M e m o r a n d u m

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Action Item

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Subject: **ADOPTION OF 2008 FUND ESTIMATE ASSUMPTIONS**

Biennially, the California Department of Transportation (Department) at the direction of the California Transportation Commission (Commission) develops the State Transportation Improvement Program (STIP) Fund Estimate (FE). The first step in this important process is the development of the underlying assumptions to be used in projecting the various categories of revenues and expenditures for each account.

At the April 26, 2007 Commission meeting, the Department presented the 2008 FE Draft Assumptions for Commission review and comment. Based on comments provided by the Commission and Commission staff, the Department has incorporated changes to the 2008 FE assumptions, which are noted as underline text. The changes made are not substantive in nature, but were added to provide clarification. A revised book of the assumptions will be provided prior to the meeting.

Due to significant ongoing discussion surrounding the Public Transportation Account and other funding issues raised during budget hearings (see Book Item 4.14 – Update on the May Revision to the Governor's Proposed 2008-08 Budget), the Department recommends deferring adoption of the Fund Estimate assumptions until after the enactment of the 2007-08 budget and related trailer bill language.

Attachment

2008 STIP FE

Assumptions

June 2007

INTRODUCTION

Biennially, the California Department of Transportation is required by Government Code (GC) Sections 14524 and 14525 to develop a State Transportation Improvement Program (STIP) Fund Estimate (FE). The purpose of the FE is to provide an estimate in annual increments of all federal and state funds reasonably expected to be available for programming in the subsequent STIP.

The Department is required to present a FE to the Commission by July 15, and the Commission to adopt a FE by August 15 of each odd-numbered year. The STIP FE establishes the maximum recommended program capacity for STIP over the next five years. The Commission uses this program capacity to solicit STIP projects for adoption into the next STIP. The Commission is required to adopt a STIP in each even-numbered year based on program capacity identified in the STIP FE.

Methodology and Assumptions

The first critical step in the FE development process is the adoption of FE methodology and assumptions. The FE is based on assumptions and methodologies to forecast revenues and expenditures in order to determine the estimated remaining cash available for programming. These assumptions are determined by the Commission in consultation with the Department, Regional Transportation Planning Agencies (RTPA), and county transportation commissions.

Statutory Guidance

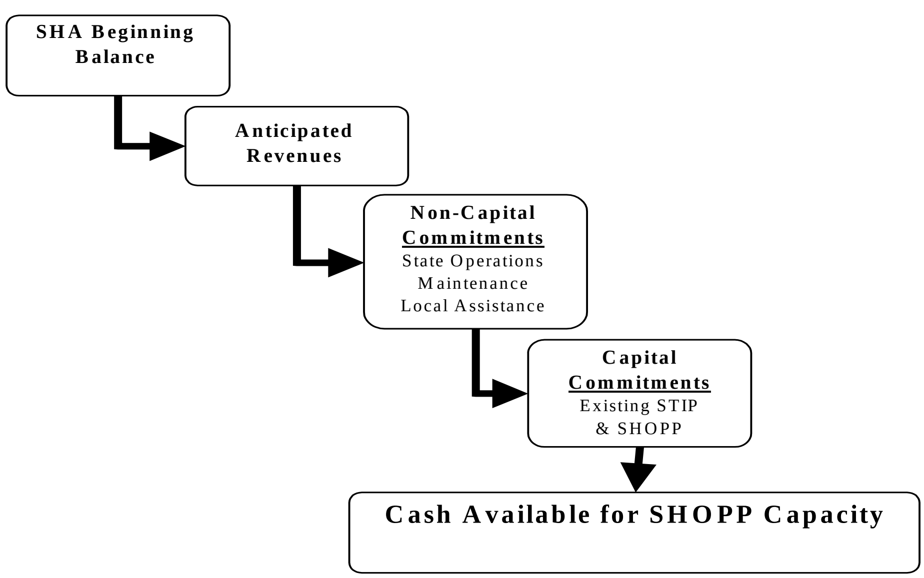
GC Section 14525 (c) requires the FE to be based on current statutes for estimating revenues and the most recent enacted budget, adjusted for inflation. Streets & Highways Code (S&HC) Section 163 establishes a policy for the use of all transportation funds that are available to the state, including the priority of expenditures for administration, maintenance and operation, rehabilitation, local assistance, and STIP, respectively.

Major Changes from the 2006 STIP FE

Historically, the State Highway Account (SHA) has been the primary source of funds for the state highway system. Funded from state excise fuel tax, weight fees and federal resources, the SHA supported not only the Department's general and administrative operations, but also the two major capital programs of STIP and State Highway Operation and Protection Program (SHOPP)—with the SHA being the sole funding source for the SHOPP. However, over the last decade, SHA revenues have not kept pace with the rising cost of doing business and highway construction. As a result, the SHA's ability to fund its high priority commitments, including the SHOPP and maintenance program, has diminished while the only STIP capacity has been for prior STIP projects and federal Transportation Enhancement Activities.

S&HC Section 163 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, respectively. Once these commitments have been met, resources are then available for the STIP. Prior to calculating resources available for new STIP, the FE sets aside resources for existing STIP commitments. In the 2006 STIP FE, the SHA only contributed $209 million program capacity to the STIP FE total of $5.616 billion. The majority of SHA resources went towards Department operational and non-capital commitments and a fiscally constrained SHOPP program that only funded half of the program needs. The funding outlook for the SHA over the 2008 STIP FE has not changed significantly from the 2006 STIP FE.

The 2008 STIP FE for the SHA will be modified from the 2006 STIP FE methodology to produce a SHOPP program capacity from the remaining cash flows after commitments—instead of a STIP program capacity. The resulting SHOPP program capacity will represent the total capacity for funding the program's capital outlay, capital outlay support, construction cost increases, right-of-way, and minor program.



In addition, the 2008 STIP FE will include a Transportation Investment Fund (TIF) reimbursement to the SHA for STIP capital outlay support costs. Furthermore, AB 3090 cash reimbursements associated with STIP projects previously assumed to be funded from the SHA will be funded from the TIF.

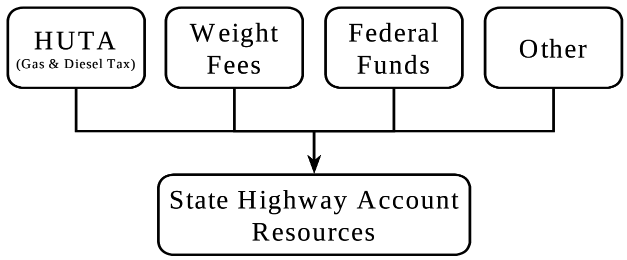
Finally, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Act) authorized $19.925 billion of state general obligation bonds for specified transportation purposes, including $2 billion of bond proceeds to the Transportation Facilities Account (TFA) for STIP, and $750 million to the Highway Safety, Rehabilitation, and Preservation Account (HSRPA) for SHOPP and other local safety operations and capacity projects. In December 2006, the Commission adopted the 2006 STIP FE Augmentation that included new STIP capacity from the TFA. The STIP augmentation program will be adopted in June 2007.

State Highway Account

Revenue Assumptions

STATE HIGHWAY ACCOUNT

The State Highway Account (SHA) is one of the main funding sources for the state's highway transportation program. The three major sources of funds for the SHA are fuel excise taxes transferred from the Highway Users Tax Account (HUTA), motor vehicle weight fees, and reimbursements from the Federal Highway Trust Fund (FHTF) for federal-aid highway projects. Federal funds received by the Department come from federal fuel excise taxes that are deposited in the FHTF. The taxes are apportioned and allocated back to California through the Federal Transportation Act (Act) and the federal budget.



