vehicle Account Transfers (page 4)
- Federal Revenues (pages 5-6)

Once the Commission approves the assumptions for the 2012 Fund Estimates, the Department will present the two Draft 2012 Fund Estimates on June 22-23, 2011, and the final version of both 2012 Fund Estimates for adoption on August 10-11, 2011. Should any budgetary action require the Department to update any assumptions between now and the next two presentations, the Department will inform the Commission staff and present the changes during the upcoming Commission meetings.

BACKGROUND:

On March 23, 2011, the Department presented the “Draft 2012 Draft STIP Fund Estimate Key Assumptions,” the “Draft 2012 STIP Fund Estimate Methodologies & Assumptions,” and the “Draft 2012 Aeronautics Account Fund Estimate Assumptions” to the Commissioners and Commission staff for their review. Since the presentation, the Department has worked with Commission staff to update and make any necessary changes to the assumptions and methodologies. The significant changes are contained in the second attachment titled “2012 STIP Fund Estimate Assumption Changes.”

The revised assumptions, except for the three key assumption options on the preceding page, are located in the third attachment titled “2012 STIP Fund Estimate Assumptions & Methodologies.” The last attachment is the “2012 Aeronautics Account Fund Estimate Assumptions”, which has not been changed from the Draft version presented to the Commission on March 23, 2011.

Attachments:
- 2012 STIP Fund Estimate Key Assumption Options
- 2012 STIP Fund Estimate Assumption Changes
- 2012 STIP Fund Estimate Methodologies & Assumptions
- 2012 Aeronautics Account Fund Estimate Assumptions

2012 STIP Fund Estimate Key Assumption Options

ECONOMIC RECOVERY AND IMPACT ON REVENUES

Option: What should the 2012 Fund Estimate (FE) display as an assumption for the economic recovery in California and its impact on excise tax on fuel and weight fee revenues?

Background: Many of the revenues forecasted in the FE fluctuate with the status of the California economy. During the economic boom associated with 2003 through 2006, California recognized slight increases in gasoline and diesel consumption (despite improved fleet fuel economy) and record rises in weight fee revenues. However, during the housing market crisis from 2007 through present, there have been moderate decreases in fuel consumption and significant decreases in weight fees.

The economy of California has been in a downturn for the past four years. Predicting when the economy will level-off or recover to pre-2007 levels is nearly impossible. History dictates that at some point the economy must recover even if it does not occur over the FE period. Specifically, employment will decrease below 10 percent and the housing market will make steady gains.

A June 2010 survey from the New York Stock Exchange Euronext shows that United States and European CEOs do not expect a full job recovery until 2014 or later. This is the same expected year of recovery as noted in the economic forecast performed by the University of the Pacific, which was released in January 2011. Jobs may be a good indicator of transportation revenues as fuel consumption and weight fees would increase from more people commuting to work and a greater need for interstate shipping.

Update: Commissioner Dunn requested for the Department to review the economic assumptions and locate more recent data than the June 2010 survey from the New York Stock Exchange Euronext and the January 2011 survey performed by the University of the Pacific.

The Department researched two additional economic forecasts that projected unemployment would decrease to single digits in calendar year 2013. One forecast was issued by the Legislative Analyst's Office in November 2010, and the other was issued by UCLA Anderson Forecast in March 2011. Alternative E proposes an option that displays economic recovery occurring in 2013.

Alternative A (Recommended Alternative): Assume economic growth will stagnate for a couple of years and then slowly improve for the remainder of the FE period. Specifically, this would result in no growth of consumption levels and weight fee revenues from 2010-11 through 2013-14. In 2014-15 through 2016-17, consumption of gasoline and diesel will increase by about 1.8 percent and 2.8 percent each year, respectively, as estimated in the 2011-12 Governor's Budget from 2010-11 to 2011-12. Weight fee revenues will increase by their 10-year growth rate of 2.3 percent from 2014-15 through 2016-17. See table titled "Delayed Recovery" on the next page.

Alternative B: Assume the economy will immediately recover and consumption of gasoline and diesel will increase by about 1.8 percent and 2.8 percent, respectively, as estimated in the 2011-12 Governor's Budget from 2010-11 to 2011-12. Assume weight fee revenues will increase each year by their 10-year growth rate of 2.3 percent from 2009-10 through 2016-17. See the table titled "Immediate Recovery" on the next page.

Alternative C: Assume the economy will stagnate. This would result in no change to consumption levels of gasoline and diesel, and no change in weight fee revenues from 2009-10 through 2016-17. Both the excise rate on diesel and the increase to excise tax on gasoline from the fuel tax swap will create slight year-to-year fluctuations based on nominal rate changes. See the table titled "No Growth" on the next page.

Alternative D: Assume economic growth will decline for a couple of years and then slowly improve for the remainder of the FE period. Specifically, this would result in an annual decline of 0.9 percent for consumption of gasoline and diesel, and weight fee revenues from 2010-11 through 2013-14. In 2014-15 through 2016-17, consumption of gasoline and diesel will increase by about 1.8 percent and 2.8 percent each year, respectively, as estimated in the 2011-12 Governor's Budget from 2010-11 to 2011-12. Weight fee revenues will increase by their 10-year growth rate of 2.3 percent from 2014-15 through 2016-17. See table titled "Decline Before Recovery" below.

Alternative E: Based on Commissioner Dunn's request, the Department developed a new option that assumes no growth of consumption levels and weight fee revenues from 2010-11 through 2012. Starting in 2013 and continuing through 2016-17, consumption of gasoline and diesel fuels will increase by about 1.8 percent and 2.8 percent each year, respectively. Weight fee revenues will increase by their 10-year growth rate of 2.3 percent from 2013 through 2016-17.

