

# Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: December 13-14, 2006

Reference No.: 3.7  
Information Item

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Chief Financial Officer

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Budgets

Subject: **FY 2006-07 1st QUARTER FINANCE REPORT**

Attached is the Department of Transportation's 1st Quarter Finance Report for FY 2006-07.

Attachment



# **Department of Transportation Quarterly Finance Report**

## **First Quarter 2006-07**

**California Department of Transportation  
Quarterly Finance Report  
Schedule of Reports**

<b>Fiscal Year</b>	<b>Quarterly Report</b>	<b>Activity</b>	<b>Date</b>
<b>2006-07</b>	<b>2005-06 Q4</b>	<b>Close of Quarter</b>	<b>6/30/06</b>
		<b>Quarterly Report to Commission Staff</b>	<b>8/31/06</b>
		<b>Presented to Commission</b>	<b>9/7/06</b>
	<b>2006-07 Q1</b>	<b>Close of Quarter</b>	<b>9/30/06</b>
		<b>Quarterly Report to Commission Staff</b>	<b>11/15/06</b>
		<b>Presented to Commission</b>	<b>12/13/06</b>
	<b>2006-07 Q2</b>	<b>Close of Quarter</b>	<b>12/31/06</b>
		<b>Quarterly Report to Commission Staff</b>	<b>2/15/07</b>
		<b>Presented to Commission</b>	<b>3/14/07</b>
	<b>2006-07 Q3</b>	<b>Close of Quarter</b>	<b>3/31/07</b>
		<b>Quarterly Report to Commission Staff</b>	<b>5/15/07</b>
		<b>Presented to Commission</b>	<b>6/6/07</b>
<b>2007-08</b>	<b>2006-07 Q4</b>	<b>Close of Quarter</b>	<b>6/30/07</b>
		<b>Quarterly Report to Commission Staff</b>	<b>8/31/07</b>
		<b>Presented to Commission</b>	<b>9/19/07</b>

# Department of Transportation Quarterly Finance Report

*First Quarter of 2006-07 ends generally on track with forecast.*

## **Executive Summary**

The purpose of this quarterly finance report is to enable the California Transportation Commission (Commission) and the Department of Transportation (Department) to evaluate transportation funding policy, allocation capacity, and forecast methodology in order to ensure the efficient and prudent management of transportation resources.

### **First Quarter Forecast vs. Actuals**

The first quarter cash balances for the State Highway Account (SHA), Public Transportation Account (PTA), Traffic Congestion Relief Fund (TCRF) and Transportation Deferred Investment Fund (TDIF) all ended slightly higher than forecast. The Transportation Investment Fund (TIF) ended the first quarter slightly lower than forecast. All funds were within an acceptable range of variance from forecast.

<b>September 2006 Ending Cash Balance Actuals v. Forecasts by Fund (\$ millions)</b>				
<b>Fund</b>	<b>Forecast</b>	<b>Actuals</b>	<b>Difference</b>	
SHA	\$710	\$722	\$12	2%
PTA	\$490	\$545	\$55	11%
TCRF	\$480	\$508	\$28	6%
TIF	\$210	\$195	-\$15	-7%
TDIF	\$440	\$441	\$1	0%

### **Capital Allocations vs. Plan**

Allocations during the first quarter totaled \$1.798 billion, representing 43 percent of the 2006-07 allocation capacity of \$4.176 billion, not including Tribal Gaming capacity.

Of the 2006-07 State Highway Operation and Protection Program (SHOPP) capacity, \$734 million (39 percent) was allocated through September 2006. Additionally, \$524 million (40 percent) of State Transportation Improvement Program (STIP) capacity was allocated. Allocations for the Traffic Congestion Relief Program (TCRP) totaled \$540 million (55 percent).

### **Outlook for 2006-07 Funding & Allocations**

While the voter approved bonds for transportation will provide additional funding for STIP and SHOPP beginning as early as 2007-08, there is no impact to allocations in the current year. Both state excise tax and weight fee revenues are projected to increase slightly over the next five-years, and are accounted for in the current 2006-07 allocation capacity. Gasoline and diesel prices have stabilized since their highs in May 2006 and projections for sales tax revenues will likely come down from current levels, these changes affect the Public Transportation account and were included in the Augmented STIP Fund Estimate. Furthermore, the outlook for Tribal Gaming bonds is still uncertain.

Annual State Operations cost are likely to continue to increase in future years, which will impact future allocation capacity. Maintenance and Operations costs, and costs associated with regulatory direction such as air quality conformity and stormwater regulations will further erode the buying power of the State Highway Account. The cost of employee pay raises appears to be coming in slightly higher than previously estimated, as reflected by higher state operations costs. The Department's revised project cost estimates appear to be consistent with allocations as evidenced by the recent low-bids on contracts out to bid.

