

Memorandum

TAB 18

To: CHAIR AND COMMISSIONERS
CALIFORNIA TRANSPORTATION COMMISSION

CTC Meeting: January 20-21, 2016

Reference No.: 4.17
Action Item

From: NORMA ORTEGA
Chief Financial Officer

Prepared by: Steven Keck, Chief
Division of Budgets

Subject: REVISED 2016 STATE TRANSPORTATION IMPROVEMENT PROGRAM FUND ESTIMATE ASSUMPTION FOR THE PRICE-BASED EXCISE TAX RATE

RECOMMENDATION:

The California Department of Transportation (Department) recommends that the California Transportation Commission (Commission) approve an updated Price-Based Excise Tax Rate assumption for the Amended 2016 State Transportation Improvement Program (STIP) Fund Estimate.

ISSUE:

Assumptions for the Amended 2016 STIP Fund Estimate provide the basis for forecasting available capacity for the 2016 STIP and the 2016 State Highway Operation and Protection Program. Revenue assumptions were based in part on the Department of Finance estimation that the Price-Based Excise Tax Rate on gasoline would increase incrementally over the fund estimate period. In May 2015, the Commission approved the assumptions for the 2016 STIP Fund Estimate. In August 2015, the 2016 STIP Fund Estimate was adopted by the Commission.

On January 7, 2016, the 2016-17 Governor's Budget was released, reflecting a lower projected 2016-17 Price-Based Excise Tax rate than was previously estimated by the Department of Finance. In response to the decreased rate, the Department worked with Commission staff to develop updated Price-Based Excise Tax Rate scenarios over the fund estimate period, including a Recommended Projection. These scenarios are detailed in the "Revised 2016 STIP Fund Estimate Assumption for the Price-Based Excise Tax Rate" attached.

Section 14525(d) of the Government Code states that the Commission may amend the Fund Estimate prior to March 1 of each even-numbered year. The Department has developed an Amended 2016 STIP Fund Estimate for adoption that incorporates the Recommended Projection. If the Commission chooses to approve an alternate Tax Rate scenario, the Department will provide an Amended Fund Estimate on the following day of the Commission meeting.

BACKGROUND:

On March 26, 2015, the Department presented the Draft Assumptions for the 2016 STIP Fund Estimate to Commissioners and Commission staff for their review. The Department worked with Commission staff to update and make any necessary changes to the assumptions and methodologies. The finalized assumptions were presented and approved by the Commission on May 28, 2015.

The 2016-17 Governor's Budget reflects a lower Price-Based Excise Tax Rate than the Department of Finance projected in 2015. Because the Price-Based Excise Tax is the primary revenue source for the STIP, lower rates have been incorporated into the updated Price-Based Excise Tax Rate scenarios, which will result in decreased STIP capacity over the fund estimate period.

Attachment



**REVISED 2016 STIP FUND
ESTIMATE ASSUMPTION FOR
THE PRICE-BASED EXCISE
TAX RATE**

PREPARED BY
THE DEPARTMENT OF TRANSPORTATION
DIVISION OF BUDGETS

UPDATE TO THE FINAL ASSUMPTIONS

The Department has worked with Commission staff to update the 2016 STIP Fund Estimate (FE) Assumptions in order to reflect a decrease in the Price-Based Excise Tax Rate over the fund estimate period. The original Adopted 2016 STIP FE, and updated Rate scenarios, are explained in detail below:

Adopted 2016 STIP Fund Estimate Rates: Assumed a price-based excise tax rate on gasoline for 2016-17 of 14.1 cents per gallon, increasing to 18 cents prior the end of the FE period. This scenario utilized the 2015-16 Governor’s Budget and February 2015 Department of Finance (DOF) projections, but assumed a higher Price-Based Excise Tax Rate on gasoline in the last two years of the FE period. This scenario incorporated annual growth rates on weight fee revenues and static gasoline and diesel fuel consumption. See the table titled “Adopted 2016 STIP Fund Estimate” on Page 3.

UPDATED SCENARIOS

Each of the following scenarios assume that all elements of the above approved assumption remain unchanged with the exception of price-based excise tax rates.

A - Recommended Projection: The Department has worked with Commission staff to develop a Rate scenario that mirrors the assumption that Price-Based Excise Tax Rates reach 18 cents prior to the end of the FE period, while reflecting lower rates in early years when compared to the original scenario. The linear approach to fiscal year Rate adjustments reflect the adopted assumption of an incremental increase in each year of the FE. Rates based on the Recommended Projection represent a middle-ground between other scenarios, and are projected to reduce STIP revenue by approximately \$801 million, and total revenue by approximately \$1 billion, when compared to the original scenario. See the table titled “A - Recommended Projection” on Page 3.

B - Adopted STIP Fund Estimate Indexed to 2016-17 Rate Projection: By adjusting the 2016-17 rate to reflect the updated DOF projection (rounded to the nearest cent) of 10 cents, rates for the remaining years of the FE period were reduced by 4.1 cents. This represents the most dramatic change in rates, and is projected to reduce STIP revenue by approximately \$1.3 billion, and total revenue by approximately \$1.6 billion, when compared to the original scenario. See the table titled “B - Adopted STIP Fund Estimate Indexed to Updated 2016-17 Rate Projection” on Page 3.

