M e m o r a n d u m

To: CHAIR AND COMMISSIONERS
CALIFORNIA TRANSPORTATION COMMISSION

CTC Meeting: May 28, 2015

Reference No.: 4.15
Action Item

From: NORMA ORTEGA
Chief Financial Officer

Prepared by: Steven Keck, Chief
Division of Budgets

Subject: **2016 STATE TRANSPORTATION IMPROVEMENT PROGRAM FUND ESTIMATE FINAL ASSUMPTIONS**

RECOMMENDATION:

The California Department of Transportation (Department) recommends the California Transportation Commission (Commission) approve the assumptions for the 2016 State Transportation Improvement Program (STIP) Fund Estimate and the 2016 Aeronautics Account Fund Estimate.

ISSUE:

The assumptions for the 2016 STIP Fund Estimate provide the basis for forecasting available capacity for the 2016 STIP and the 2016 State Highway Operation and Protection Program, while the assumptions for the 2016 Aeronautics Account Fund Estimate determine available capacity for the Aeronautics Account.

At the March 2015 meeting, the Department presented the 2016 STIP Fund Estimate Draft Assumptions and requested the Commission to consider "Alternatives" included as part of the assumptions in Section One. The Department has worked with Commission staff to finalize the assumptions, and adjustments have been made to projected revenues included in Section One, and to minor assumptions in Section Three. These changes are detailed on Page 3 of the attachment titled "2016 STIP Fund Estimate Final Assumptions".

The Department and Commission staff are aware of multiple funding proposals that will directly impact transportation resources. While these proposals have the potential to change future state and federal revenues, statute requires that the Fund Estimate be based on current state and federal guidelines for estimating revenues. Should any budgetary action require the Department to update the assumptions between now and subsequent presentations, the Department will inform the Commission staff and present the changes during the upcoming Commission meetings.

At the May 28, 2015 Commission meeting, the Department will be requesting the Commission to approve one Alternative from each the following assumptions located in Section One of the attached document:

- The Economy's Impact on Revenues
- Federal Revenues
- Motor Vehicle Account Transfers

Once the Commission approves the assumptions for the 2016 Fund Estimates, the Department will present the two Draft 2016 Fund Estimates at the June 2015 meeting, and the final version of both Fund Estimates for adoption at the August 2015 meeting.

BACKGROUND:

On March 26, 2015, the Department presented the 2016 STIP Fund Estimate Draft 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 finalized assumptions are located in the attached 2016 STIP Fund Estimate Final Assumptions.

Attachment

2016 STIP FUND ESTIMATE FINAL ASSUMPTIONS

PREPARED BY
THE DEPARTMENT OF TRANSPORTATION
DIVISION OF BUDGETS

INTRODUCTION

This report contains key assumptions and methodologies to be adopted during the California Transportation Commission (Commission) meeting on May 28, 2015, and contains three separate sections: Options, Significant Issues, and Assumptions. The purpose of Sections One and Two is to solicit discussion and obtain the Commission's feedback on various areas that influence the 2016 Fund Estimate (FE) as required by statute. The purpose of Section Three is to list all the various assumptions that are not considered key assumptions but still impact the 2016 FE.

Section One contains key assumptions and will include multiple alternatives with one recommendation from the California Department of Transportation (Department). In this section, the Department is seeking guidance from the Commission on the preferred assumption for each topic discussed. The Commission may select the Department recommended option, another listed alternative, elect to recommend an option not included in this document, or suggest a combination of such options.

Section Two contains key assumptions known as "significant issues" and will provide a background regarding an assumption that the Department is required to include in order to be in compliance with Section 14524(c) of the Government Code (GC). This code requires the Department to assume there will be no changes in existing state and federal statutes for display in the 2016 FE. The Department has no control over these assumptions, which will have inherent risks that may impact available funding and capacity as a result of complying with state and federal statute.

Section Three contains all the assumptions being included in the 2016 FE, including placeholders for assumptions derived in sections one and two of this report.

Between now and the August 2015 presentation date for the adoption of the 2016 FE, the 2015-16 Budget Act, trailer bills, and/or initiatives may be enacted and could affect these assumptions (see the estimated timeline below). The Department will update assumptions as required by statute. Once the methodology and assumptions are approved, the Department will use these assumptions in determining the available program capacity for the State Transportation Improvement Program (STIP) and the State Highway Operation and Protection Program (SHOPP) over the next five years.

Date	Objective
May 28	FE Assumptions approved by Commission
June 24	Draft FE presented to Commission
August 26	Final FE presented to Commission for adoption

CHANGES TO DRAFT ASSUMPTIONS

The Department has worked with the Commission staff to update and make any necessary revisions to the 2016 STIP FE Draft Assumptions. The following items summarize the significant changes since the March 26, 2015 Commission meeting:

SECTION ONE: OPTIONS

- **Economic Recovery and Impact on Revenues (Pages 5-7):**
  - The Department updated revenue projections in order to account for annual transfers into the General Fund under the Motor Vehicle Fuel Tax Law, pursuant to Section 8352 of the Revenue and Taxation Code. These revenues are generated from the sale of fuel for off-highway use. Annual transfers vary according to price-based excise tax revenue and are based on Department of Finance (DOF) projection methodology. These transfers effectively decrease the total price-based excise tax revenue available for distribution to STIP and SHOPP.
  - Beginning in 2015-16, the percentage of base excise tax revenue allocated to the state was increased 2 percent (approximately $60 million a year) to account for the updated diesel excise tax rate of 13 cents per gallon. The price-based excise tax rate on gasoline remains unchanged from the previous revenue model.
- **Federal Revenues (Pages 8-9):**
  - Total funding in Alternative B was adjusted to remove escalation to FFY 2013-14 OA prior to the FE period. If FFY 2014-15 OA is available prior to adoption of the FE, the Authority will be incorporated into the model.