### **Recommendations**

Based on the current increase in sales tax revenues on motor vehicle fuels to the PTA, the Department recommends increasing the current 2006-07 allocation capacity by \$244 million to \$5.270 billion.

However, allocations should continue to withhold Tribal Gaming capacity associated with the bonds until revenues are received. The Department will monitor and report on the progress with respect to the Tribal Gaming revenues.

Finally, as a result of higher revenue forecasts and the \$204 million August Redistribution of federal Obligation Authority (OA), the current projected balance for the SHA balance is \$306 million by June 2011. The low future balance may require an adjustment to SHA allocation capacity in 2007-08 or after. The Department will monitor this projection and make recommendations on future sustained

allocation levels to the Commission in the 2006-07 Second Quarter Finance Report, if necessary.

## **Cash Forecast**

### **Methodology and Assumptions**

The cash forecasts are used by the Department to estimate and monitor the cash balance of transportation funds to determine the level of allocations that can be authorized, and to prepare for low or high cash periods.

Cash forecasts are prepared for the State Highway Account (SHA), Public Transportation Account (PTA), Traffic Congestion Relief Fund (TCRF), Transportation Investment Fund (TIF), and Transportation Deferred Investment Fund (TDIF).

Actual cash balances are compared to the forecasts and variances are identified and reported to management and the Commission. If necessary, adjustments are made to capital allocation levels or forecast methodology.

The 2006-07 cash forecasts and allocation capacity are based on the following assumptions:

- Expenditures for State Operations and Local Assistance are based on the 2006-07 Budget Act, plus estimated employee pay raises.
- Capital Outlay expenditures are based on actual and projected Commission allocations, using the existing expenditure model, which is founded on historical project expenditure patterns.
- Proposition 42 transfers occur during the forecast period.
- Proceeds from Tribal Gaming bonds are not included.
- Spillover revenues are transferred to the PTA during the forecast period as statutorily prescribed. The distribution of spillover revenues for 2006-07 are based on the 2006 Budget Act.
- TDIF loan repayments are based on the early loan repayment of \$1.415 billion authorized by the 2006 Budget Act.

## First Quarter Summary

Below is a summary of the first quarter cash forecast results by fund.

### State Highway Account

The SHA cash balance ended the first quarter at \$722 million, up \$180 million from the 2005-06 fourth quarter, and \$12 million above the 2006-07 forecast.

The 2006-07 forecast has been updated for revised excise tax and weight fee revenue estimates from the Department of Finance, \$204 million in August Redistribution of federal OA, and \$96 million in federal accruals for a total of \$300 million in federal receipts. Additionally, the forecast includes an estimated cost for employee compensation increases. Other items of interest include:

- Total revenues were \$84 million (17 percent) higher than forecast. Federal receipts were 37 percent higher than forecast due to the August redistribution, which accounts for the majority of the revenue difference.
- The Department is currently negotiating a new Stewardship agreement with the Federal Highway Administration that may have an impact to expected reimbursement timelines. This may result in a short-term delay in receipt of some federal revenues, but not a long-term decrease in the overall amount.
- State operations expenditures were \$750 million, or \$82 million (12 percent) above forecast. Over the last three years first quarter state operations expenditures have averaged \$100 million above forecast. The higher state operations expenditures are not expected to continue for the remainder of the year. Expenditures will continue to be monitored and the forecast model adjusted as necessary to account for the higher first quarter expenditures.
- Capital outlay expenditures were \$518 million, or \$89 million (17 percent) above forecast. The capital outlay forecast includes actual votes from June, July and August 2006. Advanced allocations of 2006-07 capacity in the 2005-06 fourth quarter has resulted in slightly higher capital outlay expenditures than previously forecast.
- Local assistance expenditures were \$237 million, or \$6 million (3 percent) below forecast in the first quarter. It is expected that local assistance expenditures will remain on target throughout the fiscal year. Since these expenditures are reimbursed with federal funds, fluctuations between forecast and actual expenditures do not significantly impact the SHA cash balance.

- Items in transit make up the difference between revenue and expenditures as compared to forecast, approximately \$93 million. Items in transit are differences in the timing of recording expenditures between the Department and the State Controller's Office. The majority of this difference occurred in July 2006. Since July, items in transit has leveled off significantly, as expected in the forecast.

