



2018 STIP FUND ESTIMATE DRAFT 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 17, 2017, 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 2018 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 2018 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 2018 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 2018 FE, including placeholders for assumptions derived in sections one and two of this report.

Between now and the August 2017 presentation date for the adoption of the 2018 FE, the 2017-18 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 17	FE Assumptions approved by Commission
June 28	Draft FE presented to Commission
August 16	Final FE presented to Commission for adoption

SECTION ONE: OPTIONS

THE ECONOMY'S IMPACT ON REVENUES

Option: How aggressive of an assumption should the 2018 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 "Great Recession" and by many metrics, have surpassed pre-recession levels. The UCLA Anderson Forecast—one of the most widely watched and often-cited economic outlooks for California— finds that California is effectively at full-employment with an all-time peak of 18.4 million Californians employed. Despite the record numbers, the December 2016 Forecast continues the trend of slow, steady gains in employment over the next two years, with growth expected to increase 1.8 percent in 2017 and 1.3 percent in 2018. The unemployment rate is currently at 5.5 percent and expected to remain relatively steady at approximately 5.2 percent in 2017 and 2018. Personal income (adjusted) is forecasted to grow by 3.6 percent in 2017 and 3.8 percent in 2018.

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 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 February 2017, the Board of Equalization (BOE) voted to increase the 2017-18 price-based excise tax rate on gasoline from 9.8 cents per gallon to 11.7 cents per gallon. Regarding diesel fuel, the BOE voted to leave the 2017-18 excise tax rate unchanged at 16 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 2017-18.

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 2017-18. See the table titled “Baseline” on Page 6.

Alternative A: Assume that gasoline, diesel, and weight fee revenues will adjust in line with the 2017-18 Governor’s Budget. This method assumes variations in the price-based excise tax rate over the FE period, 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 slight decline in diesel fuel consumption. 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 \$1.6 billion in additional revenue over the baseline scenario. See the table titled “Governor’s Budget Approach” on Page 6.

Alternative B (Recommended Alternative): Similar to the method adopted in the Amended 2016 STIP FE, this alternative assumes the price-based excise tax on gasoline will increase to 18 cents per gallon in 2020-21, and remain constant thereafter. This scenario utilizes the Governor’s Budget methodology and most recent DOF projections, but assumes a slower growth in the price-based excise tax rate over the FE period. Reflecting the most recent DOF projections, this method incorporates annual growth rates on weight fee revenues and a slight decline in diesel fuel consumption. 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 \$1.3 billion in additional revenue over the baseline scenario. See the table titled “Price-Based Excise Tax to 18¢ in 2020-21” on Page 6.

Alternative C: As proposed in the Governor’s Transportation Funding and Reform Package, this method assumes the price-based excise tax on gasoline will increase to 21.5 cents per gallon (only 18 cents of the 21.5 cents will be divided between STIP/Locals/SHOPP) in 2018-19, and indexed to inflation annually beginning in 2019-20. This scenario utilizes the Governor’s Budget methodology, but assumes more aggressive upward adjustments in the price-based excise tax rate over the FE period. This method incorporates annual growth rates on weight fee revenues and a slight decline in diesel fuel consumption. 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 \$2.2 billion in additional revenue over the baseline scenario. See the table titled “Governor’s Transportation Package” on Page 6.

BASELINE

Revenues	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	5 Year Total
State Base Excise Taxes on Fuel (Non-STIP)	2,076	2,076	2,076	2,076	2,076	2,076	10,379
Price-Based Excise Tax on Gas (Non-STIP)	1,155	1,155	1,155	1,155	1,155	1,155	5,774
Weight Fees	1,083	1,083	1,083	1,083	1,083	1,083	5,416
Weight Fee Diversion (to General Fund)	(1,083)	(1,083)	(1,083)	(1,083)	(1,083)	(1,083)	(5,416)
Subtotal: Non-STIP	3,231	3,231	3,231	3,231	3,231	3,231	16,153
Price-Based Excise Tax on Gas (STIP)	262	262	262	262	262	262	1,312