Fund Estimate Item: Beginning Cash Balance (Item SHA 1)

The beginning cash balance for the SHA is based on the prior fiscal year ending cash balance per the State Controller's Office (SCO), plus the SCO's ending balance of the Transportation Revolving Account (TRA) adjusted for balances of other funds that provide cash advance to the TRA.

SHA 1. The actual adjusted cash balance as of June 30, 2007 will be the beginning balance of the 2008 FE.

Fund Estimate Item: Operating Cash Balance (Item SHA 2)

The SHA needs to maintain 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. The SHA balance must also be able cover monthly expenditures during delays in adopting the state and federal budgets. The 2006 STIP FE assumed a minimum level of operating cash of $340 million for the FE period. Over the last fiscal year, the volatility of monthly SHA cash balances has increased due to timing delays of federal receipts and an increase in the level of capital outlay expenditures.

SHA 2. Based on an updated analysis of monthly SHA receipts less expenditures, a minimum level of operating cash of $370 million would be sufficient to cover 95 percent of the increased monthly volatility in the SHA.

Fund Estimate Item: SHA State Revenues (Items SHA 3-6)

For the purpose of estimating revenues, GC Section 14525(c) states that the Commission shall assume there will be no change in existing state and federal statutes.

Fuel Excise Taxes: The state fuel excise tax is charged on a per gallon basis for gasoline, diesel, liquefied petroleum gas, natural gas, ethanol, and methanol. This revenue source is a transfer from the HUTA and is authorized under Streets & Highways Code (S&HC) Sections 2104.1, 2107.6, and 2108. Revenues from fuel excise taxes in the 2006 STIP FE were estimated to increase at 2.0 percent annually over the FE period, resulting in revenues of $11.5 billion. Because of slightly lower fuel consumption over the last fiscal year than assumed in the 2006 STIP FE, the fuel excise tax revenue forecast has been lowered in the 2008 STIP FE.

SHA 3. Fuel excise tax revenues are estimated to grow at an average annual rate of 1.8 percent for the five-year FE period, resulting in revenues of $11.7 billion.

Forecast Fuel Excise Tax Revenues
($ millions)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
2006 FE	$2,206	$2,252	$2,297	$2,342	$2,387		
2008 FE			$2,252	$2,294	$2,335	$2,376	$2,417

Weight Fees: These revenues are the fees charged to commercial vehicles based on vehicle weight, also known as Motor Vehicle Registrations. This source is authorized under Vehicle Code (VC) Section 9400. Weight Fee revenues in the 2006 FE were estimated to increase at 2.5 percent annually over the FE period, resulting in revenues of $4.8 billion. Actual registration revenues over the last fiscal year are coming in higher than previously forecast in the 2006 STIP FE resulting in a slight increase to forecast revenues over the 2008 STIP FE period.

SHA 4. Weight Fee revenues in the 2008 STIP FE are estimated to increase at approximately 3.0 percent annually over the FE period, resulting in revenues of $5.6 billion.

Forecast Weight Fee Revenues
($ millions)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
2006 FE	$894	$922	$949	$976	$1,004		
2008 FE			$1,058	$1,090	$1,123	$1,155	$1,187

Other State Revenues: Other SHA revenues include interest received from the Surplus Money Investment Fund (SMIF) and revenues from Other Regulatory Licenses and Permits. In the 2006 FE, revenues from SMIF and Other Regulatory Licenses and Permits were $91 million and $53 million, respectively, over the FE period.

SHA 5. The SMIF income in the 2008 STIP FE will be calculated based on the most current published SMIF rate from the State Controller's Office and the projected year-end cash balances of the SHA for each of the FE years.

SHA 6. Revenues from Other Regulatory Licenses and Permits are based on historical revenues and projected to increase at an average annual rate of 3.2 percent over the FE period, resulting in revenues of $58 million.

Fund Estimate Item: Transfers (Items SHA 7-11)

Under Streets & Highways Code (S&HC), the SHA makes routine transfers to the Public Transportation Account (PTA) for planning and miscellaneous revenues not subject to Article XIX of the California Constitution. The Vehicle Code also authorizes transfers to the SHA of any funds in the Motor Vehicle Account (MVA) not needed for immediate use by the MVA.

In 2001, the Legislature authorized a transfer from the SHA to the Toll Bridge Seismic Retrofit Account (TBSRA) under AB 1171 (Chapter 907, Statutes of 2001). In 2005, AB 144 (Chapter 71, Statutes of 2005) identified additional funding to meet the revised program costs for the Toll Bridge Seismic Retrofit Program. The Commission subsequently adopted a plan of contributions in December 2005.

S&HC Section 194 Transfers: The S&HC Section 194 transfer from the SHA to PTA is for the pro-rata share of highway planning funded out of the PTA. The transfer is determined by formula and is based on PTA State Operations expenditures in the state budget.

SHA 7. The S&HC Section 194 transfer from the SHA to PTA will be based on the enacted budget and escalated by the Department of Finance (DOF) implicit price deflator rate of 2.7 percent per year over the FE period, resulting in revenues of $125 million.

Forecast S&HC Section 194 Transfers
($ millions)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
2006 FE	$23	$23	$24	$25	$25		
2008 FE			$24	$24	$25	$26	$26

SHA 8. Transfers from the SHA to the TBSRA totaling $610 million are scheduled during the FE period based on the Commission's December 2005 adopted plan of contributions.

Remaining SHA Contributions
to the Toll Bridge Seismic Retrofit Program
($ millions)

	2008-09	2009-10	2010-11	2011-12	2012-13
2008 FE	$43	$99	$153	$150	$165

S&HC Section 183.1 Transfers: Pursuant to S&HC Section 183.1, miscellaneous revenues not subject to Article XIX of the California State Constitution (Non-Article XIX revenues) are transferred annually from the SHA into the PTA. The 2007-08 Governor's Budget proposes to permanently eliminate this transfer and retain these funds in the SHA for necessary maintenance funding. The 2008 STIP FE will reflect the Enacted Budget for 2007-08, and assume transfers occur during the FE period pursuant to existing law.

Revenues derived from the sale and use of state property has increased in recent years resulting in a higher forecast of non-Article XIX revenues in the 2008 FE compared to the 2006 STIP FE. Non-Article XIX revenues are forecast to total approximately $356 million over the FE period.

SHA 9. Assume S&HC Section 183.1 transfers from the SHA to the PTA occur throughout the FE period. (Existing Law)

Forecast S&H Code Section 183.1 Transfers
($ millions)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
2006 FE	$51	$52	$54	$55	$57		
2008 FE			$71	$74	$71	$70	$70

Motor Vehicle Account Transfers: Pursuant to VC Section 42273, the MVA, on order of the SCO, must transfer to the SHA each month, the balance remaining on the last day of the preceding month that is not needed for immediate use by the MVA. The 2006 STIP FE assumed the SHA would receive these transfers during the FE period. However, after funding refunds, administration and enforcement, the MVA has not identified any funds that were not needed for immediate use by the account in more than a decade.

SHA 10. The 2008 FE will assume the SHA does not receive transfers from the MVA in the FE period pursuant to VC Section 42273.