### **Public Transportation Account**

The PTA cash balance increased substantially from the 2005-06 fourth quarter level of \$255 million to \$545 million. This balance was \$55 million (11 percent) higher than forecast primarily due to lower state operations and local assistance expenditures than forecast.

- As forecasted, revenues increased by approximately \$268 million during the quarter from higher diesel fuel receipts; despite lower net Spillover revenues and a lower TIF transfer to the PTA.
  - While Spillover revenues have increased due to higher fuel prices, the distribution of Spillover revenues as outlined in the 2006 Budget Act resulted in a lower share of this revenue flowing to the PTA. The 2006 Budget Act changed the formula distribution for 2006-07, which has been accounted for in the current forecast and the Augmented STIP Fund Estimate.
- State operations expenditures totaled \$20 million in the first quarter, \$7 million (26 percent) lower than forecast due to lower than expected expenditures for Intercity Rail.
- Local assistance expenditures were only \$3.3 million, \$14.8 million lower than forecast. The forecast assumed \$12 million of the \$63 million PTA AB3090 cash reimbursements would have occurred during the first quarter. However, none of the AB3090 expenditures occurred in the first quarter.

### **Traffic Congestion Relief Fund**

The TCRF ending cash balance for the quarter was \$508 million, \$28 million (6 percent) higher than forecast.

- The 2006-07 Budget Act included \$1.420 billion for the Proposition 42 transfer, of which the TCRF received \$678 million as prescribed in statute.

- In addition, an early TDIF loan repayment in 2006-07 provided an additional \$321 million to the TCRF, of which \$200 million will come from spillover revenues as collected.

### **Transportation Investment Fund**

The TIF ending cash balance of \$195 million was \$15 million (7 percent) below forecast.

- The fourth quarter transfer of \$76.9 million to locals that was forecast to occur in June 2006 but did not occur until July.
- The delayed transfer was offset by lower capital outlay expenditures. Capital outlay expenditures totaled \$25 million in the first quarter; substantially lower than forecast for the quarter.

### **Transportation Deferred Investment Fund**

The TDIF ending cash balance of \$441 million was \$1 million higher than forecast based on the actual transfers.

- The 2006-07 Budget Act authorized the General Fund loan repayment to the TDIF of \$1.415 billion.
- First quarter loan repayments totaled \$1.215 billion, and was distributed to the following funds. The remaining \$200 million to the TCRF will be paid as spillover revenues are collected.
  - TCRF received \$120 million.
  - PTA received \$214 million.
  - Locals received \$440 million.
  - TDIF retained \$441 million for STIP.

### **Federal Highway Funds**

- Prior to the close of the federal fiscal year, which corresponds to the first quarter of the state fiscal year, the Department used the remaining 2006 federal OA balance of \$1.5 billion. On October 1, 2006, the Department received \$2.3 billion of federal OA for the 2007 federal fiscal year.

### **Federal Emergency Projects**

- There have not been any new allocations of emergency funding since July when the President signed the 2006 Emergency Supplemental Appropriations Act. Approximately \$690

million in total needs still remain unallocated for California disasters.

- A request for \$391.6 million was submitted on October 25, 2006 to the FHWA for December 2005 storms.
- The chart below details the current federal emergency for all active disasters with funding needs in California and their funding status as of September 30, 2006. These projects have been identified as eligible for federal funding, but the full allocation of emergency relief funding has not been authorized. In the interim, the SHA has been used to fund these system repairs.

### Emergency Federal Funding

Disaster	Emergency Relief Needs (\$ millions)			Year to Date Allocations	Total Remaining Needs
	State	Local	Total		
Devil's Slide CA 83-1	\$345.0	\$0.0	\$345.0	\$241.8	\$103.2
December 2002 Storm CA03-1	116.0	6.0	122.0	106.6	\$15.4
San Simeon Earthquake CA04-2	3.4	1.6	5.0	3.6	\$1.4
Inyo County Flood CA04-4	9.3	0.0	9.3	9.3	\$0.0
December 2004 Storm CA05-1	247.0	135.0	382.0	245.0	\$137.0
December 2005 Storm CA06-1	364.0	69.0	433.0	0.0	\$433.0
<b>Total</b>	<b>\$1,084.7</b>	<b>\$211.6</b>	<b>\$1,296.3</b>	<b>\$606.3</b>	<b>\$690.0</b>

- Future federal allocations of this type can only be used to fund emergency projects and do not represent new allocation capacity, except to the extent that SHA funds have already been advanced for emergency projects.

## 2006-07 Allocation Capacity

At the July 2006 Commission meeting, the Department recommended the 2006-07 capital allocation capacity level of \$5.026 billion. (Note: The current policy is to not allocate Tribal Gaming capacity until the revenues are received, resulting in an effective allocation capacity limit of \$4.176 billion.)