Note: The tables on the following page do not incorporate changes from Assembly Bill 105 (Chapter 6, Statutes of 2011), which was enacted on March 24, 2011. Once the California Transportation Commission (Commission) recommends alternatives and approves the 2012 STIP Fund Estimate Assumptions & Methodologies, the Draft 2012 STIP Fund Estimate tables will be updated to include statute changes impacted by the enactment of AB 105.

Delayed Recovery - Recommended							
Revenues	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**5- Yr Total**
Base Excise on Fuel: Non-STIP	1,896	1,876	1,876	1,911	1,939	1,975	**9,578**
Net Increase to Excise on Gasoline: Non-STIP	1,065	1,116	1,184	1,250	1,289	1,317	**6,156**
Weight Fees	913	913	913	934	956	978	**4,695**
Subtotal: Non-STIP	**3,874**	**3,906**	**3,973**	**4,096**	**4,184**	**4,271**	**20,429**
Increase to Excise on Gasoline - Hwy STIP	**876**	**733**	**552**	**551**	**565**	**585**	**2,985**

Immediate Recovery							
Revenues	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**5- Yr Total**
Base Excise on Fuel: Non-STIP	1,937	1,952	1,989	2,026	2,063	2,101	**10,132**
Net Increase to Excise on Gasoline: Non-STIP	1,070	1,111	1,198	1,265	1,304	1,333	**6,212**
Weight Fees	897	889	881	901	922	943	**4,536**
Subtotal: Non-STIP	**3,904**	**3,953**	**4,068**	**4,193**	**4,289**	**4,377**	**20,880**
Increase to Excise on Gasoline - Hwy STIP	**895**	**716**	**605**	**605**	**621**	**642**	**3,190**

No Growth							
Revenues	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**5- Yr Total**
Base Excise on Fuel: Non-STIP	1,896	1,876	1,876	1,875	1,873	1,872	**9,372**
Net Increase to Excise on Gasoline: Non-STIP	1,065	1,101	1,184	1,245	1,279	1,302	**6,111**
Weight Fees	913	913	913	913	913	913	**4,567**
Subtotal: Non-STIP	**3,874**	**3,891**	**3,973**	**4,034**	**4,065**	**4,087**	**20,050**
Increase to Excise on Gasoline - Hwy STIP	**876**	**680**	**552**	**533**	**527**	**528**	**2,820**

Decline Before Recovery							
Revenues	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**5- Yr Total**
Base Excise on Fuel: Non-STIP	1,862	1,826	1,809	1,843	1,876	1,911	**9,265**
Net Increase to Excise on Gasoline: Non-STIP	1,059	1,093	1,174	1,240	1,279	1,307	**6,093**
Weight Fees	897	889	881	901	922	943	**4,536**
Subtotal: Non-STIP	**3,818**	**3,809**	**3,864**	**3,985**	**4,077**	**4,161**	**19,895**
Increase to Excise on Gasoline - Hwy STIP	**853**	**651**	**516**	**514**	**527**	**546**	**2,754**

Recovery in 2013 - Requested							
Revenues	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**5- Yr Total**
Base Excise on Fuel: Non-STIP	1,896	1,895	1,931	1,968	2,005	2,042	**9,841**
Net Increase to Excise on Gasoline: Non-STIP	1,065	1,119	1,191	1,258	1,297	1,326	**6,190**
Weight Fees	913	924	945	967	989	1,012	**4,837**
Subtotal: Non-STIP	**3,874**	**3,937**	**4,068**	**4,192**	**4,291**	**4,380**	**20,868**
Increase to Excise on Gasoline - Hwy STIP	**876**	**743**	**580**	**579**	**594**	**615**	**3,110**

MOTOR VEHICLE ACCOUNT (MVA) TRANSFERS

Option: What should the 2012 FE display as an assumption for the transfer of excess MVA funds to the State Highway Account (SHA)?

Background: Section 42273 of the Vehicle Code requires the Controller to transfer the MVA balance remaining on the last day of the preceding month to the SHA, unless there is an immediate need of MVA funding. The 2011-12 Governor's Budget displays an estimated beginning balance of about $111 million in the MVA for 2011-12. From this balance, the unneeded portion should be calculated and transferred to the SHA. **In at least the past ten years, funds from the balance have not been transferred to the SHA.**

It would be beneficial to display a transfer to the SHA as this would increase available funding for the SHOPP. However, if transfers are not made by the Controller and the 2012 FE displays an assumption that transfers would occur, SHA resources would be overstated. Another option is to assume transfers will occur in 2014-15 through 2016-17 consistent with the recommended alternative in the key assumption titled "Economic Recovery and Impact on Revenues."

Alternative A (Recommended Alternative): Assume the Controller will not make any transfers to the SHA over the FE period.

Alternative B: Assume the Controller will transfer $50 million each year for the FE period.

Alternative C: Assume the Controller will transfer $10 million each year from 2014-15 through 2016-17. A transfer of $10 million represents a low risk option, while acknowledging the possibility of future transfers.

FEDERAL REVENUES

Option: Without a Federal Highway Act (Act) in place, how much Obligation Authority (OA) should the FE display over the 2012 FE period (2012-13 through 2016-17)?

Background: Since 2003-04, Federal revenues have represented about 42 to 50 percent of total resources available for the SHOPP. These revenues are transferred from the Federal Highway Trust Fund (FHTF), which is primarily funded from the federal excise tax on gasoline of 18.4 cents/gallon and 24.4 cents/gallon on diesel.

