2022 FUND ESTIMATE DRAFT ASSUMPTIONS

PREPARED BY
THE DEPARTMENT OF TRANSPORTATION
DIVISION OF BUDGETS

INTRODUCTION

This report contains key assumptions and methodologies to be adopted during the California Transportation Commission (Commission) meeting on May 12, 2021, and contains three separate sections: Options, Significant Issues, and Assumptions. The purpose of Sections One and Two is to solicit discussion and obtain the Commission's feedback on various areas that influence the 2022 Fund Estimate (FE) as required by statute. The purpose of Section Three is to list all the various assumptions that are not considered key assumptions but still impact the 2022 FE.

Section One contains key assumptions and will include multiple alternatives with one recommendation from the California Department of Transportation (Department). In this section, the Department is seeking guidance from the Commission on the preferred assumption for each topic discussed. The Commission may select the Department recommended option, another listed alternative, elect to recommend an option not included in this document, or suggest a combination of such options.

Section Two contains key assumptions known as "significant issues" and will provide a background regarding an assumption that the Department is required to include in order to be in compliance with Section 14524(c) of the Government Code (GC). This code requires the Department to assume there will be no changes in existing state and federal statutes for display in the 2022 FE. The Department has no control over these assumptions, which will have inherent risks that may impact available funding and capacity as a result of complying with state and federal statute.

Section Three contains all the assumptions being included in the 2022 FE, including placeholders for assumptions derived in sections one and two of this report.

Between now and the August 2021 presentation date for the adoption of the 2022 FE, the 2021-22 Budget Act, trailer bills, and/or initiatives may be enacted and could affect these assumptions (see the estimated timeline below). The Department will update assumptions as required by statute. Once the methodology and assumptions are approved, the Department will use these assumptions in determining the available program capacity for the State Transportation Improvement Program (STIP) and the State Highway Operation and Protection Program (SHOPP) over the next five years.

Date	Objective
May 12-13	FE Assumptions approved by Commission
June 23-24	Draft FE presented to Commission
August 18-19	Final FE presented to Commission for adoption

SECTION ONE:
OPTIONS

THE ECONOMIC & STATUTORY IMPACT ON REVENUES

Option: How aggressive of an assumption should the 2022 FE display revenues with the economic recovery and growth in California and its impact on fuel consumption?

Economic Background: Many of the revenues forecasted in the FE fluctuate with the status of the economy. During the economic growth associated with 2003 through 2006, California realized a slight rise in gasoline and diesel consumption (despite improved fleet fuel economy) and record increases in weight fee revenues. However, during the housing market crisis from 2007 through 2012, moderate decreases in both weight fee collections and fuel consumption occurred. As the economy rebounded from 2012 through 2019, California again saw an increase in fuel consumption and weight fee revenues.

As of 2021, California continues to be impacted by the COVID-19 pandemic. In early 2020, Governor Newsom declared a state of emergency shelter-at-home order to ensure public health and safety. The result had an immediate and significant impact on the state's economy. With the stay-at-home order and business industries transitioning employees to teleworking, vehicle miles traveled on the state highway system and gasoline consumption saw sharp reductions. Diesel consumption has been affected to a lesser extent as fuel for the trucking industry persisted in order to distribute consumer goods. The Department of Finance (DOF) forecasts gasoline consumption will recover to pre-pandemic levels in the near term. With several business sectors transitioned to teleworking and invested in appropriate equipment, it's possible that it becomes common across industries which could lead to fewer people traveling for work. This, in turn, may translate to lower demand for gas and diesel consumption over time.

California's economy is forecasted to begin recovery in 2021 from the downturn induced by the global pandemic. The UCLA Anderson Forecast, one of the most widely watched and often-cited economic outlooks for California, finds that since October 2019, 1.37 million non-farm jobs in the state have been lost. The leisure, hospitality and education sectors account for 55% of the job loss and will be slow to recover as they revolve around a high level of human contact over other sectors. The unemployment rate for late 2020 was 8.9% but is expected to drop to 4.4% by 2023 and real income is expected to increase by 4.5% by 2023. While California may have a slower recovery than other States due to stricter COVID-19 restrictions and a considerable travel and leisure industry, it is forecasted to rebound over the next several years.

Statutory Background: The base excise tax on gasoline was adjusted in 1994 to 18 cents per gallon. The incremental excise tax, previously known as Price-Based Excise Tax (PBET), was introduced in 2010 as part of the Fuel Tax Swap. The intent of the Swap was to replace gasoline sales tax with an excise tax, adjusted annually to equal what would have been generated had the sales and excise tax rates remained unchanged. Consequently, the price of gas directly impacted excise tax collections. The volatility in gas prices made forecasting total revenues difficult at best.

Assembly Bill (AB) 105 authorized the transfer of weight fee revenues from the State Highway Account (SHA) to the Transportation Debt Service Fund (TDSF). In turn, an off the top amount from the incremental excise tax on gasoline is transferred to the SHA in the form of backfill, with the remainder allocated to STIP, Local Streets and Roads, and SHOPP. DOF projects that weight fee revenues will increase slightly over the FE period. Given that current statute directs the entirety of weight fees diversions to be reimbursed first, the remaining revenue available to fund such projects is heavily influenced by adjustments in the incremental excise tax rate.

The California Department of Tax and Fee Administration (CDTFA) sets annual rates per statute, which account for inflation based on direction provided by DOF using the California Consumer Price Index. Consequently, forecasted gross revenue collection is based on DOF's projected annual adjustments for incremental excise tax and base excise taxes. In the future, the greatest factor that will impact fuel-based taxes is consumption. Influences such as an economic downturn or the proliferation of increasingly fuel efficient, and alternative energy vehicles could reduce consumption along with fuel-based taxes in the future, which is why the Department should continue to explore modern transportation system funding alternatives.