ALTERNATIVE A (GOVERNOR'S BUDGET APPROACH)

Revenues	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	5 Year Total
State Base Excise Taxes on Fuel (Non-STIP)	2,076	1,939	1,962	1,933	1,897	1,897	9,627
Price-Based Excise Tax on Gas (Non-STIP)	1,155	1,264	1,240	1,271	1,345	1,345	6,465
Weight Fees	1,083	1,101	1,118	1,135	1,149	1,149	5,652
Weight Fee Diversion (to General Fund)	(1,083)	(1,101)	(1,118)	(1,135)	(1,149)	(1,149)	(5,652)
Subtotal: Non-STIP	3,231	3,202	3,202	3,204	3,242	3,242	16,092
Price-Based Excise Tax on Gas (STIP)	262	598	447	498	719	719	2,980

ALTERNATIVE B (PRICE-BASED EXCISE TAX TO 18¢ IN 2020-21)

Revenues	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	5 Year Total
State Base Excise Taxes on Fuel (Non-STIP)	2,076	1,939	1,962	1,933	1,897	1,897	9,627
Price-Based Excise Tax on Gas (Non-STIP)	1,155	1,211	1,259	1,307	1,314	1,314	6,406
Weight Fees	1,083	1,101	1,118	1,135	1,149	1,149	5,652
Weight Fee Diversion (to General Fund)	(1,083)	(1,101)	(1,118)	(1,135)	(1,149)	(1,149)	(5,652)
Subtotal: Non-STIP	3,231	3,150	3,222	3,240	3,211	3,211	16,033
Price-Based Excise Tax on Gas (STIP)	262	404	518	629	606	606	2,762

ALTERNATIVE C (GOVERNOR'S TRANSPORTATION PACKAGE)

Revenues	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	5 Year Total
State Base Excise Taxes on Fuel (Non-STIP)	2,076	1,939	1,962	1,933	1,897	1,897	9,627
Price-Based Excise Tax on Gas (Non-STIP)	1,155	1,284	1,303	1,322	1,337	1,345	6,592
Weight Fees	1,083	1,101	1,118	1,135	1,149	1,149	5,652
Weight Fee Diversion (to General Fund)	(1,083)	(1,101)	(1,118)	(1,135)	(1,149)	(1,149)	(5,652)
Subtotal: Non-STIP	3,231	3,223	3,266	3,255	3,234	3,241	16,219
Price-Based Excise Tax on Gas (STIP)	262	673	680	684	689	718	3,444

FEDERAL REVENUES

Option: How much Obligational Authority (OA) should the FE display over the 2018 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 Federal Highway Act, titled Moving Ahead for Progress in the 21st Century (MAP-21), was signed into law on July 6, 2012. MAP-21 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 Fixing America's Surface Transportation (FAST) Act, approved on December 4, 2015, builds on the program structure and reforms of MAP-21. The FAST Act is the first long-term transportation funding plan in over a decade and provides authorization of approximately \$225 billion for the federal-aid highway program from FFY 2016 to 2020. Over the five-year period, funding levels are estimated to increase by approximately 15 percent, which largely reflects the addition of new freight initiatives and incremental adjustments for inflation. On December 6, 2016, Congress passed a Continuing Resolution (CR) to maintain FFY 2016 (2015-16) spending levels into FFY 2017 (2016-17). The CR expires in April 2017.

The 2018 FE covers fiscal years (FY) 2018-19 through 2022-23, which is partially outside of the FAST Act's funding horizon. Historically, in the absence of a new Federal Highway Act, Congress has issued continuing resolutions to provide short-term transportation funding at levels consistent with the most recent Act. Because 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, future FE cycles may incorporate adjustments in accordance with new federal authority.

As part of the FAST Act, the FHTF received a one-time transfer of \$71 billion to keep the fund solvent over the five years covered under the FAST Act. 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 by FFY 2021, revenues will be insufficient to meet all current obligations. Future 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. As a means to address this solvency issue, the new

Administration has floated the idea of private investments and other innovative financing solutions.

