

Memorandum

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To: CHAIR AND COMMISSIONERS

CTC Meeting: September 24-25, 2003

Reference No.: 3.6
Information Item

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Chief Financial Officer

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Ref: **Update Fiscal Year (FY) 2003-04 and FY 2004-05 Cash Forecast Status**

Attached are the forecast Cash Balance Updates for the State Highway Account (SHA) and Public Transportation Account (PTA). The updates are being reported to the California Transportation Commission (Commission) on a quarterly basis, as was outlined in the Cash Forecast presented by the California Department of Transportation (Department) in June 2003.

The attached summaries outline the major changes in revenue and expenditure assumptions, the uncertainties facing the funds, the updated forecasts, and the Department's recommendations on allocations for each account.

Following are the updated Year-End Balance forecasts and recommendation for each account.

STATE HIGHWAY ACCOUNT

(In millions)	<u>June</u>	<u>September</u>	<u>Change</u>
FY 2003-04 Year End Balance	\$ 123	\$ 330	+\$207
FY 2004-05 Year End Balance	\$1,250	\$1190	-\$ 60

Recommendation:

- Due to the uncertainty regarding the Federal FY 2003-04 budget, it is recommended that the Commission only allocate Safety and Emergency projects at this time. It is recommended that no additional allocations be made at this time.
- Once there is a full year federal program authorization and appropriation, then allocations in the current year can be considered.

PUBLIC TRANSPORTATION ACCOUNT

(In millions)	<u>June</u>	<u>September</u>	<u>Change</u>
FY 2003-04 Year End Balance	\$ 82	\$ 120	+\$ 38
FY 2004-05 Year End Balance	\$ 147	\$ 160	+\$ 13

Recommendation:

- Due to the uncertainty of the Federal FY 2004 budget and the low forecast cash balance in SHA during the first half of FY 2003-04, it is recommended that the PTA balance be maintained in the event the SHA needs short-term loan to maintain a positive cash balance. No State Transportation Improvement Program (STIP) allocations should be made from the PTA, until after the period of low cash balances in the SHA has passed.
- It is also necessary to secure a Legislative appropriation of PTA funds before any allocations can be made. This can be done through urgency legislation in the current year or through a regular Budget Act appropriation for FY 2004-05.

Any changes to the assumptions in this forecast due to State or Federal legislative changes will be reported to the Commission at the September 24-25, 2003 Commission meeting.

**DEPARTMENT OF TRANSPORTATION
SEPTEMBER 2003 CASH UPDATE
STATE HIGHWAY ACCOUNT**

Review of June Forecast

Revenues

Fiscal Year (FY) 2003-04

- The restoration of commercial vehicle weight fees as proposed in the May Revision to the FY 2003-04 Governor's Budget was no longer assumed.
- Federal funds were assumed to continue at the Federal Fiscal Year (FFY) 2003 level.
- No new General Fund was assumed.
- Assumed that General Fund Loan would be available for short-term cash needs.

FY 2004-05

- Transportation Investment Fund Revenues are assumed to be available.
- Assumed repayment of the General Fund loan of \$173 million borrowed in FY 2002-03.

Expenditure

Total expenditures were estimated as \$5.376 billion in FY 2003-04 and \$4.368 billion in FY 2004-05.

June Forecast Year Ending Balances

- Forecast a balance of \$123 million in June 2004 with no new allocations voted during FY 2003-04.
 - This level did not provide for any new allocations in FY 2003-04 for State Transportation Improvement Program (STIP) and State Highway Operation and Protection Program (SHOPP).
 - The FY 2003-04 cash forecast showed three months of significantly low or negative balances during the year. The first of these periods is in November 2003.
- Balance increases to \$1.250 billion in June of 2005, because no new allocations were forecast.

Changes Since June

Revenues – What has Changed

- The final state budget added \$276 million in resources (\$248 million in cash) to the SHA during FY 2003-04. This increase is due to the early repayment of the General Fund loan from the SHA to the General Fund (originally scheduled in FY 2004-05) and a partial repayment in the amount of \$100 million from the Traffic Congestion Relief Fund. These changes improve the projected cash balance for FY 2003-04.
- No General Fund loan was made available to mitigate the impact of reduced revenues in July 2003. Revenues were reduced because of the inability of the State Controller's Office to transfer Highway Users Tax Account (HUTA) funds without a budget. The effect of this was that the Department initiated actions to suspend contracts and requested that local governments fund transportation projects.
- The Department borrowed \$200 million in federal local assistance funding to avoid triggering these actions. This is short-term loan that will be paid back before the end of FY 2003-04 and does not increase the year-end balance.