C - Department of Finance Projection (as of December 2015): In advance of the 2016 Board of Equalization meeting to set the 2016-17 price-based excise tax rate, the DOF released rate projections covering the FE period. This scenario represents the most conservative change in rates, and is projected to reduce STIP revenue by approximately \$198 million, and total revenue by approximately \$252 million, when compared to the original scenario. See the table titled “C - Department of Finance Rate Projection” on Page 3.

D - Projection Based on EIA Publication: The Energy Information Administration (EIA) produces the official energy statistics from the U.S. Government. The *Energy Outlook 2015* publication projects average national gasoline prices at the pump, including applicable taxes, through 2040. The Reference scenario includes a modest increase in crude oil prices, which

factors into a marginal increase in gasoline prices over the FE period. Average annual national prices were adjusted to California, based on a four-year historical comparison. Certain taxes were removed to reflect the methodology used to calculate the equivalent price-based excise tax rate for each fiscal year over the FE period. Rates based on the EIA *Energy Outlook 2015* are projected to reduce STIP revenue by approximately \$849 million, and total revenue by approximately \$1.1 billion, when compared to the original scenario. See the table titled “D - Projection Based on EIA Publication” below.

Adopted STIP Fund Estimate

<i>Price-Based Excise Tax Rate</i>	<i>\$0.141</i>	<i>\$0.159</i>	<i>\$0.169</i>	<i>\$0.180</i>	<i>\$0.180</i>	
Revenues (\$ in millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Price-Based Excise Tax on Gas (Non-STIP)	\$1,181	\$1,250	\$1,306	\$1,337	\$1,358	\$6,432
Price-Based Excise Tax on Gas (STIP)	\$403	\$495	\$537	\$599	\$589	\$2,623

A - Recommended Projection

<i>Price-Based Excise Tax Rate</i>	<i>\$0.100*</i>	<i>\$0.120</i>	<i>\$0.140</i>	<i>\$0.160</i>	<i>\$0.180</i>	
Revenues (\$ in millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Price-Based Excise Tax on Gas (Non-STIP)	\$1,111	\$1,184	\$1,257	\$1,303	\$1,358	\$6,214
Price-Based Excise Tax on Gas (STIP)	\$149	\$253	\$357	\$474	\$589	\$1,822

B - Adopted STIP Fund Estimate Indexed to Updated 2016-17 Rate Projection

<i>Price-Based Excise Tax Rate</i>	<i>\$0.100*</i>	<i>\$0.118</i>	<i>\$0.128</i>	<i>\$0.139</i>	<i>\$0.139</i>	
Revenues (\$ in millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Price-Based Excise Tax on Gas (Non-STIP)	\$1,111	\$1,181	\$1,237	\$1,268	\$1,289	\$6,086
Price-Based Excise Tax on Gas (STIP)	\$149	\$241	\$283	\$345	\$335	\$1,352

C - Department of Finance Projection (as of December 2015)

<i>Price-Based Excise Tax Rate</i>	<i>\$0.100*</i>	<i>\$0.170</i>	<i>\$0.164</i>	<i>\$0.177</i>	<i>\$0.186</i>	
Revenues (\$ in millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Price-Based Excise Tax on Gas (Non-STIP)	\$1,111	\$1,269	\$1,298	\$1,332	\$1,368	\$6,378
Price-Based Excise Tax on Gas (STIP)	\$149	\$563	\$506	\$581	\$626	\$2,425

D - Projection Based on EIA Publication

<i>Price-Based Excise Tax Rate</i>	<i>\$0.100*</i>	<i>\$0.147</i>	<i>\$0.147</i>	<i>\$0.148</i>	<i>\$0.150</i>	
Revenues (\$ in millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Price-Based Excise Tax on Gas (Non-STIP)	\$1,111	\$1,230	\$1,269	\$1,283	\$1,307	\$6,201
Price-Based Excise Tax on Gas (STIP)	\$149	\$420	\$401	\$401	\$403	\$1,774

*Rate Based on Department of Finance Projection (rounded to nearest cent)

Update for January 21st CTC Meeting

Non-PTA STIP Target Capacity Scenario Comparisons

Adopted 2016 STIP Fund Estimate (FE)

	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Non-PTA STIP Target Capacity	\$365	\$380	\$430	\$500	\$500	\$2,175

Original Scenarios

Recommended Projection

	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Non-PTA STIP Target Capacity	\$200	\$225	\$275	\$320	\$355	\$1,375
<i>Difference from Adopted FE</i>	<i>(\$165)</i>	<i>(\$155)</i>	<i>(\$155)</i>	<i>(\$180)</i>	<i>(\$145)</i>	<i>(\$800)</i>

Adopted STIP Fund Estimate Indexed to Updated 2016-17 Rate Projection

	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Non-PTA STIP Target Capacity	\$140	\$160	\$180	\$200	\$224	\$904
<i>Difference from Adopted FE</i>	<i>(\$225)</i>	<i>(\$220)</i>	<i>(\$250)</i>	<i>(\$300)</i>	<i>(\$276)</i>	<i>(\$1,271)</i>

