

# Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: June 6-7, 2007

Reference No.: 3.6  
Information Item

From: CINDY McKIM  
Chief Financial Officer

Prepared by: Norma Ortega  
Division Chief  
Budgets

Subject: **FY 2006-07 3rd QUARTER FINANCE REPORT**

Attached is the Department of Transportation's 3rd Quarter Finance Report for FY 2006-07.

Attachment



# **Department of Transportation Quarterly Finance Report**

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

# Department of Transportation Quarterly Finance Report

*Third Quarter of 2006-07 ending March 31, 2007*

## **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.

### **Third Quarter Forecasts vs. Actuals**

The third quarter cash balances for the State Highway Account (SHA) and Public Transportation Account (PTA) ended below forecast. The substantial difference between SHA ending cash balance and forecast is attributed to several cumulative factors including delayed TIF transfers, the lack of a federal Appropriations Act, and seasonal construction.

The Traffic Congestion Relief Fund (TCRF), Transportation Investment Fund (TIF) and Transportation Deferred Investment Fund (TDIF) all ended the quarter higher than forecast. The TCRF cash balance was higher than forecast primarily due to an earlier Proposition 42 transfer than forecast. The TIF balance reflected not only the early Proposition 42 transfer, but also a delay of TIF transfers to the SHA as a result of a technical error in the 2006-07 Budget Act.

<b>March 2007 Ending Cash Balance Forecasts vs. Actuals by Fund (S millions)</b>				
<b>Fund</b>	<b>Forecast</b>	<b>Actuals</b>	<b>Difference</b>	
SHA	\$948	\$497	-\$451	-48%
PTA	\$450	\$401	-\$49	-11%
TCRF	\$750	\$1,080	\$330	44%
TIF	\$170	\$516	\$346	204%
TDIF	\$420	\$451	\$31	7%

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

The Commission made allocations totaling \$863 million during the third quarter, raising the total allocated through the third quarter to \$3.3 billion (60 percent) of the \$5.7 billion 2006-07 Allocation Capacity, not including the Tribal Gaming capacity. At the beginning of the fourth quarter, approximately \$2.4 billion of 2006-07 Allocation Capacity remains to be allocated.

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

Although the SHA balance is considerably lower than forecast, the outlook for revenues and expenditures into the fourth quarter supports the remaining allocations planned for 2006-07. The fourth quarter and year end results are expected to be near forecast as the Department will receive the full year of Obligation Authority (OA) and the difference between forecasted capital outlay expenditures and actual expenditures is narrowing due to seasonal expenditure variations.

However, there are some potential risks that may affect the SHA cash balance. The freeway interchange collapse near the Bay Bridge in Oakland on April 29, 2007, will affect the SHA since the SHA will advance funding for federal reimbursements.

The long-term outlook for transportation funding remains uncertain. Fuel prices are at record highs, which should translate into additional revenues for transportation by next Fall. However, the 2007-08 Governor's Budget proposes to permanently fund the Department of Education's Home-to-School Transportation Program from PTA resources. This proposal would reduce PTA State Transportation Improvement Program (STIP) resources by as much as \$630 million per year.

The financial condition of the Federal Highway Trust Fund (FHTF) also poses a threat to transportation funding. An April 2007 study by the American Association of State Highway and Transportation Officials (AASHTO), estimates that FHTF will experience funding shortfalls that could require OA reductions of as much as 25 percent in 2010 from the levels in the current Federal Act. Since federal funding is a primary source of funding the State Highway Operations and Protection Program (SHOPP), any reduction in federal OA would represent further reductions to a program that is already severely under funded.

### **Recommendations**

Based on the current and future outlook, the Department recommends maintaining the current 2006-07 Allocation Capacity of \$5.7 billion. The Department will provide a preliminary 2007-08 Allocation Capacity in June, monitor the FHTF situation, then update the 2007-08 forecast and allocation capacity with the enacted 2007-08 Budget.

## 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 SHA, PTA, TCRF, TIF, and 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 that is founded on historical project expenditure patterns, regardless of seasonal construction variations.
- Proposition 42 transfers occur during the forecast period. The current forecast methodology forecasts transfers to occur one month after the close of the previous quarter.
- 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 is based on the 2006-07 Budget Act.
- TDIF loan repayments are based on the early loan repayment of \$1.415 billion authorized by the 2006-07 Budget Act.
- Federal receipts, forecasted at \$2.5 billion, are based on an estimate of federal delegation authority. Federal OA was based on the 2006 Fund Estimate using SAFETEA-LU apportionments. Federal OA is 93 percent of the apportionments.
- Capital outlay support (COS) expenditures are based on a historical pattern.

### Third Quarter Fund Summaries

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

#### State Highway Account

##### Second Quarter Restatement

The Quarterly Finance Report for the second quarter incorrectly stated the ending SHA cash balance for December 2006. This error, which has been corrected in this report, did not impact the allocation plan, or change any Commission actions. The projected ending cash balance for the SHA on June 30, 2007 is approximately \$600 million.

##### Third Quarter Summary

The SHA ended the third quarter at \$497 million, \$451 million (48 percent) below forecast. The SHA cash balance is considerably lower than forecast from the cumulative effect of revenue and expenditure trends over the first three quarters; however, these trends are reversing going into the fourth quarter and the difference between actual and forecast is narrowing.