TIF Transfers to SHA for STIP COS: The 2006-07 Enacted Budget authorized the transfer of $185 million from the TIF to the SHA to reimburse the SHA for COS on TIF funded STIP. The 2007-08 Governor's Budget proposes to transfer $256 million from the TIF to the SHA for TIF funded STIP COS. The FE will reflect the Enacted Budget in 2007-08 but will need to make an assumption on other department expenditures during the FE period.

SHA 11. Refer to TIF 6 for discussion and assumption regarding TIF transfers for STIP COS.

Fund Estimate Item: Loan Repayments (Item SHA 12)

Pre-Proposition 42 Loan Repayments: Assembly Bill (AB) 438 postponed the implementation of TIF transfers from 2001-02 until 2003-04, and authorized loans to help fund General Fund shortfalls while backfilling funding for TCRP projects with loans from the SHA and PTA (Pre-Proposition 42 loans).

- Pre-Proposition 42 loan repayments to the SHA and PTA were assumed in the 2006 FE to be paid via Tribal Gaming bond proceeds of $1 billion, which did not materialize as planned.
- In June 2006, the Department of Finance issued an executive order advancing a repayment of $151 million to the SHA from Tribal Compact revenues. Current estimates of outstanding loan balances, as of March 31, 2007, are: $322 million to the SHA, $275 million to the PTA, and $482 million to the TCRF.
- The 2007-08 Governor's Budget proposes to pay Pre-Proposition 42 debt from Tribal Compact revenues of $90 million to the SHA and $10 million to PTA in 2006-07, and $100 million to the SHA in 2007-08.

The FE will reflect the Enacted Budget in 2007-08; however, the FE will need to make an assumption regarding the Pre-Proposition 42 loan repayment during the FE period. The 2006 STIP FE Augmentation assumed that Pre-Proposition 42 loans would be paid from the $100 million in annual Tribal compact revenues pursuant to GC Section 63048.65(e).

SHA 12. Pre-Proposition 42 Loan Repayment Options:

A. Assume that Pre-Proposition 42 loans will be repaid from annual Tribal Gaming Compact revenues of $100 million, with payments made in accordance with GC Section 63048.65 (e), <u>which would result in $132 million to the SHA for SHOPP and $78 million to the PTA for STIP.</u>

B. Assume Tribal Gaming bonds are issued in 2008-09 and Pre-Proposition 42 loans are repaid in full, <u>which would result in $322 million to the SHA for SHOPP and $275 million to the PTA for STIP.</u>

C. Assume Tribal Gaming bonds are issued and Pre-Proposition 42 loans are repaid in some other year during the FE period, <u>which would result in $322 million to the SHA for SHOPP and $275 million to the PTA for STIP.</u>

D. Do not assume any Tribal Gaming revenues during the FE period.

Recommendation:

A. Assume that Pre-Proposition 42 loans will be repaid from annual Tribal Gaming Compact revenues of $100 million, with payments made in accordance with GC Section 63048.65 (e), <u>which would result in $132 million to the SHA for SHOPP and $78 million to the PTA for STIP.</u>

Assumed Pre-Proposition 42 Loan Repayments
($ millions)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	FE Total
SHA	$151	$90	$100	$100	$32				**$132**
TCRF					$68	$100	$100	$22	**$290**
PTA		$10						$78	**$78**
Total	**$151**	**$100**	**$100**	**$100**	**$100**	**$100**	**$100**	**$100**	**$500**

Note: Paybacks continue past FE period for both PTA and TCRF outstanding loans.

Fund Estimate Item: Federal Revenues (Items SHA 13-16)

Federal revenue is the largest contributor of SHA resources, accounting for between 40 to 50 percent of total SHA resources. These revenues come from the Federal Highway Trust Fund (FHTF), which is primarily funded from the federal excise tax on gasoline of 18.4 cents per gallon. The state receives apportionments that are ultimately governed by California's contribution as a percentage share of total contribution into the FHTF. These apportionments are set by the Federal Highway Acts that are enacted by Congress every 5-6 years.

The current Federal Highway Act is the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which covers Federal Fiscal Year (FFY) 2005-2009. The actual amount of Federal Funds the state can use each year on projects is governed by the Obligation Authority (OA) set by Congress in its annual Federal Appropriation Act.

Historically, OA has been approximately 93 percent of California's apportionment under the Federal Highway Act. OA may also be adjusted each year by Revenue Aligned Budget Authority (adjustments to OA levels based on revised federal receipts), allocated funds (such as federal emergency funds), and August Redistributions (the redistribution of unused OA balances from other states).

2006 STIP FE Assumptions for Federal Revenues:

Obligation Authority: On August 10, 2005, the President signed SAFETEA-LU into law. With guaranteed funding for highways, highway safety, and public transportation totaling $244.1 billion for FFYs 2005-2009, SAFETEA-LU represents the largest surface transportation investment in our nation's history.

However, based on the current highway funding levels and U.S. Treasury revenue projections, the FHTF will go into deficit in 2009. The Administration currently opposes any tax increases, but Congress could propose new sources of revenue or increase the tax rate. However, if no action is taken, this projected deficit could lead to reductions of Federal OA as soon as 2008 or 2009.

In addition, the American Association of State Highway and Transportation Officials (AASHTO) released a report in April 2007 titled "*Revenue Sources to Fund Transportation Needs*" further detailing the projected FHTF revenue shortfall. AASHTO estimates the revenue deficit will require national obligation reductions beginning in 2009 and increasing in 2010 to $18.2 billion. The potential impact to California would be a reduction of $1.5 billion in OA in 2010. Though there is a significant cutback in 2010, the obligation funding levels begin to increase in 2011 through 2015 to a level slightly lower than that authorized in SAFETEA-LU. This results in approximately $16.2 billion in OA over the FE period.

Because of federal budgetary constraints, annual Federal Appropriation Acts for transportation over the past two years have reduced the amount of OA received by the state from the levels assumed in the 2006 FE. In 2005-06 and 2006-07, the amount of OA received by the state was only $2.6 billion and $2.9 billion, respectively.

Since the 2008 FE will go beyond SAFETEA-LU, it is hard to predict the timing and funding level of the next Federal Highway Act. The last year of SAFETEA-LU coincides with the first state fiscal year of the FE. Therefore, the 2008 FE will have to make an assumption regarding the level of OA for each year of the FE period.

SHA 13. Federal Obligation Authority Options:

A. Hold the Federal OA level constant at the 2008-09 OA level throughout the FE period, which would result in $17.0 billion in OA over the five-year FE period.
B. Escalate the 2008-09 OA level at a rate of 1.8 percent, consistent with the projected growth rate for fuel excise tax revenues (See Item SHA 3). This would result in $17.6 billion in OA over the five-year FE period.
C. Escalate the amount of 2006-07 OA received at a rate of 1.8 percent, consistent with the projected growth rate for fuel excise tax revenues (See Item SHA 3) over 2007-08 and the FE period. This would result in $15.8 billion in OA over the five-year FE period.
D. Escalate the amount of 2006-07 OA received at a rate of 1.8 percent, consistent with the projected growth rate for fuel excise tax revenues (See Item SHA 3) for 2007-08, then hold OA constant over the FE period. This would result in $14.9 billion in OA over the five-year FE period.
E. Use the AASHTO projected SAFETEA-LU estimates, including the drastic OA reduction in 2010 as detailed in the April 2007 report. This would result in $16.2 billion in OA over the five-year FE period.