2006-07 Allocation Capacity By Fund and Program (\$ millions)						
Fund	STIP	SHOPP	TCRP	Subtotal	Tribal	Total
SHA	\$160	\$1,890	\$0	\$2,050	\$320	\$2,370
PTA	300	0	0	300	240	540
TIF	390	0	0	390	0	390
TDIF	446	0	0	446	0	446
TCRF	0	0	990	990	290	1280
<b>Total</b>	<b>\$1,296</b>	<b>\$1,890</b>	<b>\$990</b>	<b>\$4,176</b>	<b>\$850</b>	<b>\$5,026</b>

This allocation capacity includes:

- The estimated impact of the negotiated employee pay raises in 2006-07 and 2007-08.
  - Does not include recently announced pay raise for excluded employees.
- The shifting of \$105 million in SHOPP projects to the Maintenance Program.
- An early TDIF loan repayment of \$1.415 billion in 2006-07 based on Department of Finance estimated distributions by fund.
- An advance TCRF loan repayment of \$151 million in June 2006 to the SHA from Tribal Gaming revenues.
- Updated gasoline and diesel sales tax revenues from the 2006-07 May Revise.
- Includes \$96 million in federal reimbursements for federally qualified emergency expenditures that were paid in 2005-06.

## Capital Allocations

### First Quarter

In the first quarter of 2006-07, the Commission allocated \$1.798 billion to 234 projects. This total represents 43 percent of the allocation capacity not including Tribal Gaming capacity.

2006-07 Allocations Final Allocations through September Vote (\$ in millions)				
Fund Type	SHOPP	STIP	TCRP	TOTAL
State Highway Account (SHA)	\$1,890	\$160	\$0	\$2,050
Public Transportation Account (PTA)	0	300	0	300
Transportation Investment Fund (TIF)	0	390	0	390
Transportation Deferred Investment Fund (TDIF)	0	446	0	446
Transportation Congestion Relief Fund (TCRF)	0	0	990	990
Tribal Gaming	0	0	0	850
<b>Total</b>	<b>\$1,890</b>	<b>\$1,296</b>	<b>\$990</b>	<b>\$5,026</b>
<b>Allocations By Fund</b>				
State Highway Account (SHA)	\$734	\$283	\$0	\$1,017
Public Transportation Account (PTA)	0	140	0	140
Transportation Investment Fund (TIF)	0	88	0	88
Transportation Deferred Investment Fund (TDIF)	0	13	0	13
Transportation Congestion Relief Fund (TCRF)	0	0	540	540
<b>Total Allocations</b>	<b>\$734</b>	<b>\$524</b>	<b>\$540</b>	<b>\$1,798</b>
<b>Remaining Balance</b>	<b>\$1,156</b>	<b>\$772</b>	<b>\$450</b>	<b>\$3,228</b>

#### *SHOPP*

The Commission voted \$734 million (39 percent) of the \$1.890 billion SHOPP capacity. The total number of SHOPP allocations voted was 102, including seven emergency projects.

#### *STIP*

STIP allocations totaled \$524 million (40 percent) of the \$1.296 billion STIP capacity. The total number of STIP allocations voted was 90 projects. SHA STIP allocations exceeded the allocation plan amount in the first quarter due to the STIP Right of Way (R/W) lump sum allocation and reverse condemnations totaling \$206 million. Although the Department is working to redirect the R/W allocation to the TIF, there may be some lingering impact to SHA SHOPP capacity.

#### *TCRP*

The TCRP allocations totaled \$540 million (55 percent) of the \$990 million TCRP capacity. This total includes a reserve of \$25

million for Letters of No Prejudice. The total number of TCRP allocations voted was 42 projects.

## ***Outlook for Funding & Allocations***

### **Outlook**

The outlook for transportation funding changed substantially since the fourth quarter of 2005-06. Transportation bonds totaling \$19.9 billion were approved by voters, and revenue forecasts have been revised upward for excise taxes and weight fees, and slightly lower for fuel sales tax revenues. The cost of employee pay raises has increased state operations expenditures higher than forecast, but revised project costs estimates have reduce the amount of supplementals to award.