Revenues totaled \$1.5 billion during the quarter, \$208 million (12 percent) below forecast. Year-to-date, SHA revenues are \$4.4 billion, \$359 million (8 percent) below forecast. Most of this difference is attributed to the delay in the TIF transfers (26 percent), the lack of a federal Appropriations Act (36 percent) and lower fuel consumption (35 percent).

- Federal receipts for the quarter were \$535 million, or \$119 million (18 percent) lower than forecast. Year-to-date, federal receipts were \$2.0 billion, \$130 million (6 percent) below forecast. Since a federal Appropriations Act has not been passed, the Department has been receiving federal OA in a piecemeal fashion from continuing resolutions, which has resulted in lower federal receipts. Without a federal Appropriations Act, managing and obligating federal funding is more cumbersome and less flexible than when there is an Appropriations Act in place.
- Highway Users Tax Account (HUTA) receipts were \$699 million, or \$41 million (6 percent) below forecast. Through the third quarter, HUTA receipts totaled \$1.6 billion, \$125 million (7 percent) below forecast. It is anticipated that annual HUTA receipts will be slightly lower than forecast by year-end as fuel reports show a reduction in consumption.
- Weight fee receipts were on target with the forecast at \$289 million during the quarter. The weight fees year-to-date totaled \$746 million, \$25 million (4 percent) above forecast.
- Year-to-date transfers (non-Article XIX, PTA, statutory) and loans are \$133 million above forecast. This amount includes loans made to the General Fund, non-Article XIX transfers and transfers from TIF.

- The SHA did not receive the second quarter TIF transfer of \$46 million by the end of the third quarter, as forecast, due to a technical error in the Budget Act. As a result, SHA revenues were \$93 million below forecast year-to-date from these transfers. The Department of Finance (DOF) has corrected this error and the full transfer amount will be reflected in the fourth quarter.
- Other miscellaneous revenues, including Surplus Money Investment Fund (SMIF) interest, state property rentals, sale of documents and licenses/permits were \$36 million, or \$5 million below forecast. These revenues totaled \$123 million through the third quarter and were \$5 million (4 percent) above forecast.

Total SHA expenditures were \$1.3 billion in the quarter, or \$159 million (11 percent) lower than forecast. Year-to-date, expenditures totaled \$4.6 billion and were \$205 million (5 percent) above forecast.

- State operations expenditures were \$748 million for the quarter, or \$41 million (6 percent) higher than forecast. COS makes up the majority of this overage as the attrition rate is lower than in previous years. As more employees are hired and retained, salaries expended are higher than past years. State operations costs totaled \$2.2 billion year-to-date, and were \$79 million (4 percent) above forecast.
- Capital outlay expenditures totaled \$367 million for the quarter, \$148 million (29 percent) below forecast, reflecting the seasonal downturn for construction (winter). The 2007-08 cash forecast will include seasonal factors to better reflect these construction expenditure patterns. Capital outlay expenditures year-to-date totaled \$1.6 billion, \$146 million (10 percent) above forecast.
- Local assistance expenditures totaled \$233 million in the third quarter, \$1 million below forecast. Through three quarters, local assistance expenditures totaled \$718 million, \$20 million (3 percent) below forecast.
- Uncategorized departmental and non-departmental expenditures totaled a net \$51 million below forecast for the quarter. These expenditures totaled \$80 million through three quarters and were on target with forecast.

Total adjustments for the quarter were \$23 million. These are adjustments that are not part of the forecast, but are used to determine the actual ending cash balance. Such items include Plans of Financial Adjustment (PFA), the net adjustment of Transportation Revolving Account (TRA) due to other funds, and net reimbursements. PFA transfers occur regularly throughout the year as the TRA makes payments on behalf of transportation funds and requires transfers to maintain a reserve balance. Net reimbursements represents the timing difference between expenditures for work done for others and the actual receipt of those reimbursements by the Department.

- PFAs totaled a net positive adjustment of \$105 million for the quarter.

- Reimbursements totaled a net negative adjustment of \$82 million for the quarter.

### **Public Transportation Account**

The PTA ending cash balance for the third quarter was \$401 million, \$49 million (11 percent) below forecast. Total revenues in the quarter were \$154 million, \$4 million (3 percent) above forecast. Year-to-date, PTA revenues totaled \$700 million and were \$11 million (2 percent) below forecast.

- Revenue from diesel sales tax was \$86 million, \$8 million (10 percent) higher than forecast during the quarter. These revenues totaled \$236 million year-to-date and were \$80 million (51 percent) above forecast.
- Proposition 111 (derived from a 9 cent sales tax of the excise tax) gasoline sales tax revenues were \$17 million during the third quarter (on target with forecast). Through three quarters, these revenues totaled \$50 million, \$16 million (47 percent) above forecast.
- The third quarter TIF transfer of \$38 million occurred earlier than forecast (April 2007), offsetting the second quarter transfer that occurred in December 2006 (also earlier than forecast). TIF transfers year-to-date totaled \$108 million, \$34 million higher than forecast as a result of the early quarterly transfer in March 2007.
- Other miscellaneous revenues and transfers, including interest and Section 194 planning transfers, totaled \$13 million in the third quarter and were \$5 million below forecast. Miscellaneous revenues and transfers totaled \$296 million year-to-date and were \$27 million (10 percent) higher than forecast.

PTA expenditures totaled \$192 million in the third quarter, \$7 million (4 percent) lower than forecast. Expenditures totaled \$527 million year-to-date and were \$92 million (21 percent) above forecast.