Revenues – What has not changed

- The federal funding level for FFY 2003 remains uncertain. Congress has not yet passed a FFY 2004 budget. The House of Representatives has proposed a six-month extension to the current Transportation Equity Act with only six-month appropriation at 50% of the current appropriation level. The Senate proposed a full year appropriation at a level about eight percent higher than the current level. The forecast continues to use the annual level proposed in the President's Budget as was the assumption in the June 2003 forecast.
- There has been no change to the commercial vehicle weight fee law. A change is currently pending before the State Legislature. Any change in this revenue will be reported to you at the September 24-25, 2003 Commission meeting. Revenues are assumed at the same level as the June 2003 forecast.

Expenditures

- Total expenditures are estimated as \$ 5.124 billion for FY 2003-04 and \$4.260 billion for FY 2004-05.
- Capital expenditures are forecast at \$1.993 billion for FY 2003-04 and \$1.128 billion for FY 2004-05. This is \$208 million higher than previously forecast for FY 2003-04 and \$20 million for FY 2004-05 lower than forecast in June 2003.
 - The costs of faster liquidation of safety and emergency projects than forecast in June 2003 is projected to increase by \$98 million over the two years of the forecast.
 - The costs of the inclusion of Minor B capital outlay projects are estimated at \$47 million over the two years of the forecast.
 - Higher expenditures for right-of-way for the month of July 2003 were \$33 million higher than forecast.
 - There is also an increase of \$50 million over the two years to the estimated costs of projects under contract. This increase is attributable to cash flow occurring more rapidly than in the previous forecast. This is based upon the most recent contract information available.
- Other expenditures are showing no change that would impact the cash balances presented in June 2003

Updated Forecast

- Taking the changes into account, the year-end forecast balance shows an increase for FY 2003-04 by \$209 million to an estimated \$330 million and an estimated \$1.190 billion in FY 2004-05.

Uncertainties in the Forecast

- There continues to be uncertainty as to the actual federal budget level for FFY 04. This could impact the cash availability in FY 2003-04. In addition, if there is a delay in the approval of a federal budget beyond October 1, 2003, there could be an impact on cash availability in the October to December 2003 quarter.

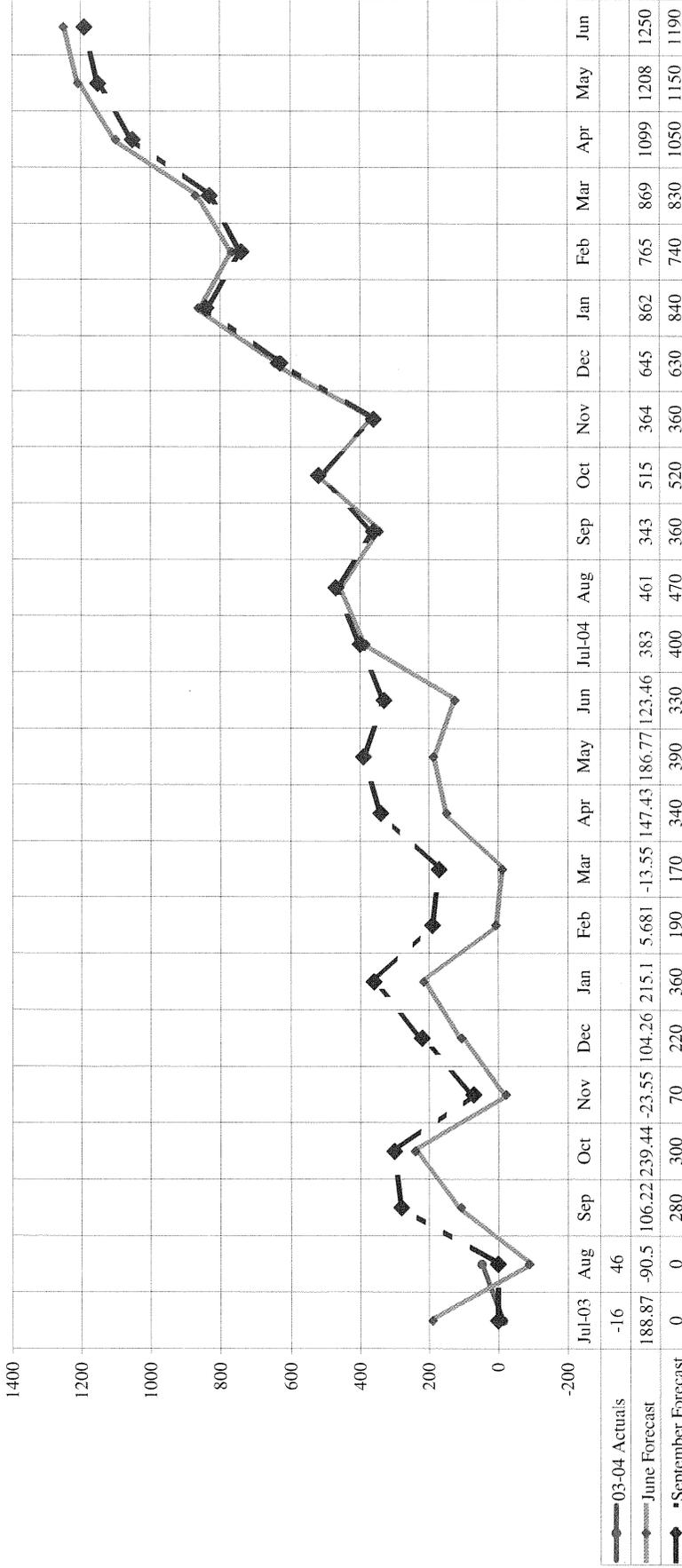
- The year-end forecast is not sufficient to provide the cash necessary to weather a period with no budget next July 2004. During the impasse on the state budget this fiscal year, the State Highway Account was very close to running out of cash to make expenditures.