### ***Revenues***

- The voter approval of \$19.9 billion in transportation bonds included \$2 billion in funding for STIP projects and \$750 million for SHOPP. These funds must be appropriated by the Legislature and would therefore not be available until 2007-08 at the earliest.
- Forecasts for state excise taxes and weight fees have been revised upward based on higher actual and projected consumption levels. The net result is a slightly higher growth rate over the five-year forecast period.
- Gasoline and diesel prices have declined since their highs in May 2006. As a result, spillover revenues will be slightly lower than assumed in the 2006-07 Budget, but diesel revenues still remain relatively high.
  - Due to a six-month lag from the collection of sales taxes to the distribution of revenues, sales tax revenues will likely come down from their current levels during the second half of the fiscal year.
- The outlook for Tribal Gaming bonds is still uncertain for 2006-07.

### ***Expenditures***

- The cost of employee pay raises is coming in slightly higher than originally estimated as evident by the higher state operations expenditures during the quarter.
- Project costs, specifically supplementals to award, appear to have stabilized with the Department's revised project cost estimate process.

## Recommendations

Below are the Department's recommendations and discussion items with respect to transportation funding policy, allocation capacity, and forecast methodology.

- The Department recommends increasing allocation capacity by \$244 million to \$5.270 billion. This increase is a combination of:
  - A \$250 million increase to the PTA allocation capacity from higher revenues (as presented in the Draft 2006 STIP FE Augmentation in November 2006), plus additional unused allocation capacity from the prior year.
  - A \$6 million decrease in TDIF allocation capacity resulting from lower actual interest on the TDIF repayment than previously estimated.

<b>Recommended 2006-07 Revised Allocation Capacity By Fund and Program (\$ millions)</b>						
<b>Fund</b>	<b>STIP</b>	<b>SHOPP</b>	<b>TCRP</b>	<b>Subtotal</b>	<b>Tribal Gaming</b>	<b>Total</b>
SHA	\$160	\$1,890	\$0	\$2,050	\$320	\$2,370
PTA	550	0	0	550	240	790
TIF	390	0	0	390	0	390
TDIF	440	0	0	440	0	440
TCRF	0	0	990	990	290	1280
<b>Total</b>	<b>\$1,540</b>	<b>\$1,890</b>	<b>\$990</b>	<b>\$4,420</b>	<b>\$850</b>	<b>\$5,270</b>

- The Department further recommends continuing with the policy to withhold Tribal Gaming allocations until revenues are received.
- Finally, as a result of higher revenue forecasts and the \$204 million August Redistribution of federal OA, the current projected balance for the SHA balance is \$306 million by June 2011. These additional resources have shifted the impact of the 2005-06 \$300 million supplemental allowance into 2011. However, the currently sustained allocation level of \$2 billion still produces decrease at the end of the five-year forecast period (see Appendix F). The Department will monitor this projection and make a recommendation on future sustained allocation levels in the 2006-07 Second Quarter Finance Report, if necessary.