SECTION TWO: SIGNIFICANT ISSUES

- ***No change to the section at this time.***

SECTION THREE: ASSUMPTIONS

- **State Highway Account (SHA):**
  - **SHA 21 STIP Commitments (Page 23) –** Adjusted Price Index for Selected California Construction Items escalator to 4.5 percent due to incorporating 2014 calendar year data into the 20-year average.
  - **SHA 28 SHOPP Commitments (Page 24) –** Adjusted Price Index for Selected California Construction Items escalator to 4.5 percent due to incorporating 2014 calendar year data into the 20-year average.
  - **SHA 29 Active Transportation Program (ATP) (Page 24) –** The Environmental Enhancement and Mitigation (EEM) Program was not included in the final ATP. Reference to EEM has been removed from the ATP description. The assumption was reworded to include that ATP funding is consistent with the adopted 2015 ATP FE.

SECTION ONE:
OPTIONS

THE ECONOMY'S IMPACT ON REVENUES

Option: How aggressive of an assumption should the 2016 FE display for the economic growth in California, its impact on fuel consumption, and the uncertainty surrounding excise tax rates on fuel and weight fee revenues?

Background: Many of the revenues forecasted in the FE fluctuate with the status of the economy. During the economic growth associated with 2003 through 2006, California realized a slight rise in gasoline and diesel consumption (despite improved fleet fuel economy) and record increases in weight fee revenues. However, during the housing market crisis from 2007 through 2012, moderate decreases in both weight fee collections and fuel consumption occurred.

California's economy has since initiated a rebound from the downturn of the previous seven years. Predicting when the economy will recover to pre-2007 levels is nearly impossible, and may not occur over the FE period (fiscal year 2016-17 through 2020-21). The UCLA Anderson Forecast is one of the most widely watched and often-cited economic outlooks for California. The December 2014 Forecast continues the trend of slow, steady gains in employment over the next two years, with growth expected to increase 2.1 percent in 2015 and 2.2 percent in 2016. Similarly, the unemployment rate is expected to fall throughout 2015, averaging approximately 6.6 percent, and dropping to 5.6 percent in 2016. Personal income (adjusted) is forecasted to grow by 4.5 percent in 2015 and 2016.

The base excise tax on gasoline was last adjusted in 1994 to 18 cents per gallon. The price-based excise tax was introduced in 2010 as part of the Fuel Tax Swap. The intent of the Swap was to replace gasoline sales tax with an excise tax, adjusted annually to equal what would have been generated had the sales and excise tax rates remained unchanged. Consequently, the price of gas directly impacts excise tax collections. The recent volatility in gas prices makes forecasting total revenues difficult at best.

Assembly Bill (AB) 105 authorized the transfer of weight fee revenues from the State Highway Account (SHA) to the Transportation Debt Service Fund (TDSF). In turn, an off the top amount from the price-based excise tax on gasoline is transferred to the SHA in the form of backfill, with the remainder allocated to STIP, Local Streets and Roads, and SHOPP. The Department of Finance projects that weight fee revenues will increase slightly over the FE period. Given that current statute directs the entirety of weight fees diversions to be reimbursed first, the remaining revenue available to fund such projects is heavily influenced by adjustments in the price-based excise tax rate.

In March 2015, the Board of Equalization (BOE) voted to decrease the 2015-16 price-based excise tax rate on gasoline from 18 cents per gallon to 12 cents per gallon. Regarding diesel fuel, the BOE voted to increase the 2015-16 excise tax rate from 11 cents per gallon to 13 cents per gallon. The baseline projection and three alternatives described below account for these adjustments, and offer different approaches for projecting excise tax revenues beginning in 2016-17.

Baseline: Represents a "static" scenario. This would result in no adjustment to consumption levels of gasoline and diesel, and no change in weight fee revenues beginning in 2015-16. See the table titled "Baseline" on Page 7.

Alternative A: Assume that gasoline, diesel, and weight fee revenues will adjust in line with the 2015-16 Governor's Budget. This method assumes incremental increases to the price-based excise tax rate on gasoline in subsequent years through 2018-19 (to 16.9 cents per gallon), as projected by the Department of Finance (DOF). Reflecting the most recent DOF projections, this method incorporates annual growth rates on weight fee revenues and a no-growth component on diesel fuel. Revenue increases are due to economic growth in the near-term outweighing the long-term trend toward decreased fuel consumption. Over the FE period, this alternative is projected to generate approximately $1.9 billion in additional revenue over the baseline scenario. See the table titled "Governor's Budget Approach" on Page 7.

Alternative B: Assume that annual Vehicle Miles Traveled (VMT) will increase over the FE period, taking into account the Corporate Average Fuel Economy (CAFE) standards, their estimated penetration rate into the market, and the impact on total fuel consumption. This alternative was selected for the 2014 FE. This method would result in a marginal decrease in total fuel consumption over the FE period. Revenues increase less dramatically than in the other alternatives provided, and represent the momentum toward decreased fuel consumption over time. Similar to Alternative A, the price-based excise tax rate on gasoline and weight fee revenues are assumed to adjust based on the most current DOF projections. Over the FE period, this alternative is projected to generate approximately $1.7 billion in additional revenue over the baseline scenario. See the table titled "VMT & CAFE Standards" on Page 7.

Alternative C (Recommended Alternative): Assume the price-based excise tax on gasoline will increase to 18 cents per gallon prior the end of the FE period. This scenario utilizes the Governor's Budget methodology and most recent DOF projections, but assumes a higher price-based excise tax rate on gasoline in the last two years of the FE period. This method incorporates annual growth rates on weight fee revenues and a no-growth component on diesel fuel. Revenue increases are due to economic growth in the near-term outweighing the long-term trend toward decreased fuel consumption. Over the FE period, this alternative is projected to generate approximately $2.1 billion in additional revenue over the baseline scenario. See the table titled "Price-Based Excise Tax to 18¢ in 2019-20" on Page 7.

Alternative D: Assume the price-based excise tax on gasoline will increase to 18 cents per gallon in the near future. This scenario utilizes the Governor's Budget methodology, but assumes more aggressive upward adjustments in the price-based excise tax rate on gasoline in the first two years of the FE period. This method incorporates annual growth rates on weight fee revenues and a no-growth component on diesel fuel. Revenue increases are due to economic growth in the near-term outweighing the long-term trend toward decreased fuel consumption. Over the FE period, this alternative is projected to generate approximately $2.5 billion in additional revenue over the baseline scenario. See the table titled "Price-Based Excise Tax to 18¢ in 2017-18" on Page 7.