- State operations expenditures were \$27 million in the third quarter, \$18 million below forecast. Year-to-date these expenditures totaled \$124 million and were \$88 million below forecast.
- Local assistance expenditures totaled \$1 million, \$21 million below the forecast. This difference is primarily due to the model's treatment of AB 3090s as monthly expenditures rather than a lump sum allocation—the model will be modified for the 2007-08 forecast. Year-to-date, local assistance expenditures were \$68 million, \$4 million (6 percent) above forecast.
- Capital outlay expenditures totaled \$7 million, \$3 million above forecast in the third quarter due to higher than forecast Intercity Rail Track Improvements. Capital outlay expenditures year-to-date were \$18 million, \$8 million (31 percent) below forecast.

- Non-departmental expenditures were \$158 million in the third quarter, \$29 million above forecast, and totaled \$317 million year-to-date, 3 percent above forecast.

A total adjustment in the quarter to determine the PTA ending cash balance was a net negative \$44 million. There was also a PFA transfer of \$10 million from the PTA to the TRA in the third quarter to increase the TRA for expected PTA expenditures.

### **Traffic Congestion Relief Fund**

The TCRF ending cash balance for the third quarter was \$1.1 billion, \$330 million (44 percent) higher than forecast. Revenues totaled \$370 million in the quarter, or \$200 million above forecast as a result of the spillover portion of the 2006-07 TDIF loan repayment. Revenues year-to-date totaled \$950 million, \$290 million (44 percent) above forecast, which includes a partial TDIF loan repayment of \$121 million in July 2006.

- The third quarterly TIF transfer of \$170 million occurred in March, earlier than forecast (April 2007), offsetting the second quarter transfer that occurred in December 2006 (also earlier than forecast). TIF transfers year-to-date totaled \$509 million, \$170 million higher than forecast as a result of the early quarterly transfer in March 2007.

Note: The Spillover funded portion of the 2006-07 TDIF repayment totaling \$200 million was paid in full during the third quarter. This repayment was forecast to occur in October 2006.

Expenditures totaled \$73 million, \$83 million (53 percent) lower than forecast for the quarter. Year-to-date expenditures were \$190 million, \$176 million (48 percent) below forecast, primarily the result of outstanding reimbursement for Letters of No Prejudice (LONP).

- State operations expenditures were at \$7 million in the third quarter (\$4 million lower than forecast), and totaled \$19 million year-to-date (\$3 million lower than forecast).
- Capital and local expenditures were \$66 million, or \$79 million (54 percent) below forecast. Year-to-date, these expenditures totaled \$171 million and were \$173 million below forecast. Approximately \$150 million in LONP reimbursements are proposed for Commission approval in the fourth quarter, which should increase actual expenditures closer to forecast by year-end.

### **Transportation Investment Fund**

The TIF ending cash balance for the third quarter was \$516 million, \$346 million (204 percent) higher than forecast. The high TIF balance relative to forecast was attributed to earlier transfers in, delayed transfers out and lower than forecast expenditures.

Total net revenues, including transfers, for TIF in the third quarter were \$197 million, \$92 million above forecast. Year-to-date, net revenues totaled \$525 million, and were \$229 million above forecast.

- The third quarterly transfer of Proposition 42 transfer from the General Fund of \$359 million occurred during the third quarter (Note: second quarterly transfer was completed in December). Proposition 42 transfers to the TIF year-to-date totaled \$1 billion, \$359 million higher than forecast.
- The second quarterly transfer of \$46 million to the SHA did not occur in the third quarter as forecast due the technical budget error. Combined with the first quarterly transfer that was also not made, net revenues year-to-date were \$93 million above forecast for these transfers. The technical error has been corrected and the transfers for all four quarters were posted in April 2007.
- Transfers to the TCRF and PTA totaled \$208 million in the third quarter as forecast. Year-to-date, TIF transfers to other funds totaled \$616 million, \$203 million (49 percent) higher than forecast.

Capital and local expenditures totaled \$59 million for the quarter, \$69 million (54 percent) lower than forecast. TIF expenditures year-to-date totaled \$150 million, \$183 million (45 percent) below forecast. After researching expenditure variances on this fund, the model will be adjusted for the 2007-08 forecast to better estimate actual spending patterns.

### **Transportation Deferred Investment Fund**

The TDIF cash balance ended the third quarter at \$451 million, \$31 million (7 percent) higher than forecast. There were no revenues forecasted for the third quarter. However, the net result of unexpected revenue and an outgoing transfer was a negative \$93 million.

- The 2006-07 Budget Act authorized \$1.4 billion in TDIF loan repayments, of which \$200 million would be funded from Spillover as collected. The forecast assumed this transfer would take place in a single transaction. The first \$93 million of Spillover was received in the second quarter, with the remaining \$107 million received in the third quarter. The full \$200 million was then transferred to the TCRF in the third quarter.
- Capital and local expenditures were \$1 million, or \$14 million (91 percent) below forecast. Expenditure variances are currently being researched, and if necessary, the model will be adjusted for the 2007-08 forecast to better estimate actual spending patterns.

### Federal Highway Funds

The Department has received \$2.6 billion of OA for federal fiscal year 2007 which began in October 2006. This is based on N4520.191, Continuing Appropriations Resolution, Public Law No. 110-5, and the Safe, Accountable, Flexible, Efficiency Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Public Law No. 109-59 provides the obligation on limitation for FY 2007.