**Appendix**

**Appendix A**

**2005-06 State Highway Account 24-Month Forecast**

**Appendix B**

**2006-07 Public Transportation Account 24-Month Forecast**

**Appendix C**

**2006-07 Traffic Congestion Relief Fund 24-Month Forecast**

**Appendix D**

**2006-07 Transportation Investment Fund 24-Month Forecast**

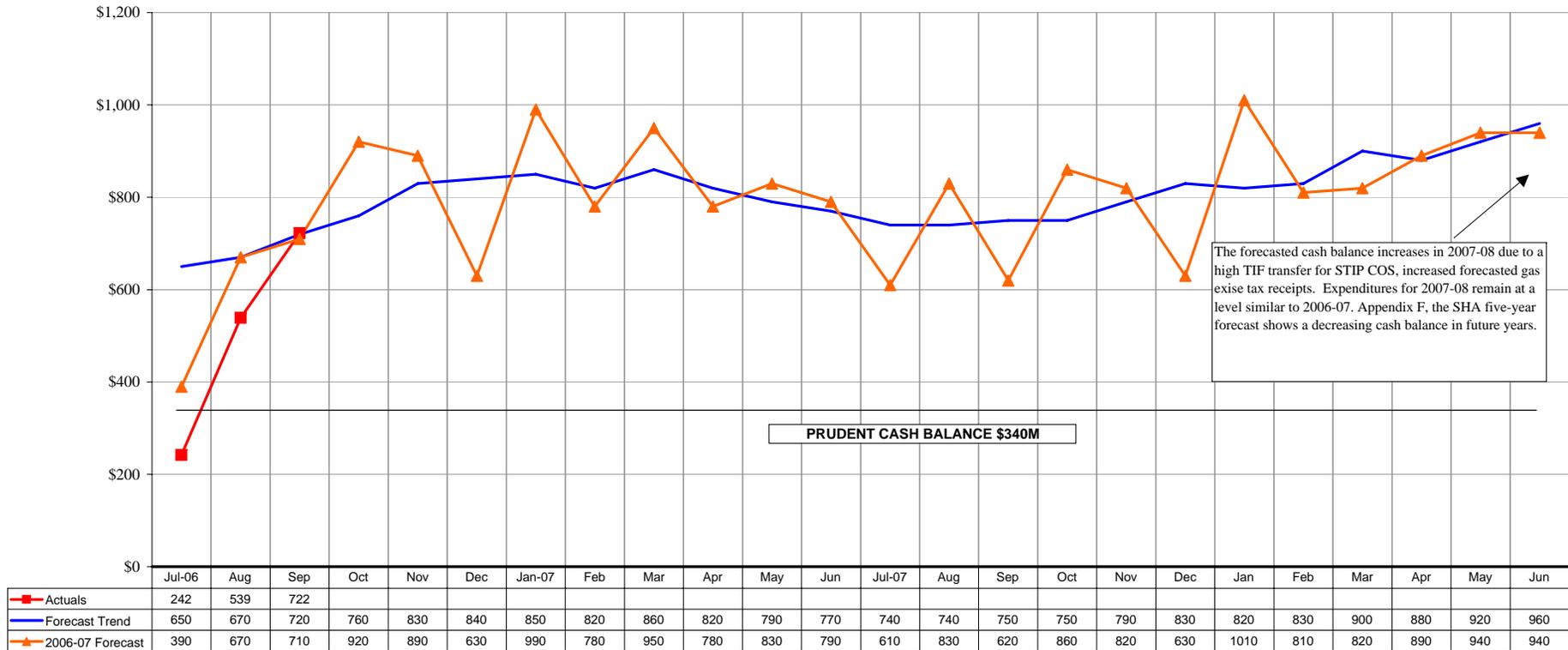
**Appendix E**

**2006-07 Transportation Deferred Investment Fund  
24-Month Forecast**

**Appendix F**

**2006-07 State Highway Account Five-Year Forecast**

### 24-Month State Highway Account (SHA) Cash Forecast (\$ in millions)



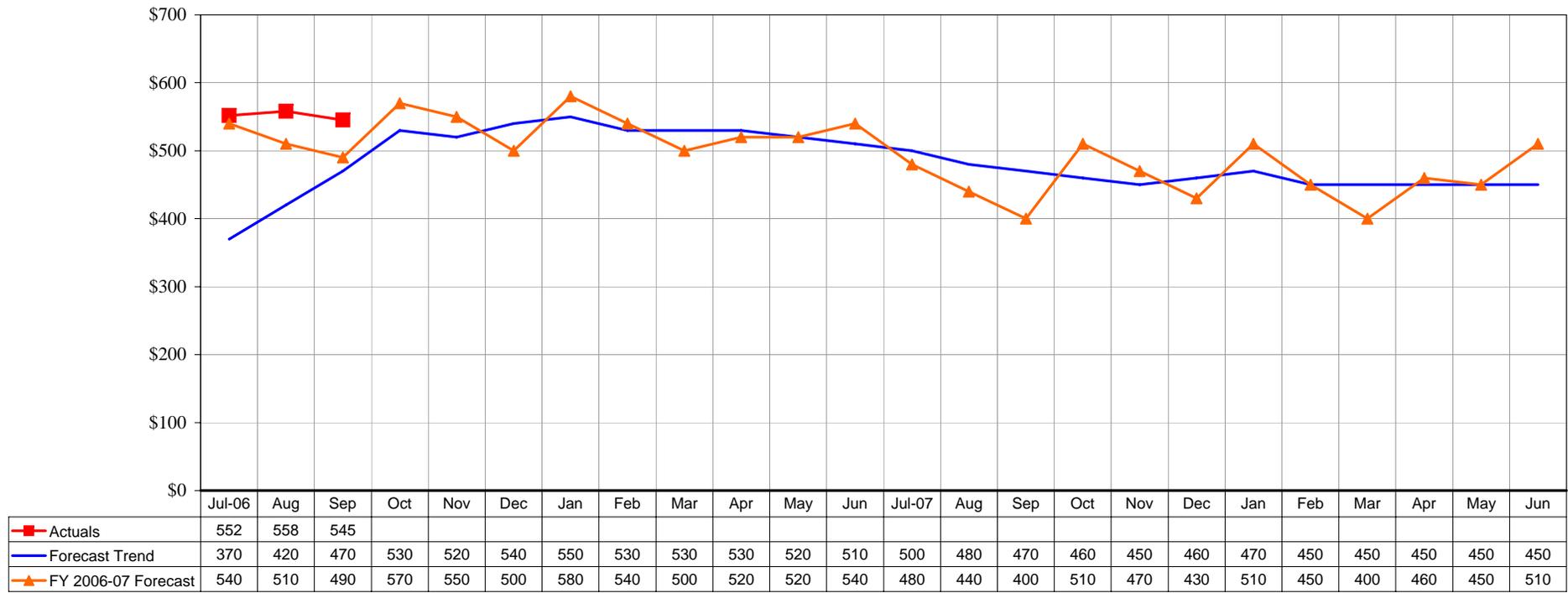
**Base FY 2006-07 Forecast Assumptions:**