BASELINE

Revenues	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	5 Year Total
State Base Excise Taxes on Fuel (Non-STIP)	1,894	1,894	1,894	1,894	1,894	1,894	**9,469**
Price-Based Excise Tax on Gas (Non-STIP)	1,096	1,096	1,096	1,096	1,096	1,096	**5,482**
Weight Fees	1,015	1,015	1,015	1,015	1,015	1,015	**5,077**
Weight Fee Diversion (to General Fund)	(1,015)	(1,015)	(1,015)	(1,015)	(1,015)	(1,015)	**(5,077)**
Subtotal: Non-STIP	**2,990**	**2,990**	**2,990**	**2,990**	**2,990**	**2,990**	**14,950**
Price-Based Excise Tax on Gas (STIP)	**297**	**297**	**297**	**297**	**297**	**297**	**1,485**

ALTERNATIVE A (GOVERNOR'S BUDGET APPROACH)

Revenues	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	5 Year Total
State Base Excise Taxes on Fuel (Non-STIP)	1,894	1,894	1,894	1,894	1,894	1,894	**9,469**
Price-Based Excise Tax on Gas (Non-STIP)	1,096	1,181	1,250	1,306	1,318	1,339	**6,395**
Weight Fees	1,015	1,071	1,115	1,160	1,174	1,197	**5,717**
Weight Fee Diversion (to General Fund)	(1,015)	(1,071)	(1,115)	(1,160)	(1,174)	(1,197)	**(5,717)**
Subtotal: Non-STIP	**2,990**	**3,074**	**3,144**	**3,200**	**3,212**	**3,233**	**15,864**
Price-Based Excise Tax on Gas (STIP)	**297**	**403**	**495**	**537**	**531**	**521**	**2,487**

ALTERNATIVE B (VMT & CAFE STANDARDS)

Revenues	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	5 Year Total
State Base Excise Taxes on Fuel (Non-STIP)	1,894	1,882	1,872	1,873	1,871	1,869	**9,367**
Price-Based Excise Tax on Gas (Non-STIP)	1,096	1,178	1,245	1,301	1,313	1,334	**6,371**
Weight Fees	1,015	1,071	1,115	1,160	1,174	1,197	**5,717**
Weight Fee Diversion (to General Fund)	(1,015)	(1,071)	(1,115)	(1,160)	(1,174)	(1,197)	**(5,717)**
Subtotal: Non-STIP	**2,990**	**3,060**	**3,118**	**3,174**	**3,184**	**3,202**	**15,738**
Price-Based Excise Tax on Gas (STIP)	**297**	**392**	**477**	**518**	**512**	**500**	**2,398**

ALTERNATIVE C (PRICE-BASED EXCISE TAX TO 18¢ IN 2019-20)

Revenues	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	5 Year Total
State Base Excise Taxes on Fuel (Non-STIP)	1,894	1,894	1,894	1,894	1,894	1,894	**9,469**
Price-Based Excise Tax on Gas (Non-STIP)	1,096	1,181	1,250	1,306	1,337	1,358	**6,432**
Weight Fees	1,015	1,071	1,115	1,160	1,174	1,197	**5,717**
Weight Fee Diversion (to General Fund)	(1,015)	(1,071)	(1,115)	(1,160)	(1,174)	(1,197)	**(5,717)**
Subtotal: Non-STIP	**2,990**	**3,074**	**3,144**	**3,200**	**3,231**	**3,252**	**15,901**
Price-Based Excise Tax on Gas (STIP)	**297**	**403**	**495**	**537**	**599**	**589**	**2,623**

ALTERNATIVE D (PRICE-BASED EXCISE TAX TO 18¢ IN 2017-18)

Revenues	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	5 Year Total
State Base Excise Taxes on Fuel (Non-STIP)	1,894	1,894	1,894	1,894	1,894	1,894	**9,469**
Price-Based Excise Tax on Gas (Non-STIP)	1,096	1,223	1,286	1,325	1,337	1,358	**6,529**
Weight Fees	1,015	1,071	1,115	1,160	1,174	1,197	**5,717**
Weight Fee Diversion (to General Fund)	(1,015)	(1,071)	(1,115)	(1,160)	(1,174)	(1,197)	**(5,717)**
Subtotal: Non-STIP	**2,990**	**3,117**	**3,179**	**3,219**	**3,231**	**3,252**	**15,997**
Price-Based Excise Tax on Gas (STIP)	**297**	**558**	**625**	**605**	**599**	**589**	**2,976**

FEDERAL REVENUES

Option: How much Obligational Authority (OA) should the FE display over the 2016 FE period?

Background: Since 2003-04, Federal revenues have represented the majority 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 per gallon and 24.4 cents per gallon on diesel.

The state receives apportionments that are ultimately governed by California's contributions to federal excise tax, as a percentage share of total deposits into the FHTF. The actual amount of federal funds the state can use on projects each year is governed by the OA set by Congress in its annual Federal Appropriation Act.

The most recent Federal Highway Act, titled Moving Ahead for Progress in the 21st Century (MAP-21), was signed into law on July 6, 2012. MAP-21 was the first long-term highway authorization enacted since 2005 and funded over $105 billion in surface transportation programs for federal fiscal years (FFY) 2013 and 2014. This funding level was first established in the 2012 Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), but included incremental adjustments for inflation.

The 2016 FE covers fiscal years (FY) 2016-17 through 2020-21, which is outside of the MAP-21 funding horizon. In the absence of a new Federal Highway Act, Congress has issued continuing resolutions to provide short-term transportation funding at levels consistent with MAP-21. However, there is a strong possibility that a new Act could be signed into law within the 2016 FE period. Adjustments in federal funding brought about by a new Act are difficult to predict, and may dramatically alter the resources available for allocation on projects.

In January of this year, the Congressional Budget Office (CBO) released its updated FHTF projections, based on the revenue the fund is receiving and the anticipated expenditures, pursuant to current law requirements. The CBO projected that the revenues will be insufficient to meet all current obligations in FFY 2015. Pending shortfalls may trigger the Federal Highway Administration (FHWA) to implement cash management procedures up to and including: decreasing the frequency of reimbursements, providing partial or percentage-based reimbursements, reimbursement caps, or the cessation of reimbursements entirely. Dialogue continues among the Administration and Congress to address the solvency of the highway and transit accounts, but no long-term action has been taken to this point.

