State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

M e m o r a n d u m

To: CHAIR AND COMMISSIONERS

CTC Meeting: April 15-16, 2009

Reference No.: 4.8
Action Item

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Subject: **DRAFT 2010 STIP FUND ESTIMATE ASSUMPTIONS**

RECOMMENDATION:

The Department of Transportation (Department) recommends that the California Transportation Commission (Commission) delay approval of the assumptions for the 2010 Fund Estimate from May to June 2009.

ISSUE:

The request for the delay is due to two events in May 2009 that could potentially have a significant impact on the 2010 STIP Fund Estimate. Since the outcome of these two events will not be known until after the May 13-14, 2009 Commission meeting, the Department recommends the Commission delay approval of the 2010 STIP Fund Estimate assumptions until the June 2009 Commission meeting. This delay will not impact the currently planned schedule for the draft Fund Estimate or the planned adoption of the final Fund Estimate.

The May 2009 potentially significant events are: 1) the May Revision to the Governor's Budget, which will update revenues and expenditures in the 2009-10 Budget; and 2) the May Special Election on May 19, 2009. The ballot for this election contains critical elements of the 2009-10 Budget package including the extension of the one percent sales tax increase and other provisions that were key to passing the Budget. If these propositions are not approved by voters and/or revenue revisions in May are substantially less than previously projected, it is possible that the Legislature will need to reopen the 2009-10 Budget and seek additional proposals to close any funding shortfall.

BACKGROUND:

Per statute, the Commission, in consultation with the Department, shall determine the method by which the State Transportation Improvement Program (STIP) Fund Estimate is developed, including assumptions. The purpose of this presentation is to introduce the key assumptions of the 2010 STIP Fund Estimate and to propose delaying the approval of the assumptions from May until June. Once the methodology and assumptions are approved, the Department will use these assumptions in determining available program capacity for the STIP and the State Highway Operation and Protection Program (SHOPP) over the next five years.

Attached is a draft of the Key Assumptions for the 2010 STIP Fund Estimate, which will have a significant impact on the 2010 Fund Estimate. Each key assumption contains several options for the Commission to consider. Also attached is the "Draft 2010 STIP Fund Estimate Methodologies & Assumptions," which contains a complete listing of fund estimate assumptions. The Department will work with Commission staff to review both sets of assumptions and make any necessary updates or changes prior to the approval of the 2010 STIP Fund Estimate assumptions.

Should the Commission agree to delay adoption of the assumptions, the Department will present them for approval at the June 10-11, 2009 Commission meeting, followed by the Draft Fund Estimate at the July 8-9, 2009 meeting, and adoption of the final 2010 STIP Fund Estimate at the August 12-13 2009 meeting.

Attachments:
- Draft Key Assumptions
- Draft 2010 STIP Fund Estimate Methodologies & Assumptions

DRAFT

2010 State Transportation Improvement Program
Fund Estimate
Key Assumptions

Introduction

This report contains 13 key assumptions to be discussed during the April 2009, California Transportation Commission (Commission) meeting (April 15-16, 2009). The purpose of these assumptions is to solicit discussion and obtain the Commission's consideration of methodology and assumption for the 2010 Fund Estimate as required by statute. Each key assumption offers several options and one Department recommendation. The Commission may also choose to recommend an option not included in this document or a combination of such options.

Once the methodology and assumptions are approved, the Department will use these assumptions in determining available program capacity for the State Transportation Improvement Program (STIP) and the State Highway Operation and Protection Program (SHOPP) over the next five years.

State Highway Account (SHA):

Fuel Excise Tax Revenues

California last raised its fuel excise tax on gasoline, diesel, liquefied petroleum gas, natural gas, ethanol, and methanol in 1994 to 18 cents per gallon. These consumption-based revenues are transferred from the Highway Users Tax Account (HUTA) to the SHA per Sections 2104.1, 2107.6, and 2108 of the Streets & Highways Code (S&HC) on a monthly basis. This transfer totals about 65 percent of total state excise tax revenues and is the largest source of revenues for the SHA. The remaining 35 percent is apportioned to cities and counties for maintenance and preservation of local streets and roads.

Over the last 16 years, HUTA transfers have increased from $1.7 billion to $2.0 billion. This is equivalent to an average annual growth rate of about 1.5 percent. However, over the last two years, fuel consumption has declined because of the rise in fuel prices followed by a slowing economy. The 2009-10 Governor's Budget displays a decrease of 2.6 percent from 2007-08 to 2008-09, and a 1.4 percent decline from 2008-09 to 2009-10. The base year (2009-10) of the Fund Estimate (FE) will contain the HUTA transfer from the May Revision to the 2009-10 Governor's Budget.

Given all of the uncertainty in the economic outlook and recent trends in fuel consumption, the 2010 STIP FE should contain an assumption regarding state fuel excise tax revenues over the FE period.

OPTIONS:

A. Assume revenues continue to decrease by 1.4 percent into 2010-11 based on the 2009-10 Governor's Budget projection from 2008-09 to 2009-10. The FE will display an increase of 0.9 percent per year as fuel consumption approaches the 16-year historical average of 1.5 percent over the FE period. This would result in $10.0 billion for the SHA over the FE period.
B. Assume revenues continue to increase by 1.0 percent per year starting in 2010-11 until fuel consumption reaches the 16-year historical average of a 1.5 percent increase in 2012-13 and remains at this level for the remainder of the FE period. This would total $10.2 billion for the SHA over the FE period.
C. Assume revenues will decrease by 0.5 percent each year from the 2009-10 level for the FE period. This is based on an average declining rate from 2005-06 through 2009-10. This would result in $9.9 billion for the SHA over the FE period.

Recommendation – Option A. Assume revenues continue to decrease by 1.4 percent into 2010-11 based on the 2009-10 Governor's Budget projection from 2008-09 to 2009-10. The FE will display an increase of 0.9 percent per year as fuel consumption approaches the 16-year historical average of 1.5 percent over the FE period. This would result in $10.0 billion for the SHA over the FE period.

Weight Fee Revenues

Section 9400 of the California Vehicle Code authorizes the use of Motor Vehicle Registrations (Weight Fees) for transportation purposes. These revenues are derived from registration and renewal fees charged to commercial vehicles and pick-up trucks based on weight.

Over the past 10 years, Weight Fees have grown from about $700 million to about $1.0 billion in 2008-09. This represents an average annual growth rate of 3.7 percent. However, lower actual receipts of weight fees in the current year and recent trends over the previous two years show a slower rate of 1.5 percent per year.