### Federal Emergency Projects

The Department received an Emergency Relief OA amount of \$48 million in February 27, 2007, to partially cover Disaster CA06-1. Approximately \$668 million in total OA for federally-declared emergency projects still needs to be allocated by the federal government for California disasters.

The chart below details the current Emergency Federal Relief estimates for all California federally-declared active disasters, and the remaining balances of federal authority that still needs to be allocated to California as of March 31, 2007. In the interim, the SHA has been used to fund these system repairs.

<b>Emergency Federal Funding Summary</b>					
<b>Disaster</b>	<b>Emergency Relief Needs (\$ millions)</b>			<b>Allocated Year to Date</b>	<b>Total Remaining Needs</b>
	<b>State</b>	<b>Local</b>	<b>Total</b>		
Devil's Slide CA 83-1	\$386	\$0	\$386	\$242	\$144
December 2004 Storm CA05-1	256	144	400	245	\$155
December 2005 Storm CA06-1	356	61	417	48	\$369
<b>Total</b>	<b>\$998</b>	<b>\$205</b>	<b>\$1,203</b>	<b>\$535</b>	<b>\$668</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 March 2007 Commission meeting, the Department recommended decreasing the 2006-07 Allocation Capacity by \$250 million for PTA in response to the proposed 2007-08 Governor's Budget. This reduced the total 2006-07 Allocation Capacity to \$5.7 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 \$4.9 billion.)

<b>2006-07 Revised Allocation Capacity</b>						
<b>By Fund and Program</b>						
<b>(\$ 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	300	0	0	300	240	\$540
TIF	390	0	0	390	0	\$390
TDIF	440	0	0	440	0	\$440
TCRF	0	0	1,684	1,684	290	\$1,974
<b>Total</b>	<b>\$1,290</b>	<b>\$1,890</b>	<b>\$1,684</b>	<b>\$4,864</b>	<b>\$850</b>	<b>\$5,714</b>

This allocation capacity includes:

- The change in the 2006-07 allocation capacity was due to advancing \$684 million of TCRP capacity from 2007-08 resources, and decreasing PTA capacity by \$250 million in response to the PTA proposals in the 2007-08 Governor's Budget.
- The estimated impact of the negotiated employee pay raises in 2006-07 and 2007-08.
- The shifting of \$105 million in SHOPP projects to the Maintenance Program.
- An early TDIF loan repayment of \$1.4 billion in 2006-07 based on DOF 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**

### **Third Quarter Summary**

During the third quarter of 2006-07 the Commission allocated \$863 million, or 15 percent of the \$5.7 billion 2006-07 allocation capacity (capacity). Through the third quarter, the Commission has voted a total of 538 projects, including the G-02-12 adjustments, totaling \$3.3 billion, leaving \$2.4 billion of \$5.7 billion 2006-07 capacity available going into the fourth quarter.

### **SHOPP**

The SHOPP allocations totaled \$130 million, raising the year-to-date total to \$1.5 billion, 78 percent of the \$1.9 billion capacity. The total number of SHOPP projects voted was 65, including 14 emergency projects. At the January/February 2007 Commission meeting the Seismic Retrofit project at the District 4 Oakland Office was de-allocated for \$44 million, as a result of the project being moved to 2007-08 for allocation.

### **STIP**

The STIP allocations totaled \$152 million, raising the year-to-date total to \$887 million, 68 percent of the \$1.3 billion total STIP capacity. The total number of STIP projects voted was 58. There was a STIP capacity shortage of \$151 million in the SHA as a result of an unforeseen \$81 million Right-of-Way legal settlement and a decrease of \$100 million in the 2006-07 Allocation Capacity, presented at the June 2006 Commission meeting.

### **TCRP**

The TCRP allocations totaled \$581 million, raising the year-to-date total to 1.2 billion, 70 percent of the \$1.7 billion TCRP capacity. The total number of TCRP projects voted was 11. At the March 2007 Commission meeting, the Kings County Public Works project was de-allocated for \$2 million, as a result of construction not being awarded within six months of the allocation.

### **Delegated G-02-12 Project Adjustments**

The delegated G-02-12 project adjustments (G-12) decreased total votes by \$149 million. In the SHOPP program, the G-12 decrease was \$173 million, which adjusted the total SHOPP allocations to \$1.3 billion. In the STIP program, the G-12 decrease was \$20 million, and adjusted the total STIP allocations to \$868 million.