The FHWA provides several years of projected apportionment levels to be distributed to states based on national formulas outlined in the Federal Transportation Act. Apportionments are a type of Federal budget authority allowed by Congress to direct states on how they are to spend available resources. However, OA acts as an annual amount of the apportionment that the state can actually use on projects.

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, the FAST Act continues to provide federal funding for surface transportation programs. What should the 2018 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 2015-16 authority level of \$3.4 billion and held constant each year over the FE period. This would result in \$17.1 billion in OA over the FE period.

Alternative B (Recommended Alternative): Assume OA is equal to the FFY 2015-16 authority level of \$3.4 billion, and escalated annually based on the approximate inflationary funding adjustment from the FAST Act. This would result in \$19.1 billion in OA over the FE period. Based on recent adjustments under FAST Act, 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 2015-16, which was \$3.3 billion, and held constant each year over the FE period. This would result in \$16.7 billion in OA over the FE period.

MOTOR VEHICLE ACCOUNT TRANSFERS

Option: What should the 2018 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 2017-18 Governor's Budget displays an estimated fund balance of about \$382 million in the MVA for 2017-18. 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 2018 FE displays an assumption that transfers would occur, SHA resources would be overstated.

In the 2016 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

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 Public Transportation Account (PTA) and 50 percent to State Transit Assistance (STA). It also requires the entirety of the second sales tax (1.75 percent) to be redirected from PTA to STA. In 2017-18, 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 statutes, STA receives the majority of sales tax on diesel revenues.

STREETS AND HIGHWAYS CODE SECTION 183.1 REVENUES

Issue: Per Streets and Highways Code (S&HC) Section 183.1 money deposited into the State Highway Account (SHA) that is not protected by Article XIX of the California Constitution is to be transferred from the SHA into the Transportation Debt Service Fund (TDSF) for debt service on transportation bonds. Money not subject to Article XIX as defined by Section 183.1 includes, but is not limited to, the sale of documents, charges for miscellaneous services to the public, condemnation deposit fund investments, rental of state property, and other miscellaneous uses of property or money. New legislation could alter the transfer of money as defined by Section 183.1 which could impact Section 183.1 transfers from the SHA. In the interim, the 2018 FE assumptions will be based on current statute.

Background: On July 6, 2000, AB 2928 was signed into law, which among other items, added Section 183.1 to the S&HC. At that time, this section required that money not subject to Article XIX of the State Constitution be transferred from SHA into PTA. Section 183.1 was originally created during a period when PTA funding was in short supply. The money 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 money was not protected by the State Constitution, the Legislature could divert Section 183.1 resources to aid in GF shortfalls and/or offset future transportation bond debt service.

AB 105 (Chapter 6, Statutes of 2011), amended Section 183.1 of the S&HC, by requiring the Controller to transfer prior year money from the SHA to the TDSF for 2010-11 through 2012-13. Pursuant to AB 105, the money was 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 2016 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 transfer of SHA resources to fund transportation bond debt services. Because the 2018 FE is required to forecast based on current state statute, Section 183.1 transfers from SHA to 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, 2017.
- 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 2018-19 through 2022-23) 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 63/37 split of available resources, respectively. This also includes the allocation for the August Redistribution.

Conversion to Capacity

- G. The 2018 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.
- H. 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 90 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 but was last adjusted to 16 cents per gallon in 2016 and will remain the same in 2017. 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 2018 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 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 \$62 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 2018 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 taxes 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 contributions into the FHTF.

The most recent FHA, the FAST Act, was signed into law on December 4, 2015, and provides authorization of approximately \$225 billion for the federal-aid highway program from FFY 2016 to 2020. Over the five-year period, funding levels are estimated to increase approximately 15 percent, which largely reflects the addition of new freight initiatives and incremental adjustments for inflation. However, a CR passed by Congress on December 6, 2016, will continue FFY 2016 spending levels into FFY 2017.