OPTIONS:

A. Assume Weight Fees will remain flat each year at the 2009-10 level for the FE period based on slow economic growth. This would result in $5.1 billion of resources for the SHA over the FE period.
B. Assume Weight Fees will increase by 1.5 percent each year over the FE period based on lower actual projected revenues for 2008-09 and a three year average from 2006-07 through 2008-09. This would result in $5.2 billion for the SHA over the FE period.
C. Assume Weight Fees increase by 3.7 percent each year over the FE period based on average growth over the last 12 years. This would result in $5.7 billion for the SHA over the FE period.

Recommendation – Option B. Assume Weight Fees will increase by 1.5 percent each year over the FE period based on lower actual projected revenues for 2008-09 and a three year average from 2006-07 through 2008-09. This would result in $5.2 billion for the SHA over the FE period.

Pre-Proposition 42 Loan Repayments

Assembly Bill (AB) 438 authorized the delay of General Fund (GF) transfers of gasoline sales tax revenues to the Transportation Investment Fund (TIF) from 2001-02 through 2003-04, and authorized several loans to balance GF shortfalls and backfill funding for the Traffic Congestion Relief Program (TCRP) projects from the SHA and the Public Transportation Account (PTA).

In 2004, several compacts were negotiated with Native American tribes to secure bond financing backed by tribal gaming revenues. These bonds were to be used to repay the GFs' Pre-Proposition 42 loans. However, a lawsuit challenging these compacts has held up the issuance of these bonds. In the absence of the bond sale, the partial loan repayments have been authorized from annual compact revenues, pursuant to Section 63048.65(e) of the GC. The table below displays the repayments made since 2005-06.

	2005-06	2006-07	2007-08
PTA		$10	
SHA	$151	$90	100
TCRF			
Total	**$151**	**$100**	**$100**

However, Section 63048.65(e) of the GC does not specify a due date for repayment of the pre-Proposition 42 loans. As of March 31, 2009, $879 million of Pre-Proposition 42 debt remains outstanding to the SHA ($132 million), the PTA ($265 million) and the Traffic Congestion Relief Fund ($482 million). The 2009-10 Governor's Budget authorizes the GF to retain the 2008-09 and 2009-10 Pre-Proposition 42 loan repayments in order to close the State's Budget shortfall.

The FE will reflect the 2009-10 Governor's Budget, but should include an assumption regarding the Pre-Proposition 42 loan repayments during the five-year STIP period.

OPTIONS:

A. Assume annual loan repayments of $100 million will resume in 2010-11. This results in $132 million to the SHA for the State Highway Operation and Protection Program (SHOPP), $290 million to the Traffic Congestion Relief Fund (TCRF) for the TCRP, and $78 million to the PTA for the STIP over the FE period.
B. Assume tribal gaming bonds are issued in 2010-11 and Pre-Proposition 42 loan repayments are paid in full. This option would require resolution of the current lawsuit and the ability to re-enter the bond market. This results in $132 million to the SHA for the SHOPP, $290 million to the TCRF for the TCRP, and $265 million to the PTA for the STIP over the FE period.
C. Assume tribal gaming bonds are issued and Pre-Proposition 42 loans are repaid in some other year during the FE period. This results in $132 million to the SHA for the SHOPP, $290 million to the TCRF for the TCRP, and $265 million to the PTA for the STIP.
D. Do not assume any repayments of Pre-Proposition 42 loans during the FE period.

Recommendation – Option A. Assume annual loan repayments of $100 million will resume in 2010-11. This results in $132 million to the SHA for the SHOPP, $290 million to the TCRF for the TCRP, and $78 million to the PTA for the STIP over the FE period.

Federal Revenues

Since 2003-04, Federal revenues have represented about 42 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 and 24.4 cents per gallon on diesel.

The State receives apportionments that are ultimately governed by California's contributions as a percentage share of total contribution into the FHTF. These apportionments are set by the Federal Highway Acts (FHAs) that are enacted by Congress. 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. Under the current FHA, the FHTF has transferred about $3.0 billion a year to California with 61 percent of apportionments retained by the State and the remaining 39 percent subvented to local transportation agencies.

Historically, OA has been approximately 93 percent of California's apportionment under the FHA, but that number decreased to about 82 percent in 2006-07. This number may fluctuate from the 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).

The current FHA is the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which covers Federal Fiscal Year (FFY) 2005 through 2009 will expire on September 30, 2009. In September 2008, a Federal bill was signed that repaid an $8.0 billion loan from the Federal General Fund to the FHTF. A portion of this bill was used in order to prevent a $3.3 billion projected FHTF deficit at the beginning of FFY 2009. The outlook for the remainder of FFY 2009 does not appear to be improving. In a recent update of current conditions, the Senate Subcommittee on Transportation noted that expenditures would need to be trimmed by as much as 34 percent in order to avoid another budget gap at the end of FFY 2009.

In addition, SAFETEA-LU, as well as past Federal Transportation Acts, included a rescission that reduces the federal apportionments to states. Although these reductions do not directly reduce the OA granted to each state, it does reduce the flexibility states have to apply OA to the various Federal program requirements. Consequently, Federal program expenditures that exceed a particular program's apportionments may not have unobligated apportionments to apply against those expenditures for reimbursement.

With SAFETEA-LU expiring at the end of September 2009 and the FHTF in danger of reaching insolvency levels, the 2010 FE should include an assumption for the level of Federal OA over the next five year STIP period covered by the next Federal Transportation Act.

OPTIONS:

A. Assume the OA level is equal to the $2.83 billion 2007-08 actual level and held constant each year over the FE period. This would result in $14.2 billion in OA over the five-year FE period.
B. Assume the OA level will decrease by 1.4 percent starting in 2008-09 and continue into 2010-11 based on Budget projections for HUTA transfers from 2008-09 to 2009-10. Assuming the economy begins to recover, we propose an increase of 0.9 percent per year as consumption returns to the historical average of 2.2 percent over the FE period. This would result in $13.7 billion for the SHA over the FE period.
C. Assume the OA level in 2010-11 decreases by 10 percent from the 2007-08 OA level and is held constant over the FE period. This would help balance the 34 percent shortfall in FFY 2009 and any future deficits as well. This assumes the Federal Highway Administration will spread the FFY 2009 shortfall into the FE period. This would result in $12.7 billion for the SHA in OA over the five-year FE period.
D. Assume the next Federal Highway Act authorizes a 10 cent per gallon increase to Federal excise taxes on fuel as suggested by the House Transportation and Infrastructure Committee. Assuming no growth in fuel consumption, this would result in $20.2 billion in OA over the five-year FE period. This option assumes other sources cover the projected FHTF shortfall.