The state receives apportionments that are ultimately governed by California's contributions to federal excise tax as a percentage share of the total contributions into the FHTF. These apportionments are set by the Acts that are enacted by Congress. The actual amount of federal funds the state can use each year on projects is governed by the OA set by Congress in its annual Federal Appropriation Act. However, the last Act was the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which covered Federal Fiscal Year (FFY) 2005 through 2009 and expired on September 30, 2009.

Without a new Act in place, the Federal Highway Administration issued continuing resolutions that authorized $3.5 billion of OA for California in FFY 2009-10. From this amount, the Department retained $2.3 billion (66 percent) while locals received $1.2 billion (34 percent). Traditionally, an Act will usually authorize reservations for demonstration projects. However, since there was no Act in place, the Department received about $350 million in additional non-flexible and flexible formula funding. If a new Act is authorized over the 2012 FE period, the Department may not have access to this augmentation.

On February 14, 2011, the White House proposed a highway bill that is $556 billion in appropriations and covers a six-year period. In FFY 2009-10, California received about 8.7 percent of the total federal appropriations in the form of OA. After deducting allocations exempt from formula apportionments, the Department would receive an average of $7.9 billion in OA per year.

However, on February 22, 2011, U.S. Representative Tom DeFazio explained that Congress expects to have $260 billion available for transportation programs in the next six years. After deducting allocations exempt from formula apportionments, the Department would receive an average of about $3.3 billion in OA per year.

If OA assumptions are set too low, the Department risks not having enough projects to use OA; especially if a reservation of projects is not created. This problem occurred in 2009-10 when federal stimulus required the Department to shift funding from OA to stimulus dollars. Federal stimulus projects depleted those projects ready to use OA and nearly caused the Department to lose federal funding.

At this point and time, no new Act appears eminent to cover the 2012 FE period. With no new Act in place, the FHTF unable to maintain current outlay levels, and a need to maintain moderate-to-high OA levels, what should the 2012 FE display as an assumption for the level of OA over the next five year STIP period?

Alternative A (Recommended Alternative): Assume OA is equal to the 2008-09 actual level of $3.0 billion, the last year of SAFETEA-LU, and held constant each year over the FE period. This would result in $15.2 billion in OA over the five-year FE period.

Alternative B: Assume the OA level is set pursuant to U.S. Representative Tom DeFazio's estimate, which would provide $3.3 billion per year. This would result in $16.7 billion in OA over the five-year FE period.

Alternative C: Assume the OA level is equal to the White House's proposal, which would provide $7.9 billion of OA per year. This would result in $39.5 billion over the FE period.

Note:
The Commission may also elect to delay adoption of the 2012 STIP FE up to 90 days in anticipation of authorization for the next Act.

2012 STIP Fund Estimate Assumption Changes

Since the presentation of the Draft 2012 State Transportation Improvement Program (STIP) Fund Estimate (FE) Assumptions on March 23, 2011, the Department has worked with the California Transportation Commission (Commission) staff to update and make any necessary changes to the assumptions and methodologies. Assumptions have also been affected from changes in legislation such as the enactment of Assembly Bill (AB) 105 (Chapter 6, Statutes of 2011) on March 24, 2011.

The following items summarize the significant changes from the Draft 2012 STIP Fund Estimate Key Assumptions and the Draft 2012 STIP Fund Estimate Methodologies & Assumptions from the Commission meeting in March 2011. The next attachment titled "2012 STIP Fund Estimate Methodologies & Assumptions," displays all of the updates and changes on the pages referenced next to each item.

Changes to Draft 2012 STIP Fund Estimate Key Assumptions

State Highway Account (SHA)

SHA 7 Section 183.1 transfers (pages 5/13) – The Draft 2012 STIP Fund Estimate Key Assumptions indicated the 2012 FE will display a transfer of the entire $77.5 million of Section 183.1 revenues for debt service in 2011-12. Since the 2011-12 Governor's Budget did not indicate the status for 2012-13 and thereafter, the Draft assumptions displayed that transfers from the SHA to the Public Transportation Account (PTA) would total about $391 million over the FE period (2012-13 through 2016-17).

However, AB 105 has amended Section 183.1 of the Streets & Highways Code (S&HC), which now requires a transfer to the Transportation Debt Service Fund in 2012-13. For the remainder of the FE period, miscellaneous revenues will remain in the State Highway Account (SHA) until appropriated by the Legislature. Based on the amended statute, the 2012 STIP FE Assumptions & Methodologies will not display a transfer of funds from the SHA to the PTA over the FE period.

PTA

PTA 4 State Transit Assistance (STA) Transfers (pages 10-11/13) – The Draft 2012 STIP Fund Estimate Key Assumptions indicated the 2012 FE will display a 50 percent transfer of the sales tax on diesel revenues from the PTA to STA, resulting in about $204 million of transfers in 2011-12.

However, the passage of AB 105 added Section 99312.1 to the Public Utilities Code, which requires the Controller to transfer all of the revenues generated from Sections 6051.8 and 6201.8 of the Revenue & Taxation Code (increases to sales tax on diesel of about 1.75 percent) to STA. Based on the amended statute, the 2012 STIP FE Methodologies & Assumptions has been updated to display an increase of transfers from the PTA to STA, which total about $1.8 billion over the FE period.

Changes to Draft 2012 STIP FE Methodologies & Assumptions

PTA

PTA 6 Intercity Rail Operations (page 11/13) – The Draft 2012 STIP Fund Estimate Key Assumptions indicated that project expenditures for intercity rail operations would change once Section 209 costs are finalized. Section 209 of the Passenger Rail Investment and Improvement Act of 2008 requires Amtrak in consultation with states to develop a standardized methodology for the allocation of operating and capital costs on state-supported routes.