Alternative A: This scenario utilizes a zero-growth baseline methodology for gas and diesel consumption. Consumption values indicated are flat in diesel and gas demand beginning 2021-22. The net result is a display of slow and gradual growth in base excise and incremental excise tax resources over the five-year FE period.

Alternative B: This scenario utilizes the most recent Energy Information Administration (EIA) projections for gas and diesel consumption. Consumption values indicate a marginal downward trend in gas demand over the FE period and relatively flat demand for diesel. Consumption changes are expected to be more than offset by the consumer price rate adjustments suggested by DOF. The annual adjustments for inflation began in 2020-21. The net result is a display of slow and gradual growth in base excise and incremental excise tax resources over the five-year FE period.

Alternative C (Recommended Alternative): This scenario utilizes the most recent DOF projections for gas and diesel consumption developed for the 2021-22 Governor's Budget. Consumption values indicate an increase through 2022-23 and then a slow but gradual decline in diesel and gas demand through the end of the FE cycle. Consumption changes are expected to be more than offset by the consumer price rate adjustments suggested by DOF. The annual adjustments for inflation began in 2020-21. The net result is a display of slow and gradual growth in excise tax resources over the five-year FE period.

Alternative D: This scenario utilizes the most recent British Petroleum P.L.C (BP) projections for gas and diesel consumption. Consumption values indicate a relatively flat or very slight decline in diesel and gas demand. Consumption changes are expected to be more than offset by the consumer price rate adjustments suggested by DOF. The annual adjustments for inflation began in 2020-21. The net result is a display of slow and gradual growth in base excise and incremental excise tax resources over the five-year FE period.

ALTERNATIVE A (Utilizing Zero-Growth Flat Consumption Values)

Gross Revenues	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	5-Year Total
Base Excise Taxes on Gasoline & Diesel	3,265	3,365	3,465	3,579	3,692	3,805	**17,905**
Incremental Excise Tax on Gasoline	2,627	2,708	2,788	2,879	2,970	3,061	**14,407**
Weight Fees	1,212	1,254	1,294	1,334	1,374	1,374	**6,630**
Weight Fee Diversion (to General Fund)	(1,212)	(1,254)	(1,294)	(1,334)	(1,374)	(1,374)	**(6,630)**
Total:	**5,891**	**6,073**	**6,254**	**6,458**	**6,662**	**6,866**	**32,312**

ALTERNATIVE B (Utilizing EIA Consumption Values)

Gross Revenues	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	5-Year Total
Base Excise Taxes on Gasoline & Diesel	3,313	3,425	3,523	3,628	3,729	3,823	**18,128**
Incremental Excise Tax on Gasoline	2,674	2,758	2,834	2,915	2,989	3,061	**14,558**
Weight Fees	1,212	1,254	1,294	1,334	1,374	1,374	**6,630**
Weight Fee Diversion (to General Fund)	(1,212)	(1,254)	(1,294)	(1,334)	(1,374)	(1,374)	**(6,630)**
Total:	**5,988**	**6,183**	**6,358**	**6,543**	**6,718**	**6,884**	**32,686**

ALTERNATIVE C (Utilizing DOF Consumption Values) Recommended

Gross Revenues	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	5-Year Total
Base Excise Taxes on Gasoline & Diesel	3,266	3,434	3,512	3,581	3,636	3,734	**17,897**
Incremental Excise Tax on Gasoline	2,653	2,790	2,844	2,890	2,930	3,014	**14,467**
Weight Fees	1,212	1,254	1,294	1,334	1,374	1,374	**6,630**
Weight Fee Diversion (to General Fund)	(1,212)	(1,254)	(1,294)	(1,334)	(1,374)	(1,374)	**(6,630)**
Total:	**5,919**	**6,223**	**6,356**	**6,471**	**6,566**	**6,747**	**32,364**

ALTERNATIVE D (Utilizing BP Consumption Values)

Gross Revenues	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	5-Year Total
Base Excise Taxes on Gasoline & Diesel	3,230	3,310	3,389	3,479	3,568	3,656	**17,401**
Incremental Excise Tax on Gasoline	2,596	2,661	2,724	2,796	2,868	2,939	**13,988**
Weight Fees	1,212	1,254	1,294	1,334	1,374	1,374	**6,630**
Weight Fee Diversion (to General Fund)	(1,212)	(1,254)	(1,294)	(1,334)	(1,374)	(1,374)	**(6,630)**
Total:	**5,826**	**5,970**	**6,113**	**6,275**	**6,436**	**6,594**	**31,389**

FEDERAL REVENUES

Option: How much Federal Obligational Authority (OA) should the FE display over the 2022 FE period?

Background: Since 2003-04, Federal revenues have represented the majority of total resources available for the SHOPP. These revenues are transferred 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 to federal excise tax, as a percentage share of total deposits into the FHTF. The actual amount of federal funds the state can use on projects each year is governed by the OA set by Congress in its annual Federal Appropriation Act.

The Fixing America's Surface Transportation (FAST) Act, approved on December 4, 2015, was the first long-term transportation funding plan in over a decade and provided authorization of approximately $225 billion for the federal-aid highway program from Federal Fiscal Year (FFY) 2016 to 2020. Over the five-year period, funding levels increased by approximately 2.7 percent annually. Expiring in FFY 2020, the FAST Act was extended an additional year through a federal continuation resolution. The extension helped solidify funding to governments experiencing revenue deficits due to the COVID-19 induced recession.

The 2022 FE covers fiscal years (FY) 2022-23 through 2026-27, which is outside of the FAST Act's funding horizon. At present, there is no extension of the FAST Act for 2022 and beyond through a continuation resolution or deliver legislation for a new Federal Highway Act. However, historically, in the absence of a new Federal Highway Act, Congress has issued continuing resolutions to provide short-term transportation funding at levels consistent with the most recent Act. Because adjustments in federal funding brought about by a new Act are difficult to predict and may dramatically alter the resources available for allocation on projects, future FE cycles may incorporate adjustments in accordance with new federal authority.

