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
CALIFORNIA TRANSPORTATION COMMISSION

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Information Item

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Subject: **BUDGET AND ALLOCATION CAPACITY UPDATE**

ISSUE:

On October 8, 2010, Governor Schwarzenegger signed the 2010-11 State Budget into law. The California Department of Transportation (Department) has attached a summary of the transportation budget highlights and will make a presentation to discuss how the 2010-11 State Budget impacts the Department at the November 3-4, 2010, California Transportation Commission meeting.

The Department does not recommend any change to allocation capacity as a result of the enactment of the 2010-11 Budget Act.

BACKGROUND:

Please see the attachment titled: "Budget Highlights for 2010-11."

Attachment

Budget Highlights for 2010-2011

Overview

The 2010 Budget Act, signed on October 8, 2010, includes a reduction to the Department's proposed budget, staffing levels and several loan actions that will contribute to General Fund relief. While state operations and capital outlay are decreasing, there is a significant increase in local assistance. This is because significant amounts of Proposition 1B bond funds are being appropriated for local projects. While the financing aspect of the budget has not changed greatly, the make-up of the expenditures have changed with the removal of new GARVEE authority and the addition of the Public Private Partnership funding for the Presidio Parkway project. Several aspects of employee compensation changes are subject to collective bargaining and could result in further expenditure changes in State Operations depending on the results of those actions.

Changes in Budget Category Expenditures

2009-10 Enacted vs. 2010-11 Enacted

Category	PY Enacted 2009-10	CY Enacted 2010-11	Change	$ Change	% Change
State Operations	$ 4,199	$ 3,946	▼	$ (253)	-6.0%
Capital Outlay	6,239	5,812	▼	(427)	-6.9%
Local Assistance	2,377	2,602	▲	225	9.5%
Financing**	135	124	▼	(12)	-8.8%
Total	**$ 12,950**	**$ 12,483**	▼	**$ (467)**	**-3.6%**
Personnel Years (PY)	21,573	20,955	▼	(618)	-2.9%

** Financing includes GARVEE debt service and P3 payments, which may be categorized in the Governor's Budgets as either State Operations or Capital Outlay. The Governor's Budget does not reflect the carryover of GARVEE debt service expenditures that will occur in future years.

Figures may vary from those listed in the Enacted Budget on the Department of Finance website due to differening expenditure models for Capital Outlay and Local Assistance budget act items.

Significant Changes

- A decrease $77.4 million and net decrease of 642 Personnel Year Equivalents (PYE) to the Department's Capital Outlay Support (COS) program for the delivery of capital outlay projects. The change in workload is made up of a reduction of 540 state staff personnel years (PYs), a reduction of 52 overtime PYEs, and a decrease to contract staff of 50 PYEs.

- A $100 million decrease in operating expenses and equipment expenditures. This is an unallocated reduction to be achieved through efficiencies and will be spread throughout all Divisions within the Department.

- A reduction to the Planning Program of $7.4 million and 63.7 PYs to remove funding for the development of project initiation documents for locally-funded projects that are not on the state highway system or do not have funding already identified for later phases of the project.

- An increase of up to $57.3 million to the Equipment Program to comply with air quality mandates adopted by the California Air Resources Board (ARB), South Coast Air Quality Management District, and the United States Enivoronmental Protection Agency. This is a one-time increase with budget language that allows the Department of Finance to adjust the amount if the ARB takes an action to change on-road and off-road diesel regulatory requirements.

- A $50 million augmentation to the Maintenance Program for highway maintenance activities. This redirection has been attributed to one-time redirected savings. Provisional language allows for the removal of these funds should Proposition 22 pass.

- An increase of $100.2 million for the Department's Division of Rail to use American Recovery and Reinvestment Act (ARRA) funding received for high-speed intercity rail projects. This funding includes $349,000 and four positions to manage and oversee the projects, and to meet federal reporting requirements.

- An increase of approximately $101 million for Proposition 1A high speed rail related projects. This amount was reduced from $235 million, intended to fund all projects programmed for this fiscal year and instead sustains funding for positive train control projects only.