If OA assumptions are set too low, the Department risks not having enough projects to use all available authority; especially if a reservation of projects is not created. This unused OA would be unavailable for programming future years. If OA assumptions are set too high, the Department may have insufficient resources to fully fund its schedule of projects. Over-programming may cause delays, increasing total costs and adversely impacting future projects.

At this time, MAP-21 continues to provide federal funding for surface transportation programs. What should the 2016 FE display as an assumption for the level of OA over the next five year STIP period?

Alternative A: Assume OA is equal to the FFY 2013-14 authority level of $3.24 billion and held constant each year over the FE period. This would result in $16.2 billion in OA over the FE period.

Alternative B (Recommended Alternative): Assume OA is equal to the FFY 2013-14 authority level of $3.24 billion, and escalated annually based on the approximately 1.4% inflationary funding adjustment from the FFY 2012-13 SAFETEA-LU authorization to MAP-21. This would result in $16.9 billion in OA over the FE period. The 2014 FE assumed a constant annual OA over the FE period. Based on recent adjustments under MAP-21, this alternative incorporates a conservative approach to growth in federal funding over the FE period.

Alternative C: Assume OA is equal to what California paid into the FHTF for FFY 2013-14, which was $3.01 billion, and held constant each year over the FE period. This would result in $15.1 billion in OA over the FE period.

MOTOR VEHICLE ACCOUNT TRANSFERS

Option: What should the 2016 FE display as an assumption for the transfer of excess Motor Vehicle Account (MVA) funds to the SHA?

Background: Section 42273 of the Vehicle Code (VC) requires the State Controller's Office (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 2015-16 Governor's Budget displays an estimated fund balance of about $288 million in the MVA for 2015-16. From this balance, the unneeded portion should be calculated and transferred to the SHA. In at least the past 12 years, the Controller has not transferred these funds 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 2016 FE displays an assumption that transfers would occur, SHA resources would be overstated.

In the 2014 FE, an assumption of $10 million was chosen, but the SHA failed to receive any transfers from the MVA for Section 42273 of the VC.

Alternative A (Recommended Alternative): Assume the Controller will transfer $10 million each year for the FE period. A transfer of $10 million represents a low-risk option.

Alternative B: Assume the Controller will not make any transfers to the SHA over the FE period.

Alternative C: Assume the Controller will transfer $37 million each year for the FE period, based on an analysis of the average transferrable amounts remaining in the MVA annually.

SECTION TWO:
SIGNIFICANT ISSUES

TRANSPORTATION LOAN REPAYMENTS

Issue: Budget Acts and trailer bills have authorized loans from transportation accounts to the General Fund (GF) in order to backfill deficits created by the struggling economy. Some of these loans have since been repaid as part of an ongoing effort to minimize California's debt. Newly proposed legislation will impact how and when other outstanding transportation loans are repaid, namely with regard to revenues categorized as Weight Fees, which may positively impact SHA resources available for transportation projects. The FE is required to include a methodology for forecasting that is based on current statute, including the timing and disposition of loan repayments. In the event that such legislation is adopted, GC Section 14525(d) allows the Commission to postpone adoption of the FE for up to 90 days, during which time updates may be incorporated into the model.

In addition, loan repayment may be delayed and/or the Department may not realize revenues until the last day of the FY. This could result in the overstatement of SHA resources and the over-programming of the SHOPP. The Department will take timing of payments into consideration during the development of the fund estimate cash flows.

Background: Budget Acts and trailer bills have authorized the following loans from transportation accounts to the GF:

- 2008-09 Budget Act - Authorized $200 million in loans from the SHA to the GF with repayment due by June 30, 2012. However, the 2012-13 Budget Act deferred repayment of $150 million of the $200 million: $50 million was repaid in 2011-12, 2012-13, and 2013-14. The remaining $50 million is scheduled to be repaid by June 30, 2015, and will be subsequently transferred to the TCRF as repayment of an interfund loan.
- From 2010 to 2014, approximately $1.3 billion was loaned from the SHA to the GF. AB 115 (2011) deferred repayment until June 30, 2021, and reclassified the debt as being derived from weight fees. As a result, repayment will be immediately transferred to the TDSF. Currently proposed legislation would prohibit this transfer, and repayments would remain in the SHA for transportation project allocation.
- 2010-11 Budget Act - Authorized a $29 million loan from the Public Transportation Account (PTA) to the GF. Repayment was due by June 30, 2014, but was deferred by AB 115 until June 30, 2021.

Contingent upon the continued strengthening of the state economy, deposits into the GF are expected to exceed 2014-15 projections by DOF, but the majority of these revenues will be directed toward education, according to a recent review by the Legislative Analyst's Office. Despite the Governor's desire to reduce state debt, a higher GF balance does not guarantee earlier loan repayment. Based on current statute, in the event of an economic downturn, future Budget Acts or trailer bills could further delay transportation loan repayments in order to keep the GF solvent. In addition, future budget actions may propose additional loans. If repayments are delayed, funds may be over-programmed and could be threatened with insolvency.

Furthermore, the due date of these loan repayments from the GF could pose additional risk, as dates in statute are the last day of the state's FY. For example, the $29 million loan repayment to the PTA is due on June 30, 2021. Statute requires the 2016 FE to display that this loan will be repaid and available in 2020-21 even though repayment may not be made until the last day of the state FY. The Department will take timing of payments into account during the development of the fund estimate cash flows.

Status of Outstanding Transportation Loans, as of December 31, 2014 ($ in millions)			
FUND	**Original Loan**	**Loans / Interest Paid-to-Date**	**Remaining Balance**
Pre-Proposition 42 (Tribal Gaming Revenue):			
State Highway Account (SHA)[1]	$473	$341	$132
Public Transportation Account (PTA)	275	10	265
Traffic Congestion Relief Fund (TCRF)	482	0	482
Subtotal Pre-Proposition 42 Tribal Gaming Loans:	**$1,230**	**$351**	**$879**
Proposition 42:			
Transportation Congestion Relief Fund (TCRF)[2]	$1,066	$981	$84
Subtotal Proposition 42 Loans:	**$1,066**	**$981**	**$84**
General Fund:			
State Highway Account - Weight Fee Revenues[3]	$227	$0	$227
State Highway Account - Weight Fee Revenues[3a]	1,086	0	1,086
State Highway Account (SHA)[4]	335	290	50
Public Transportation Account (PTA)[5]	29	0	29
Local Airport Loan Account (LALA)[6]	8	0	8
Motor Vehicle Fuel Account (MVFA)[7]	8	0	8
Subtotal General Fund Loans:	**$2,031**	**$636**	**$1,407**
High-Speed Passenger Train:			
Fiscal Year 2013-14 Public Transportation Account (PTA)[8]	$23	$0	$23
Fiscal Year 2014-15 Public Transportation Account (PTA)[9]	15	0	15
Subtotal High-Speed Passenger Train Loans:	**$38**	**$0**	**$38**
Totals:	**$4,364**	**$1,968**	**$2,408**

Note: Numbers may not add due to rounding.