Although these costs have not been finalized, as of April 19, 2011, Amtrak and the Department are in the final stages of negotiations and it is not anticipated that these costs will significantly vary from the amounts reported below and included in the 2012 STIP Fund Estimate Methodologies & Assumptions.

- The Department's share of Section 209 operating costs on Amtrak state-supported routes have been added to the original estimate for intercity rail and bus operations beginning in 2012-13 and will now total $570 million over the FE period. Intercity rail and bus operations were originally estimated at $470 million in the Draft 2012 Fund Estimate Methodologies and Assumptions.

- Capital costs will total $76 million over the FE period.

- Cost estimates for additional services on existing routes and extensions to existing routes will be determined when the California State Rail Plan is completed in December 2012. If expenditures for intercity rail and bus operations, and Section 209 capital are less than estimated, these funds will be made available for additional services on existing routes and extensions to existing routes.

2012 STIP FUND ESTIMATE

Methodologies & Assumptions

May 2011

METHODOLOGY

The Fund Estimate (FE) is based on assumptions and methodologies to forecast revenues and expenditures in order to determine the estimated remaining cash available for programming. This section includes the general methodologies used in the development of the FE.

Statutory Guidance

Section 14525(c) of the Government Code (GC) requires the FE to be based on current state and federal statutes for estimating revenues. Section 163 of the Streets & Highways Code (S&HC) provides guidance for the use of all transportation funds available to the state, including the priority of expenditures for administration, maintenance and operation, rehabilitation, local assistance, and the State Transportation Improvement Program (STIP).

Unless otherwise noted, the most recent California Department of Finance (DOF) Price Letter will be used to determine an annual price escalation rate for state operations expenditures per Section 14525.1 of the S&HC. This does not include escalation rates for capital outlay support.

Section 14529.7 of the GC regulates reimbursement projects covered by Assembly Bill (AB) 3090 where the California Transportation Commission (Commission), Department, region, and local agency may enter into a financing arrangement. Under the cash reimbursement scenario, the local agency receives a direct cash reimbursement for delivery of a programmed STIP project.

Revenue & Expenditure Projections

- For each fund, the beginning cash balance will be calculated from the cash balance report from the State Controller's Office (Controller) on July 1, 2011, plus that fund's share of advances in the Transportation Revolving Account (TRA).

- Interest income to those funds with balances in the Surplus Money Investment Fund (SMIF) will be based on the most current published SMIF rate from the Controller.

- Revenue forecasts that cover the FE period (2012-13 through 2016-17) are based on historical trends, the economic outlook, and consultation with the DOF.

- The FE assumes usage of local assistance federal funding in the year received.

- The FE displays an assumption that federal funding will be distributed to the state and local agencies based on a historical allocation of a 61/39 split of available resources, respectively. This also includes the allocation for the August Redistribution.

- The Department developed program expenditures and cash flow estimates by working with each respective Department Division.

- The Public Transportation Account (PTA) will be used to fund transit STIP AB 3090 reimbursements as currently programmed in 2011-12.

- On March 22, 2010, Governor Schwarzenegger signed the fuel tax swap that eliminated the state portion of sales tax on gasoline and Proposition 42 revenues, which is the sole funding source of the Transportation Investment Fund (TIF). With the loss of this sole revenue source, the TIF is no longer required to fund new projects.

  AB 9 of the eighth extraordinary session in 2009-10 required that all obligations that cannot be funded from the TIF will instead be funded from the State Highway Account (SHA). As of April 15, 2011, the TIF is forecasted to become insolvent in March 2012, and the SHA will be used to fund any ongoing commitments originally allocated from the TIF.

Conversion to Capacity

- The 2012 FE will display a "cash flow" model that schedules funding capacity based upon defined commitments and is consistent with the method used to manage the allocation of capital projects.
  - Each FE table will display forecasted revenue estimates, less commitments (as defined by the approved assumptions) in order to determine the cash available for programming.
  - Conversion of cash available for programming to capacity is based on linear programming to optimize capacity, while maintaining a prudent cash balance and minimizing annual fluctuations of program levels. Methodology assumes that capital projects liquidate based on historical spending patterns.
  - Program capacity represents the total value of projects that can be funded, and includes support, local assistance, right-of-way, and construction.
- The county share system established by Senate Bill (SB) 45 (Chapter 622, Statutes of 1997) defines the methodology for determining the level of programming. The FE displays this system to identify the funds available for programming over the FE period.

State Highway Account Assumptions

Operating Cash Balance. The Department recognizes that the State Highway Account (SHA) needs to maintain a minimum level of operating cash sufficient to meet monthly operating commitments, daily fluctuations, and the revenue and expenditure cycles that occur during the year. In addition, the SHA balance must also cover monthly expenditures during delays in the adoption of state and federal budgets.

SHA 1. Based on an updated analysis of monthly SHA receipts less expenditures, a minimum level of operating cash of $370 million would sufficiently cover 95 percent of the monthly volatility in the SHA.

SHA Revenues & Transfers

State Excise Tax on Fuel Revenues:

California last raised its excise tax on gasoline, diesel, liquefied petroleum gas, natural gas, ethanol, and methanol in 1994 to 18 cents per gallon. In addition, the fuel tax swap eliminated the state portion of sales tax on gasoline for an additional 17.3 cent/gallon excise tax on gasoline. These consumption-based revenues are transferred from the Highway Users Tax Account (HUTA) to the SHA per Sections 2103, 2104.1, 2107.6, and 2108 of the Streets & Highways Code (S&HC) on a monthly basis. Given the uncertainty of the economic outlook and recent declines in fuel consumption, forecasting the growth of state fuel excise tax revenues over the FE period will be complicated and should use a conservative estimate.