- ▶ Includes \$210 million in federal August redistribution received in September 2006.
- ▶ Includes \$96 million in federal accrual received in September 2006.
- ▶ Assumes estimated employee compensation increases.
- ▶ Assumes no tribal gaming revenue
- ▶ Forecast trend line is a five-month moving average.

**Allocation Assumptions:**

- ▶ 2006-07 \$2.2 billion, all remaining years \$2.0 billion.

**24-Month Public Transportation Account (PTA) Cash Forecast**  
(\$ in millions)



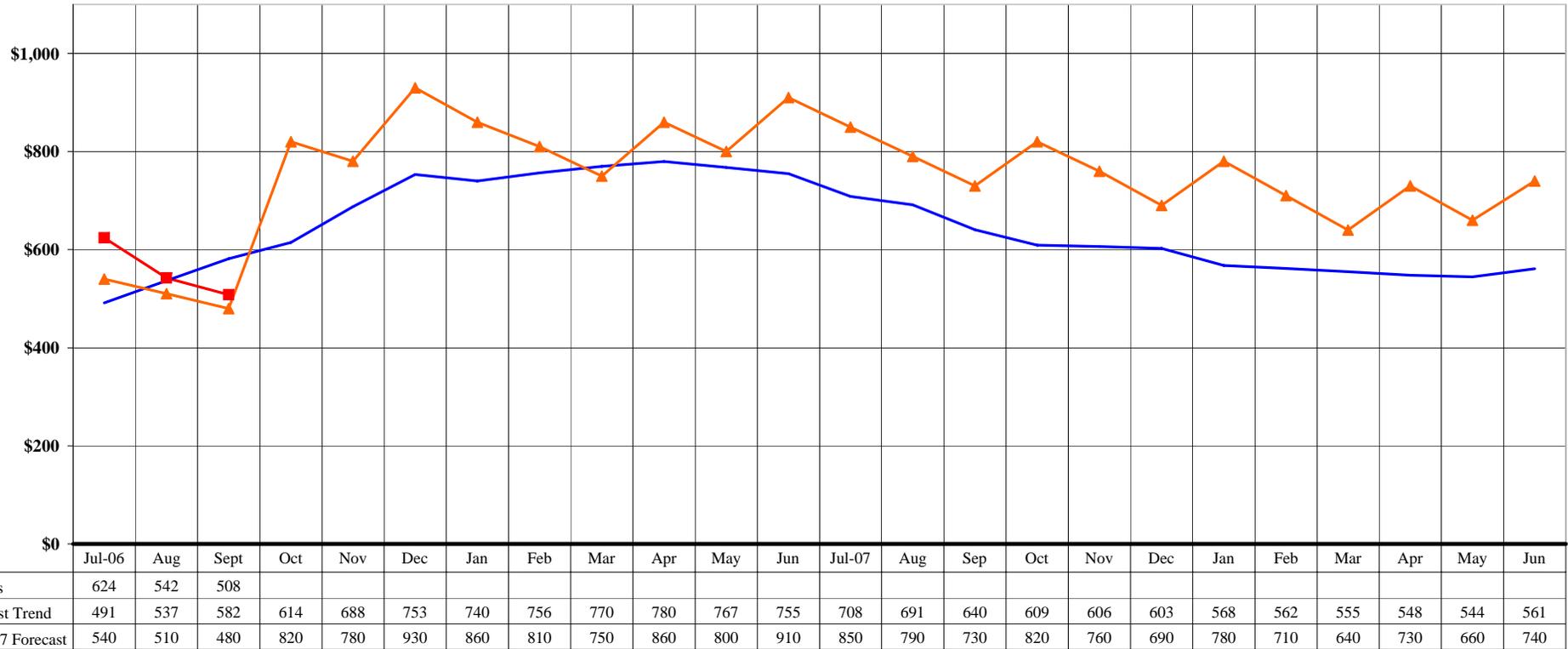
**Base FY 2006-07 Forecast Assumptions:**

- ▶ Based on 2006-07 Enacted Budget.
- ▶ Forecasted cash balance includes cash advances to TRA.
- ▶ TDIF Repayment of \$214M included.
- ▶ Transfer from TIF of \$148.5M included.
- ▶ Total of Spillover revenue split 80% to STA and 20% to PTA.