Since 2001, revenues credited to the FHTF have been short of the outlays from the fund and since 2008, lawmakers have addressed the issue with several transfers to the fund, primarily from the Treasury's general fund. The FAST Act authorized the latest transfer of $52 billion to the highway account and $18 billion to the transit account. The Congressional Budget Office estimated that those transfers along with ordinary revenues and interest would permit the highway and transit accounts to pay all of their obligations through the end of 2020.

The FHWA provided projected apportionment levels to be distributed to states based on national formulas outlined in the Federal Transportation Act. Apportionments are a type of Federal budget authority allowed by Congress to direct states on how they are to spend available resources. However, OA acts as an annual amount of the apportionment that the state can actually use on projects.

If OA assumptions are set too low, the Department risks not having enough projects to use all available authority; especially if a reservation of projects is not created. This unused OA would be unavailable for programming future years. If OA assumptions are set too high, the

Department may have insufficient resources to fully fund its schedule of projects. Over-programming may cause delays, increasing total costs and adversely impacting future projects. At this time, the FAST Act will expire at the end of FFY 2021 and congress passing a new Federal Highway Act is uncertain.

Alternative A: Assume OA is equal to the FFY 2020 level of $3.54 billion with a zero-growth methodology in subsequent years. This would result in about $17.7 billion in OA over the FE. This alternative should be considered if federal support for transportation looks concerning.

Alternative B: Assume OA is equal to the FFY 2020 level of $3.54 billion and escalated annually using a three-year average of actual OA growth from the past three FFY. This would result in about $19.1 billion in OA over the FE period and would represent year over year growth in OA of about 1.5 percent. This alternative should be considered if federal support for transportation looks fair.

Alternative C (Recommended Alternative): Assume OA is equal to the FFY 2020 level of $3.54 billion and escalated annually using the inflationary rate during the entire FAST Act funding period. This would result in about $20.2 billion in OA over the FE period and would represent year over year growth in OA of about 2.7 percent. This alternative would be advisable if federal support for transportation appears strong.

MOTOR VEHICLE ACCOUNT TRANSFERS

Option: What should the 2022 FE display as an assumption for the transfer of excess Motor Vehicle Account (MVA) funds to the SHA?

Background: Section 42273 of the Vehicle Code (VC) requires the State Controller's Office (Controller) to transfer the MVA balance remaining on the last day of the preceding month to the SHA, unless there is an immediate need of MVA funding. The 2021-22 Governor's Budget displays an estimated fund balance of about $137 million in the MVA for 2021-22. From this balance, the unneeded portion should be calculated and transferred to the SHA. In at least the past 16 years, the Controller has not transferred these funds to the SHA.

Ordinarily it would be beneficial to display a transfer to the SHA as this would increase available funding for the SHOPP. However, if transfers are not made by the Controller and the 2022 FE displays an assumption that transfers would occur, SHA resources would be overstated.

As recommended by the Department in the 2020 FE, an assumption that the Controller will not make any transfers to the SHA from the Motor Vehicle Fuel Account (MVFA) over the FE period was chosen. The SHA failed to receive any transfers from the MVA for Section 42273 of the VC; furthermore, February 10, 2020, the Legislative Analyst Office (LAO) released a report noting the MVA is expecting to have an operational shortfall and negative fund balance in 2024-25. The 2020-21 enacted budget excluded capital outlay funds for several California Highway Patrol offices in the amount of $139 million intended to assist the MVA, however, this will not fully address the account's structural imbalance. The Legislature may determine how to address this shortfall for the MVA. Considering the recent report by LAO and the 2020-21 enacted budget, the Department is recommending the same alternative as the preceding FE cycle.

Alternative A (Recommended Alternative): Assume the Controller will not make any transfers to the SHA over the FE period.

Alternative B: Assume the Controller will transfer $5 million each year for the FE period.

Alternative C: Assume the Controller will transfer $14 million each year for the FE period based on an analysis that would represent a 5 percent transfer of the lowest ending fund balance from the MVA in the past 10 years.

SECTION TWO:
SIGNIFICANT ISSUES

Transfer to State Transit Assistance

Issue: Before the enactment of SB 1 there were two sales taxes on diesel fuel in California. Existing law required and still includes that a base sales tax on diesel (4.75 percent) be split 50 percent to the Public Transportation account (PTA) and 50 percent to State Transit Assistance (STA). Statute prior to SB 1 also provided that the entirety of the second sales tax (1.75 percent) be redirected from PTA to STA. The enactment of SB 1 includes an additional sales tax on diesel fuel (4 percent). Provisions in SB 1 require 3.5 percent of the new tax to be directed to STA's State of Good Repair Program with the remaining 0.5 percent to be allocated to the State Rail Assistance intercity rail and commuter rail. In 2021-21, this will result in approximately 73 percent of total sales tax on diesel revenues being directed to STA. It should be noted that sales tax revenues can be volatile because they are based on the price of fuel and the overall economy can impact the sales of diesel fuel, adding to volatility.

Background: On March 22, 2010, AB 9 of the Eighth Extraordinary Session of 2009-10 (ABX8 9) was signed into law, which among other items, required a 75 percent transfer of sales tax revenues deposited in the PTA to STA. This only applied to the state portion of sales tax on diesel fuel.

On November 2, 2010, voters approved Proposition 22, which amended Article XIX A of the California Constitution to require a 50 percent transfer of spillover, Proposition 111, and sales tax on diesel fuel revenues from the PTA to STA. In addition, Proposition 22 also amended Article XIX B of the California Constitution to require a 50 percent transfer of Proposition 42 revenues from the PTA to STA.