Recommendation – Option A. Assume the OA level is equal to the $2.83 billion 2007-08 actual level and held constant over the FE period. This would result in $14.2 billion in OA over the five-year FE period.

Note:

The Commission may also elect to delay adoption of the 2010 STIP FE up to 90 days in anticipation of the enactment for the next Federal Highway Act.

GARVEE Bond Financing

Chapter 862 of the Statutes of 1999 (Senate Bill 928) added Section 14550 to the GC authorizing the State Treasurer's Office to issue Federal Highway Grant Anticipation Revenue Vehicles (GARVEE) bonds, and the California Transportation Commission (Commission) to select and designate projects to be funded for accelerating construction from bond proceeds. The intent of the Legislature in authorizing the use of GARVEE financing in California is to accelerate the funding and construction of critical transportation infrastructure projects in order to provide congestion relief benefits to the public significantly sooner than traditional funding mechanisms.

Appropriate uses of GARVEE financing include circumstances when additional public benefits resulting from early construction exceed financing costs, and when other funding mechanisms lack availability. Other considerations are the anticipated economic, safety, other benefits of the early construction of the project, and the anticipated useful life of the project. Since essentially all OA is used to fund the SHOPP, any GARVEE debt service payments from OA would result in a direct reduction of resources for the SHOPP. There is currently an annual GARVEE debt service payment of $73 million for $615 million in GARVEE funded STIP projects authorized in 2004 and $11 million for $98 million in GARVEE funded SHOPP projects authorized in 2008. Current annual GARVEE debt service totals $84 million.

In a September 2007 Commission meeting, the Commissioners approved a 2008-09 GARVEE Bond Financing plan to fund SHOPP projects totaling $2.2 billion through 2012-13 ($1.9 billion financed through GARVEE). The full 2008-09 GARVEE financing plan would require $1.30 billion ($225 million in 2010-11 and 2011-12, and $283 million in 2012-13 through 2014-15) of OA to be used for debt service over the FE period.

The enactment of the American Recovery and Reinvestment Act (ARRA) provides nearly $1 billion in SHOPP funding and the opportunity for additional funds through ARRA redistribution. Since this may lessen the need for GARVEE financing, and because the GARVEE assumptions will have a large impact on SHOPP resources, the 2010 FE should include an assumption regarding GARVEE debt service.

OPTIONS:

A. Assume the current GARVEE debt service levels over the FE period consistent with all GARVEE bonds expected to be issued through 2009-10—currently at $84 million a year or $422 million over the FE period.
B. Assume GARVEE debt service consistent with the 2008-09 GARVEE finance plan at the September 2007 Commission meeting to finance $1.9 billion through 2012-13. The 2008-09 GARVEE plan would introduce an additional $936 million in debt service payments over the FE period. Including this amount, GARVEE debt service would total $1.3 billion over the five-year period.
C. Assume additional resources are used to finance some of the 2008-09 GARVEE financial plan resulting a level between the two options above. A middle ground of financing would require $656 million ($1,312/2) of debt service payments over the FE period.

Recommendation – Option A. Assume the current GARVEE debt service levels over the FE period consistent with all GARVEE bonds expected to be issued through 2009-10—currently at $84 million a year or $422 million over the FE period. Any additional GARVEE issuances beyond June 2010 will not be included in the final 2010 STIP FE and new debt service would come from future SHOPP capacity.

American Recovery and Reinvestment Act (ARRA) Financing

Signed into law on February 17, 2009, the ARRA authorized $2.57 billion of Federal funds for California transportation. Assembly Bill (AB) 20 of the third extraordinary session of 2009-10 (Bass) authorized $935 million for SHOPP projects, and up to $310 million in SHA loans of Federal stimulus funds to backfill the current freeze on Proposition 1B funding and obligate projects within 120 days of Federal apportionment. This also requires proceeds from the sale of Proposition 1B bonds to be repaid, interest free, to the SHA.

However, Section 8879.77 (a) of the GC does not specify a deadline for repayment nor the priority of new bond proceeds (i.e. to repay SHA or fund programmed Proposition 1B projects). Based on these two concerns, the 2010 FE should include an assumption regarding the date of repayment and the amount to be loaned from the SHA.

OPTIONS:

A. Assume an SHA loan of $310 million and repayment will occur within 18 months of the advance (estimated at October 2010).
B. Assume an SHA loan of $310 million and repayment will occur within 6 months of the advance (estimated at October 2009).
C. Assume no loan repayment occurs.

Recommendation – Option A. Assume the SHA will loan $310 million and repayment will occur within 18 months of the advance (estimated at October 2010).

Public Transportation Account (PTA)

PTA "Spillover" Revenue

Spillover was created in 1971, when sales tax was added to gasoline as part of the Transportation Development Act. At the same time gasoline was added to the sales tax base, the state sales tax rate was reduced from 5 percent to 4.75 percent. The difference between sales tax generated at the 4.75 percent rate with gasoline and what would have been generated at the 5 percent rate without gasoline is labeled "spillover". The Legislature included a provision in the law that dedicated spillover to transportation purposes, and required that spillover be deposited in the GF and transferred to the PTA.

Simply stated, higher gas prices can generate more spillover, because spillover occurs when sales tax revenues (at 4.75 percent) on all goods, including gas, exceed revenues (at 5 percent) on all sales, excluding gas. However, because the other variable is the total tax collected on *all* taxable goods, high fuel prices alone do not guarantee spillover during struggling economic periods.

Since the inception of spillover until 2002, the average amount of spillover was just over $37 million annually. During this time, there were wide fluctuations from year to year, including a high of $152 million, and 13 years of no spillover at all. Since 2002, there have been significant increases in spillover generation including a projected high of $1.04 billion in 2008-09. This is attributed to higher fuel prices and a slowing economy. Due to the rapid increase in spillover revenues and GF shortfalls, spillover has been diverted every year from 2001-02 through 2009-10 for GF purposes.