[1]The remaining balance of $132 million will be directed to the GF for debt service, per Assembly Bill (AB) 115 of 2011. Approximately $30 million of the remaining balance is estimated interest.

[2]The remaining amount owed to the TCRF as a result of Proposition 42 suspensions will be repaid in equal annual installments ending in 2015-16.

[3]The $80 and $147 million (total $227 million) was authorized by the 2010-11 Budget Act and subsequently characterized as weight fees via AB 115.

[3a]Post AB 115 weight fee transfers - 2011-12 Budget Act: $43.7 million loan, $139 million-excess weight fee loan to GF (2011-12), $24.7 million-excess weight fee loan to GF (2011-12), Vehicle Code 9400.4(b)(2) - $42 million loan, $203.7 million-excess weight fee loan to GF (2010-11), $200 million-excess weight fee loan to GF (2010-11), $30.3 million-excess weight fee loan to GF (2011-12), $310 million-excess weight fee loan to GF (2012-13), $92 million-excess weight fee loan to GF (2013-14).

[4]The SHA is expected to be repaid $50 million in principal in 2014-15. The $290 million in repayments is made up of $285 million in principal and approximately $5 million in interest.

[5]The PTA is expected to be repaid $29 million in 2020-21.

[6]The LALA is expected to be repaid $7.5 million in 2016-17.

[7]The MVFA is expected to be repaid $8 million in 2016-17.

[8]Appropriation of up to $26 million authorized for 2013-14. Approximately $23 million was loaned during 2013-14. Repayments will occur when the PTA is determined to be in need of the funds or when the High-Speed Passenger Train Bond Fund no longer needs the funds.

[9]Appropriation of up to $29 million authorized for 2014-15. As of December 2014, approximately $15 million was loaned for 2014-15. Repayments will occur when the PTA is determined to be in need of the funds or when the High-Speed Passenger Train Bond Fund no longer needs the funds.

TRANSFER TO STATE TRANSIT ASSISTANCE

Issue: There are two sales taxes on diesel fuel in California. Current law requires the base sales tax on diesel (4.75 percent) to be split 50 percent to the PTA and 50 percent to State Transit Assistance (STA). It also requires the entirety of the second sales tax (the increase) to be redirected from PTA to STA. In 2015-16, this will result in STA receiving approximately 63 percent of total sales tax on diesel revenues. Furthermore, sales tax revenues can be volatile because they are based on the price of fuel.

Background: On March 22, 2010, AB 9 of the Eighth Extraordinary Session of 2009-10 (ABX8) was signed into law, which among other items, required a 75 percent transfer of sales tax revenues deposited in the PTA to STA. Currently, this only applies to the state portion of sales tax on diesel fuel.

On November 2, 2010, voters approved Proposition 22, which amended Article XIX A of the California Constitution to require a 50 percent transfer of spillover, Proposition 111, and sales tax on diesel fuel revenues from the PTA to STA. In addition, Proposition 22 also amended Article XIX B of the California Constitution to require a 50 percent transfer of Proposition 42 revenues from the PTA to STA.

On November 2, 2010, voters approved Proposition 26, which amended Section 3 of Article XIII A of the California Constitution. This new law required two-thirds approval by the Legislature for any change in statute that resulted in taxpayer paying a higher tax. Further, this law required that legislation passed between January 1, 2010 and November 3, 2011, not in compliance with the two-thirds requirement, to be considered void unless reenacted with the requisite vote. On September 29, 2010, the Legislative Analyst's Office concluded that the Fuel Tax Swap (ABX8 6 and ABX8 9) was not in compliance with Proposition 26, and was voided on November 3, 2011.

On March 24, 2011, AB 105 of 2011 re-enacted the Fuel Tax Swap, created a weight fee swap, and redirected the state portion of sales tax on diesel from the PTA to STA, which funds local transit operations and capital. The bill created an increase to sales tax on diesel (1.75 percent in 2014-15 and thereafter) and required all of the additional increase to be directed to STA from the PTA. Combined with other existing statues, STA receives the majority of sales tax on diesel revenues.

STREETS AND HIGHWAYS CODE
SECTION 183.1 REVENUES

Issue: According to current statute, Streets and Highways Code (S&HC) Section 183.1 revenues are classified as being derived from weight fees and immediately transferred from the SHA into the TDSF for debt service on transportation bonds. Proposed legislation would dramatically alter the disposition of weight fees, and therefore impact Section 183.1 transfers from the SHA. In the interim, the 2016 FE assumptions will be based on current statute.

Background: On July 6, 2000, AB 2928 was signed in to law, which among other items, added Section 183.1 to the SHC. This section requires that miscellaneous revenues not subject to Article XIX of the State Constitution be deposited into the SHA. These revenues include, but are not limited to, the sale of documents, charges for miscellaneous services to the public, condemnation deposits fund investments, rental of state property, or any other miscellaneous uses of property or money.

Section 183.1 was originally created during a period when PTA funding was in short supply. The revenues associated with the statute were transferred from the SHA to the PTA each year to help the fund remain solvent. At that time, since the revenues were not protected by the State Constitution, the Legislature could divert Section 183.1 resources to aid in GF shortfall and/or offset future transportation bond debt service.

AB 105 (Chapter 6, Statutes of 2011), amended Section 183.1 of the SHC, by requiring the Controller to transfer prior year miscellaneous revenues from the SHA to the TDSF for 2010-11 through 2012-13. Pursuant to AB 105, the revenues were scheduled to remain in the SHA until appropriated beginning in 2013-14, but Senate Bill (SB) 85 was signed into law, amending Section 183.1 to continue the annual transfer to the TDSF indefinitely.