Recommendation:

C. Escalate the amount 2006-07 OA received at a rate of 1.8 percent, consistent with the projected growth rate for fuel excise tax revenues (See Item SHA 3) over 2007-08 and the FE period. This would result in $15.8 billion in OA over the five-year FE period.

Forecast Federal Obligation Authority
($ million)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
2006 FE	$3,218	$3,352	$3,386	$3,386	$3,386		
2008 FE	$2,933	$2,986	$3,040	$3,095	$3,150	$3,207	$3,265

SHA 14. The 2008 FE assumes an August Redistribution of $72 million per year based on the average amount received over the last four years, excluding the record high amount of $204.5 million received in 2006.

SHA 15. The 2008 FE will assume federal programs currently authorized will continue into the next Act.

SHA 16. The state and local percentage split for allocation of federal funds, excluding August Redistributions, is estimated at 61/39, based on formula distributions under SAFETEA-LU.

Fund Estimate Item: Advanced Project Development Element (Item SHA 17)

Beginning with the 2000 STIP, the Department was required under GC Section 14529.01 (AB 1012, Chapter 783, Statutes of 1999) to estimate the Advance Project Development Element (APDE) – funds available from the two years following the FE period. Twenty-five percent of these additional resources would be used to produce a steady flow of construction projects for the STIP by building a "shelf" of projects ready for construction.

In the 2006 STIP FE, the Commission adopted the assumption that APDE authority would not be used because of a lack of available funding in the Department's revenue outlook. The current revenue outlook for transportation remains constrained.

SHA 17. The 2008 STIP FE will not include the Advanced Project Development Element.

State Highway Account

Expenditure Assumptions

Fund Estimate Item: State Operations (Items SHA 18-21)

State Operations includes administrative and maintenance expenditures in support of staff, consultants, operations expenses, and other items expended to maintain the operation of the transportation system and the maintenance of highways. The Department is required by the Streets & Highways Code to use the most recent enacted budget before making adjustments for inflation and inventory.

2008 STIP FE Assumptions for State Operations Expenditures:

SHA 18. State Operations, excluding Capital Outlay Support (COS), will be based on the enacted 2007-08 Budget and escalated annually using the Department of Finance (DOF) implicit price deflator rate of 2.7 percent over the FE period, per Budget Letter 06-21.

SHA 19. Professional Engineers in California Government (PECG) negotiated a raise for each year from 2005-06 through 2008-09. The pay raise was estimated to total approximately $44 million in 2005-06 and increase by an additional $44 million each year through 2008-09. This increase will impact indirect support under State Operations as well as direct support costs for Maintenance, Operations, SHOPP, and Local Assistance.

SHA 20. Based on a recent review of Department expenditures, the 2008 STIP FE will include a $40 million reservation in 2008-09 and 2009-10 for budget increases associated with traffic congestion, safety, and information technology upgrades (excluding COS, Highway Maintenance, and Highway Operations).

SHA 21. Maintenance and Operations expenditures for Transportation Management Systems (TMS) will include an inventory adjustment of $71 million or 5.5 percent in 2008-09 for the costs associated with operating and maintaining the TMS inventory levels over the FE period. (Note: TMS includes, but is not limited to, advanced operational hardware, software, communications systems and infrastructure, for integrated Advanced TMS and Information Systems, and for Electronic Toll Collection Systems.)

Fund Estimate Item: Local Assistance (Items SHA 22-25)

Federal Funds for Local Assistance: These funds are managed and programmed by regional agencies and include: Highway Bridge Program (HBP), Highway Safety Improvement Program (HSIP), Safe Routes to School Program (SRTS), High Risk Rural Road Program (HRRR), Regional Surface Transportation Program (RSTP), Congestion Mitigation and Air Quality (CMAQ), and Transportation Enhancement (TE) funds.

SHA 22. Local Assistance federal funding will be used in the year received, and, therefore, will not be cash flowed in the 2008 STIP FE.

SHA 23. Local Assistance will receive a payback of $50 million in 2007-08 and 2008-09 for reimbursement of the state's use of unused local OA from prior years.

State Funds for Local Assistance: State funds for Local Assistance covers Railroad Grade Separation, Railroad Grade Crossing Maintenance, RSTP Match and Exchange, and SRTS Exchange.

SHA 24. State expenditures assume allocation for Railroad Crossing Protection Maintenance Program at $2 million annually for the FE period, consistent with Commission Resolution G06-15.

Environmental Enhancement and Mitigation (EEM) Program: The 2006 STIP FE included $50 million for the EEM Program augmented with Federal TEA resources. The 2007-08 Governor's Proposed Budget did not provide funding for the EEM Fund.

SHA 25. The 2008 STIP FE will include a $10 million transfer per year to the EEM Fund, as intended under S&HC Section 164.56.

Fund Estimate Item: Prior STIP Commitments (Items SHA 26-27)

S&HC Section 163 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, respectively. Once these commitments have been met, resources are then available for the STIP. Prior to calculating resources available for new STIP, the FE sets aside resources for existing STIP commitments.

Prior SHA STIP Commitment: In the 2006 STIP FE, prior STIP commitments consisted of STIP projects allocated in 2004-05 and prior STIP COS, AB 3090 cash reimbursements, and GARVEE projects. The remaining STIP program was reprogrammed with the revised capacity from the 2006 STIP FE.

SHA 26. STIP capital outlay expenditures reflect a continuation of all projects allocated in 2006-07 and prior, all programmed 2007-08 STIP projects, all federal TE funding, and GARVEE debt service.

SHA 27. COS expenditures will be based on programmed STIP projects allocated during 2006-07 and prior, all programmed 2007-08 STIP projects, and pre-construction engineering and Right-of-Way support for projects currently programmed for support to begin in 2008-09**.**

Fund Estimate Item: GARVEE (Item SHA 28)

Grant Anticipation Revenue Vehicles (GARVEE bonds or GARVEEs) are tax-exempt revenue anticipation notes, bonds or other debt instrument financing secured by future federal-aid highway funds to retire debt. GARVEEs can be used to finance Right-of-Way and/or construction costs to advance critical transportation projects sooner than traditional funding mechanisms.

Use of federal funds to repay debt service for GARVEE bonds reduces the amount of future Obligation Authority available for programming. A maximum of 15 percent of annual deposits of federal funds into the SHA can be used for debt service. The planned amount of federal-aid reimbursement for debt service must be included in the STIP, per Federal Highway Administration (FHWA) guidelines.

This financing mechanism incurs interest and issuance costs, and ties up federal-aid funds during the period of the bonds. Repayment requires a reduction to the potential program level equal to the amount of the bonds, plus interest and issuance expenses. Actual debt service counts against the programming shares available for interregional and/or regional programs.

GARVEE Bond Financing: GARVEE financing is appropriate when the additional public benefits resulting from early construction exceed financing costs and other funding mechanisms are not available. Other considerations are the anticipated economic, safety, and other benefits of the early construction of the project and the anticipated useful life of the project. Since essentially all of federal obligation authority is dedicated to higher priority SHOPP and any GARVEE debt service would result in a direct reduction of resources for the SHOPP, the use of GARVEE financing would only be appropriate for funding SHOPP projects.

SHA 28. Assume no additional capacity from GARVEE bonding during the FE; however, the Commission may issue GARVEE bonds during the FE period if it so chooses.