Department of Finance Projection (as of December 2015)

	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Non-PTA STIP Target Capacity	\$350	\$360	\$400	\$420	\$447	\$1,977
<i>Difference from Adopted FE</i>	<i>(\$15)</i>	<i>(\$20)</i>	<i>(\$30)</i>	<i>(\$80)</i>	<i>(\$53)</i>	<i>(\$198)</i>

Projection Based on EIA Publication

	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Non-PTA STIP Target Capacity	\$190	\$215	\$265	\$310	\$346	\$1,326
<i>Difference from Adopted FE</i>	<i>(\$175)</i>	<i>(\$165)</i>	<i>(\$165)</i>	<i>(\$190)</i>	<i>(\$154)</i>	<i>(\$849)</i>

Additional Scenarios

10¢ Per Gallon Each Fiscal Year Over the FE Period

	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Non-PTA STIP Target Capacity	\$0	\$0	\$0	\$0	\$136	\$136
<i>Difference from Adopted FE</i>	<i>(\$365)</i>	<i>(\$380)</i>	<i>(\$430)</i>	<i>(\$500)</i>	<i>(\$364)</i>	<i>(\$2,039)</i>

11¢ Per Gallon Each Fiscal Year Over the FE Period

	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Non-PTA STIP Target Capacity	\$0	\$0	\$0	\$190	\$194	\$384
<i>Difference from Adopted FE</i>	<i>(\$365)</i>	<i>(\$380)</i>	<i>(\$430)</i>	<i>(\$310)</i>	<i>(\$306)</i>	<i>(\$1,791)</i>

12¢ Per Gallon Each Fiscal Year Over the FE Period

	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Non-PTA STIP Target Capacity	\$0	\$0	\$200	\$200	\$232	\$632
<i>Difference from Adopted FE</i>	<i>(\$365)</i>	<i>(\$380)</i>	<i>(\$230)</i>	<i>(\$300)</i>	<i>(\$268)</i>	<i>(\$1,543)</i>

1¢ Increase Each Year Over the FE Period

	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Non-PTA STIP Target Capacity	\$0	\$0	\$200	\$250	\$306	\$756
<i>Difference from Adopted FE</i>	<i>(\$365)</i>	<i>(\$380)</i>	<i>(\$230)</i>	<i>(\$250)</i>	<i>(\$194)</i>	<i>(\$1,419)</i>