The 2014 FE assumed that Section 183.1 resources would be transferred from the SHA into the TDSF annually. Since that time, attempts have been made by members of the legislature to prohibit the use of weight fees on transportation debt service. Because the 2016 FE is required to forecast based on current state statute, Section 183.1 transfers to the TDSF will continue over the FE period.

SECTION THREE:
ASSUMPTIONS

METHODOLOGY

The FE is based on assumptions and methodologies used 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 GC requires the FE to be based on current state and federal statutes for estimating revenues. Section 163 of the 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 STIP.

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

Section 14529.7 of the GC regulates reimbursement projects covered by AB 3090 where the Commission, Department, region, and local agency may enter into a financing arrangement. Under the cash reimbursement scenario, the local agency receives a direct, future cash reimbursement for early delivery of a programmed STIP project, with its own local funds.

Revenue & Expenditure Projections

A. For each fund, the beginning cash balance will be calculated from the cash balance report from the Controller on July 1, 2015.

B. 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.

C. Revenue forecasts which cover the FE period (fiscal years 2016-17 through 2020-21) are based on historical trends, the economic outlook, and consultation with the DOF.

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

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

F. 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.

G. The Transportation Deferred Investment Fund (TDIF) was established by AB 1751 (Chapter 224, Statutes of 2003), in response to the suspension of the GF transfer to the TIF in 2003-04. The TDIF was created to facilitate the repayment of TIF funds not transferred from the GF. SB 1098 (Chapter 212, Statutes of 2004) added Section 7106 to the Revenue & Taxation Code (R&TC), which established a repayment schedule of the suspension from the GF to TIF in 2004-05. SB 79 (Chapter 173, Statutes of 2007) amended Section 7106 of the R&TC to require repayment in the form of equal, annual installments with payback due by June 30, 2016. The Controller will initiate the transfer of the final $83 million repayment from the GF to the TDIF and then to the Traffic Congestion Relief Fund (TCRF) in 2015-16. Consequently, the TDIF is no longer funding new projects.

Conversion to Capacity

H. The 2016 FE will incorporate 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 (R/W), and construction.

I. The county share system established by 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 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 $415 million would sufficiently cover 95 percent of the monthly volatility in the SHA.*

SHA Revenues & Transfers

State Excise Tax on Fuel Revenues:

California last adjusted its base excise tax on gasoline in 1994 to 18 cents per gallon. The excise tax on diesel fuel may fluctuate on an annual basis, and was last adjusted to 11 cents per gallon in 2014. These consumption-based revenues are transferred from the Highway Users Tax Account (HUTA) to cities, counties, and the SHA per Sections 2104 through 2108 of the S&HC on a monthly basis. The Fuel Tax Swap of 2010 eliminated general statewide sales tax on gasoline and replaced it with a price-based excise tax, adjusted annually with the requirement of generating the same revenue as the sales tax. Given the uncertainty of the economic outlook, the 2016 FE must make an assumption regarding state fuel excise tax revenues over the FE period.

SHA 2. ***See Section One – The Economy's Impact on Revenues***

Weight Fee Revenues:

Section 9400 of the 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. AB 105 was enacted in 2011, authorizing transfers of weight fee revenues from the SHA to the TDSF for debt service on transportation bonds. To offset this diversion, an equivalent amount from the new price-based excise tax is transferred to the SHA.

SHA 3. ***See Section One – The Economy's Impact on Revenues***

Other State Revenues:

Other SHA revenues include interest received from the SMIF and revenues from Other Regulatory Licenses and Permits.

SHA 4. *Revenues from Other Regulatory Licenses and Permits will total approximately $55 million over the FE period based on revenue model projections.*

S&HC Section 183.1 Transfers:

In 2013, SB 85 was signed into law, amending Section 183.1 of the S&HC to annually transfer the miscellaneous revenues not subject to Article XIX of the State Constitution from the SHA to the TDSF permanently, beginning in 2013-14.

SHA 5. ***See Section Two – Section 183.1 Revenues***

S&HC Section 194 Transfers:

Section 194 of the S&HC requires the Controller to transfer funds for the pro-rata share of highway planning and exclusive public mass transit guideway planning from the SHA to the PTA.

SHA 6. *Section 194 transfers are based on PTA state operations expenditures, and are projected to remain constant at approximately $25 million a year over the FE period.*

MVA Transfers:

Pursuant to Section 42273 of the VC, the Controller mandates transfer of the MVA balance remaining on the last day of the preceding month, unless there is an immediate use of MVA funding.

SHA 7. ***See Section One – Motor Vehicle Account Transfers***

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 resources available for the APDE. The APDE is authorized no more than 25 percent of the resources available for STIP programming in the two years following the FE period by building a reservation of projects ready for construction.

SHA 8. *The 2016 STIP FE will not include resources for the APDE because the FE is expected to show the need for the reprogramming of STIP projects.*

Federal Revenues:

Federal revenues account for the majority of total SHA resources, excluding those that are dedicated to the STIP. These revenues come from the 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: MAP-21, was signed into law on July 6, 2012. MAP-21 provided federal transportation funding for federal fiscal years 2013 and 2014 at the same levels as the 2012 SAFETEA-LU. The recent MAP-21 Extension has provided federal transportation funding equivalent to 2012 SAFETEA-LU levels as well.

The 2016 FE covers 2016-17 through 2020-21, which is outside of MAP-21's funding horizon. Without a new Act in place, Congress has historically issued continuing resolutions to keep transportation funding at levels consistent with the most recent Act. However, there is a strong possibility that a new Act could be signed into law within the 2016 FE period, with funding subsequently incorporated into the following FE.

SHA 9. ***See Section One – Federal Revenues***

SHA 10. *The 2016 FE assumes an August Redistribution of $147 million per year based on the average amount received by California from 2009-10 through 2013-14. The Redistribution will be split approximately $90 million (61 percent) to the state, and $57 million (39 percent) to the locals.*

SHA 11. *The 2016 FE does not include any supplemental funding received under the Federal-aid Highway Emergency Relief Program. This program, commonly referred to as the Emergency Relief Program, supplements the commitment of resources by States, their political subdivisions, or other Federal agencies to help pay for unusually heavy expenses resulting from extraordinary conditions.*

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 OA. This can be performed without impact to the SHA. AC will also be used to create a reservation of federal eligible projects to leverage against project award savings and any unforeseen increases to federal or state revenues that would impact the SHOPP capacity.