SHA 2. See 2012 STIP Fund Estimate Key Assumption Options – Economic Recovery and Impact on Revenues

Weight Fee Revenues:

Section 9400 of the Vehicle Code (VC) authorizes the use of Motor Vehicle Registrations (Weight Fees) for transportation purposes. These revenues are derived from registration and renewal fees charged to commercial vehicles and pick-up trucks based on weight.

SHA 3. See 2012 STIP Fund Estimate Key Assumption Options – Economic Recovery and Impact on Revenues

Other State Revenues: Other SHA revenues include interest received from the Surplus Money Investment Fund (SMIF) and revenues from Other Regulatory Licenses and Permits.

SHA 4. Revenues from Other Regulatory Licenses and Permits will remain stagnant from 2009-10 through 2013-14 and increase by 2.0 percent per year in 2014-15 through 2016-17. This results in total revenues of $42 million over the FE period.

S&HC Section 194 Transfers: Section 194 of the S&HC requires the State Controller's Office (Controller) to transfer funds for the pro-rata share of highway planning and exclusive public mass transit guideway planning from the SHA to the Public Transportation Account (PTA).

SHA 5. Section 194 transfers are based on PTA state operations expenditures, which are subject to the Department of Finance's (Finance's) price letter. The transfers total approximately $139 million over the FE period.

Forecast S&HC Section 194 Transfers
(in millions)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
2010 FE	$28	$29	$29	$30	$31		
2012 FE			$27	$27	$28	$28	$29

Toll Bridge Seismic Retrofit Program: In 2001, the Legislature authorized a transfer from the SHA to the Toll Bridge Seismic Retrofit Account (TBSRA) under Assembly Bill (AB) 1171 (Chapter 907, Statutes of 2001). In 2005, AB 144 (Chapter 71, Statutes of 2005) identified additional funding to meet the revised program costs for the Toll Bridge Seismic Retrofit Program (TBSRP). The Commission adopted a revised schedule of state contributions to the TBSRP in December 2005 based on AB 1171 (Chapter 907, Statutes of 2001) and AB 144 (Chapter 71, Statutes of 2005).

SHA 6. The Commission's December 2005 adopted plan scheduled transfers from the SHA to the TBSRA and contributions to the program, which total $465 million over the FE period.

Remaining SHA Contributions
to the Toll Bridge Seismic Retrofit Program
(in millions)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
2010 FE	$153	$150	$165	$300	$0		
2012 FE			$165	$300	$0	$0	$0

S&HC Section 183.1 Transfers: Pursuant to Section 183.1 of the S&HC, miscellaneous revenues not subject to Article XIX of the State Constitution have been traditionally transferred annually from the SHA into the PTA by November 1 of each year. AB 105 (Chapter 6, Statutes of 2011), enacted on March 24, 2011, amended Section 183.1 of the S&HC, which now requires the Controller to transfer prior year miscellaneous revenues from the SHA to the Transportation Debt Service Fund for 2010-11 through 2012-13. In 2013-14 and thereafter, miscellaneous revenues shall remain in the SHA until appropriated by the Legislature.

SHA 7. Assume the Legislature will not appropriate Section 183.1 transfers and prior year revenues will remain in the SHA. This will result in no Section 183.1 transfers over the FE period.

Motor Vehicle Account Transfers: Pursuant to Section 42273 of the VC, the Controller is required to transfer the remaining balance of the Motor Vehicle Account (MVA) on the last day of the preceding month, unless there is an immediate use of MVA funding. However, the Controller has not made a transfer in at least the last ten years.

SHA 8. See 2012 STIP Fund Estimate Key Assumption Options – Motor Vehicle Account (MVA) Transfers

Pre-Proposition 42 Loan Repayments:

In 2004, compacts were negotiated with Native American tribes to secure bond financing backed by tribal gaming revenues for the purpose of repaying General Fund (GF) Pre-Proposition 42 loans. However, a lawsuit challenging these compacts has held up the issuance of these bonds. In the absence of the bond sale, partial loan repayments have been authorized from annual compact revenues. The GF is required to repay a total of $879 million to transportation funds:

- $132 million to the SHA
- $265 million to the PTA
- $482 million to the Traffic Congestion Relief Fund

The 2011-12 Governor's Budget Summary proposes to delay the repayments for at least five years. The last repayment occurred in 2007-08 as a $100 million repayment to the SHA.

SHA 9. The 2012 FE will display that no repayments will occur over the FE period based on the 2011-12 Governor's Budget Summary.

Transportation Loan Repayments

In recent years, Budget Acts and trailer bills have authorized the following loans from transportation accounts to the GF in order to backfill deficits created by a struggling economy:

- The 2008-09 Budget Act authorized $231 million in loans from the SHA ($200 million) and other transportation accounts to the GF with repayment due by June 30, 2012.
- The 2009-10 Budget Act authorized a $135 million loan from the SHA to the GF. This loan is required to be repaid no later than June 30, 2012.
- The 2010-11 Budget Act authorized an $80 million loan from the SHA to the GF, and a $29 million loan from the PTA to the GF. Both repayments are due by June 30, 2014.