2006-07 Allocations				
Final Allocations through March 2007 Vote				
(\$ in millions)				
FUND	SHOPP	STIP	TCRP	TOTAL
State Highway Account (SHA)	\$1,890	\$160	\$0	\$2,050
Public Transportation Account (PTA) <sup>1</sup>	0	300	0	300
Transportation Investment Fund (TIF)	0	390	0	390
Transportation Deferred Investment Fund (TDIF)	0	440	0	440
Transportation Congestion Relief Fund (TCRF) <sup>2</sup>	0	0	1,684	1,684
Tribal	0	0	0	850
<b>Total Allocation Capacity</b>	<b>\$1,890</b>	<b>\$1,290</b>	<b>\$1,684</b>	<b>\$5,714</b>
1st & 2nd Quarter Allocations				
State Highway Account (SHA)	\$1,345	\$298	\$0	\$1,643
Public Transportation Account (PTA)	0	235	0	235
Transportation Investment Fund (TIF)	0	88	0	88
Transportation Deferred Investment Fund (TDIF)	0	114	0	114
Transportation Congestion Relief Fund (TCRF)	0	0	600	600
<b>Total Allocations (1st &amp; 2nd Qtr)</b>	<b>\$1,345</b>	<b>\$735</b>	<b>\$600</b>	<b>\$2,680</b>
3rd Quarter Allocations				
State Highway Account (SHA)	\$130	\$13	\$0	\$143
Public Transportation Account (PTA)	0	11	0	11
Transportation Investment Fund (TIF)	0	0	0	0
Transportation Deferred Investment Fund (TDIF)	0	128	0	128
Transportation Congestion Relief Fund (TCRF)	0	0	581	581
<b>Total Allocations (3rd Qtr)</b>	<b>\$130</b>	<b>\$152</b>	<b>\$581</b>	<b>\$863</b>
Adjustments to Allocations				
State Highway Account (SHA)	-\$173	\$1	\$0	-\$172
Transportation Investment Fund (TIF)	0	-14	0	-14
Transportation Deferred Investment Fund (TDIF)	0	-7	0	-7
Transportation Congestion Relief Fund (TCRF)	0	0	-23	-23
<b>Total Adjustments</b>	<b>-\$173</b>	<b>-\$20</b>	<b>-\$23</b>	<b>-\$216</b>
<b>Allocations Year-To-Date</b>	<b>\$1,302</b>	<b>\$867</b>	<b>\$1,158</b>	<b>\$3,327</b>
Remaining Allocation Capacity				
State Highway Account (SHA)	\$588	-\$152	\$0	\$436
Public Transportation Account (PTA)	0	54	0	54
Transportation Investment Fund (TIF)	0	316	0	316
Transportation Deferred Investment Fund (TDIF)	0	205	0	205
Transportation Congestion Relief Fund (TCRF)	0	0	526	526
Tribal	0	0	0	850
<b>Total Remaining Capacity</b>	<b>\$588</b>	<b>\$423</b>	<b>\$526</b>	<b>\$2,387</b>

Footnotes

<sup>1</sup> PTA 2006/07 Allocation Capacity was reduced from 500 million to 300 million in the 2nd Quarter Report

<sup>2</sup> Includes 684 million from 2007-08 Allocation Capacity

## **Outlook for Funding & Allocations**

### **Outlook**

**State Highway Account.** The SHA is currently 48 percent below forecast through the third quarter. As mentioned earlier, this is the cumulative effect of lower federal and HUTA receipts, delayed TIF transfers and a seasonal expenditure pattern. Going into the fourth quarter, most of these trends appear to be reversing.

The DOF has corrected a technical budget error, and the SCO posted all four quarterly TIF transfers to the SHA during the fourth quarter. On March 21, 2007, the Department received a full year's OA rather than the piecemeal resolutions, so increased federal receipts are expected in the fourth quarter. Finally, capital outlay expenditures have been lower than forecast over the last quarter and April, reflecting the off-season slowdown, bringing actual expenditures more in line with forecast in the fourth quarter. Based on these trends, the SHA projected ending cash balance is approximately \$600 million. However, the freeway interchange collapse near the Bay Bridge in Oakland on April 29, 2007, will affect the SHA ending cash balance as SHA resources are used in advance of federal reimbursements.

The long-term outlook for the SHA is uncertain and could lead to lower allocation capacity for the SHOPP in the future. Based on the current projections for the FFHTF, the FHTF will go into deficit in 2009 if no action is taken at the federal level. This could result as much as a 25 percent drop in OA in 2010 from levels in the current Federal Act. Furthermore, effective July 1, 2007, state employees will receive a 3.4 percent pay raise that will be funded out of the SHA, further impacting resources available for SHOPP. The Department is in the process of estimating the impact to the SHA and reports it in the fourth quarter report.

**Public Transportation Account.** The PTA cash balance is currently 11 percent below forecast at the end of the third quarter. However, the PTA is well above the prudent cash balance level of \$65 million, and the balance is projected to increase into the fourth quarter with spillover and another quarterly TIF transfer.

The long-term outlook for the PTA is mixed. The average price for regular grade in California is at a record price of \$3.46 per gallon, 12.9 cents per gallon above last year's price. Since the collection of fuel sales tax revenues lag transfers by six months, PTA revenues during the fall should raise the PTA cash balance. However, the 2007-08 Budget could still divert PTA funds to the Department of Education's Home-to-School Transportation Program. This could reduce PTA STIP resources by as much as \$630 million per year.

**Contract Award Savings.** Another factor affecting transportation has been the general slowdown in the housing sector. Housing activity, as measured by housing starts, is off 25 percent from a year ago. As a result, more contractors are bidding on transportation projects, resulting in more competitive bids and contract award savings. Contract award savings for the fiscal year through February (most recent data available) show a cumulative award savings of \$142 million. This savings would either allow more allocations up to the allocation capacity, or lower future cash flow expenditures if not allocated.

## ***Recommendations***

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

Based on the current and future outlook, the Department recommends maintaining the current 2006-07 Allocation Capacity of \$5.7 billion. However, because of the uncertainty surrounding the state budget and FHTF, the Department will provide a preliminary 2007-08 Allocation Capacity in July, monitor the FHTF situation, then update the 2007-08 forecast and Allocation Capacity with the enacted 2007-08 Budget.