Fund Estimate Item: SHOPP (Items SHA 29-31)

The State Highway Operation and Protection Program (SHOPP) has eight categories: (1) Emergency Response, (2) Collision Reduction, (3) Legal and Regulatory Mandates, (4) Bridge Preservation, (5) Roadway Preservation, (6) Mobility Improvement, (7) Roadside Improvement and, (8) Facility Improvement.

These eight categories compose two major groupings, those that relate to the condition of the transportation system (Roadway Preservation, Bridge Preservation, Roadside Improvement and Facility Improvement) and those that relate to its operational performance (Emergency Response, Collision Reduction, Mobility Improvement, and Legal and Regulatory Mandates).

In January 2007, the Department presented the California Transportation Commission (Commission) with a proposed 2007 Ten-Year SHOPP Plan (Plan) for the rehabilitation of the State Highway System (SHS). The annual value of the capital needs identified in the 2007 Plan is $4.2 billion. The Department recognizes that because of limited SHA resources, the 2007 Plan is fiscally constrained.

Prior SHA SHOPP Commitments & SHOPP Program Capacity. As previously mentioned in the section on Major Changes from the 2006 STIP FE, the SHA FE will be modified from the 2006 FE to produce a SHOPP program capacity level. The SHA SHOPP capacity will be compared to the total program needs, based on the 10-Year SHOPP Plan to identify any funding shortfalls. Prior to calculating resources available for the SHOPP, the FE will need to set aside resources for existing SHOPP commitments.

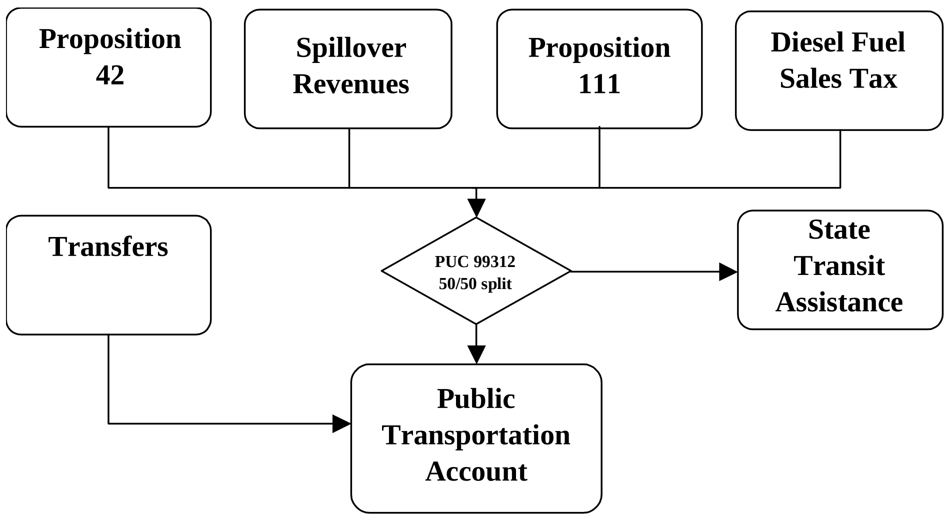
SHA 29. SHOPP prior commitments for capital outlay expenditures will include all projects allocated in 2006-07 and prior, and all programmed 2007-08 SHOPP projects.

SHA 30. SHOPP COS commitments will be based on programmed projects allocated during 2006-07 and prior, all programmed 2007-08 SHOPP projects, and pre-construction engineering and Right-of-Way support for projects programmed for support to begin in 2008-09**.**

SHA 31. Total program capacity of the 2008 FE SHOPP will be based on the SHA resources remaining after existing commitments.

PUBLIC TRANSPORTATION ACCOUNT

The Public Transportation Account (PTA) is a trust fund for transportation planning and mass transportation purposes. Revenue from state sales tax on gasoline and diesel fuel is distributed by formula to the state's General Fund, local agencies and to the PTA. Funds are also transferred into the account from the SHA and the Aeronautics Account to pay for the Department's highway and airport planning activities that are not payable from sales tax revenue in the PTA. Additionally, the PTA receives a transfer of miscellaneous SHA revenues pursuant to S&HC Section 183.1.



Fund Estimate Item: Beginning Cash Balance (PTA 1)

Beginning Cash Balance: The beginning cash balance for the SHA is based on the prior fiscal year ending cash balance per the State Controller's Office (SCO), plus the SCO's ending balance of the Transportation Revolving Account (TRA) adjusted for balances of other funds that provide cash advance to the TRA.

PTA 1. The beginning PTA cash balance for the 2008 FE will be based on the year-end balance as of June 30, 2007.

Fund Estimate Item: Operating Cash Balance (PTA 2)

Minimum Operating Cash: The PTA needs to maintain 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. Based on an analysis of historical cash receipts minus disbursements, the 2006 STIP FE assumed a minimum operating cash balance of $65 million in the 2006 FE. Updating the 2006 STIP FE analysis, the current minimum operating cash balance would be estimated at $71 million for the 2008 STIP FE.

However, the outlook for PTA revenues and expenditures are likely to change substantially from the past. Proposition 42 revenues to the PTA will double from the current levels after the last TCRF transfer of Proposition 42 is made in 2007-08. Revenues from Proposition 111 and sales tax on diesel fuel are also projected to be higher than in the past. As a result, the expected increase in PTA capacity and STIP allocations will increase the monthly volatility of the PTA cash balance. Furthermore, spillover revenues would contribute to additional capacity, but also more volatility. Based on these contributing factors, a higher level of minimum operating cash is necessary.

The Department has used historical cash receipts minus disbursements data, as well as projected revenues and expenditures to identify a minimum level of operating cash to cover monthly volatility in the PTA. Based on this analysis, the Department estimates a minimum operating cash level of $120 million would be sufficient to cover monthly volatility in the PTA over the FE period.

PTA 2. Use a minimum operating cash level of $120 million based on historical data and projected expenditures from the 2006 STIP FE Augmentation capacity

Fund Estimate Item: PTA Revenues (Items PTA 3-5)

Proposition 111 Gasoline and Diesel Fuel Sales Tax: The DOF estimates gasoline and diesel fuel sales tax revenues. Proposition 111 revenues are derived from sales tax on nine cents of the state excise tax on gasoline. Diesel sales tax revenues are based on the price per gallon of diesel fuel.

Revenues for future years are based on the average annual growth rate of past transfers. In the 2006 FE, gasoline and diesel fuel sales tax revenues were estimated to increase at annual rates of 1.7 percent on gasoline and 3.4 percent on diesel, resulting in $1.3 billion in revenues during the 2006 FE period.

PTA 3. Proposition 111 gasoline sales tax revenues have been updated based on the May Revision to the 2007-08 Governor's Budget. Revenues through 2011-12 will be based on DOF estimates, with the last year reflecting an average annual growth rate of 1.9 percent, resulting in $363 million over the FE period.

Forecast Proposition 111 Gasoline Sales Tax
($ millions)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
2006 FE	$69	$70	$71	$73	$74		
2008 FE			$70	$71	$73	$74	$75

PTA 4. Diesel fuel sales tax revenues have been updated based on the May Revision to the 2007-08 Governor's Budget. Revenues are based on DOF estimates through 2011-12, and are expected to increase throughout the FE period at an average annual growth rate of 4.3 percent. This results in total revenues of approximately $2.06 billion over the FE period.