On November 2, 2010, voters approved Proposition 26, which amended Section 3 of Article XIII A of the California Constitution. This new law required two-thirds approval by the Legislature for any change in statute that resulted in taxpayer paying a higher tax. Further, this law required that legislation passed between January 1, 2010 and November 3, 2011, not in compliance with the two-thirds requirement, to be considered void unless reenacted with the requisite vote. On September 29, 2010, the Legislative Analyst's Office concluded that the Fuel Tax Swap (ABX8 6 and ABX8 9) was not in compliance with Proposition 26 and was voided on November 3, 2011.

On March 24, 2011, AB 105 of 2011 re-enacted the Fuel Tax Swap, created a weight fee swap, and redirected the state portion of sales tax on diesel from the PTA to STA, which funds local transit operations and capital. The bill created an increase to sales tax on diesel (1.75 percent in 2014-15 and thereafter) and required all of the additional increase to be directed to STA from the PTA. Combined with other existing statutes, STA receives the majority of sales tax on diesel revenues.

On April 28, 2017, SB 1 was enacted, increasing the sales tax rate on diesel fuel by 4 percent on top of the previous 1.75 percent for a net additional sales tax of 5.75 percent. The 4 percent increase in sales tax will again be directed from the PTA to the STA as well as commuter and intercity rail, resulting in no new resources for the PTA.

Streets & Highways Code Section 183.1 Revenues

Issue: Per Streets & Highways Code (S&HC) Section 183.1 money deposited into the SHA that is not protected by Article XIX of the California Constitution is transferred from the SHA into the Transportation Debt Service Fund (TDSF) for debt service on transportation bonds. Money not subject to Article XIX as defined by Section 183.1 includes, but is not limited to, the sale of documents, charges for miscellaneous services to the public, condemnation deposit fund investments, rental of state property, and other miscellaneous uses of property or money. New legislation could alter the transfer of money as defined by Section 183.1 which could impact Section 183.1 transfers from the SHA. In the interim, the 2022 FE assumptions will be based on current statute.

Background: On July 6, 2000, AB 2928 was signed into law, which among other items, added Section 183.1 to the S&HC. At that time, this section required that money not subject to Article XIX of the State Constitution be transferred from SHA into PTA. Section 183.1 was originally created during a period when PTA funding was in short supply. The money associated with the statute were transferred from the SHA to the PTA each year to help the fund remain solvent. At that time, since the money was not protected by the State Constitution, the Legislature could divert Section 183.1 resources to aid in General Fund (GF) shortfalls and/or offset future transportation bond debt service.

AB 105 (Chapter 6, Statutes of 2011), amended Section 183.1 of the S&HC, by requiring the Controller to transfer prior year money from the SHA to the TDSF for 2010-11 through 2012-13. Pursuant to AB 105, the money was scheduled to remain in the SHA until appropriated beginning in 2013-14, but SB 85 was signed into law, amending Section 183.1 to continue the annual transfer to the TDSF indefinitely.

The 2020 FE assumed that Section 183.1 resources would be transferred from the SHA into the TDSF annually. Since that time, attempts have been made by members of the Legislature to prohibit the transfer of SHA resources to fund transportation bond debt services. Because the 2022 FE is required to forecast based on current state statute, Section 183.1 transfers from SHA to TDSF will continue over the FE period.

Senate Bill (SB) 1 – Road Repair and Accountability Act of 2017

Issue: The 2022 STIP FE assumes revenue increases due to the enactment of SB 1 will continue.

SB 1 incremental excise tax was set at 17.3 cents per gallon in 2019-20. The tax rate is adjusted annually using the California Consumer Price Index (CCPI) as an inflator and will be set at 19 cents per gallon for 2021-22. Because SB 1 has indexed new tax rates for inflation, there should be a higher degree of predictability as to resources generated from the incremental excise tax. Assuming fuel consumption recovers to pre-COVID-19 shutdown levels in the near term as forecasted by DOF, resources generated from incremental excise taxes are expected to grow at the estimated rate of inflation as provided by DOF. Increases in incremental excise tax resources would be realized by the SHA and would increase programming capacity for the 2022 FE period. However, decreases in fuel consumption, similar to the effects of the COVID-19 shutdowns, would impact incremental excise tax resources and could decrease programming capacity in future. The Department should continue to explore alternative means of funding outside the traditional fuel-based, excise taxes as more fuel efficient, alternative energy vehicles continue to be manufactured with growing consumer interest.

SB 1 establishes the Road Maintenance and Rehabilitation account (RMRA). After specified allocations, 50 percent of the remaining funds are to be continuously appropriated to the department for maintenance or SHOPP purposes. Over the five-year FE period, it is estimated this will amount to $7.5 billion in additional resources to the SHOPP from the RMRA. Out of the $7.5 billion in additional resources, $2 billion is designated for bridge and culvert maintenance and rehabilitation.

SB 1 has also increased the additional sales tax rate on diesel fuel by 4 percent on top of the previous 1.75 percent for a net additional sales tax of 5.75 percent. The additional increase in sales tax will again be directed from the PTA to the STA.

Background: SB 1 was enacted April 28, 2017. The bill creates three new programs including the Road Maintenance and Rehabilitation Program, the Advanced Mitigation Program, and the Congested Corridors Program. It also creates two new funds including the RMRA and the Trade Corridors Enhancement Account. Finally, it creates several new revenue streams for the Department, as a whole, derived from a mix of new taxes and fees. Most additional taxes and fees generated from SB 1 have been indexed for inflation, which is a notable change from prior gas tax legislation.

Proposition 69 approved by the general public June 5, 2018, further protects certain transportation revenues provided by SB 1. Proposition 69 was a part of the legislative package that included the Road Repair and Accountability Act of 2017. Per statute, it is required that revenues from the diesel sales tax and Transportation Improvement Fee be dedicated for transportation-related purposes.

Proposition 6 was targeted at revoking key resources provided by SB 1. The majority of the public opposed Proposition 6 in the California General Election held November 6, 2018, which will leave SB 1 resources in place for the estimates to be provided in the current FE.