**Appendix**

**Appendix A**

**2006-07 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**

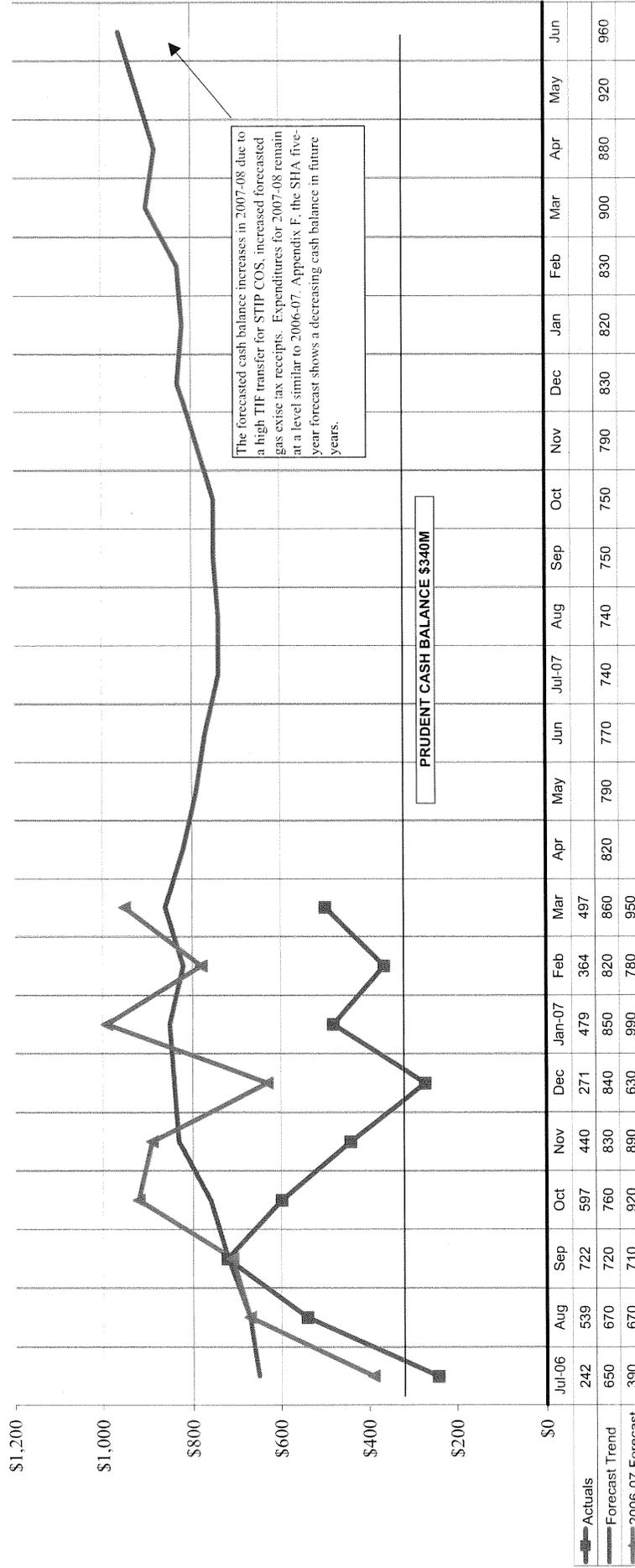
**Appendix E**

**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 (\$ millions)



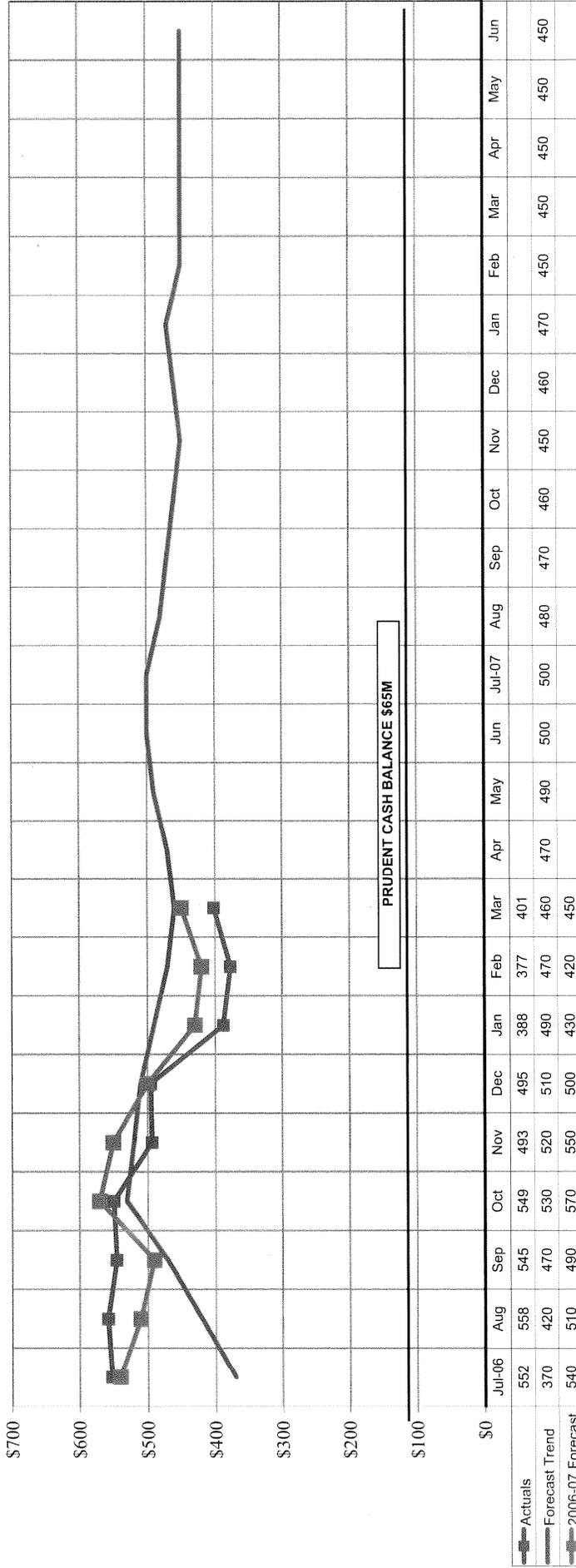
**Base FY 2006-07 Forecast Assumptions:**

- ▲ 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 \$2.050 billion, all remaining years \$2.0 billion.

