

Memorandum

TAB 14

To: CHAIR AND COMMISSIONERS
CALIFORNIA TRANSPORTATION COMMISSION

CTC Meeting: January 19-20, 2011

Reference No.: 4.2
Information Item

From: NORMA ORTEGA
Chief Financial Officer

Prepared by: Steven Keck
Division Chief
Budgets

Subject: **BUDGET AND ALLOCATION CAPACITY UPDATE**

SUMMARY:

A verbal presentation on the State Fiscal Year 2011-12 Budget will precede this book item at the January 19-20, 2011, California Transportation Commission (Commission) meeting.

At the time the Commission meeting materials were developed, the 2011-12 Governor's Budget had not been released and the Department of Transportation (Department) was still determining the recommendations for bond capacity allocations based on the November 22, 2010, bond sale.

ISSUE:

A summary of the 2011-12 Governor's Budget, as it relates to the Department, is attached. This summary encompasses the Budget released by Governor Brown on January 10, 2011, and summarizes the Department's \$12.8 billion budget.

In November 2010, the State Treasurer's Office sold \$4.525 billion in bonds. From that sale, the Department and Commission received approximately \$1.23 billion in combined bond sales for Proposition 1A and 1B.

The Department is recommending an allocation capacity \$101 million for Proposition 1A. This recommended capacity should fully fund Positive Train Control projects scheduled to be delivered the current State fiscal year.

The Department is recommending an allocation capacity of \$845 million for Proposition 1B projects. This allocation capacity is based on the following assumptions:

- Cash flow of existing projects through December 2011;
- Cash flow of all the projects in Attachment 1 of the Delivered Not Allocated List (Item 104) through December 2011;
- Cash flow for all January vote list projects that are part of the Proposition 1B program through December 2011;
- Funding \$78 million for Public Transportation Modernization, Improvement, and Service Enhancement Account transit projects.

The Department does not recommend any change in allocation capacity for non-bond funds or programs.

BACKGROUND:

Since early 2009, the availability of bond funds has been sporadic and unpredictable. The State's budget situation has made it difficult to fund bond debt service in this time of limited revenues. In addition, there is competition for bond funds from other bond-funded infrastructure programs.

As of January 1, 2011, there are 175 bond funded projects that have been allocated by the Commission. Those projects had approximately \$4.9 billion programmed in Proposition 1B bonds.

The Department's first priority is to ensure that these projects under construction do not run short of funds. Given the likelihood that the next bond sale will not occur until the fall of 2011, the Department believes it is prudent to maintain a cash reserve that will provide sufficient funds through December 2011, for ongoing construction contracts. In the event that bonds are not sold by December 2011, there will be enough funds in reserve to suspend the contracts until additional funds are made available.

The Department will recommend additional allocations when future bond proceeds are made available for transportation projects.

Attachment

Summary of the 2011-12 Governor's Budget

Overview

The 2011-12 Governor's Budget proposes \$12.8 billion in expenditures for the Department of Transportation (Department), including over \$3.3 billion in Department administered Proposition 1B expenditures, which are dependent upon future bond sales. This budget is about \$324 million more than the adjusted 2010-11 Budget as displayed in the table below, with most of the changes occurring in the Capital Outlay and Local Assistance categories of expenditure.

Reductions in State Operations

State Operations increased by approximately \$67 million from 2010-11. The true extent of the changes in state operations is masked by the expiration of the three-day per month furloughs which have been replaced by a one-day per month personal leave program for much of the Department's employees. Consequently the Budget for state operations increases, even while the budget contains a decrease of 578 Personnel Years.

Changes in Capital Outlay and Local Assistance are mostly due to technical changes and the composition of Proposition 1B bonds, and do not represent a change in priorities or focus for the Department.

2010-11 Enacted vs. 2011-12 Proposed

Category	CY Enacted 2010-11	BY Proposed 2011-12	Change		
				\$ Change	% Change
State Operations	\$ 3,946	\$ 4,013	▲	\$ 67	1.7%
Capital Outlay	5,812	6,296	▲	484	8.3%
Local Assistance	2,602	2,356	▼	(246)	-9.5%
Financing*	124	142	▲	19	15.0%
Total	\$ 12,483	\$ 12,807	▲	\$ 324	2.6%
Personnel Years (PY)	20,955	20,377	▲	(578)	-2.8%

* Financing includes GARVEE debt service and P3 payments, which may be categorized in the Governor's Budget as either State Operations or Capital Outlay. The Governor's Budget does not reflect the carryover of GARVEE debt service expenditures that will occur in future years.

Weight Fee Swap

The Governor's Budget brings forward the Weight Fee Swap proposal from the December special session. The proposal would use vehicle weight fees to pay General Fund debt service and loans and in return excise tax, which would have gone to the General Fund prior to Proposition 22, would now be transferred to the State Highway Account (SHA) to fund transportation. This swap was proposed for General Fund relief after Proposition 22 prohibited the use of excise tax revenue for debt service, but removed protections from weight fees.

The Governor's Budget proposal includes a total of \$1.7 billion in loans and debt service payments from the SHA over the two-year period. Debt service transfers would be \$262.4 million in the current year and \$777.5 million in the budget year respectively, with the balance consisting of loans to the General Fund.

Loans and Loan Paybacks

Under the Weight Fee Swap, summarized above, the General Fund would receive \$494 million in loans in the current year and \$166 million in the budget year. In addition, repayment of \$230 million in 2008-09 transportation loans to the General Fund have been delayed from current year into the budget year. The 2011-12 repayment of \$135 million that was borrowed in 2009-10 has been deferred to fiscal year 2012-13.

Miscellaneous Revenue

Pursuant to Streets & Highways Code Section 183.1, transportation resources not subject to Article XIX of the California Constitution were diverted from the SHA to augment funding for the PTA at a time when the PTA was in dire need of resources to meet its obligations. These transfers were diverted from the PTA in past year and current year to pay for debt service on transportation bonds, and the Governor's Budget proposes the continuation of this diversion in order to fund debt service as part of the weight fee swap.

State Transit Assistance (STA)

With the passage of Proposition 22, funding splits for State Transit Assistance (STA) decreased to 50 percent from the 75 percent level envisioned by the Fuel Tax Swap legislation of last year. The Governor's Budget proposes trailer bill language to correct this by augmenting the STA in order to achieve the 75 percent level. Under this proposal, there would likely be no future year funding for new PTA funded STIP Projects.

Proposition 1A Funding

The Governor's Budget authorizes \$27.81 million in Proposition 1A bond appropriations towards five projects in fiscal year 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. However, the bond funding for these expenditures is dependent on the state's ability to sell sufficient bonds in the current economic climate.

Proposition 26

Proposition 26, which was passed by the voters in November, 2010, would impact the Fuel Tax Swap passed in the spring of 2010, if not re-affirmed by the legislature prior to November 2011. The Governor's Budget proposes that the Fuel Tax Swap be reaffirmed by the legislature with a two-thirds vote. It is unclear what implications failure to reaffirm this legislation may have for the SHA. It is possible that the sales tax would be reinstated at the same level as before the passage of the fuel tax swap it is also possible that the 17.3 cent excise tax would expire with no replacement sales tax. The second scenario would have grim implications for the maintenance and preservation of California's highway system.

FY 2011-12 Proposed Budget Change Proposals (BCPs)

The Governor's Budget includes nine BCPs representing an increase of \$65.9 million in State Operations to fund mandates and critical needs. This includes \$63.3 million for air quality mandates and \$1.3 million for workload associated with federally mandated bridge evaluation requirement.