SB 132 – An Act to Amend the Budget Act of 2016

Issue: The enactment of SB 132 contains an appropriation of $400 million in PTA resources over an estimated 10-year period. The bill requires funds appropriated be used for project specific purposes. The funds appropriated are required to be used for the extension of the Altamont Corridor Express to Ceres and Merced, including system improvements.

The enactment of SB 132 contains an appropriation of an additional $527 million in SHA resources over an estimated six-year period. The bill requires funds appropriated to be used for project specific purposes. The funds appropriated are required to be used for two projects including University of California, Merced Campus Parkway Project $100 million and Riverside County Transportation Efficiency Corridor $427 million.

SECTION THREE:
ASSUMPTIONS

METHODOLOGY

The FE is based on assumptions and methodologies used 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 GC requires the FE to be based on current state and federal statutes for estimating revenues. Section 163 of the 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 STIP.

Unless otherwise noted, the most recent California DOF Price Letter will be used to determine an annual price escalation rate for state operations expenditures per Section 14525.1 of the GC. This does not include escalation rates for capital outlay support.

Section 14529.7 of the GC regulates reimbursement projects covered by AB 3090 where the Commission, Department, region, and local agency may enter into a financing arrangement. Under the cash reimbursement scenario, the local agency receives a direct, future cash reimbursement for early delivery of a programmed STIP project, with its own local funds.

Revenue & Expenditure Projections

A. For each fund, the beginning cash balance will be calculated from the cash balance report from the Controller on July 1, 2021.

B. 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 Controller.

C. Revenue forecasts which cover the FE period (fiscal years 2022-23 through 2026-27) are based on historical trends, the economic outlook, and consultation with the DOF.

D. The FE assumes usage of local assistance federal funding in the year received.

E. The Department developed program expenditures and cash flow estimates by working with each respective departmental Program and/or Division.

F. The FE displays an assumption that federal funding will be distributed to the state and local agencies based on a historical allocation of a 63/37 split of available resources, respectively. This also includes the allocation for the August Redistribution.

G. The enactment of SB 1 provides that, after specified allocations are made from available resources, 50 percent of the remaining balance of revenues deposited into the RMRA go to the Department for maintenance or SHOPP purposes. Over the five-year FE period, it is projected this will generate over $7.5 billion in additional resources to the SHOPP from the RMRA. Out of the $7.5 billion in additional resources, $2 billion is designated for bridge and culvert maintenance and rehabilitation.

Conversion to Capacity

H. The 2022 FE will incorporate a "cash flow" model that schedules funding capacity based upon defined commitments and is consistent with the method used to manage the allocation of capital projects.

   - Each FE table will display forecasted revenue estimates, less commitments (as defined by the approved assumptions) in order to determine the cash available for programming.
   - Conversion of cash available for programming to capacity is based on linear programming to optimize capacity, while maintaining a prudent cash balance and minimizing annual fluctuations of program levels. Methodology assumes that capital projects liquidate based on historical spending patterns.
   - Program capacity represents the total value of projects that can be funded, and includes support, local assistance, right-of-way (R/W), and construction.
   - In order to maximize the utilization of SHA assets, capacity will be made available as early as possible during FE development. Due to the high cash balance and slower than expected spending of the SHA, the Department is planning to frontload SHOPP capacity to further expedite project development.

I. The county share system established by SB 45 (Chapter 622, Statutes of 1997) defines the methodology for determining the level of programming. The FE displays this system to identify the funds available for programming over the FE period.

State Highway Account Assumptions

Minimum Operating Cash:

The Department recognizes that the SHA needs to maintain a minimum level of operating cash sufficient to meet monthly operating commitments, daily fluctuations, and the revenue and expenditure cycles that occur during the year. In addition, the SHA balance must also cover monthly expenditures during delays in the adoption of state and federal budgets.

SHA 1. *Based on an ongoing analysis of monthly SHA receipts less expenditures, a minimum level of operating cash of $415 million would sufficiently cover 90 percent of the monthly volatility in the SHA.*

SHA Revenues & Transfers

State Excise Tax on Fuel Revenues:

California adjusts base fuel excise tax annually. In 2021-22, gasoline base excise tax will be 19.8 cents per gallon and diesel base excise tax is 17.6 cents per gallon. These consumption-based revenues are transferred from the Highway Users Tax Account (HUTA) to cities, counties, and the SHA per Sections 2104 through 2108 of the S&HC on a monthly basis. The Fuel Tax Swap of 2010 eliminated general statewide sales tax on gasoline and replaced it with PBET at the time, adjusted annually with the requirement of generating the same revenue as the sales tax. SB 1 was enacted in 2017 and provides an annual adjustment for inflation. Proposed inflationary rates to adjust excise taxes are to be provided by DOF and will be built into the assumed revenue increases. However, other uncertain macroeconomic factors that could impact consumption have been discussed in The Economic & Statutory Impact on Revenues (shown above).

SHA 2. ***See Section One – The Economic & Statutory Impact on Revenues***

Weight Fee Revenues:

Section 9400 of the VC 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. AB 105 was enacted in 2011, authorizing transfers of weight fee revenues from the SHA to the TDSF for debt service on transportation bonds. To offset this diversion, an equivalent amount from what was, prior to SB 1, the incremental excise tax on gasoline is transferred to the SHA.

SHA 3. ***See Section One – The Economic & Statutory Impact on Revenues***

Other State Revenues:

Other SHA revenues include interest received from the SMIF and revenues from Other Regulatory Licenses and Permits.

SHA 4. *Revenues from Other Regulatory Licenses and Permits will total approximately $59 million over the FE period based on revenue model projections.*

S&HC Section 183.1 Transfers:

In 2013, SB 85 was signed into law, amending Section 183.1 of the S&HC to annually transfer the miscellaneous revenues not subject to Article XIX of the State Constitution from the SHA to the TDSF permanently, beginning in 2013-14.