Forecast Diesel Fuel Sales Tax
($ millions)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
2006 FE	$192	$189	$189	$192	$198		
2008 FE			$382	$396	$419	$428	$440

PTA "Spillover" Revenue: Under Revenue and Taxation Code (R&TC) Section 7102(a)(1), revenues derived from 4.75 percent of all taxable sales less 5.0 percent of all taxable sales except gasoline are to be transferred quarterly to the PTA. Because of the formula used to calculate it, spillover is an unpredictable source of funding to the PTA. The rapid increase in gasoline prices over the last few years has resulted in spillover revenues; however, nearly all of these revenues were retained by the General Fund to balance the state budget.

The FE will reflect the Enacted Budget in 2007-08; however, the FE will have to make an assumption regarding spillover revenues over the FE period. Estimated spillover revenues have been updated based on the May Revision to the 2007-08 Governor's Budget.

PTA 5. PTA "Spillover" Revenue Options:

A. Assume spillover revenue transfers will occur throughout the FE period, per existing law, resulting in approximately $5 billion over the FE period to the PTA for STIP.
B. Assume no spillover revenue transfers will occur during the FE period.

Forecast Spillover Revenues
($ millions)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
2006 FE	$333	$263	$210	$166	$141		
2008 FE			$935	$966	$1,046	$1,040	$1,005

Fund Estimate Items: Transfers and Loan Repayments (Items PTA 6-10)

Under Streets & Highways Code (S&HC), the SHA makes routine transfers to the Public Transportation Account (PTA) for planning and miscellaneous revenues not subject to Article XIX of the California Constitution. In addition, the Aeronautic Account also makes an annual transfer to the PTA for its share of planning expenditures associated with airports, pursuant to the Public Utilities Code (PUC).

S&HC Section 194 Transfers: The S&HC Section 194 transfer from the SHA to PTA is for the pro-rata share of highway planning funded out of the PTA. The transfer is determined by formula and is based on PTA State Operations expenditures in the state budget. These transfers totaled $120 million during the 2006 FE.

PTA 6. Refer to SHA 7 for discussion and assumption regarding S&HC Section 194 transfers.

S&HC Section 183.1 Transfers: Pursuant to S&HC Section 183.1, miscellaneous revenues not subject to Article XIX of the California State Constitution (Non-Article XIX revenues) are transferred annually from the SHA into the PTA. The 2007-08 Governor's Budget proposes to eliminate this transfer and retain these funds in the SHA for necessary maintenance funding. The FE will reflect the Enacted Budget in 2007-08, however, the FE will need to make an assumption regarding these transfers during the FE period. Non-Article XIX revenues are forecast to total approximately $356 million over the FE period.

PTA 7. Refer to SHA 9 for discussion and assumption regarding S&HC Section 183.1 transfers.

Transfer from the Aeronautics Account:

PTA 8. Transfer from the Aeronautics Account, per PUC Section 21682.5, is $30,000 per fiscal year.

Pre-Proposition 42 Loan Repayments: The 2007-08 Governor's Budget proposes to pay Pre-Proposition 42 debt from Tribal Compact revenues of $90 million to the SHA and $10 million to PTA in 2006-07, and $100 million to the SHA in 2007-08. The FE will reflect the Enacted Budget in 2007-08; however, the 2008 STIP FE will need to make an assumption regarding the Pre-Proposition 42 loan repayment during the FE period.

PTA 9. Refer to SHA 12 for discussion and assumption regarding Pre-Proposition 42 Loan Repayment to the PTA.

Assumed Pre-Proposition 42 Loan Repayments
($ millions)

		2006-07	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**FE Total**
SHA	$151	$90	$100	$100	$32				**$132**
TCRF					$68	$100	$100	$22	**$290**
PTA		$10						$78	**$78**
Total	**$151**	**$100**	**$100**	**$100**	**$100**	**$100**	**$100**	**$100**	**$500**

Note: Paybacks continue past FE period for both PTA and TCRF outstanding loans.

TIF Transfers to the PTA: Pursuant to Revenue & Taxation Code (R&TC) Section 7104, beginning in 2008-09, Proposition 42 transfers to the TIF will be distributed by statutory formula to the PTA (20 percent) and Local Streets & Roads (40 percent), with the remaining balance retained in the TIF for STIP.

PTA 10. Refer to TIF 3 for discussion and assumption regarding TIF transfers to the PTA.

Fund Estimate Item: PTA Expenditures (Items PTA 11-17)

Transfers to State Transit Assistance: The State Transit Assistance (STA) program is part of the Transportation Development Act (TDA) and provides funding for local mass transit operations. Pursuant to PUC Section 99312, STA funds are derived from half of the statewide sales tax on gasoline and diesel fuel revenues to the Public Transportation Account (PTA), which include Proposition 111 transfers, spillover, and the PTA share of TIF transfers.

Over the last 10 years, STA apportionments have averaged approximately $100 million per year. Spillover revenues from high gasoline prices over the last two years have contributed to substantially higher STA apportionments than in the past. The 2007-08 Governor's Proposed Budget proposes to permanently exclude spillover revenues from the STA. The FE will reflect the Enacted Budget in 2007-08, and will assume spillover is split with STA pursuant to existing law over the FE period. <u>However, if trailer bill language amends existing law, approximately $1.2 billion would be made available to the PTA for STIP over the 2008 FE period.</u>

PTA 11. Assume spillover revenues are included in the statutory formula split with the STA throughout the FE period.

Future Funding of Home-to-School: The 2007-08 Governor's Budget proposes several significant changes to PTA revenues and expenditures, including the reallocation of $1.1 billion of PTA revenues in 2007-08, including spillover, to higher priority General Fund transportation uses including:

- $627 million for Home-to-School Transportation
- $144 million for Developmental Services-Regional Center Transportation
- $340 million for Transportation General Obligation Bond debt service

The 2007-08 Governor's Budget intends to continue funding the Home-to-School Transportation expenditures in future years out of the PTA. If sufficient PTA funds are not available in future years to sustain the Home-to-School Transportation program, any needed funding would be provided from the General Fund. The FE will reflect the Enacted Budget for 2007-08, and assume that the Home-to-School is funded from the General Fund in future years pursuant to existing law. <u>However, there is a risk of STIP being over-programmed if PTA revenues estimated at $3.4 billion continue to be redirected to fund General Fund transportation expenditures over the 2008 FE period.</u>

PTA 12. Assume the Home-to-School Transportation expenditures are not funded out of the PTA during the FE period.

State Operations:

PTA 13. State Operations will be based on the Enacted 2007-08 Budget and escalated at the DOF implicit price deflator rate of 2.7 percent over the FE period, the same as with the SHA.

PTA 14. Based on a recent review of Department expenditures, the 2008 FE will include a $10 million reservation in 2008-09 and 2009-10 for budget increases associated with PTA activities.

Local Assistance:

PTA 15. Bay Area Ferry operations expenditures will be based on the enacted 2007-08 Budget. Future expenditures will be escalated by one percent based on historical expenditures.

Intercity Rail Operations:

PTA 16. Intercity rail is part of State Operations expenditures in the PTA. Expenditure below are based on revised service expansion estimates by the Division of Rail.

- **A.** Intercity rail and bus operations base expenditures for existing services will be based on the enacted budget, which has been estimated at $79.7 million for 2007-08, and escalated at 2.7 percent over the FE period.
- **B.** Expenditures for additional services on existing routes are estimated at $32 million over the FE period, and extensions to existing routes are estimated at $37.6 million over the FE period.
- **C.** The Department's estimated need for heavy equipment maintenance and overhaul over the FE period is $77 million.