The 2018 FE covers 2018-19 through 2022-23, which is partially outside of the FAST Act's funding horizon. Historically, in the absence of a new Federal Highway Act, Congress has issued continuing resolutions to provide short-term transportation funding at levels consistent with the most recent Act. Because adjustments in federal funding brought about by a new Act are difficult to predict, and may alter the resources available for projects, future FE cycles may incorporate adjustments in accordance with new federal authority.

SHA 9. *See Section One – Federal Revenues*

SHA 10. *The 2018 FE assumes an August Redistribution of \$162 million per year based on the average amount received by California from 2011-12 through 2014-15. The Redistribution will be split approximately \$102 million (63 percent) to the state, and \$60 million (37 percent) to the local agencies.*

SHA 11. *The 2018 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.*

SHA 12. *In order to utilize a portion of FAST Act funds for Coordinated Border Infrastructure (CBI) projects, the 2018 FE includes a \$16 million annual "set-aside" to be reserved from the State's share of "any-area" Surface Transportation Block Grant Program (STBGP) funds. This will not impact any federal funding available to local agencies. The amount proposed for set-aside is equal to five percent of "any-area" STBGP funds retained by the state, and is well within the amount allowed in the FAST Act.*

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 13. *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.

In an ongoing effort by the Governor to reduce state debt, an accelerated Pre-Proposition 42 repayment schedule was proposed in the Governor's Transportation Funding and Reform Package. An initial repayment of \$173 million was approved by AB 133 (2016), and transferred in December 2016. The remainder of the repayment schedule proposes to repay the outstanding balance in equal parts over the next three fiscal years; however, these repayments have not been approved.

As of January 1, 2017, outstanding Pre-Proposition 42 loans total \$706 million:

- \$127 million to the SHA
- \$256 million to the PTA
- \$323 million to the TCRF

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. However, AB 133 directed repayments to the SHOPP, not the SHA. It is assumed future repayments owed to the SHA will be modeled after AB 133.

SHA 14. *The 2018 FE will display that Pre-Proposition 42 loan repayments are scheduled to occur in installments over the FE period, beginning in 2017-18.*

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:

- From 2010 to 2016, approximately \$1.5 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, repayments will be immediately transferred to the TDSF.

SHA 15. *The 2018 FE will display repayment of weight fee revenue loans owed to the SHA and subsequent outgoing transfer to the TDSF in FY 2020-21.*

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 16. *The 2018 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 17. *State expenditures assume allocations of approximately \$106 million per year over the FE period, consistent with the Commission's 2016-17 initial lump sum allocation for Local Assistance (Resolution FM-15-05).*

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 18. *Capital Outlay Support (COS) expenditures are based on a continuation of all STIP components programmed prior to 2017-18 and all STIP components programmed to begin in 2017-18.*

SHA 19. *Capital expenditures are based on a continuation of all STIP project allocations prior to 2016-17, allocations in 2016-17, projects programmed in 2016-17, but not yet allocated and projects programmed in 2017-18.*

SHA 20. *Prior R/W commitments are defined as all R/W projects in the STIP that are programmed for 2017-18 and prior years.*

SHA 21. *Non-programmed STIP 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 22. *Capital project costs shall be escalated at 4.2 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 23. *The 2018 FE displays GARVEE debt service payments of about \$22.78 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 24. *COS expenditures are based on a continuation of all SHOPP components programmed prior to 2017-18, SHOPP preliminary engineering components programmed in 2017-18 and later, and SHOPP construction engineering components programmed to begin in 2017-18.*

SHA 25. *Prior R/W commitments are defined as all R/W projects in the SHOPP that are programmed for 2015-16 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 project allocations prior to 2017-18, 2016-17 programmed projects not yet allocated, projects programmed in 2017-18, and GARVEE debt service payments.*

SHA 28. *Capital project costs shall be escalated at 4.2 percent annually, consistent with the historical trend of the Price Index for Selected California Construction Items.*

SHA 29. *Preparation cost for Project Initiation Documents are included as a component of State Operation expenditures, and are based on the latest available data for base year, and escalated over the FE period at a rate consistent with the growth of SHOPP capacity.*

SHA 30. *Closeout capital savings average approximately five percent. This is primarily due to unused contingency funds. The 2018 FE assumes a five percent increase to programming capacity in order to offset these savings.*

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. However, the FAST Act eliminated the MAP-21 TAP and replaced it with a set-aside of Surface Transportation Block Grant (STBG) program funding.