SHA 5. ***See Section Two – Section 183.1 Revenues***

S&HC Section 194 Transfers:

Section 194 of the S&HC requires the Controller to transfer funds for the pro-rata share of highway planning and exclusive public mass transit guideway planning from the SHA to the PTA.

SHA 6. *Section 194 transfers are based on PTA state operations expenditures and are projected to remain constant at approximately $25 million a year over the FE period.*

MVA Transfers:

Pursuant to Section 42273 of the VC, the Controller mandates transfer of the MVA balance remaining on the last day of the preceding month, unless there is an immediate use of MVA funding.

SHA 7. ***See Section One – Motor Vehicle Account Transfers***

Federal Revenues:

Federal revenues account for the majority of total SHA resources, excluding those that are dedicated to the STIP. These revenues come from the FHTF, which is primarily funded from the federal excise taxes 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 contributions into the FHTF.

The most recent FHA, the FAST Act, was signed into law on December 4, 2015, and provided authorization of approximately $225 billion for the federal-aid highway program from FFY 2016 to 2020. The FAST Act was extended for an additional year through a continuing resolution; however, it did not provide an increase in funding over 2020.

On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), 2021 was enacted to provide economic relief to various sectors in the American economy affected by the COVID-19 pandemic. Within the CRRSAA, it included approximately $10 billion being appropriated for highway infrastructure programs throughout the country, which included approximately $912 million being apportioned to California to help offset lost transportation revenue as a result of the pandemic. While these funds were received in late December 2020, they are expected to be allocated and expended both, prior to and throughout the 2022 FE period.

The 2022 FE covers 2022-23 through 2026-27, which is outside of the FAST Act's funding horizon. Historically, in the absence of a new Federal Highway Act, Congress has issued continuing resolutions to provide short-term transportation funding at levels consistent with the most recent Act. Because adjustments in federal funding brought about by a new Act are difficult to predict, and may alter the resources available for projects, future FE cycles may incorporate adjustments in accordance with new federal authority.

SHA 8. ***See Section One – Federal Revenues***

SHA 9. *The 2022 FE assumes an August Redistribution of $261 million per year based on the average amount received by California from 2010-11 through 2019-20. The Redistribution will be split approximately $165 million (63 percent) to the state, and $97 million (37 percent) to the local agencies.*

SHA 10. *The 2022 FE does not include any supplemental funding received under the Federal-aid Highway Emergency Relief Program. This program, commonly referred to as the Emergency Relief Program, supplements the commitment of resources by states, their political subdivisions, or other Federal agencies to help pay for unusually heavy expenses resulting from extraordinary conditions.*

SHA 11. *In order to utilize a portion of FAST Act funds for Coordinated Border Infrastructure (CBI) projects, the 2022 FE includes a $16 million annual "set-aside" to be reserved from the state's share of "any-area" Surface Transportation Block Grant Program (STBGP) funds. This will not impact any federal funding available to local agencies. The amount proposed for set-aside is equal to five percent of "any-area" STBGP funds retained by the state and is well within the amount allowed in the FAST Act.*

Advanced Construction (AC):

Advance construction allows the Department to implement a project with its own funds and be reimbursed for the federal share when federal funds are available for AC conversions/actual obligations. AC can be used as a cash management tool to minimize the impact of project delays. All advance construction projects must proceed with normal federal approvals as though the project were to be eligible for current federal funding. . This can be performed without impact to the SHA. AC is also used to create a reservation of federal eligible projects to leverage against project award savings and any unforeseen increases to federal or state revenues that would impact the SHOPP capacity.

SHA 12. *The Department will maintain an AC level that is equivalent to one year's worth of OA. AC will be used as a cash management tool and as a reservation of federal eligible projects to hedge against increases to available federal resources.*

Transportation Loan Repayments:

Budget Acts and trailer bills have authorized loans from transportation accounts to the GF in the past to backfill for deficits created by downturns in the economy.

From 2010 to 2016, approximately $1.5 billion was loaned from the SHA to the GF and categorized as pre-paid debt service. AB 115 extended the repayment date of these loans to occur no later than June 30, 2021, and reclassified some earlier loans from the SHA as being derived from weight fees, making them eligible for debt service payments. The loans have been repaid in full prior to the statutory deadline and are expected to be subsequently transferred to the TDSF.

SHA 13. *The 2022 FE will display the transfer of pre-paid debt service from the SHA to the TDSF.*

SHA Expenditures

BCP Reservation:

Budget Change Proposals (BCP) and Finance Letters (FL) are proposals to change the level of service or funding for activities authorized by the State Budget or to request new program activities not currently authorized.

SHA 14. *The 2022 STIP FE will include a total reservation of $150 million over the five-year FE period.*

State Funds for Local Assistance:

State funds for Local Assistance are used for the Surface Transportation Block Grant Program State Match and Exchange, Freeway Service Patrol, Railroad Grade Separations, Railroad Grade Crossing Maintenance, and Senate Bill 137 Exchange, in addition to other miscellaneous local programs.

SHA 15. *State expenditures assume allocations of approximately $178 million per year over the FE period, consistent with the Commission's 2020-21 initial lump sum allocation for Local Assistance (Resolution FM-20-03).*

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. Prior to calculation of resources available for new STIP, the FE set aside resources for existing STIP commitments.

SHA 16. *Capital Outlay Support (COS) expenditures are based on a continuation of all STIP components programmed prior to 2021-22 and all STIP components programmed to begin in 2021-22.*

SHA 17. *Capital expenditures are based on a continuation of all STIP project allocations prior to 2020-21, allocations in 2020-21, projects programmed in 2020-21, but not yet allocated, and projects programmed in 2021-22.*

SHA 18. *Prior R/W commitments are defined as all R/W projects in the STIP that are programmed for 2021-22 and prior years.*

SHA 19. *Non-programmed STIP R/W includes an annual estimate based on forecasted R/W lump sum allocations of non-programmed R/W components for project development fees, inverse condemnation, and post-certification costs.*

SHA 20. *Capital project costs shall be escalated at 2.7 percent annually, consistent with the historical trend of the Price Index for Selected California Construction Items.*

SHOPP Commitments:

Prior to calculating resources available for the SHOPP, the SHA FE table will display a set-aside of resources for existing SHOPP commitments.