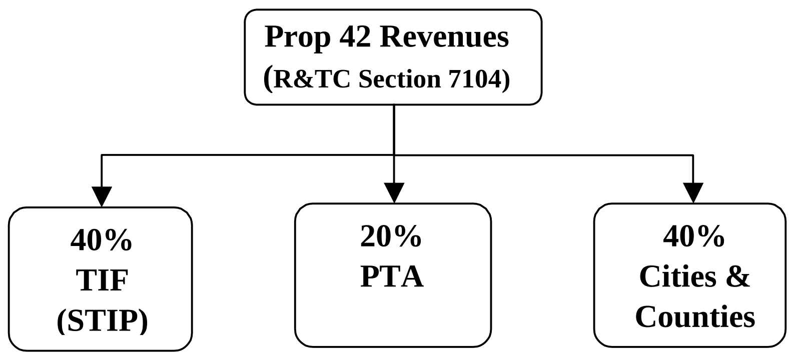
Capital Outlay: The 2001-02 Budget Act allocated $91 million for capital outlay, outside the STIP, for intercity rail track improvements. Through 2006-07, the majority of this total has been liquidated, with the final $11 million scheduled to be spent in 2007-08.

Prior PTA STIP Commitments: Prior to calculating resources available for new STIP, the FE sets aside resources for existing STIP commitments. The 2006 STIP had a substantial amount of projects programmed against the PTA. In the 2008 FE, PTA STIP commitments will need to be set-aside with the remaining STIP program being reprogrammed with the revised capacity from the 2008 FE.

PTA 17. Prior year STIP Commitments reflect a continuation of all projects allocated in 2006-07 and prior, all programmed 2007-08 STIP projects, and AB 3090s.

TRANSPORTATION INVESTMENT FUND

The Transportation Investment Fund (TIF) was created with passage of the Traffic Congestion Relief Act (TCRA) of 2000 and revised through the Transportation Refinancing Plan, AB 438 (Chapter 113, Statutes of 2001). TIF revenues are derived from the General Fund Proposition 42 transfer of the state retail sales tax on gasoline. These funds are distributed by statutory formula per R&TC Section 7104. The purpose of the TIF is to commit major resources to designated transportation projects that relieve traffic congestion in the Traffic Congestion Relief Program (TCRP), to the STIP, to the repair and maintenance of local streets and roads, and to the PTA.



Fund Estimate Item: TIF Assumptions (Items TIF 1-6)

Background and methodology:

The reliability of TIF transfers has been mixed in the past, with suspensions occurring in 2003-04 and 2004-05, and transfers occurring in 2005-06 and 2006-07 despite continuing structural budget deficit. The passage of Proposition 1A in the November 2006 general elections placed greater restrictions on the use of Proposition 42 funds for non-transportation uses, making TIF transfers a more reliable source of revenue.

Beginning Cash Balance:

TIF 1. The beginning TIF cash balance for the 2008 FE will be based on the year-end balance as of June 30, 2007.

Minimum Operating Cash:

TIF 2. Based on a cash analysis of historical and projected monthly receipts less expenditures, a minimum level of operating cash of $120 million is would be sufficient to cover 95 percent of the monthly volatility in the TIF during the FE period.

Forecasted TIF Revenues:
The TCRP is scheduled to receive its last statutory transfer of Proposition 42 revenues from the TIF in 2007-08. Beginning in 2008-09, all of the annual Proposition 42 revenue transfers to the TIF will be distributed by statutory formula to the PTA (20 percent) and Local Streets & Roads (40 percent), with the remaining balance retained in the TIF for STIP. As a result, Proposition 42 revenues to the PTA and TIF will increase substantially in the 2008 STIP FE. The assumption below provides a forecast of the overall Proposition 42 transfer into the TIF prior to the statutory distribution.

TIF 3. The 2008 STIP FE assumes that Proposition 42 transfers to the TIF will occur throughout the FE period. <u>Transfers through 2011-12 have been updated based on the May Revision to the 2007-08 Governor's Budget and are projected to grow at an average rate of 5 percent over the FE period.</u>

Forecast Proposition 42 Transfers
($ millions)

	2006-07	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
2006 FE	$1,382	$1,454	$1,531	$1,612	$1,694		
2008 FE			<u>$1,538</u>	<u>$1,618</u>	<u>$1,702</u>	<u>$1,789</u>	<u>$1,892</u>

AB 3090 Reimbursement Projects: AB 3090 reimbursement projects are projects covered by GC Section 14529.7, where the Commission, Department, region, and local agency may enter into an arrangement whereby a local agency pays for the delivery of a STIP project with its own funds earlier than the year in which the project is programmed. Under the cash reimbursement arrangement, the local agency is programmed to receive a direct cash reimbursement for delivery. In April 2003, the Commission established a policy limit for AB 3090 cash reimbursements at $200 million per year statewide and at $50 million per year for any county or local agency.

In the past, AB 3090 cash reimbursements were funded out of the SHA. Beginning with the 2006 STIP FE, AB 3090 cash reimbursements associated with public transportation were shifted to the PTA because of limited funding in the SHA and higher priority SHOPP. In the 2008 STIP FE, the remaining share of AB 3090 cash reimbursement programmed against the SHA will be shifted to the TIF.

TIF 4. Any current and future non-PTA programmed AB 3090 reimbursements will be funded from the TIF and assumed to be within the identified resources for programming.

Prior TIF STIP Commitments. Prior to calculating resources available for new STIP, the FE sets aside resources for existing STIP commitments. The 2006 STIP program capacity was primarily funded out of the PTA and TIF. In the 2008 STIP FE, TIF STIP commitments will need to be set-aside with the remaining STIP program being reprogrammed with the revised capacity from the 2008 STIP FE.

TIF 5. STIP capital outlay expenditures reflect a continuation of all projects allocated in 2006-07 and prior, all programmed 2007-08 STIP projects, all state match TE funding, and AB 3090s.

TIF Transfers to SHA for STIP COS: The 2006-07 Enacted Budget authorized the transfer of $185 million from the TIF to the SHA to reimburse the SHA for COS on TIF funded STIP. The 2007-08 Governor's Budget proposes to transfer $256 million from the TIF to the SHA for TIF funded STIP COS. The FE will reflect the Enacted Budget in 2007-08 but will need to make an assumption on other department expenditures during the FE period.

TIF 6. TIF COS transfers to the SHA for STIP COS will be based on 32 percent of annual capital outlay expenditures for TIF funded STIP.

Estimated COS Transfers to SHA
for TIF funded STIP
($ millions)

2008-09	2009-10	2010-11	2011-12	2012-13	FE Total
$260	$233	$234	$236	$237	$1,200

TRANSPORTATION DEFERRED INVESTMENT FUND

The Transportation Deferred Investment Fund (TDIF) was created by the Legislature through AB 1751 to facilitate the repayment of TIF funds not transferred from the General Fund in 2003-04. SB 1098 also specified that the General Fund repay the TIF transfer suspended in 2004-05 to the TDIF.

Background and methodology:

- As of June 2006, the General Fund balance of suspended TIF transfers plus interest was approximately $2.16 billion. The 2006-07 Budget Act included a loan repayment of $1.415 billion from the General Fund to the TDIF, which was distributed as follows: $440 million to the TDIF for STIP, $440 million to Local Streets and Roads, $321 million to the TCRF, and $214 million to the PTA.