The intent of combining the five separate programs 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 31. *The ATP divides approximately \$123 million annually, and is consistent with the 2017 ATP FE adopted by the Commission in May 2016. 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 a slight decrease from 2017-18 through 2022-23, and will decrease 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. Projected increases in diesel prices offset the 1 percent decrease in consumption for a 1 percent expected net increase in revenues.*

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 2018 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 \$1.5 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 (including the San Joaquin Service 7th Roundtrip and Pacific Surfliner Service 12th Roundtrip) are forecast at approximately \$128 million for 2017-18 and will increase by 4 percent annually through 2022-23.*
- B. *The Department's estimated need for Rail heavy equipment, maintenance, and overhaul over the FE period is approximately \$95 million.*
- C. *San Joaquin Service-8th Round Trip 2020-21 reflects 1 year of service with a 4 percent annual escalation.*

Local Assistance:

PTA 7. *Bay Area Ferry operation expenditures will escalate by one percent per year based on the signed cooperative agreement between the Department, Metropolitan Transportation Commission, and Bay Area Toll Authority on November 15, 2000.*

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 2017-18, all STIP components programmed to begin in 2017-18, and non-highway AB 3090 projects.*

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. Given the state's more stable financial position, it is assumed that there will be no change to that schedule. However, should the need for additional funding arise between scheduled bond sales, the Treasurer has the option to issue Commercial Paper which consists of short-term notes issued for the purpose of meeting short-term financial obligations. These notes can generally be issued on very short notice and are eventually repaid from future general obligation bond sales.

The 2017-18 Governor's Budget proposal includes \$38 million in Proposition 1A bond expenditures. These funds are available for high-speed rail connectivity projects, which are intercity and commuter rail lines, and urban rail system projects that will connect to high-speed train system and its facilities once the state's high-speed rail project is operational.

The 2017-18 Governor's Budget proposal includes approximately \$172 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 either completed or are nearing the full allocation of their original program of 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 2018 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 2018 Aeronautics Account Fund Estimate (FE) will display the beginning balance in the Aeronautics Account as of July 1, 2017.*

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 of Transportation forecasts aviation gasoline excise tax revenues to increase by approximately 1 percent, and jet fuel excise tax revenues to increase by approximately 2 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, 2017.*

Aero 4. *Federal Trust Fund (FTF) resources represent federal reimbursement authority for various aviation activities completed by the Division of Aeronautics. Based on the Department of Finance's (DOF) price letter, FTF will be escalated by 2.5 percent per year for 2018-19 through 2020-21.*

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) Matching Grant program total for each fiscal year is allocated by the Commission in the preceding year and is based on historic trends and available resources. The state match for the AIP Matching Grant is set by the Commission annually and is assumed to remain at 5 percent over 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 may allocate all ending cash balances available for programming during the FE period, which may include funding for A&D. The 2016 Aeronautics Program included a list of A&D projects scheduled for funding through 2018-19. 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 2017-18 Budget Act. Based on the DOF's price letter, state operations will be increased by 2.5 percent per year for 2018-19 through 2021-22.*

Aero 10. *The Federal Aviation Administration (FAA) amended a policy regarding proceeds attributed to aviation fuels, specifying that tax revenues derived from aviation gas and jet fuel must be allocated for airport related projects. The 2018 FE assumes no change to the disposition of aviation fuel taxes.*

Aero 11. *Section 21602(f)(2) of the Public Utilities Code authorizes transfers from the Local Airport Loan Account (LALA) to the Aeronautics Account in order to fund the California Aid to Airports Program, subject to the approval of the DOF and the Commission. Transfers may not decrease the LALA fund balance below \$5 million. The 2018 Aeronautics Account FE assumes a transfer in the amount of \$4 million in 2017-18, followed by annual transfers of \$4 million from 2018-19 to 2021-22.*