In addition, ABX3 20 of 2009-10 authorized a $310 million loan from the SHA to backfill Proposition 1B projects due to a poor bond market. Repayment of this loan is expected to occur in 2013-14, which coincides with and offsets a $300 million project to demolish the old San Francisco-Oakland Bay Bridge.

Any delay in repayment of the above loans will expose the Department to the risk of over-programming projects. In addition, loans to the GF are not required to be repaid until the last day of the fiscal year, which means these funds will likely not be available for expenditure until the following fiscal year. It is important to recognize that there will be an inherent risk of "front-loading" project awards at the beginning of the year since some resources may not be available until the end of the year.

SHA 10. The 2012 FE will display that loan repayments will occur in the year consistent with state statute.

Federal Revenues: Federal revenue accounts for between 35 to 50 percent of total SHA resources, excluding those that are dedicated to the State Transportation Improvement Program (STIP). These revenues come from the Federal Highway Trust Fund (FHTF), which is primarily funded from the federal excise tax on gasoline of 18.4 cents per gallon and 24.4 cents per gallon on diesel. The state receives apportionments set by the Federal Highway Act (FHA), which are ultimately governed by California's contribution as a percentage share of total contribution into the FHTF.

The most recent FHA: Safe, Accountable, Flexible, Efficient, Transportation Enhancement Act: A Legacy for Users (SAFETEA-LU), expired on September 30, 2009. In place of a FHA, the Federal Highway Administration has been authorized to issue continuing resolutions to SAFETEA-LU. The latest continuing resolution expired on March 4, 2011.

SHA 11. See 2012 STIP Fund Estimate Key Assumption Options – Federal Revenues

SHA 12. The 2012 FE assumes an August Redistribution of $109 million per year based on the average amount received by California from 2007-08 through 2009-10. The state will retain $67 million (61 percent) and locals will receive a $32 million apportionment (39 percent).

Advanced Construction (AC): AC is a federal guideline that allows the Department to authorize project expenditures against future federal funds. AC will be used as a cash management tool to minimize the impact of project delays by being able to start work on other projects designated as AC and converting the AC into Obligation Authority (OA). This can be performed without impact to the SHA. AC will also be used to create a reservation of federal eligible projects to hedge against project award savings and any unforeseen increases to federal or state revenues that would impact SHOPP capacity.

SHA 13. The Department will gradually accumulate an AC level that is equivalent to one year's OA by the end of the FE period. AC will be used as a cash management tool and as a reservation of federal eligible projects to hedge against increases to available federal resources.

Advanced Project Development Element (APDE): Beginning with the 2000 STIP, Section 14529.01 of the GC (AB 1012, Chapter 783, Statutes of 1999) requires the Department to estimate the APDE. These are available funds in two years following the FE period. The APDE authorized 25 percent of these additional resources toward the STIP by building a reservation of projects ready for construction.

SHA 14. The 2012 STIP FE will not include the APDE because the 2012 FE is expected to show the need for the reprogramming of STIP projects.

SHA Expenditures

BCP Reservation: Budget Change Proposals (BCPs) and Finance Letters (FLs) are proposals to change the level of service or funding sources for activities authorized by the State Budget or to request new program activities not currently authorized. For FE purposes, positive proposals will reduce a fund's available resources for dedication to new program capacity.

SHA 15. The 2012 FE will display a total reservation of $110 million over the five-year FE period. These costs include:

- In 2010-11 and 2011-12, BCPs for air quality management have not been fully approved for expenditure due to Executive Order S-14-09, which prohibits all state agencies and departments from ordering or purchasing any new vehicles. Both BCPs request to expend about $60 million to retrofit and replace vehicles to comply with California Air Resources Board regulations and these expenditures are likely to be re-spread over a three-year period.
- Fuel cost increases are estimated to total about $5 million per year in 2011-12 and 2012-13 only.

SHA BCP Reservations
($ in millions)

	2012-13	2013-14	2014-15	2015-16	2016-17
2012 FE	$50	$30	$10	$10	$10

SHA 16. Maintenance and operations expenditures for Transportation Management Systems (TMS) include an inventory adjustment of 3.0 percent per year beginning in 2012-13 for the costs associated with operating and maintaining the TMS inventory levels over the FE period (Note: TMS includes, but is not limited to, advanced operational hardware, software, communications systems and infrastructure, for integrated Advanced TMS and Information Systems, and for Electronic Toll Collection Systems). TMS expenditures will total
$208 million over the FE period.

State Funds for Local Assistance: State funds for local assistance are used for Railroad Grade Separation, Railroad Grade Crossing Maintenance, Regional Surface Transportation Program Match and Exchange, and Safe Routes to School Exchange per Commission Resolution G-06-15.

SHA 17. State expenditures assume allocation for the Railroad Crossing Protection Maintenance Program at $2 million per year over the FE period, consistent with Commission Resolution G-06-15.

Environmental Enhancement and Mitigation (EEM) Program: Section 164.56(a) of the S&HC acknowledges that it is the intent of the Legislature to transfer $10 million to the EEM. The 2011-12 Governor's Budget displays a $10 million transfer to the EEM.

SHA 18. The 2012 STIP FE will include a $10 million transfer per year to the EEM fund as intended per Section 164.56(a) of the S&HC.

SHA STIP Commitments: Section 163 of the S&HC identifies the priorities for the use of all transportation funds available to the state. These priorities include expenditures for administration, maintenance and operations, rehabilitation, and local assistance. Prior to calculation of resources available for new STIP, the FE sets aside resources for existing STIP commitments.