- This total, fully repaid all outstanding loan amounts from the 2003-04 and 2004-05 Proposition 42 suspensions, except for an amount owed to the TCRF. The outstanding TCRF balance of approximately $745 million is to be repaid via annual transfers of $83 million from the General Fund through 2015-16, as outlined in Proposition 1A.

- All of the $440 million of 2006-07 TDIF capacity is expected to be allocated prior to the 2008 STIP FE period and therefore would not provide any new STIP capacity.

HIGHWAY SAFETY, TRAFFIC REDUCTION, AIR QUALITY, AND PORT SECURITY BOND ACT OF 2006

In November 2006, voters approved Proposition 1B to enact the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Act) and authorized the sale of $19.925 billion in state general obligation bonds to be used for specified transportation purposes.

The Act provides funding for specified transportation purposes, including $2 billion of bond proceeds to the Transportation Facilities Account (TFA) for STIP, and $750 million to the Highway Safety, Rehabilitation, and Preservation Account (HSRPA) for SHOPP. In December 2006, the Commission adopted the 2006 STIP FE Augmentation that included new STIP capacity from the TFA. The STIP augmentation program will be adopted in June 2007.

- After administrative costs, the TFA will provide approximately $1.96 billion of new STIP capacity that will be available beginning in 2007-08 to augment funds otherwise available for this purpose from other sources.
- After administrative costs, the HSRPA will provide $490 million for projects in the State Highway Operation and Protection Program (SHOPP), with $245 million identified for traffic light synchronization projects or other technology-based projects to improve safety, operations, and the effective capacity of local streets and roads.
- Funds deposited in these accounts will be made available to the Department based on Legislative appropriation, and allocated by the California Transportation Commission (Commission) in the same manner as funds allocated for current STIP and SHOPP projects.
- With the adoption of the 2006 STIP Augmentation scheduled for June 2007, all of the resources provided by the TFA and HSRPA will be programmed against projects and not available for new capacity in the 2008 STIP FE.
- The various bond programs not related directly to the STIP and SHOPP will be managed as separate programs in a similar manner as the Transportation Congestion Relief Program.

2008 Aeronautics FE

Assumptions

June 2007

AERONAUTICS ACCOUNT

The Division of Aeronautics promotes optimum use of existing airports by overseeing a statewide system of safe and environmentally compatible airports that are integrated with surface transportation systems. The Aeronautics Account is the primary funding source for the Division of Aeronautics. Virtually all of the revenues come from an eighteen-cent per-gallon excise tax on aviation gasoline and a two-cent per-gallon excise tax on General Aviation jet fuel.

The Division of Aeronautics allocates funds through the California Aid to Airports Program (CAAP) which is comprised of three separate grant aid programs. The Annual Credit grant program provides $10,000 per year to 149 eligible publicly-owned General Aviation airports. The second statutory priority for the grant aid program is the State's participation in the local match required for a federal Airport Improvement Program (AIP) grant. With this program, the State provides funding for 2.5 percent of the federal grant amount to eligible General Aviation airports. Finally, the Acquisition and Development (A&D) grant aid program provides grants to eligible publicly-owned General Aviation airports for 90 percent of project costs, subject to fund availability after funding the previous two grant aid programs.

The Aeronautics Account Fund Estimate (FE) is the basis for the three-year Aeronautics Program, adopted in April of each even year. The FE provides a three-year estimate of available funding from the Aeronautics Account, and is prepared on a cash basis.

AERONAUTICS ACCOUNT ASSUMPTIONS

Fund Estimate Item: Aeronautics Revenues (Items AERO 1-5)

AERO 1. The beginning balance for the 2008 FE will be calculated on a cash basis as the fund is continuously appropriated.

AERO 2. Projected revenues for the excise taxes on aviation gasoline and jet fuel are based on historical transfers from the Motor Vehicle Fuel Account, per the State Controller's Office. Excise tax revenues from aviation gasoline are expected to decline by 3 percent, as the industry continues to move toward jet fuel-powered aircraft. Conversely, excise tax revenues from jet fuel are forecast to gradually increase by 4 percent throughout the FE period. The net result is a moderate decrease in total resources to the Aeronautics fund.

AERO 3. Revenues from Surplus Money Investment Fund (SMIF) interest will be calculated based on the projected year ending cash balances of the Aeronautics Account and the SMIF as of June 30, 2007.

AERO 4. Federal Trust Funds represent federal reimbursement authority for various aviation activities completed by the Division of Aeronautics. Federal Trust Funds are escalated using the Department of Finance (DOF) implicit price deflator of 2.7 percent annually over the FE period.

AERO 5. Transfer to the Public Transportation Account (PTA) per Public Utilities Code, Section 21682.5 is $30,000 per fiscal year.

Fund Estimate Item: Aeronautics Expenditures (Items AERO 6-9)

AERO 6. The annual funding provided to 149 eligible publicly-owned General Aviation airports through the Annual Credit grant program will remain at the same level of $10,000 per year throughout the FE period.

AERO 7. The AIP match in the first year of the FE is based on the Aeronautics Program adopted in 2006. The AIP authority for the remainder of the FE period will be determined when the California Transportation Commission (Commission) adopts the next three-year Aeronautics Program in 2008.

AERO 8. A&D funding is subject to availability after funding the other two CAAP grant aid programs. All ending cash balances during the FE will be available for programming and allocation by the Commission, which may include funding for A&D. The 2006 Aeronautics Program included a list of A&D projects to be funded through 2008-09. A&D in future years will be determined when the Commission adopts the next three-year Aeronautics Program in 2008.

AERO 9. State Operations includes staffing for aeronautics and planning activities. The enacted 2007-08 Budget will be used for State Operations expenditures and escalated using the DOF implicit price deflator of 2.7 percent annually over the FE period.

ACRONYMS

A&D	Acquisition and Development
AB	Assembly Bill
AIP	Airport Improvement Program
CAAP	California Aid to Airports Program
CCCI	California Construction Cost Index
CHCCI	California Highway Construction Cost Index
CHP	California Highway Patrol
Commission	California Transportation Commission
COS	Capital Outlay Support
Department	Department of Transportation
DOF	Department of Finance
FE	Fund Estimate
FHTF	Federal Highway Trust Fund
FHWA	Federal Highway Administration
GARVEE	Grant Anticipation Revenue Vehicles
HBRR	Highway Bridge Replacement and Rehabilitation
HUTA	Highway Users Tax Account
MVA	Motor Vehicle Account
OA	Obligation Authority
PMIA	Pool Money Investment Account
PTA	Public Transportation Account
PUC	Public Utilities Code
R&TC	Revenue and Taxation Code
RABA	Revenue Aligned Budget Authority
RTIP	Regional Transportation Improvement Program
RTPA	Regional Transportation Planning Agencies
S&HC	Streets and Highway Code
SAS	Self-Anchored Suspension
SB	Senate Bill
SCO	State Controller's Office
SHA	State Highway Account
SHOPP	State Highway Operation and Protection Program
SMIF	Surplus Money Investment Fund
STA	State Transit Assistance
STIP	State Transportation Improvement Program
TBSRA	Toll Bridge Seismic Retrofit Account
TBSRP	Toll Bridge Seismic Retrofit Program
TCRA	Traffic Congestion Relief Act of 2000
TCRF	Traffic Congestion Relief Fund
TCRP	Traffic Congestion Relief Program
TDIF	Transportation Deferred Investment Fund
TE	Transportation Enhancements
TIF	Transportation Investment Fund
TMS	Traffic Management Systems