**Allocation Assumptions:**

- ▶ The 2006-07 Allocation Plan proposes \$300M for STIP.

**24-Month Traffic Congestion Relief Fund (TCRF) Cash Forecast**  
(\$ millions)



**Base FY 2006-07 Forecast Assumptions:**

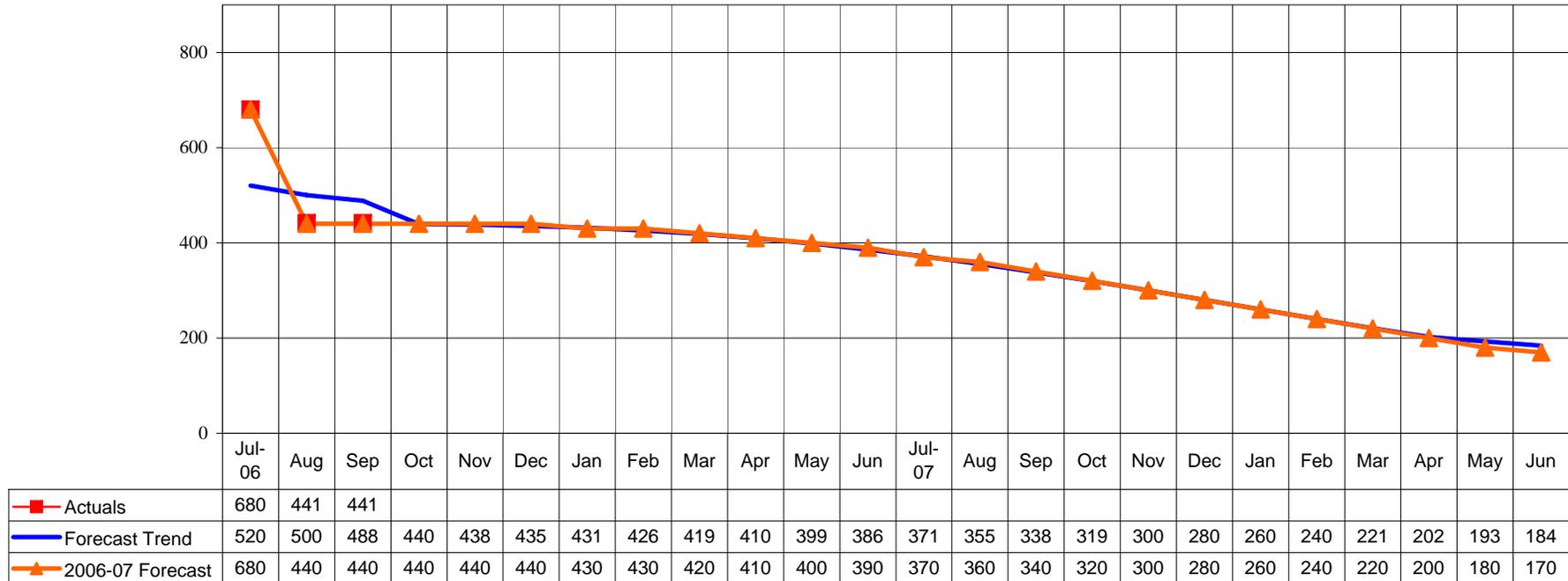
- ▶ Updated project expenditure patterns.
- ▶ TIF transfer of \$678 million in FY 2006-07.
- ▶ TDIF transfer of \$321 million in FY 2006-07.
- ▶ No Tribal Gaming Revenues.

**Allocation Assumptions:**

- ▶ The current 2006-07 Allocation Plan proposes \$990 million for the TCRP.



**24-Month Transportation Deferred Investment Fund (TDIF) Cash Forecast**  
(\$ millions)



**Base FY 2006-07 Forecast Assumptions:**

- ▶ 2006-07 Prop 42 Loan Repayments distributions of 1.415 Billion:
- ▶ \$440 million to Local Streets & Roads, \$214 million to PTA and \$321 million to TCRP.
- ▶ \$200 million represents spillover which was diverted to the TDIF for Prop 42 loan repayment.

**Allocation Assumptions:**

- ▶ The current 2006-07 Allocation Plan proposes \$446 million for STIP.

### STATE HIGHWAY ACCOUNT FIVE-YEAR CASH FORECAST (\$ millions)