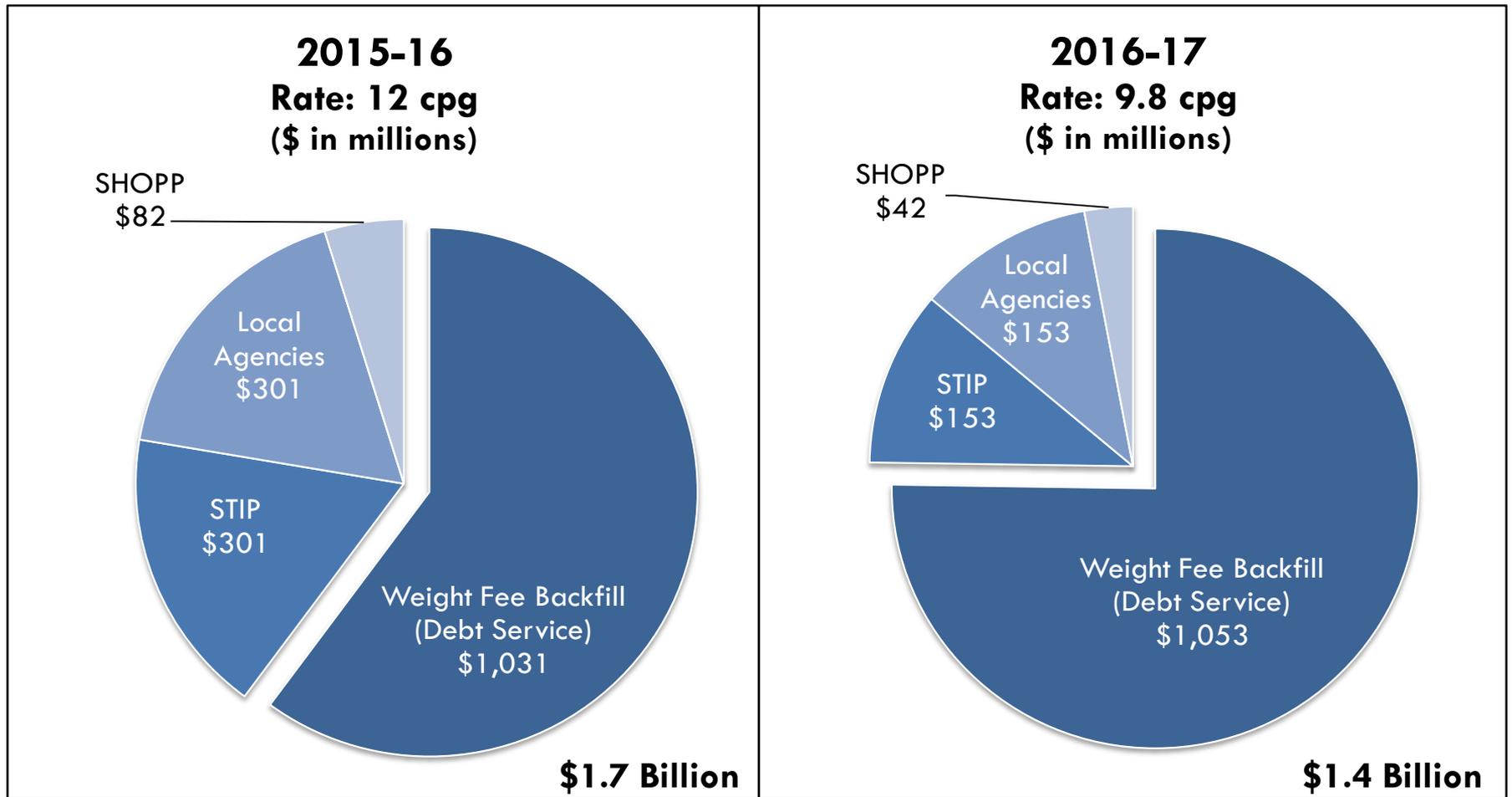
Update to the 2016 STIP Fund Estimate

Presented to the
California Transportation Commission

Update to Approved Assumptions

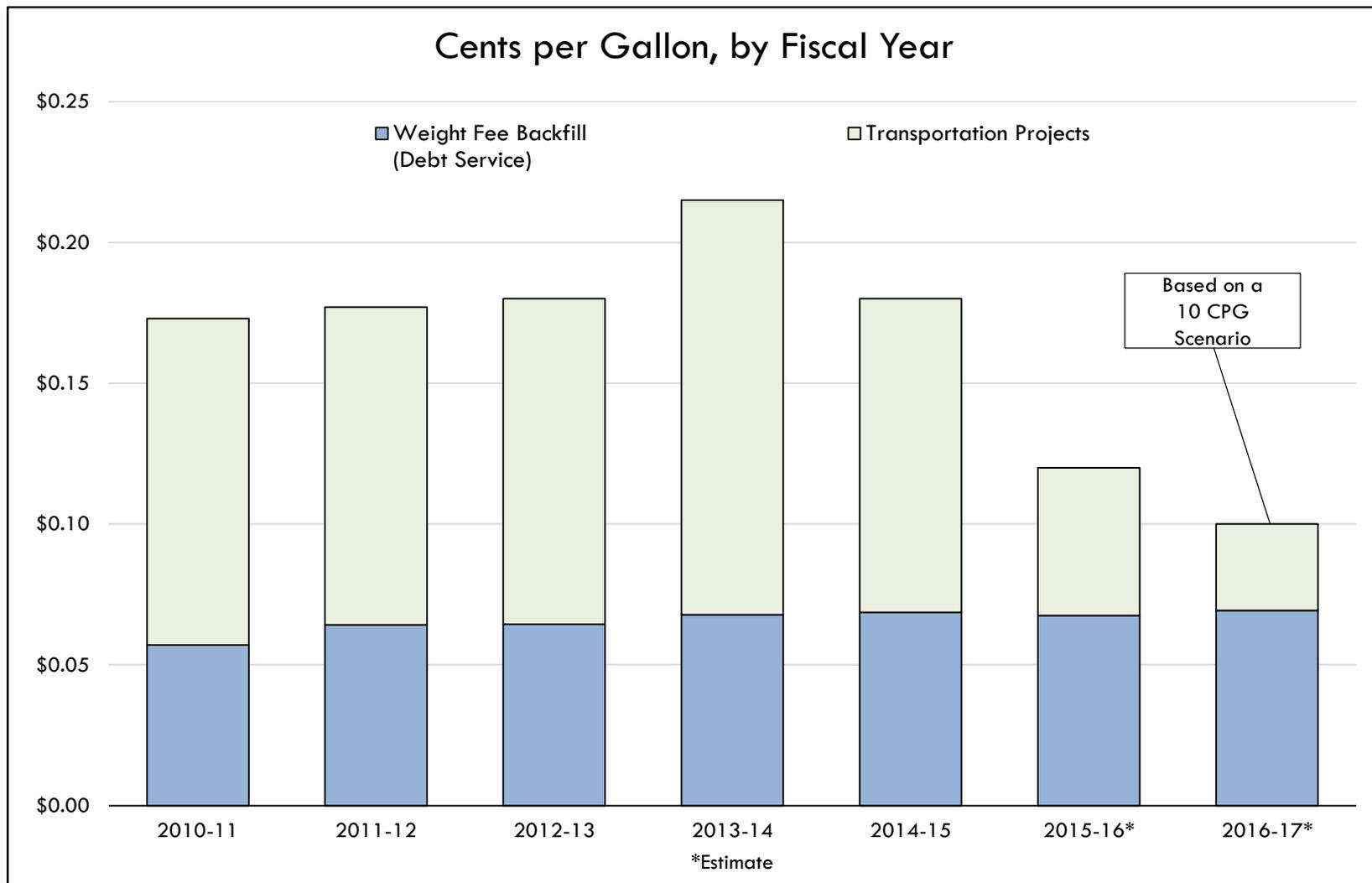
- On May 28, 2015, the Commission approved the assumptions for the 2016 State Transportation Improvement Program (STIP) Fund Estimate.
 - Revenue assumptions were based in part on Price-Based Excise Tax (PBET) Rate projections by the Department of Finance.
- The 2016-17 Governor's Budget reflects a lower 2016-17 PBET Rate than was previously estimated by the Department of Finance.
 - PBET is the primary revenue source for the STIP.
 - Revised PBET Rate scenarios were developed to reflect the projected lower rates over the Fund Estimate period.