SHA 12. *The Department will gradually accumulate an AC level that is equivalent to one year's worth of 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.*

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 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:

- $132 million to the SHA
- $265 million to the PTA
- $482 million to the TCRF

The last partial payment occurred in 2007-08 and was a $100 million repayment to the SHA. The 2011-12 Governor's Budget indicated that the remaining Tribal Gaming loan repayments would start no earlier than 2016-17, with the SHA as the first fund to be repaid.

AB 115 (2011) declared that the SHA loan repayments are revenues derived from weight fees. As such, the scheduled repayment of the loans to the SHA will be subsequently transferred to the TDSF.

SHA 13. *The 2016 FE will display that repayments are scheduled to occur in installments over the FE period, beginning in 2016-17.*

Transportation Loan Repayments:

Budget Acts and trailer bills have authorized loans from transportation accounts to the GF in order to backfill deficits created by the struggling economy. The following loans are outstanding:

- 2008-09 Budget Act - Authorized $200 million in loans from the SHA to the GF with repayment due by June 30, 2012. However, the 2012-13 Budget Act deferred repayment of $150 million of the $200 million: $50 million was repaid in 2011-12, 2012-13, and 2013-14. The remaining $50 million is scheduled to be repaid by June 30, 2015.
- From 2010 to 2014, approximately $1.3 billion was loaned from the SHA to the GF. AB 115 deferred repayment until June 30, 2021, and reclassified the debt as being derived from weight fees. As a result, repayment will be immediately transferred to the TDSF.
- 2010-11 Budget Act - Authorized a $29 million loan from the PTA to the GF. Repayment was due by June 30, 2014, but was deferred by AB 115 until June 30, 2021.

Repayment of transportation loans may be delayed and/or the Department may not realize revenues until the last day of the fiscal year. This could result in the overstatement of SHA resources and the over-programming of the SHOPP.

SHA 14. ***See Section Two – Transportation Loan Repayments***

SHA Expenditures

BCP Reservation:

Budget Change Proposals (BCP) and Finance Letters (FL) are proposals to change the level of service or funding for activities authorized by the State Budget or to request new program activities not currently authorized. Executive Order B-13-11 directed the DOF to modify the budget process to increase efficiency and focus on accomplishing program goals. Pursuant to the Executive Order, the DOF and the Department developed a multi-year plan to conduct a zero-base budget analysis of all the programs within the Department. This zero-based budget review is ongoing.

SHA 15. *The 2016 STIP FE will include a total reservation of $75 million over the five-year FE period.*

State Funds for Local Assistance:

State funds for local assistance are used for the Surface Transportation Program State Match and Exchange, Freeway Service Patrol, Railroad Grade Separations, and Railroad Grade Crossing Maintenance, in addition to other miscellaneous local programs.

SHA 16. *State expenditures assume allocations of approximately $105 million per year over the FE period, consistent with the Commission's 2014-15 lump sum allocation for Local Assistance (Resolution FM-13-03).*

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 17. *Capital Outlay Support (COS) expenditures are based on a continuation of all STIP components allocated prior to 2015-16 and all STIP components programmed to begin in 2015-16.*

SHA 18. *Capital expenditures are based on a continuation of all existing SHA STIP project allocations prior to 2014-15, allocations in 2014-15, and projects programmed to begin in 2015-16.*

SHA 19. *Prior R/W is defined as all R/W projects in the 2014 STIP that are programmed for 2015-16 and prior years.*

SHA 20. *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.*

SHA 21. *Capital project costs shall be escalated at 4.5 percent annually, consistent with the historical trend of the Price Index for Selected California Construction Items.*

GARVEE Bond Financing:

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. The FE assumes no additional GARVEE bonds will be issued.

SHA 22. *The 2016 FE displays GARVEE debt service payments of about $46 million for SHOPP for the entire FE period. GARVEE debt service payments for SHOPP will end in 2019-20. GARVEE debt service payments for STIP ended in 2014-15.*

Prior 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 23. *COS expenditures are based on a continuation of all SHOPP components allocated prior to 2015-16, SHOPP preliminary engineering components programmed in 2015-16 and later, and SHOPP construction engineering components programmed to begin in 2015-16.*

SHA 24. *Prior R/W commitments are defined as R/W projects in the SHOPP that are programmed for 2015-16 and prior years.*

SHA 25. *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 26. *Capital expenditures are based on a continuation of all SHOPP projects allocated in 2014-15 and prior, all programmed 2015-16 SHOPP projects, and SHOPP GARVEE debt service payments.*

SHA 27. *Total program capacity of the 2016 FE SHOPP will be based on total SHA resources remaining after existing commitments.*

SHA 28. *Capital project costs shall be escalated at 4.5 percent annually, consistent with the historical trend of the Price Index for Selected California Construction Items.*

Active Transportation Program:

The Active Transportation Program (ATP), articulated in SB 99 and signed into law in 2013, consolidated five separate programs that funded bicycle and pedestrian, projects, including the federal Transportation Alternatives Program (TAP), federal Safe Routes to Schools Program, state Safe Routes to Schools Program, and the state Bicycle Transportation Account Program. The Recreational Trails Program was included as an optional part of the TAP funding. The intent of combining this funding was to improve flexibility and reduce the administrative burden of having several small independent grant programs. A separate FE and adoption schedule is required for the ATP.

SHA 29. *The ATP divides approximately $120 million annually, and is consistent with the 2015 ATP FE adopted by the Commission in March 2015. ATP funding is not available for SHOPP or STIP capacity.*

PUBLIC TRANSPORTATION ACCOUNT ASSUMPTIONS

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 a 6.50 percent sales tax per gallon of diesel fuel sold. However, the rate in excess of 4.75 percent is dedicated to STA as a result of the Fuel Tax Swap of 2010. The increase in revenue from the previous FE is due primarily to increases in diesel fuel consumption.