SHA 19. Capital outlay support (COS) expenditures are based on programmed STIP projects allocated prior to 2007-08 and in 2010-11, construction engineering for programmed 2011-12 STIP projects, and pre-construction engineering and R/W support for projects currently programmed to begin in 2011-12. A reservation will also be included for support cost increases consistent with SB 45 of 1997-98 based on historical expenditures.

SHA 20. Capital expenditures are based on a continuation of all existing SHA STIP project allocations prior to 2007-08, allocations in 2010-11, projects programmed to begin in 2011-12, and STIP Grant Anticipation Revenue Vehicles (GARVEE) debt service payments.

SHA 21. Prior Right-of-Way (R/W) is defined as all R/W projects in the 2010 STIP that are programmed for 2011-12 and prior years.

SHA 22. Non-programmed SHA STIP R/W includes an annual estimate based on forecasted R/W lump sum allocations of non-programmed R/W components for post-certification, and project development costs.

GARVEE Bond Financing:

Senate Bill (SB) 928 of 1999-00 added Section 14550 to the GC authorizing the State Treasurer's Office (Treasurer) to issue federal highway GARVEE bonds. This bill also authorized the Commission to select and designate projects to be funded for accelerating construction from bond proceeds.

SHA 23. The 2012 FE displays GARVEE debt service payments of about $219 million for STIP and $57 million for SHOPP for the entire FE period. GARVEE debt service payments for STIP proceeds will end in 2014-15. GARVEE debt service payments for SHOPP proceeds will end in 2019-20, which is outside of the 2012 FE period.

Prior State Highway Operation and Protection Program (SHOPP) Commitments & SHOPP Program Capacity: Prior to calculating resources available for the SHOPP, the SHA FE table will display a set aside of resources for existing SHOPP commitments.

SHA 24. COS expenditures are based on SHOPP projects allocated during 2010-11 and prior, construction engineering for programmed 2011-12 SHOPP projects, and pre-construction engineering and R/W support for projects currently programmed to begin in 2011-12.

SHA 25. Prior R/W commitments are defined as R/W projects in the SHOPP that are programmed for 2011-12 and prior years.

SHA 26. Non-programmed SHOPP R/W includes an annual estimate based on forecasted R/W lump sum allocations of non-programmed R/W components for inverse condemnation and post-certification costs.

SHA 27. Capital expenditures are based on a continuation of all SHOPP projects allocated in 2010-11 and prior, all programmed 2011-12 SHOPP projects, and SHOPP GARVEE debt service payments.

SHA 28. Total program capacity of the 2012 FE SHOPP will be based on total SHA resources remaining after existing commitments.

Public Transportation Account

Minimum Operating Cash: The PTA requires a minimum level of operating cash sufficient to meet its monthly operating commitments, daily fluctuations, and the revenue and expenditure cycles that occur during the year.

PTA 1. Based on historical data and projected expenditures from updated analysis of monthly PTA receipts less expenditures, a minimum level of operating cash of $100 million would sufficiently cover 95 percent of the monthly volatility in the PTA.

PTA Revenues

Sales Tax on Diesel: Sales tax on diesel revenues will result from varying sales tax rates ranging from 6.50 percent to 6.92 percent on each gallon of diesel fuel sold for the 2012 FE period. The varying rates are subject to annual rates in Sections 6051.8 and 6201.8 of the Revenue & Taxation Code (R&TC).

PTA 2. Consistent with Assumptions SHA 2, consumption of diesel will experience no growth from 2009-10 through 2013-14. In 2014-15 through 2016-17, diesel consumption will increase by 2.8 percent each year. The 2012 FE will display that retail diesel prices will increase by 1 percent each year over the FE period. This assumption results in about $2.9 billion over the FE period.

Sales Tax on Diesel Fuel Revenues
($ millions)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
2010 FE	$257	$269	$281	$294	$308		
2012 FE			$565	$574	$587	$600	$623

Transfer from the Aeronautics Account:
PTA 3. Section 21682.5 of the Public Utilities Code (PUC) requires an annual transfer of $30,000 from the Aeronautics Account.

PTA Expenditures

Transfers to State Transit Assistance (STA):
On November 2, 2010, voters approved Proposition 22, which amended Article XIXA of the California Constitution to require a 50 percent transfer of sales tax on diesel fuel revenues from the PTA to STA. In addition to this transfer, AB 105 (Chapter 6, Statutes of 2011) added Section 99312.1 to the PUC, which requires the Controller to transfer all of the revenues generated from Sections 6051.8 and 6201.8 of the R&TC (increases to sales tax on diesel of about 1.75 percent) to STA.
PTA 4. STA will receive $1.8 billion in transfers from the PTA over the FE period.

Transfers to STA
($ in millions)

	2012-13	2013-14	2014-15	2015-16	2016-17
2012 FE	$358	$364	$360	$365	$379

State Operations:

PTA 5. Assume no reservations for BCPs or FLs over the FE period.

Intercity Rail Operations:

PTA 6. Intercity rail is part of state operations expenditures in the PTA.

A. Section 209 of the Passenger Rail Investment and Improvement Act of 2008 requires Amtrak in consultation with states to develop a standardized methodology for the allocation of operating and capital costs on state-supported routes. Section 209 mandates this methodology to be implemented by October 2013. Intercity rail and bus operations base expenditures for existing services are based on the 2011-12 Governor's Budget at $90 million for 2011-12 and will increase to $112 million in 2013-14 to be in compliance with Section 209. Amtrak has assumed an annual escalation of 3 percent in 2014-15 and thereafter. Intercity rail and bus operations base expenditures will total $570 million over the FE period.