2016-17 Governor's Budget - PBET

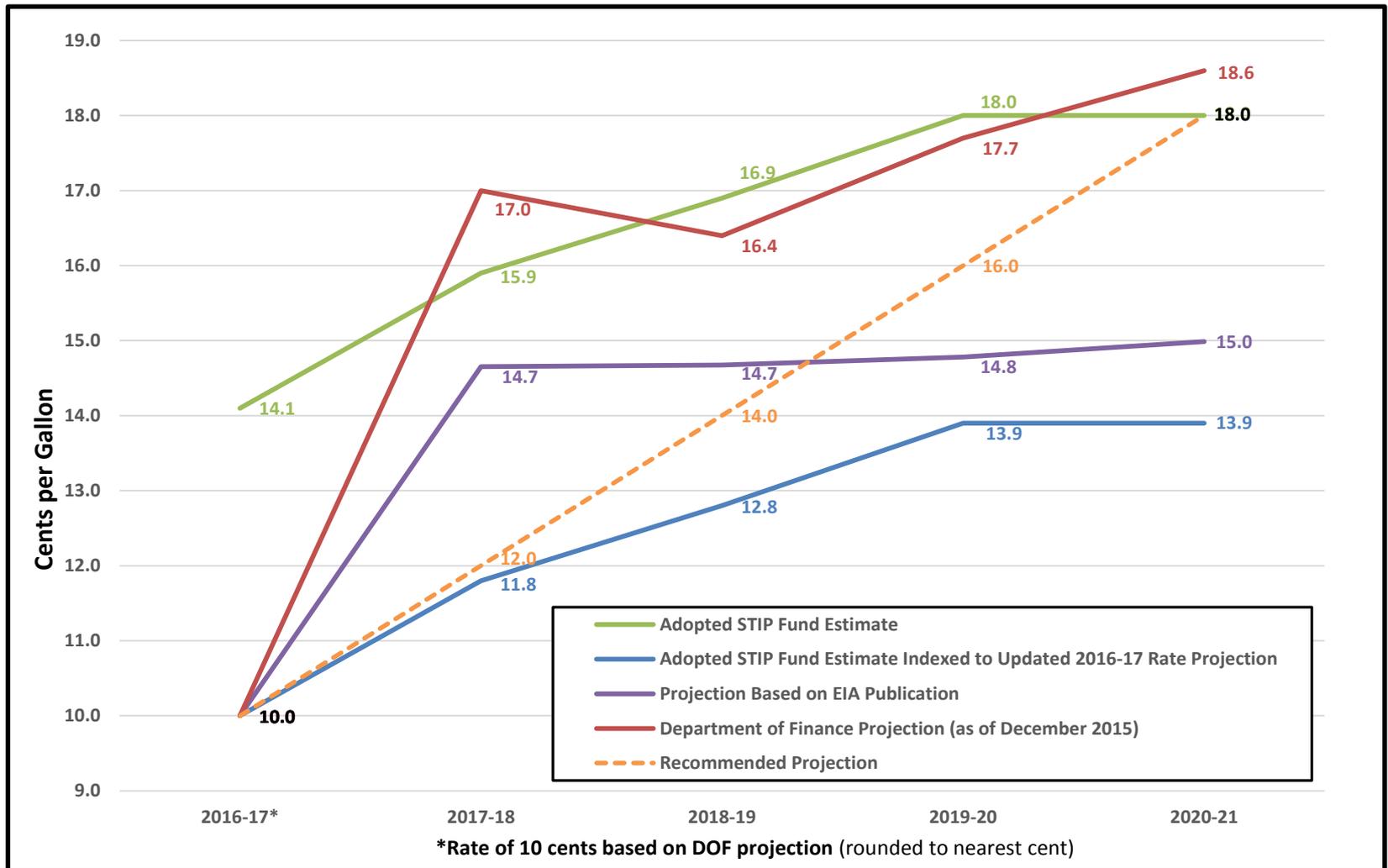


Note: Charts do not include General Fund Transfers attributable to off-highway vehicle use

PBET: Debt Service and Projects



PBET Scenarios - Rates



Updated STIP Revenue & Capacity

- Adopted 2016 STIP Fund Estimate:
 - Projected approximately \$2.6 billion in revenue available for STIP over the Fund Estimate period.
 - Target Capacity was set at \$2.4 billion.
- Updated Scenario:
 - Recommended Projection estimated approximately \$1.8 billion in revenue available for STIP over the Fund Estimate period.
 - Target Capacity has been adjusted down to approximately \$1.6 billion, commensurate with the \$801 million decrease in projected STIP revenue.