SHA 21. *COS expenditures are based on a continuation of all SHOPP components programmed prior to 2021-22, SHOPP preliminary engineering components programmed in 2021-22, and SHOPP construction engineering components programmed to begin in 2021-22.*

SHA 22. *Prior R/W commitments are defined as all R/W projects in the SHOPP that are programmed for 2021-22 and prior years.*

SHA 23. *Non-programmed SHOPP R/W includes an annual estimate based on forecasted R/W lump sum allocations of non-programmed R/W components for inverse condemnation and post-certification costs.*

SHA 24. *Capital expenditures are based on a continuation of all SHOPP project allocations prior to 2021-22, 2020-21 programmed projects not yet allocated, projects programmed in 2021-22, and GARVEE debt service payments.*

SHA 25. *Capital project costs shall be escalated at 2.7 percent annually, consistent with the historical trend of the Price Index for Selected California Construction Items.*

SHA 26. *Preparation costs for Project Initiation Documents (PID's) are included as a component of state operation expenditures and are based on the latest available data for base year relating to SHOPP as well as non-SHOPP PID's. Costs are escalated over the FE period at a rate consistent with other state operation expenditures.*

SHA 27. *Closeout capital savings average approximately five percent. This is primarily due to unused contingency funds. The 2022 FE assumes a five percent increase to programming capacity in order to offset these savings.*

Active Transportation Program:

The Active Transportation Program (ATP), articulated in SB 99 and signed into law in 2013, consolidated five separate programs that funded bicycle and pedestrian projects, including the federal Transportation Alternatives Program (TAP), federal Safe Routes to Schools Program, State Safe Routes to Schools Program, and the State Bicycle Transportation Account Program. The Recreational Trails Program was included as an optional part of the TAP funding. However, the FAST Act eliminated the MAP-21 TAP and replaced it with a set-aside of Surface Transportation Block Grant (STBG) program funding. The intent of combining the five separate programs was to improve flexibility and reduce the administrative burden of having several small independent grant programs. A separate FE and adoption schedule is required for the ATP.

The enactment of SB 1 shall create and provide resources for the RMRA. ATP is scheduled to receive an additional $100 million in annual resources.

SHA 28. *The ATP divides approximately $123 million annually and is consistent with the 2021 ATP FE adopted by the Commission in May 2020. ATP funding is not available for SHOPP or STIP capacity.*

SHA 29. *Per SB 1, $100 million in remaining revenues shall be made available annually from the RMRA for expenditure, upon appropriation by the Legislature, for ATP projects and are to be allocated by the Commission.*

SB 132 (2017):

SB 132 creates additional appropriation items for local assistance with funding payable from the SHA. Funds appropriated in these items are to be used for pre-established and project specific purposes as defined by statute. SB 132 requires approximately $527 million in SHA resources be used for projects established in statute. Funding is to be available for encumbrance and liquidation until June 30, 2023.

SHA 30. *The Department will utilize project cash flow schedules provided by local agencies. SB 132 Project Commitments as estimated by local agencies.*

ROAD MAINTENANCE & REHABILITATION ACCOUNT (RMRA) ASSUMPTIONS

RMRA Revenues & Transfers

Available Balance & Resources:

The RMRA is required to first distribute resources to self-help counties, ATP, bridges and culverts, Freeway Service Patrol, local planning grants, and other programs. After priority allocations, statue requires the remaining balance be shared 50/50 between local agencies and the Department for maintenance and SHOPP purposes. The DOF provides the primary resource values for RMRA on a cash basis, although the RMRA is a modified accrual account.

The beginning balance will be derived from values provided by the Controller's Office. The Controller provides values that match amounts being transferred to locals and is assumed to be the 50 percent match that is equal to allocations for maintenance and SHOPP purposes.

RMRA 1. *The Department will use the most recently calculated set of pending distributions from the RMRA after priority allocations to arrive at an estimated beginning balance.*

RMRA 2. *Annual, ongoing resources dedicated to the Department for maintenance and SHOPP purposes are provided by DOF. The Department will utilize the most recent values provided by DOF to estimate maintenance and SHOPP resources over the five-year FE period.*

RMRA 3. *Per SB 1, $100 million in remaining revenues shall be made available annually from the RMRA for expenditure, upon appropriation by the Legislature, for ATP projects and are to be allocated by the Commission.*

RMRA Expenditures

Maintenance:

RMRA 4. *Maintenance expenditures for 2021-22 are based on estimated program needs to cover current support positions in 2020-21 as well as proposed positions for 2021-22. The balance of projected expenditures will be divided between bridges, highway maintenance, and field work. Limited-term costs for equipment are expected to be fully absorbed within position costs by end of 2023-24, which should lower position costs in the out years of the FE. Maintenance costs for 2023-24 through 2026-27 are assumed flat.*

Capital Outlay:

RMRA 5. *Capital expenditures are based on a continuation of all RMRA project allocations prior to 2021-22, 2020-21 programmed projects not yet allocated, and projects programmed in 2021-22.*

Capital Outlay Support:

RMRA 6. *COS expenditures are based on a continuation of all RMRA components programmed prior to 2021-22, RMRA preliminary engineering components programmed in 2021-22, and RMRA construction engineering components programmed to begin in 2021-22.*

PUBLIC TRANSPORTATION ACCOUNT ASSUMPTIONS

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. *Based on historical data and projected expenditures from updated analysis of monthly PTA receipts less expenditures, a minimum level of operating cash of $100 million would sufficiently cover 95 percent of the monthly volatility in the PTA.*