PTA 2. *Consumption of diesel fuel is assumed to experience slight growth from 2015-16 through 2020-21, and will increase by less than 1 percent each year. The FE projects that retail diesel fuel revenues will increase by 1 percent each year over the FE period.*

Transfer from the Aeronautics Account:

PTA 3. *Section 21682.5 of the Public Utilities Code requires an annual transfer equal to the pro rata share of transportation duties attributable to aviation planning and research from the Aeronautics Account. This amount is projected to remain constant at $30,000 in each year of the FE.*

PTA Expenditures

Transfers to STA:

Starting in 2014-15, revenue from the sales tax on diesel fuel will be split approximately 63 percent to STA and 37 percent will stay in the PTA, based on applicable laws. The 2016 FE will include a transfer of approximately 63 percent of the revenue from the sales tax on diesel from the PTA to STA, resulting in approximately $2 billion over the FE period.

PTA 4. ***See Section Two – Transfer to State Transit Assistance (STA)***

State Operations:

The BCP and FL are proposals to change the level of service or funding for activities authorized by the State Budget or to request new program activities not currently authorized. Executive Order B-13-11 directed the DOF to modify the budget process to increase efficiency and focus on accomplishing program goals. Pursuant to the Executive Order, the DOF and the Department developed a multi-year plan to conduct a zero-base budget analysis of all the programs within the Department. This zero-based budget review is ongoing.

PTA 5. *Assume no reservations for budget change proposals or finance letters over the FE period due to the implementation of zero-based budgeting.*

Intercity Rail Operations:

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

A. *Intercity rail and bus operations base expenditures for existing services are forecast at $119 million for 2015-16 and will increase by 3 percent annually through 2020-21, with a funding adjustment based upon current estimates for Amtrak's base funding adjustment, incorporating Section 209 costs. Pursuant to Section 209 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA), Amtrak and affected states developed a single, nationwide standardized methodology for establishing and distributing the operating and capital costs associated with the trains operated on state-supported Amtrak routes. Amtrak assumed an annual escalation of 3 percent per year through 2020-21. Beginning in 2017-18, funding adjustment reflects Department's release of rented Amtrak equipment.*

B. *The Department's estimated need for Rail heavy equipment, maintenance, and overhaul over the FE period is $104 million.*

C. *San Joaquin Service-7th Round Trip 2015-16 reflects 6 months of service, 2016-17 reflects 1 year of service, with a 3 percent annual escalation.*

D. *San Joaquin Service-8th Round Trip 2019-20 reflects 1 year of service including mid-route service improvements, with a 3 percent annual escalation.*

E. *San Joaquin Program Integration 2020-21 through the FE period reflect service support and coordination with the California High Speed Rail Program.*

F. *Pacific Surfliner Service 12th Round Trip 2018-19 reflects 1 year of service, with a 3 percent annual escalation.*

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 components allocated prior to 2015-16, all STIP components programmed to begin in 2015-16, and non-highway AB 3090s.*

GENERAL OBLIGATION BONDS ASSUMPTIONS

General Obligation Bonds:

It is expected that the Treasurer will conduct general obligation bond sales semi-annually (in the Spring and Fall) as that has been the recent practice. Given the state's more stable financial position, it is assumed that there will be no change to that schedule.

The 2015-16 Governor's Budget proposal includes $38 million in Proposition 1A bond expenditures. These funds are available for high-speed rail connectivity projects, which are rail transit projects that will be ready to connect to high-speed trains once the state's high-speed rail project is operational.

The 2015-16 Governor's Budget proposal includes approximately $584 million in expenditures for Proposition 1B programs. This represents a considerably lower level of expenditures than during the peak of Proposition 1B activity as most programs have completed allocation of their projects. As program savings are realized new projects will be programmed and allocated, but in amounts far lower than at the height of the program.

Bond 1. *The 2016 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. Bond funding is expected to be received semi-annually as the Treasurer's practice is to sell general obligation bonds in the Spring and Fall. It is assumed that the Department will continue to receive bond proceeds from future sales on an as needed basis, with the amount of proceeds received being based on projected cash needs for the ensuing six months.*

AERONAUTICS ACCOUNT ASSUMPTIONS

Aeronautics Revenues

Aero 1.	*The 2016 Aeronautics Account FE will display the beginning balance in the Aeronautics Account as of July 1, 2015.*

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 Department forecasts aviation gasoline excise tax revenues to increase by approximately 3 percent, and jet fuel excise tax revenues to decrease by approximately 1 percent throughout the FE period.*

Aero 3.	*The FE will display SMIF interest income based on the projected year ending cash balance of the Aeronautics Account as of June 30, 2015.*

Aero 4.	*Federal Trust Fund (FTF) resources represent federal reimbursement authority for various aviation activities completed by the Division of Aeronautics. Based on the DOF's price letter, FTF will be escalated by 2.2 percent per year for 2016-17 through 2018-19.*

Aero 5.	*Section 21682.5 of the Public Utilities Code requires an annual transfer equal to the pro rata share of transportation duties attributable to aviation planning and research from the Aeronautics Account. This amount is projected to remain constant at $30,000 in each year of the FE.*

Aeronautics Expenditures

Aero 6.	*The annual funding provided to 149 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 Airport Improvement Program (AIP) match in 2016-17 is based on the Aeronautics Program adopted in 2014. The AIP match is assumed to remain at a rate of 5 percent over the remainder of the FE period.*

Aero 8.	*Before adding to Acquisition & Development (A&D) capacity, resources must first fund the California Aid to Airports' AIP Matching Grant Program and Annual Credit Grant Program. The Commission will allocate all ending cash balances available for programming during the FE period, which may include funding for A&D. The 2014 Aeronautics Program included a list of A&D projects scheduled for funding through 2016-17. The Commission will determine future A&D projects when it adopts the next three-year Aeronautics Program.*

Aero 9.	*State operations include staffing for aeronautics and planning activities. State operations will display expenditures authorized in the 2015-16 Budget Act. Based on the DOF's price letter, state operations will be increased by 2.2 percent per year for 2016-17 through 2018-19.*

Aero 10.	*The Federal Aviation Administration (FAA) recently amended a policy regarding proceeds attributed to aviation fuels, specifying that revenues derived from aviation gas and jet fuel must be allocated for airport related projects. Multiple state departments are collaborating to analyze the impact of this updated policy. The 2016 FE assumes no change to the disposition of aviation fuel taxes.*