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



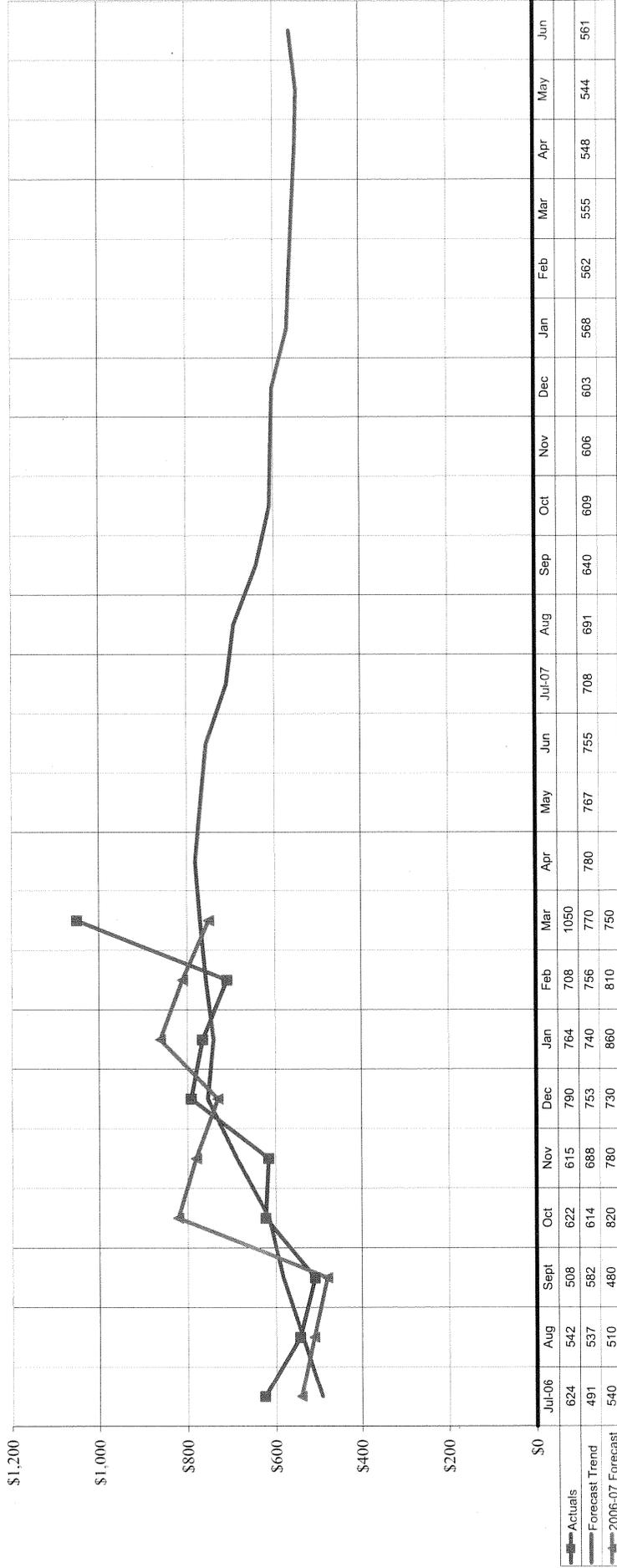
**Base FY 2006-07 Forecast Assumptions:**

- ▶ 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)