- GARVEE funds, a method of providing bonds to advance capital projects by leveraging federal riembursements, was removed from the Budget Act, however a placeholder of $1,000 was retained along with provisional language that allows the Department to request up to $680 million in authority should GARVEE capacity be deemed necessary.

Public Private Partnership Program

As part of a new chapter in innovative finance, authority in the amount of $1.1 billion has been included in the budget act for the Presidio Parkway Public Private Partnership. These funds are appropriated for availability payments to the contractor, a new approach to project development in which the contractor is responsible for all aspects of the project including finance, design, construction, operation and maintenance. These funds are to be continuously appropriated without regard to fiscal year. Only a small amount of the total sum is expected to be expended on the 2010-11 fiscal year.

Transportation Loans

- A delay in the repayment of the $200 million loan from the State Highway Account (SHA) to the General fund. This loan was originally made as part of the 2008 Budget Act. The loan repayment date will be delayed from 2010-11 to 2011-12. The impact of this delay will be mitigated by short-term loans between transportation funds.

- A new loan of $762 million from the Highway Users Tax Account to the General Fund. $650 million of this loan represents monies that were made available from the fuel tax swap earlier in the year, but had not been appropriated by the Legislature. The balance of approximately $112 million was made available to loan to the General Fund due to lower debt service forecasts from Department of Finance, none of which will have any impact to the Department at this time. Repayment with interest is scheduled for June 30, 2013.

- An additional $80 million loan against the SHA to the General Fund, to be repaid with interest by June 30, 2014. This loan is made from the unexpended SHA fund balance and is not intended to affect project delivery. Early repayment shall be made as needed to ensure that the programs supported by the SHA are not adversely affected by the loan. The impact of this loan will be mitigated by short-term loans between transportation funds.

- A $29 million loan from the Public Transportation Account (PTA) has been scheduled in response to lowered debt service forecasts from the Department of Finance. Repayment with interest shall be made by June 30, 2014. This loan is made from the unexpended balance of the PTA and is not intended to affect projects. Early repayment shall be made as needed to ensure that the programs supported by the PTA are not adversely affected by the loan. The impact of this loan will be mitigated by short-term loans between transportation funds.

Employee Compensation

The budget package reduces spending for state employees by about $1.5 billion consistent with collective bargaining agreements that have already been reached or are in negotiation. This is $500 million less than what the Governor had originally proposed in the Governor's Budget. Expected changes will vary by bargaining unit, but include:

- 5% reduction in all salaries in exchange for 1 day/mo. personal leave - Salaries will be reduced equal to one day of pay per month (roughly 5%). In return, employees will receive eight hours of personal leave. This personal leave will have no cash-out value, nor will it adversely affect any benefits such as health or retirement.
- 2-5% increase in all employees' monthly pension contribution to CalPERS. - This increases the employee's share of pension contributions will help lower the State's costs of providing pension benefits. This change will apply to all retirement categories (misc., safety, peace officer/firefighter, patrol, and industrial). Most State employees ("misc" retirement category) will see their monthly CalPERS payroll deduction rise from roughly 5% of salary to 8% of salary.
- Rolls back pension benefits. New state employees' hired on or after November 10, 2010, will see their retirement benefits returned to 1999 formulas. This would result in Industrial and Miscellaneous categories formulas returning to 2% at 60, rather than the current 2% at 55. Safety and Peace Officer categories would be similarly affected.
- Ends pension spiking. Requires three-year final compensation method of calculating benefit levels for new employees who are not already under the single year calculation method.

- 5% departmental salary savings by reducing size of State workforce. The Administration previously directed departments to implement plans to reduce their payroll an additional 5% effective July 1, 2010. The Department's targeted decrease, as determined by the Department of Finance is $80 million, and is not specified by fund. Personnel Services reductions included in the budget will be applied to the "workforce cap" reductions.

Changes to employee compensation will require collective bargaining and/or statute changes. Details may differ between bargaining units depending upon contract negotiations and subsequent contract ratification.