Comparison of Target Capacities

2016 Fund Estimate Five-Year Period

(\$ millions)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	5-Year Total	6-Year Total
Total STIP Target Capacity¹								
Amended 2016 STIP Fund Estimate ²	\$378	\$240	\$265	\$315	\$360	\$395	\$1,575	\$1,953
Adopted 2016 STIP Fund Estimate	378	405	420	470	540	540	2,375	2,753
Net Difference	\$0	(\$165)	(\$155)	(\$155)	(\$180)	(\$145)	(\$801)	(\$801)
Cumulative Difference	\$0	(\$165)	(\$320)	(\$475)	(\$655)	(\$801)		

Notes:

General note: Numbers may not add due to rounding

¹ Sum of SHA and PTA Program Capacities

² Capacity based on *Recommended Projection* Scenario

- Target Capacity = commitments + new capacity
- Decreased Capacity in each of the Fund Estimate, when compared to the Adopted 2016 Fund Estimate
 - Results in negative STIP Capacity

Amended 2016 STIP FE – Program Capacity

Estimated Program Capacity Available, All Funds Fund Estimate Five-Year Period (\$ millions)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	5-Year Total	6-Year Total
2016 FE STIP Target Capacity								
SHA Program Capacity ¹	\$328	\$200	\$225	\$275	\$320	\$355	\$1,375	\$1,703
PTA Program Capacity	50	40	40	40	40	40	200	250
Total 2016 FE STIP Target Capacity	\$378	\$240	\$265	\$315	\$360	\$395	\$1,575	\$1,953
2014 STIP Program ²	554	798	682	673	0	0	2,152	2,707
Net Difference	(\$176)	(\$558)	(\$417)	(\$358)	\$360	\$395	(\$577)	(\$754)
Cumulative Difference	(\$176)	(\$734)	(\$1,151)	(\$1,508)	(\$1,148)	(\$754)		

Notes:

General note: Program capacity includes construction, right-of-way, and capital outlay support.

¹ Capacity based on *Recommended Projection* Scenario

² STIP Program estimates including time extensions and advances as of June 30, 2015 (provided by Commission staff).

- Amended STIP capacity is \$1.6 billion over the 5-Year period
- 2014 Program is \$2.2 billion
 - 5-Year Shortfall = \$577 million
 - 6-Year Shortfall = \$754 million

Next Steps

- Approval of the Revised Fund Estimate Assumption on the Price-Based Excise Tax Rate
 - Numbers in this presentation are based on PBET Rates included in the *Recommended Projection*.
- Adoption of Amended 2016 STIP Fund Estimate
 - Resolution G-16-01.
- Commission may only amend the Fund Estimate prior to March 1
 - Government Code, Section 14525 (d)