The FE will reflect the 2009-10 Budget authorizing the transfer of spillover to the Mass Transportation Fund (MTF) through 2012-13, but will need to make an assumption regarding spillover revenues over the remaining FE period. According to Section 7102 (a)(1)(H) of the Revenue & Taxation Code, in 2013-14 the spillover formula will split revenues between the MTF (50 percent), the PTA (17 percent), and STA (33 percent). The Proposed 2009-10 Governor's Budget Summary stated that based on current economic projections, it is not likely that there will be much, if any, spillover revenue in the next few years.

The 2010 STIP FE should include an assumption regarding future spillover revenues.

OPTIONS:

A. Assume current statute for 2013-14 and 2014-15. Current projections estimate spillover revenues of $16 million to the PTA over the FE period.
B. Assume that spillover will continue to be diverted for GF transportation purposes in 2013-14 and 2014-15 or that no spillover revenues will occur in 2013-14 and 2014-15.

Recommendation – Option B. Assume that spillover will continue to be diverted for GF transportation purposes in 2013-14 and 2014-15 or that no spillover revenues will occur in 2013-14 and 2014-15.

Future Funding of Home-to-School (HTS) Expenditures

The State Budget diverted PTA funding to HTS in 2007-08 ($508 million), and plans to continue this trend in 2008-09 ($203 million), and 2009-10 ($359 million). This has primarily occurred for two reasons: 1) Article XIX of the State Constitution does not safeguard PTA resources from diversion to general funded transportation programs such as HTS, and 2) sales tax and spillover have provided record revenues for the PTA over the last few years (see spillover assumption). The PTA currently has $921 million of STIP projects programmed against its resources from 2008-09 through 20012-13, with $159 million programmed in 2009-10.

The FE reflects the base year in the 2009-10 Budget, but the FE will need to display an assumption regarding PTA funded HTS expenditures over the 2010 FE period. Since PTA funding of the HTS program reduces PTA resources available for capital projects, it is important that the 2010 FE includes an assumption as to the priority of PTA expenditures with respect to this general funded transportation program.

OPTIONS:

A. Assume that the PTA will fund HTS expenditures as its priority over STIP capital, after funding for state operations and intercity rail expenditures over the FE period. This leaves no funding for PTA capital.
B. Assume that currently programmed PTA STIP capacity receives priority over the HTS program, and HTS would receive the remainder of any funding after PTA STIP is fully funded.
C. Assume that the PTA will not fund the HTS over the FE period.

Recommendation – Option B. Assume that currently programmed PTA STIP capacity receives priority and HTS would receive the remainder of funding over the FE period.

Transfers to State Transit Assistance (STA)

The STA program is part of the Transportation Development Act (TDA) and is used to provide funding for local mass transit operations. Pursuant to Section 99312 of the Public Utilities Code, STA receives fund transfers from half of the Proposition 111 sales tax on gasoline and diesel fuel revenues to the PTA, 75 percent of the PTA share of the Proposition 42 revenues, and two-thirds of the spillover to the PTA.

However, the 2009-10 Budget reduced the STA transfer to $153 million in 2008-09 and eliminated the transfer in 2009-10. Since STA transfers reduce PTA resources available for capital projects, it is important that the 2010 FE reflects an assumption regarding the level of transfers to the STA program.

OPTIONS:

A. Assume current statute, which transfers 50 percent of Proposition 111 and diesel sales tax revenues, and 75 percent of the Proposition 42 PTA transfer.
B. Assume STA transfers total $306 million each year. The 2007-08 Budget and the 2008-09 Budget (before subsequent adjustments) temporarily changed statute to reflect a distribution to STA of $306 million. This would assume this amount to be the new baseline, but it may be subject to future diversions to assist the GF.
C. Assume STA transfers total $194 million based on a 10 year history of actual transfers from 1998-99 through 2008-09.
D. Assume no STA transfers. This assumes elimination of the STA program over the FE period.

Recommendation – Option A. Assume current statute, which transfers 50 percent of Proposition 111 and diesel sales tax revenues, and 75 percent of the Proposition 42 PTA transfer.

Transportation Investment Fund (TIF) Revenues

The TIF was created with passage of the Traffic Congestion Relief Act (AB 2928, Chapter 91, Statutes of 2000; SB 1662, and Chapter 656, Statutes of 2000), and revised through the Transportation Refinancing Plan, AB 438 (Chapter 113, Statutes of 2001). Approved by voters in 2002, Proposition 42 amended the State Constitution to make the transfer of these revenues to the TIF permanent. Proposition 42 revenues are distributed by statute to Local Streets and Roads programs (40 percent), and the PTA (20 percent), with the remaining 40 percent retained in the TIF for STIP.

The source of funds for the TIF is currently a 6 percent (reduces to 5 percent on July 1, 2011) state sales tax on gasoline. Total TIF revenues are determined by the quantity of gasoline consumed and the price per gallon, less spillover and Prop 111. The TIF will receive more resources when gasoline prices are high and during periods of increased fuel consumption.

Since Proposition 42 revenues will essentially be the sole state funding source for the STIP program capacity over the FE period, it is important that the 2010 FE includes an assumption regarding the level of Proposition 42 revenues. The projections below do not include the potential of the extension of the 1.0 percent sales tax increase to 2011-12, which is proposed in the May Special Election. For consistency with the state fuel excise tax assumption, each option below will reflect the fuel consumption rates contained in the Department recommendation.

OPTIONS:

A. Assume an average gasoline price of $2.04 over the FE period. This would produce an average annual transfer of $1.3 billion, with approximately $517 million retained in the TIF for STIP.
B. Assume an average gasoline price of $2.50 over the FE period. This would produce an average annual transfer of $1.5 billion, with approximately $608 million retained in the TIF for STIP.
C. Assume an average gasoline price of $2.75 over the FE period. This would produce an average annual transfer of $1.6 billion, with approximately $640 million retained in the TIF for STIP.
D. Assume an average gasoline price of $3.00 over the FE period. This would produce an average annual transfer of $1.7 billion, with approximately $671 million retained in the TIF for STIP.
E. Assume an average gasoline price of $3.25 over the FE period. This would produce an average annual transfer of $1.8 billion, with approximately $702 million retained in the TIF for STIP.
F. Assume an average gasoline price of $3.50 over the FE period. This would produce an average annual transfer of $1.8 billion, with approximately $734 million retained in the TIF for STIP.

Recommendation – Option B. Assume an average gasoline price of $2.50 over the FE period. This would produce an average annual transfer of $1.5 billion, with approximately $608 million retained in the TIF for STIP.