Recommendations

- Due to the uncertainty regarding the Federal FY 2003-04 budget, it is recommended that the Commission only allocate Safety and Emergency projects at this time. It is recommended that no additional allocation be made at this time.

Attachment

24 MONTH STATE HIGHWAY ACCOUNT CASH FORECAST
FY 2003-04
(\$ in millions)



Assumptions:

- Cash forecast assumes no new allocation.
- FY 2003-04 General Fund repayment of \$173 million plus \$2.216 million interest has been added to FY 2003-04
- FY 2004-05 Weight Fee revenue assumes 2003-04 levels, adjusted for a trend growth factor.
- FY 2004-05 HUTA assumes 2.1% growth.
- FY 2004-05 Forecast includes \$2 million of AB3090 reimbursements but does not include GARVEE repayments.

**DEPARTMENT OF TRANSPORTATION
SEPTEMBER 2003 CASH UPDATE
PUBLIC TRANSPORTATION ACCOUNT**

Review of June Forecast

Revenues

- Gasoline and Diesel Sales Tax revenues changed to reflect Department of Finance May revenue forecasts.
- Spillover revenue will be transferred to the General Fund in fiscal year (FY) 2003-04 as proposed in the May Revision to the FY 2003-04 Governor's Budget.
- Transportation Investment Fund (TIF) transfer to Public Transportation Account (PTA) in FY 2003-04 was suspended as proposed in the FY 2003-04 Governor's Budget.

Expenditures

- State Transit Assistance (STA) decreased due to cap on transfer proposed in the May Revision to the FY 2003-04 Governor's Budget.
- Forecast included capital outlay expenditures of \$18 million in FY 2003-04 and \$27 million in FY 2004-05 based on revised expenditure projections from the Intercity Rail Program.

June Forecast Year Ending Balances

- Ending balance forecast was \$82 million for FY 2003-04 and \$147 million for FY 2004-05.

September Update

Revenues

- Budget Trailer Bill codified the following actions assumed in June 2003 forecast:
 - The transfer of spillover funds to the General Fund in FY 2003-04. No spillover revenue is assumed in FY 2004-05.
 - The suspension of the TIF transfer to the PTA in FY 2003-04. These funds are to be repaid by the Transportation Deferred Investment Fund. The cash forecast assumes that the repayment will not occur in FY 2004-05.

- The September 2003 update starts with a higher beginning balance. Based upon actual FY 2002-03 State Controller's Office data, the beginning balance for July 2003 was \$101 million, \$45 million higher than forecast.

Expenditures

- Final budget actions limited the STA transfer as assumed in the June 2003 Forecast. Expenditures for the STA are forecast to be \$104.6 million in FY 2003-04. The cash forecast assumes quarterly transfers with a quarter lag. The September forecast has been adjusted for this lag.
- The forecast for capital outlay expenditures on previously allocated project in the Intercity Rail Program are higher than forecast in June 2003. This forecast includes a cash flow of capital outlay expenditures of \$29 million in FY 2003-04 and \$37 million in FY 2004-05 based on revised expenditure projections from the Intercity Rail Program. The increase totals \$21 million over the two years of the forecast.

Updated Forecast for Year Ending Balances

- Taking the changes into account, the year-end forecast balance shows an increase for FY 2003-04 of \$34 million to an estimated \$115 million and an increase of \$16 million to an estimated \$160 million in FY 2004-05.

Uncertainties Facing the PTA

- There is no appropriation to authorize the expenditures of PTA funds for the FY 2003-04. Authorization would require action by Legislature with an urgency clause to allow for immediate allocation.

Recommendations

- Due to the uncertainty of the Federal FY 04 budget and the low forecast cash balance in SHA during the first half of FY 2003-04, it is recommended that the PTA balance be maintained in the event the SHA needs short-term loan to maintain a positive cash balance. No STIP allocations should be made from the PTA until after the period of low cash balances in the SHA has passed.
- It is also necessary to secure a Legislative appropriation of PTA funds before any allocations can be made. This can be done through urgency legislation in the current year or through a regular Budget Act appropriation for FY 2004-05.