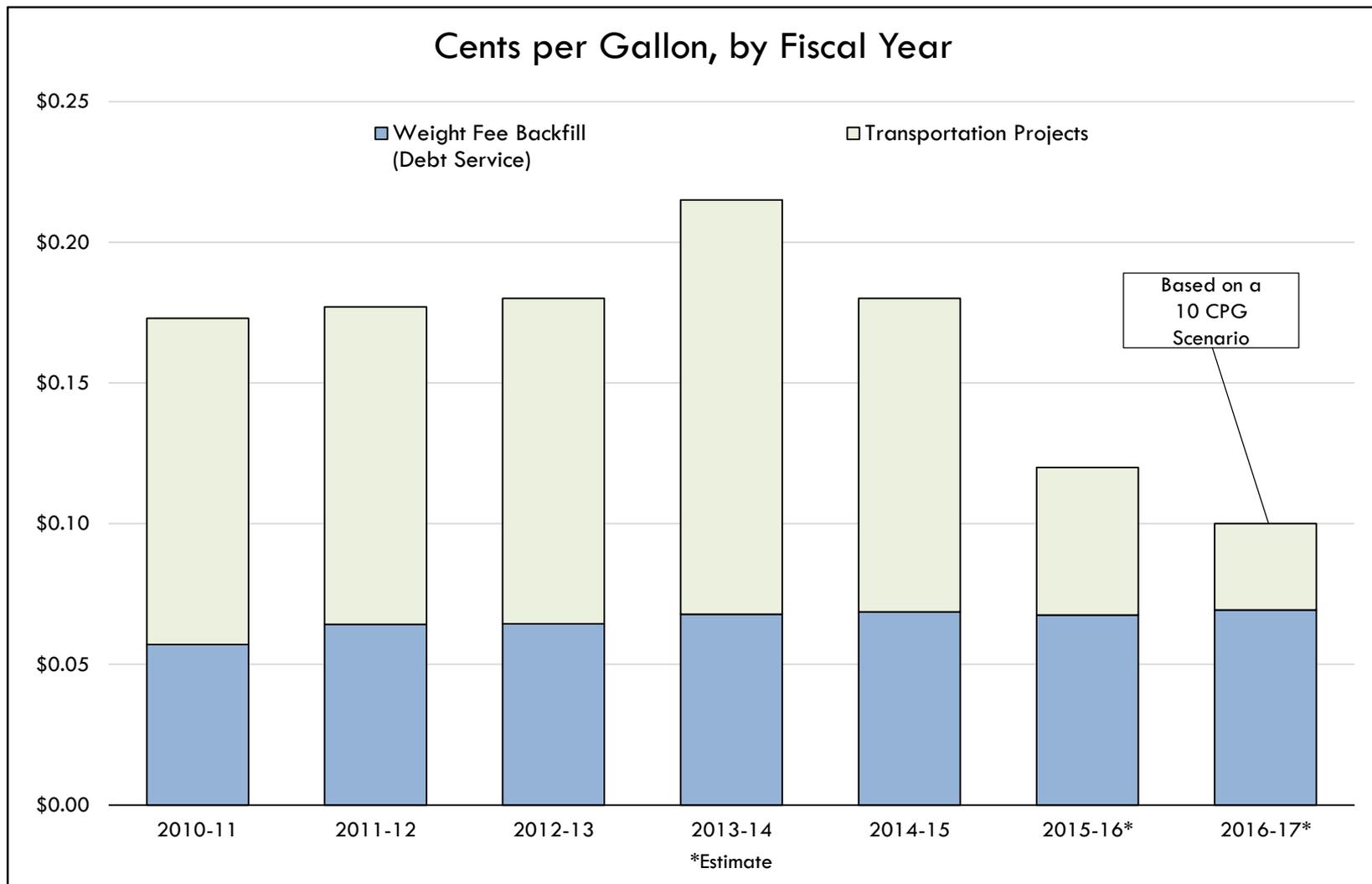
PBET Scenarios for January 21st Meeting

Presented to the
California Transportation Commission

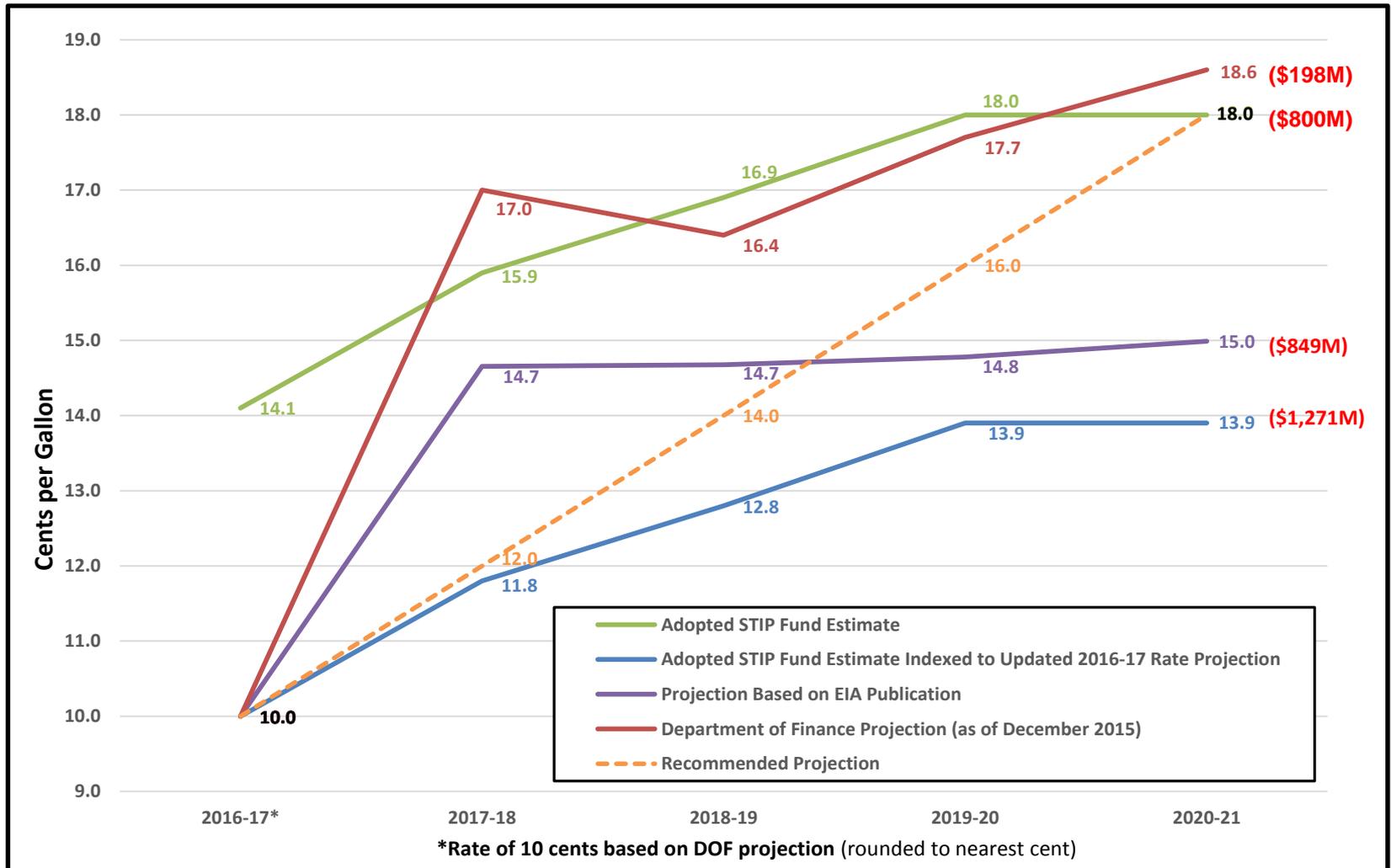
General Considerations

- Update only adjusts one Assumption
 - Price-Based Excise Tax Rates over the Fund Estimate period
- Loss of revenue attributable to STIP correlates directly to decrease in STIP Target Capacity
- PTA Capacity is unaffected by change