Proposition 42 Suspensions

The passage of Proposition 1A in the November 2006 general elections amended the State Constitution to further limit the conditions under which the Proposition 42 transfer of gasoline sales tax revenues for transportation uses can be suspended. Proposition 1A requires Proposition 42 suspension to be treated as loans to the GF that must be repaid in full, including interest, within three years of suspension. Furthermore, the measure only allows suspension to occur twice in ten consecutive fiscal years. No suspension can occur unless prior suspensions (excluding those made prior to 2007-08) have been repaid in full.

The reliability of TIF transfers has been mixed in the past, with suspensions occurring in 2003-04 and 2004-05. Since then, transfers have occurred for four consecutive years from 2005-06 through 2008-09, and the 2009-10 Governor's Budget authorizes the transfer for a fifth consecutive year. See the table below for a summary of suspensions.

Proposition 42 Revenues ($ in millions)

Year		Prop 42 Received
2003-04 (Suspension)*	$	(868)
2004-05 (Suspension)	$	(1,243)
2005-06 Actual	$	1,358
2006-07 Actual	$	1,415
2007-08 Actual	$	1,416
2008-09 Budget Projection	$	1,351
2009-10 Budget Projection	$	1,483
2010-11 through 2014-15 (FE period)		**???**

* Received $239M, but $1,107M was the full amount of Proposition 42.

OPTIONS:

A. Assume the Legislature will not suspend the Proposition 42 transfer over the FE period.
B. Assume a suspension in 2010-11 and repayment by June 30, 2014. One suspension would delay currently programmed STIP for several years. This is due to the lack of resources in 2010-11 and the repayment not occurring until the end of 2013-14. The FE assumes the GF will take the full three years to repay the suspension.
C. Assume two suspensions: The first in 2010-11 and the second in 2014-15. This option would also delay STIP project delivery for several years. Assume the same payback scenario as described in Option B.

Recommendation – Option A. Assume the Legislature will not suspend the Proposition 42 transfer over the FE period.

Transportation Facilities Account (TFA) Allocations

Approved by voters in November 2006, Proposition 1B authorized the issuance of $19.925 billion in state General Obligation (GO) bonds under the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Act). The TFA was created by the Act and authorizes $2.0 billion for the purpose of augmenting the STIP.

The Commission allocated $557 million in 2007-08 and $659 million so far in 2008-09, leaving an unallocated balance of $784 million for the TFA. On December 17, 2008, the Pooled Money Investment Board (PMIB) voted to halt about 1,985 infrastructure projects through June 2009 due to the State fiscal emergency and the difficulty of selling bonds in the credit market. This action stopped new Proposition 1B allocations and prohibited the Department from funding Proposition 1B project expenditures financed through the Pooled Money Investment Account.

On March 24, 2009, the PMIB re-entered the bond market and sold $6.5 billion of GO bonds - $2.5 billion more than expected. The PMIB has not stated when they will attempt to sell more bonds for new Proposition 1B projects. Based on this information, it is possible that a portion of the current, unallocated Proposition 1B balances will not be funded until the FE period - i.e. the TFA has an unallocated Proposition 1B capacity of about $784 million. Since the ability to sell GO bonds will directly affect STIP capacity, it is important that the 2010 FE reflects an assumption regarding the allocation of TFA capacity over the FE period.

OPTIONS:

A. Assume the remaining $784 million in TFA capacity will be allocated in 2009-10.
B. Assume $261 million (one-third) of the remaining TFA capacity will be allocated in 2009-10, and $523 million (two-thirds) will be allocated in 2010-11.
C. Assume $392 million (one-half) of the remaining TFA capacity will be allocated in 2009-10, and $392 million (one-half) will be allocated in 2010-11.
D. Assume the remaining $784 million in TFA capacity will be allocated in 2010-11.

Recommendation – Option A. Assume the remaining $784 million in TFA capacity will be allocated in 2009-10.

Proposition 1B Allocations

As mentioned on the prior page, Proposition 1B authorized the issuance of $19.925 billion in state GO bonds including the TFA for STIP. Even though the Proposition 1B bonds do not directly fund the STIP, they could impact projects that are also funded from those sources. For this reason, the FE will display capacity estimates for each of the bonds consistent with the following assumption.

When the PMIB voted to halt about 1,985 infrastructure projects through June 2009, this action stopped new Proposition 1B allocations and prohibited the Department from funding Proposition 1B project expenditures financed through the Pooled Money Investment Account. Currently, the PMIB has not stated when they will attempt to raise proceeds for new Proposition 1B projects.

Based on this information, it is possible that a portion of the scheduled Proposition 1B allocations may be delayed for an unknown period. Since the ability to sell GO bonds will directly affect fund capacities, it is important that the 2010 FE includes an assumption regarding the allocation of Proposition 1B bonds.

OPTIONS:

A. Assume there is *no delay* in Proposition 1B allocations. This assumes allocation capacity will remain as scheduled over the base year and FE period.
B. Assume a *1 year delay* in Proposition 1B allocations. This assumes the 2008-09 allocation and all future capacities will be delayed by 1 year over the FE period.
C. Assume a *2 year delay* in Proposition 1B allocations. This assumes the 2008-09 allocation and all future capacities will be delayed by 2 years over the FE period.

Recommendation – Option B. Assume a 1 year delay in Proposition 1B allocations. This assumes the 2008-09 allocation and all future capacities will be delayed by 1 year over the FE period.

DRAFT

2010 State Transportation Improvement Program Fund Estimate

Methodologies & Assumptions

April 2009

METHODOLOGY

The Fund Estimate (FE) is based on assumptions and methodologies to forecast revenues and expenditures in order to determine the estimated remaining cash available for programming. This section includes the general methodologies used in the development of the FE.

Statutory Guidance

Section 14525(c) of the Government Code (GC) requires the FE to be based on current statutes for estimating revenues. Section 163 of the Streets & Highways Code (S&HC) provides guidance for the use of all transportation funds available to the state, including the priority of expenditures for administration, maintenance and operation, rehabilitation, local assistance, and the State Transportation Improvement Program (STIP), respectively.

Section 14525.1 of the GC requires the FE to estimate expenditures using the most recently enacted Budget and adjust for annual inflation. The most recent California Department of Finance (DOF) Budget Letter would determine an annual price escalation rate for State Operations expenditures. This does not include escalation rates for capital outlay support or Highway Maintenance and Operations costs.