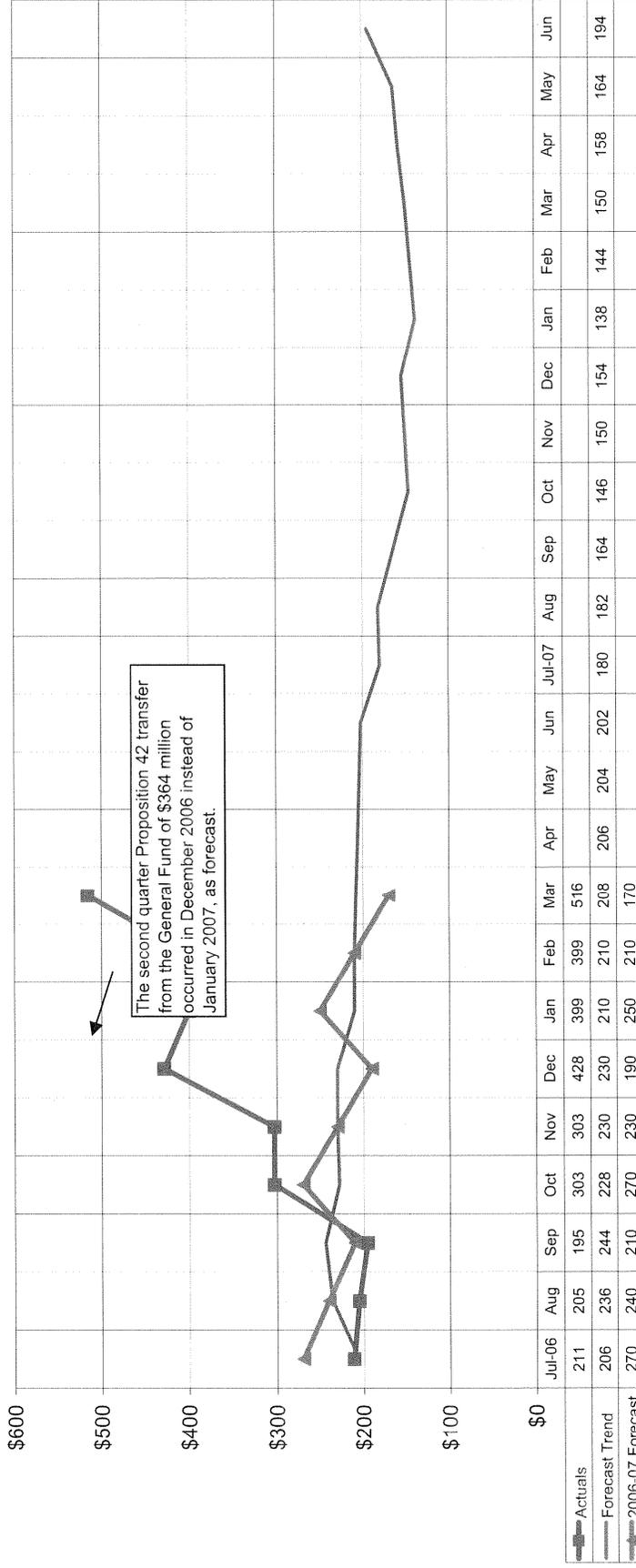
**Base FY 2006-07 Forecast Assumptions:**

- ▶ 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 \$1.0 billion for the TCRP.

## 24-Month Transportation Investment Fund (TIF) Cash Forecast (\$ millions)



The second quarter Proposition 42 transfer from the General Fund of \$364 million occurred in December 2006 instead of January 2007, as forecast.

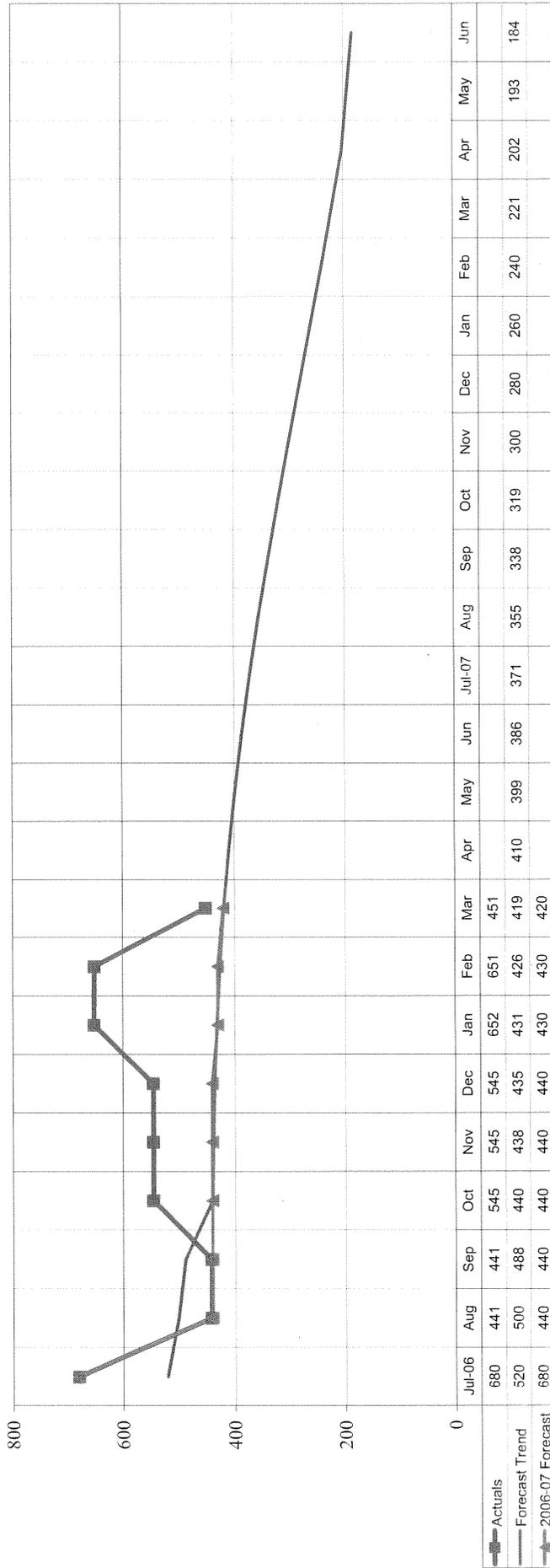
**Base FY 2006-07 Assumptions:**

- ▲ Based on the Governor Budget
- ▲ Assumes TIF in all years.
- ▲ Transfers of \$678 million to the TCRF, \$148 million to the PTA in FY 2006-07.
- ▲ Transfers of \$602 million to the TCRF, \$176 million to the PTA in FY 2007-08.

**Allocation Assumptions**

- ▲ The current 2006-07 Allocation Plan proposes \$390 million for STIP.

## 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 \$440 million for STIP.

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