 - Currently \$200 million over the Fund Estimate period

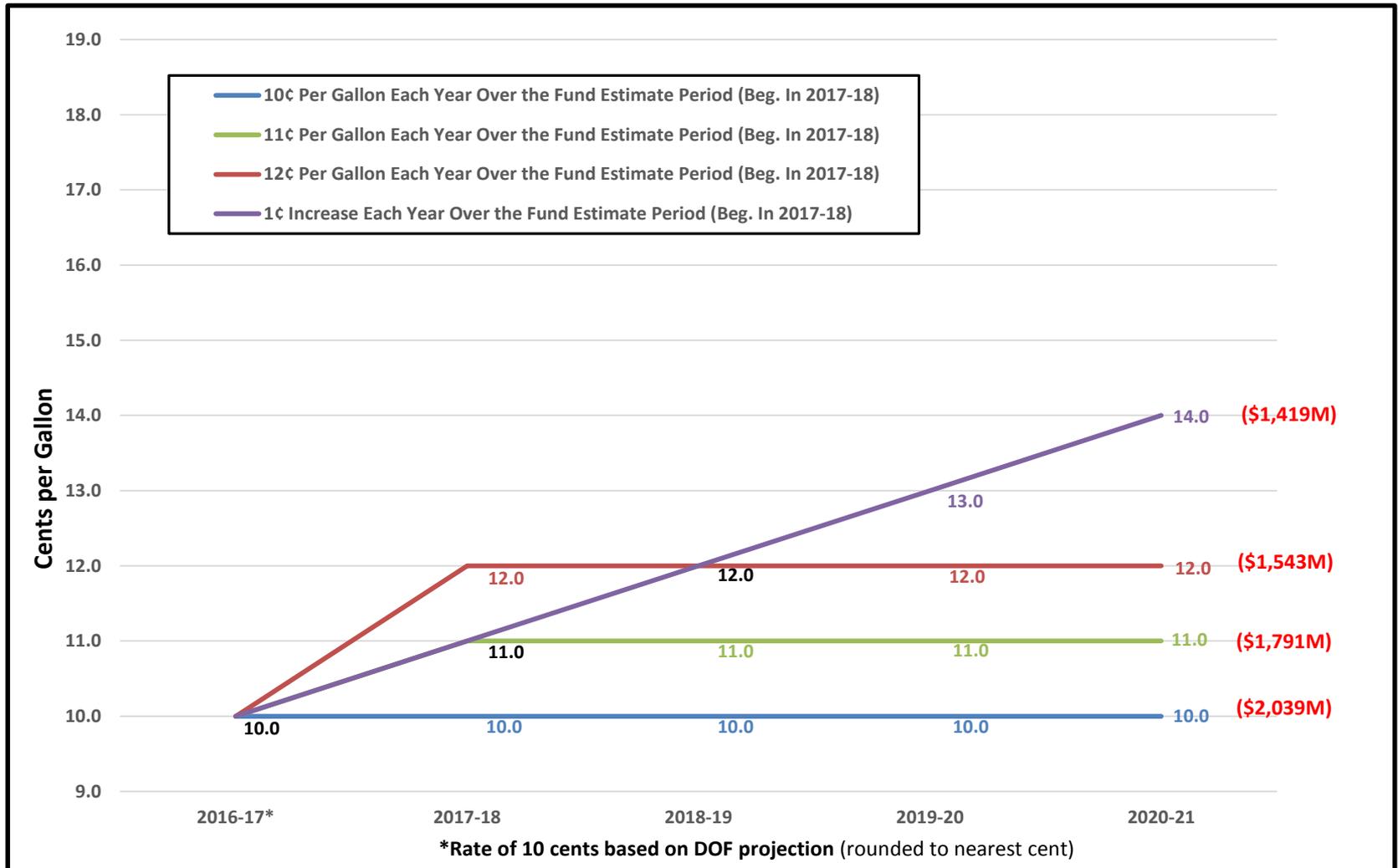
PBET: Debt Service and Projects



PBET Rates Presented on January 20



Additional PBET Rate Scenarios



Next Steps

- Approval of a Revised Fund Estimate Assumption on the Price-Based Excise Tax Rate
- Adoption of Amended 2016 STIP Fund Estimate Capacity
- Commission may only amend the Fund Estimate prior to March 1
 - Government Code, Section 14525 (d)