Section 14529.7 of the GC regulates reimbursement projects covered by Assembly Bill (AB) 3090 where the Commission, Department, region, and local agency may enter into an arrangement. Under the cash reimbursement arrangement, the local agency receives a direct cash reimbursement for delivery of a programmed STIP project.

Revenue & Expenditure Projections

- The beginning cash balances for each fund will be based on the prior fiscal year ending cash balance per the State Controller's Office (SCO) plus that fund's share of advances in the Transportation Revolving Account (TRA).
- Interest income to those funds with balances in the Surplus Money Investment Fund (SMIF) will be based on the most current published SMIF rate from the SCO and the projected 2008-09 year-end cash balances.
- Revenue estimates for future periods use historical trends, the economic outlook, and consultation with the DOF as a basis.
- The FE assumes usage of Local Assistance federal funding in the year received, and therefore, will not result in cash flows over the period.
- The Department developed program expenditure and cash flow estimates by working with each respective Department Program.
- The FE assumes federal programs currently authorized will continue into the next Federal Highway Act.

- The FE assumes the Federal Transportation Act will distribute the state and local percentage allocation of federal funds at an estimated 61/39 ratio. This also includes the allocation for the August Redistribution.
- The Transportation Investment Fund (TIF) will fund any current and future non-PTA programmed AB 3090 reimbursements and assumes eligibility with policy limit regulations.

Conversion to Capacity

- The FE will use a "Cash Flow" model that schedules funding capacity based upon cash flow requirements and is consistent with the method used to manage the allocation of capital projects.
    - After projecting annual revenue estimates, the FE subtracts existing commitments, as defined by the approved assumptions, before determining cash available for programming.
    - The FE will convert fund cash balances to programming capacity—an amount available for commitment to projects each year. This conversion to capacity will use linear programming to optimize capacity, while maintaining a prudent cash balance and minimizing annual fluctuations of program levels. It will assume that capital projects liquidate based on historical spending patterns.
    - Program capacity will represent the total value of projects that can be funded, and includes construction, right of way, and support.
- The county share system established by Senate Bill (SB) 45 (Chapter 622, Statutes of 1997) defines the methodology for determining the level of programming. The FE uses this system to identify the funds available for programming over the FE period.

State Highway Account Assumptions

Operating Cash Balance. The State Highway Account (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. Additionally, the SHA balance must also cover monthly expenditures during delays in the adoption of State and Federal budgets.

SHA 1. Based on an updated analysis of monthly SHA receipts less expenditures, a minimum level of operating cash of $370 million would sufficiently cover 95 percent of the monthly volatility in the SHA.

SHA Revenues & Transfers

Fuel Excise Tax Revenues:

California last raised its fuel excise tax on gasoline, diesel, liquefied petroleum gas, natural gas, ethanol, and methanol in 1994 to 18 cents per gallon. These consumption-based revenues are transferred from the Highway Users Tax Account (HUTA) to the SHA per Sections 2104.1, 2107.6, and 2108 of the Streets & Highways Code on a monthly basis. Given all of the uncertainty in the economic outlook and recent declines in fuel consumption, the 2010 STIP FE must make an assumption regarding state fuel excise tax revenues over the FE period.

SHA 2. See Key 2010 STIP FE Assumptions.

Weight Fee Revenues:

Section 9400 of the California Vehicle Code authorizes the use of Motor Vehicle Registrations (Weight Fees) for transportation purposes. These revenues are derived from registration and renewal fees charged to commercial vehicles and pick-up trucks based on weight.

SHA 3. See Key 2010 STIP FE Assumptions.

Other State Revenues: Other SHA revenues include interest received from the Surplus Money Investment Fund (SMIF) and revenues from Other Regulatory Licenses and Permits.

SHA 4. Revenues from Other Regulatory Licenses and Permits use historical revenues that project to increase at an average annual rate of 2.7 percent. This results in total revenues of $65 million over the FE period.

S&HC Section 194 Transfers: Section 194 of the S&HC transfer from the SHA to the Public Transportation Account (PTA) is for the pro-rata share of highway planning funded from PTA. Budgeted PTA State Operations expenditures and a formula determine this transfer.

SHA 5. Revenues from Section 194 transfers use recent historical revenues that project to increase at an average annual rate of 1.3 percent. This results in revenues of approximately $119 million over the FE period.

Forecast S&HC Section 194 Transfers
($ millions)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
2008 FE	$23	$23	$24	$25	$25		
2010 FE			$23	$24	$24	$24	$25

Toll Bridge Seismic Retrofit Program: In 2001, the Legislature authorized a transfer from the SHA to the Toll Bridge Seismic Retrofit Account (TBSRA) under Assembly Bill (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 (TBSRP). The Commission adopted a revised schedule of state contributions to the TBSRP in December 2005 based on AB 1171 (Chapter 907, Statutes of 2001) and AB 144 (Chapter 71, Statutes of 2005).

SHA 6. The Commission's December 2005 adopted plan scheduled transfers from the SHA to the TBSRA and contributions to the program, which total $768 million over the FE period.

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

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
2008 FE	$43	$99	$153	$150	$165		
2010 FE			$153	$150	$165	$300	$0

S&HC Section 183.1 Transfers: Pursuant to Section 183.1 of the S&HC, 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 by November 1 of each year.

SHA 7. Assume S&HC Section 183.1 transfers from the SHA to the PTA occur throughout the FE period (existing law) totaling $356 million.

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

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
2008 FE	$71	$74	$71	$70	$70		
2010 FE			$71	$74	$71	$70	$70

Motor Vehicle Account Transfers: Pursuant to Section 42273 of the VC, the SCO mandates transfer of the Motor Vehicle Account (MVA) balance remaining on the last day of the preceding month, unless the MVA plans to immediately use this funding.

SHA 8. The 2010 FE will assume no transfers from the MVA to the SHA in the FE period pursuant to Section 42273 of the VC.

Pre-Proposition 42 Loan Repayments:

In 2004, several compacts were negotiated with Native American tribes to secure bond financing backed by tribal gaming revenues for the purpose of repaying General Fund (GF) Pre-Proposition 42 loans. However, a lawsuit challenging these compacts has held up the issuance of these bonds. In the absence of the bond sale, the partial loan repayments have been authorized from annual compact revenues. The FE will reflect the 2009-10 Budget, but needs to make an assumption regarding the Pre-Proposition 42 loan repayments during the five-year STIP period.

SHA 9. See Key 2010 STIP FE Assumptions

Federal Revenues:

Federal revenue accounts for between 35 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 and 24.4 cents per gallon on diesel. The State receives apportionments set by the Federal Highway Act (FHA), which are ultimately governed by California's contribution as a percentage share of total contribution into the FHTF.