B. Currently, the Department does not pay for Section 209 capital costs. Amtrak assumes that the phase-in of Section 209 costs will begin in 2012-13 at $8 million and be fully implemented by 2013-14 at $16 million. Amtrak has assumed an annual escalation of 3 percent in 2014-15 and thereafter. Section 209 capital costs will total $76 million over the FE period.

C. The Department's estimated need for heavy equipment maintenance and overhaul over the FE period is $78 million.

D. Cost estimates for additional services on existing routes and extensions to existing routes will be determined when the California State Rail Plan is completed in December 2012. If expenditures for intercity rail and bus operations, and Section 209 capital are less than estimated, these funds will be made available for additional services on existing routes and extensions to existing routes.

Local Assistance:

PTA 7. Bay Area Ferry operations expenditures will escalate by one percent per year based on historical expenditures.

Prior PTA STIP Commitments: Prior to calculating resources available for new STIP, the FE will display a set-aside of resources for existing STIP commitments.

PTA 8. Capital expenditures are based on a continuation of all STIP projects allocated in 2010-11 and prior, all PTA programmed 2011-12 STIP projects, and non-highway AB 3090s.

Transportation Investment Fund

TIF Expenditures

TIF STIP Commitments: The FE will display a set-aside of resources for existing STIP commitments until the fund is exhausted of cash.

TIF 1. COS expenditures are based on STIP projects, construction engineering, and pre-construction engineering, and R/W support allocated during 2009-10 and prior.

TIF 2. Prior R/W commitments are defined as all R/W projects programmed in the 2010 STIP through 2009-10.

TIF 3. Non-programmed R/W includes an annual estimate based on forecasted R/W lump sum allocations of non-programmed R/W components for inverse condemnation, post-certification, and project development costs.

TIF 4. Capital expenditures will be based on a continuation of all STIP projects allocated in 2009-10 and prior, and non-PTA funded AB 3090s programmed in the 2010 STIP that occur before July 2012.

General Obligation Bonds

General Obligation Bonds:

On January 10, 2011, the Director of Finance announced that the Treasurer will not conduct a general obligation bond sale in the spring of 2011. In addition, the GF has a projected $25.4 billion deficit through June 2012. At this point, it is unknown if the Treasurer will hold future bond sales, which would increase the potential GF shortfall from additional debt service on bond proceeds.

The 2011-12 Governor's Budget authorizes $27.8 million in Proposition 1A bond appropriations toward five projects in 2011-12. These funds are available for the purpose of enhancing local transit lines as feeder routes to the high-speed rail system. The current policy is to fund Positive Train Control projects only.

The 2011-12 Governor's Budget authorizes over $3.4 billion in Department administered Proposition 1B appropriations.

Bond 1. The 2012 FE will display remaining capacity and a history of allocations and expenditures for all Proposition 1A and Proposition 1B general obligation bond funds administered by the Department. Funding will be dependent on the Treasurer's ability to sell sufficient bonds in the current economic climate.

2012 AERONAUTICS ACCOUNT FUND ESTIMATE ASSUMPTIONS

The Aeronautics Account Fund Estimate (FE) displays cash available to fund the Annual Credit Program, Airport Improvement Program Match program, and the Acquisition & Development program. The 2010 Aeronautics Account FE displayed total cash available of $11.8 million and the 2008 Aeronautics Account FE displayed total cash available of $11.3 million.

The 2012 Aeronautics Account FE will display assumptions that define the methodology used to forecast available resources from 2012-13 through 2014-15.

Revenue Assumptions

AERO 1. The 2012 Aeronautics Account FE will display the beginning balance of the Aeronautics Account on a cash basis since it receives continuous appropriations of funding.

AERO 2. Projected revenues for excise taxes on aviation gasoline and jet fuel will be based on historical transfers from the Motor Vehicle Fuel Account. The State Controller's Office (Controller) expects aviation gasoline excise tax revenues to decline by 3 percent as the industry continues to move toward jet fuel-powered aircraft. Conversely, the Controller forecasts jet fuel excise tax revenues to increase by 4 percent throughout the FE period.

AERO 3. The FE will display Surplus Money Investment Fund interest income based on the projected year ending cash balance of the Aeronautics Account as of June 30, 2011.

AERO 4. Federal Trust Funds represent federal reimbursement authority for various aviation activities completed by the Division of Aeronautics. Based on the Department of Finance's (Finance's) price letter, Federal Trust Funds will not be escalated in 2012-13, and will be increased by 2.0 percent per year for 2013-14 and 2014-15.

AERO 5. Section 21682.5 of the Public Utilities Code requires a $30,000 transfer to the Public Transportation Account each year.

Expenditure Assumptions

AERO 6. The annual funding provided to 145 publicly-owned, public use and eligible General Aviation airports through the Annual Credit grant program will remain at the same level of $10,000 per year for each qualified airport over the FE period.

AERO 7. The AIP match in 2012-13 is based on the Aeronautics Program adopted in 2010. The AIP match is assumed to remain at a rate of 2.5 percent over the remainder of the FE period.

AERO 8. Before adding to Acquisition & Development (A&D) capacity, resources must first fund the other two California Aid to Airports Program grants. The Commission will allocate all ending cash balances available for programming during the FE period, which may include funding for A&D. The 2010 Aeronautics Program included a list of A&D projects scheduled for funding through 2012-13. The Commission will determine future A&D projects when they adopt the next three-year Aeronautics Program in 2012.

AERO 9. State operations includes staffing for aeronautics and planning activities. State operations will display expenditures authorized in the 2011-12 Budget Act. Based on Finance's price letter, state operations will not be escalated in 2012-13, and will be increased by 2.0 percent per year for 2013-14 and 2014-15.