With SAFETEA-LU (most recent FHA) expiring at the end of September 2009 and the FHTF in danger of reaching insolvency levels, the 2010 FE must make an assumption for the level of Federal OA over the next five year STIP period covered by the next Federal Transportation Act.

SHA 10. See Key 2010 STIP FE Assumptions

SHA 11. The 2010 FE assumes an August Redistribution of $106 million per year based on the average amount received over the last five years. This excludes the record high amount of $204.5 million received in 2006-07.

Advanced Project Development Element: Beginning with the 2000 STIP, Section 14529.01 of the GC (AB 1012, Chapter 783, Statutes of 1999) required the Department to estimate the Advance Project Development Element (APDE). These are available funds in two years following the FE period. The APDE authorized 25 percent of these additional resources toward the STIP by building a "shelf" of projects ready for construction.

SHA 12. The 2010 STIP FE will not include the APDE because the 2010 FE is expected to show the need for reprogramming of STIP projects.

SHA Expenditures

BCP Reservation: A Budget Change Proposal (BCP) is a proposal to change the level of service or funding sources for activities authorized by the State Budget or to request new program activities not currently authorized. For Fund Estimate (FE) purposes, a positive BCP will typically reduce a fund's available resources for dedication to new program capacity.

SHA 13. Assume a $35 million reservation for BCP increases in 2010-11 and 2011-12 based on a 4-year historical average, and an annual escalation from 2011-12 by 3.2 percent for the remainder of the FE period.

SHA BCP Reservations
($ millions)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
2010 FE	$0	$35	$70	$72	$75	$77

SHA 14. Maintenance and Operations expenditures for Transportation Management Systems (TMS) includes an inventory adjustment of or 2.5 percent in 2010-11 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).

State Funds for Local Assistance: State funds for Local Assistance covers Railroad Grade Separation, Railroad Grade Crossing Maintenance, Regional Surface Transportation Program Match and Exchange, and Safe Routes to School Exchange.

SHA 15. State expenditures assume allocation for the 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 2008 STIP FE included $50 million for the EEM Program augmented with Federal Transportation Enhancement Act (TEA) resources. The 2009-10 Budget provides a transfer to the EEM Fund.

SHA 16. The 2010 STIP FE includes a $10 million transfer per year to the EEM Fund, as intended pursuant Section 164.56(a) of the S&HC.

Prior STIP Commitments: Section 163 of the S&HC identifies the priorities for the use of all transportation funds available to the state. These priorities include expenditures for administration, maintenance and operations, rehabilitation, and local assistance, respectively. Prior to calculation of resources available for new STIP, the FE sets aside resources for existing STIP commitments.

SHA 17. COS expenditures are based on programmed STIP projects allocated prior to 2007-08, and a reservation for support cost increases consistent with SB 45 based on historical expenditures.

SHA 18. Capital expenditures are based on a continuation of all existing SHA STIP project allocations and STIP GARVEE debt service payments.

GARVEE Bond Financing:

Chapter 862 of the Statutes of 1999 (Senate Bill 928) added Section 14550 to the Government Code authorizing the State Treasurer's Office to issue Federal Highway Grant Anticipation Revenue Vehicles (GARVEE) bonds, and the California Transportation Commission to select and designate projects to be funded for accelerating construction from bond proceeds.

SHA 19. See Key 2010 STIP FE Assumptions

Prior SHOPP Commitments & SHOPP Program Capacity: Prior to calculating resources available for the SHOPP, the SHA FE will set aside resources for existing SHOPP commitments.

SHA 20. COS expenditures are based on SHOPP projects allocated during 2008-09 and prior, construction engineering for programmed 2009-10 SHOPP projects, and pre-construction engineering and R/W support for projects currently programmed to begin in 2009-10.

SHA 21. R/W commitments are expenditures based on allocated R/W in 2008-09 and prior, and the R/W lump sum allocated in 2009-10.

SHA 22. Capital expenditures are based on a continuation of all SHOPP projects allocated in 2008-09 and prior, all programmed 2009-10 SHOPP projects, and SHOPP GARVEE debt service payments.

SHA 23. Total program capacity of the 2010 FE SHOPP will based total SHA resources remaining after existing commitments.

ARRA Repayment:

Signed into law on February 17, 2009, the ARRA authorized $935 million of Federal funds for SHOPP projects. Assembly Bill (AB) 20 of the third extraordinary session of 2009-10 (Bass) authorizes up to $310 million in SHA loans of Federal stimulus funds to backfill the current freeze on Proposition 1B funding and obligate projects within 120 days of Federal apportionment. This also requires proceeds from the sale of Proposition 1B bonds to be repaid, interest free, to the SHA.

SHA 24. See Key 2010 STIP FE Assumptions

Public Transportation Account

Minimum Operating Cash: The PTA requires a minimum level of operating cash sufficient to meet its monthly operating commitments, daily fluctuations, and the revenue and expenditure cycles that occur during the year.

PTA 1. Use a minimum operating cash level of $120 million based on historical data and projected expenditures from the 2010 STIP FE capacity.

PTA Revenues

Proposition 111 Gasoline and Diesel Fuel Sales Tax: The Department of Finance (DOF) estimates gasoline and diesel fuel sales tax revenues. Proposition 111 revenues result from sales tax on nine cents of the state excise tax on gasoline. Diesel sales tax revenues generate from the consumption and the price per gallon of diesel fuel.

PTA 2. The Department updated Proposition 111 gasoline sales tax revenues in accordance with the 2009-10 Enacted Budget. Revenues over the FE period will use DOF estimates reflecting an average annual growth rate of 0.9 percent, which results in $316 million over the FE period.

Forecast Proposition 111 Gasoline Sales Tax Revenues
($ millions)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
2008 FE	$70	$71	$73	$74	$75		
2010 FE			$63	$62	$63	$63	$65

PTA 3. The Department updated diesel fuel sales tax revenues with respect to the 2009-10 Enacted Budget. The FE period utilizes DOF estimates through 2012-13 and expects an increase throughout the FE period at an average annual growth rate of 4.7 percent. This results in total revenues of approximately $1.5 billion over the FE period.

Forecast Diesel Fuel Sales Tax Revenues
($ millions)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
2008 FE	$382	$396	$419	$428	$440		
2010 FE			$266	$276	$290	$303	$318

PTA "Spillover" Revenue:

The difference between sales tax generated at the 4.75 percent rate with gasoline and what would have been generated at the 5 percent rate without gasoline is labeled "spillover". The FE will reflect the 2009-10 Budget authorizing the transfer of spillover to the Mass Transportation Fund (MTF) through 2012-13, but will need to make an assumption regarding spillover revenues over the remaining FE period. In January 2009, the 2009-10 Governor's Budget stated that based on current economic projections, it is not likely that there will be much, if any, spillover revenue in the next few years.

PTA 4. See Key 2010 STIP FE Assumptions.

Transfer from the Aeronautics Account:

PTA 5. Transfer from the Aeronautics Account, per PUC Section 21682.5, is $30,000 per fiscal year.

PTA Expenditures

Future Funding of Home-to-School (HTS) Expenditures:

The State Budget diverted PTA funding to HTS in 2007-08 ($508 million), and plans to continue this trend in 2008-09 ($203 million), and 2009-10 ($359 million). The FE reflects the base year in the 2009-10 Budget, but the FE will have to make an assumption regarding PTA funded HTS expenditures over the 2010 FE period.

PTA 6. See Key 2010 STIP FE Assumptions.

Transfers to State Transit Assistance (STA):

The 2009-10 Budget reduced the STA transfer to $153 million in 2008-09 and eliminated the transfer in 2009-10. Since STA transfers reduce PTA resources available for capital projects, it is important that the 2010 FE arrives at an assumption regarding the level of transfers to the STA program.

PTA 7. See Key 2010 STIP FE Assumptions.

Future Funding of Regional Center Transportation Program:

PTA 8. Regional Center Transportation program will receive $138 million from the PTA in 2009-10 and thereafter, which results in $690 million from the PTA over the FE period.

State Operations:

BCP Reservations: A Budget Change Proposal (BCP) is a proposal to change the level of service or funding sources for activities authorized by the State Budget or to request new program activities not currently authorized. For Fund Estimate (FE) purposes, a positive BCP will typically reduce a fund's available resources for dedication to new program capacity.

PTA 9. Assume no BCPs or net zero BCPs over the FE period.

Intercity Rail Operations:

PTA 10. Intercity rail is part of State Operations expenditures in the PTA. Expenditures below use revised service expansion as a basis for estimates by the Division of Rail.

A. Intercity rail and bus operations base expenditures for existing services will rely on the enacted budget, which is $90 million for 2009-10, and escalates at 3.2 percent over the FE period.

B. Estimates for expenditures of additional services and extensions on existing routes are $88 million and $41 million, respectively, over the FE period.

C. The Department's estimated need for heavy equipment maintenance and overhaul over the FE period is $105 million.

Local Assistance:

PTA 11. Bay Area Ferry operations expenditures will use the Enacted 2009-10 Budget. Future expenditures will escalate by one percent based on historical expenditures.

Prior PTA STIP Commitments: Prior to calculating resources available for new STIP, the FE sets aside resources for existing STIP commitments.

PTA 12. Capital expenditures are based on a continuation of all STIP projects allocated in 2008-09 and prior, all PTA programmed 2009-10 STIP projects, and non-highway AB 3090s.

Transportation Investment Fund

Minimum Operating Cash:

TIF 1. Based on a cash analysis of historical and projected monthly receipts less expenditures, a minimum level of operating cash of $120 million should sufficiently cover 95 percent of the monthly volatility in the TIF during the FE period.

TIF Revenues

Proposition 42 Revenues:

Approved by voters in 2002, Proposition 42 amended the State Constitution to make the transfer of these revenues to the TIF permanent. Proposition 42 revenues are distributed by statute to Local Streets and Roads programs (40 percent), and the PTA (20 percent), with the remaining 40 percent retained in the TIF for STIP. Since Proposition 42 revenues will essentially be the sole state funding source for the STIP program capacity over the FE period, it is important that the 2010 FE arrives at an assumption regarding the level of Proposition 42 revenues.

TIF 2. See Key 2010 STIP FE Assumptions.

Proposition 42 Suspensions:

The passage of Proposition 1A in the November 2006 general elections amended the State Constitution to further limit the conditions under which the Proposition 42 transfer of gasoline sales tax revenues for transportation uses can be suspended. The reliability of TIF transfers has been mixed in the past, with suspensions occurring in 2003-04 and 2004-05. Since then, transfers have occurred for four consecutive years from 2005-06 through 2008-09, and the 2009-10 Budget authorizes the transfer for a fifth consecutive year.

TIF 3. See Key 2010 STIP FE Assumptions.

TIF Expenditures

Prior TIF STIP Commitments: Prior to calculating resources available for new STIP, the FE sets aside resources for existing STIP commitments.

TIF 4. COS expenditures are based on STIP projects allocated during 2008-09 and prior, construction engineering for programmed 2009-10 STIP projects, and pre-construction engineering and R/W support programmed to begin in 2009-10.

TIF 5. A reservation for support cost increases consistent with SB 45 based on historical expenditures.

TIF 6. R/W commitments are expenditures based on allocated R/W in 2008-09 and prior, and the R/W lump sum allocated in 2009-10.

TIF 7. Capital expenditures are based on a continuation of all STIP projects allocated in 2008-09 and prior, all programmed 2009-10 STIP projects, state match TE funding, and non-PTA funded AB 3090s.

Proposition 1B

TFA Allocations:

The TFA was created by Proposition 1B and authorizes $2.0 billion for the purpose of augmenting the STIP. On March 24, 2009, the Pooled Money Investment Board (PMIB) re-entered the bond market and sold $6.5 billion of General Obligation (GO) bonds - $2.5 billion more than expected. The PMIB has not stated when they will attempt to sell more bonds for new Proposition 1B projects. Since the ability to sell GO bonds will directly affect STIP capacity, it is important that the 2010 FE makes an assumption regarding the allocation of TFA capacity over the FE period.

Prop 1B. 1 See Major 2010 STIP FE Assumptions.

Proposition 1B Allocations:

As mentioned in the above assumption, the PMIB has not stated when they will attempt to raise proceeds for new Proposition 1B projects. Based on this information, it is possible that a portion of the scheduled Proposition 1B allocations may be delayed for an unknown period. Since the ability to sell GO bonds will directly affect fund capacities, it is important that the 2010 FE makes an assumption regarding the allocation of Proposition 1B bonds.

Prop 1B. 2 See Major 2010 STIP FE Assumptions.