PTA Revenues & Transfers

Sales Tax on Diesel:

The sales tax rate on diesel dedicated to transportation prior to the passage of SB 1 included a 6.50 percent sales tax per gallon of diesel fuel sold. The rate in excess of 4.75 percent (1.75 percent) was and still is dedicated to STA as a result of the Fuel Tax Swap of 2010. One half of the 4.75 percent is also dedicated to STA, while the other half remains in the PTA for other state purposes. SB 1 includes an increase of an additional 4 percent to the diesel sales tax rate for a total of 10.5 percent sales tax per gallon of diesel fuel for transportation purposes. Of the new 4 percent, 3.5 percent is dedicated to STA and the remaining 0.5 percent will be held short-term in the PTA for later allocations to Commuter and Intercity Rail. Approximately $3.9 billion and $256 million are to be transferred to STA and Commuter & Intercity Rail respectively over the FE period.

PTA 2. *The Department will utilize the most recently projected DOF estimated values of net Retail and Sales and Use Tax to calculate the percentage splits that flow out of the PTA to STA and to Commuter and Intercity Rail per SB 1.*

Transfer from the Aeronautics Account:

PTA 3. *Section 21682.5 of the Public Utilities Code requires an annual transfer equal to the pro rata share of transportation duties attributable to aviation planning and research from the Aeronautics Account. This amount is projected to remain constant at $30,000 in each year of the FE.*

PTA Expenditures

State Operations:

PTA 4. *Assume no reservations for budget change proposals or finance letters over the five-year FE period.*

Intercity Rail Operations:

PTA 5. *Intercity rail is part of the state operations expenditures in the PTA.*

A. *Intercity rail and bus operations base expenditures for existing services (including one month of the San Joaquin Service 8th & 9th Roundtrip and one year of Pacific Surfliner Service 13th Roundtrip) will be used to forecast 2021-22 and costs will remain unadjusted over the five-year FE period.*

B. *The Department's estimated need for rail heavy equipment maintenance, acquisition, technical services, and overhaul over the FE period is approximately $202 million.*

Local Assistance:

PTA 6. *Bay Area Ferry operation expenditures will escalate by one percent per year based on the signed cooperative agreement between the Department, Metropolitan Transportation Commission, and Bay Area Toll Authority on November 15, 2000.*

Prior PTA STIP Commitments:

Prior to calculating resources available for new STIP, the FE will display a set-aside of resources for existing STIP commitments.

PTA 7. *Capital expenditures are based on a continuation of all STIP components allocated prior to 2021-22, all STIP components programmed to begin in 2021-22, and non-highway AB 3090 projects.*

Altamont Corridor Express (SB 132):

SB 132 creates an appropriation item for local assistance with funding payable from the PTA. Funds appropriated in this item are to be used for the Altamont Corridor Express (ACE) to Ceres and Merced. SB 132 requires $400 million in resources for ACE be derived from the PTA. Funding is to be available for encumbrance and liquidation until June 30, 2027.

PTA 8. *The Department assumes a 10-year allocation schedule as offered by CalSTA for the expected schedule of project cash flows to ACE from the PTA. It is estimated that as much as $240 million could be allocated between 2021-22 and 2026-27. Assume that Transit and Inter-City Rail Program (TIRCP) will absorb the ACE impact to PTA resources totaling $240 million in the 2022 FE.*

GENERAL OBLIGATION BONDS ASSUMPTIONS

General Obligation Bonds:

It is expected that the Treasurer will conduct general obligation bond sales semi-annually in the Spring and Fall. Given the state's more stable financial position, it is assumed that there will be no change to that schedule. However, should the need for additional funding arise between scheduled bond sales, the Treasurer has the option to issue Commercial Paper which consists of short-term notes issued for the purpose of meeting short-term financial obligations. These notes can generally be issued on very short notice and are eventually repaid from future general obligation bond sales.

The 2021-22 Governor's Budget proposal includes $7 million in Proposition 1A bond expenditures. These funds are available for high-speed rail connectivity projects, which are intercity and commuter rail lines, and urban rail system projects that will connect to high-speed train system and its facilities once the state's high-speed rail project is operational.

The 2021-22 Governor's Budget proposal includes approximately $125 million in expenditures for Proposition 1B programs. This represents a considerably lower level of expenditures than during the peak of Proposition 1B activity, as most programs have either completed or are nearing the full allocation of their original program of projects. As program savings are realized new projects will be programmed and allocated, but in amounts far lower than at the height of the program.

Bond 1. *The 2022 FE will display remaining capacity and a history of allocations and expenditures for all Proposition 1A and Proposition 1B general obligation bond funds administered by the Department. Bond funding is expected to be received semi-annually as the Treasurer's practice is to sell general obligation bonds in the Spring and Fall. It is assumed that the Department will continue to receive bond proceeds from future sales on an as needed basis, with the amount of proceeds received being based on projected cash needs for the ensuing six months.*

AERONAUTICS ACCOUNT ASSUMPTIONS

Aeronautics Revenues and Transfers

Aero 1. *The 2022 Aeronautics Account Fund Estimate (FE) will display the most recent beginning balance for the Aeronautics Account leading up to the release of the FE.*

Aero 2. *Projected revenues for excise taxes on aviation gasoline and jet fuel will be based on values provided by the DOF for the years of 2021-22 to 2025-26. The DOF has forecasted that aviation gasoline excise tax revenues and jet fuel excise tax revenues will decrease by approximately 2.37 percent throughout the FE period.*

Aero 3. *The FE will display SMIT interest income based on the projected year ending cash balance of the Aeronautics Account as of June 30, 2021.*

Aero 4. *FTF resources represent federal reimbursement authority for various aviation activities completed by the Division of Aeronautics. Based on the DOF's price letter, FTF will be escalated by 2.7 percent per year for 2022-23 through 2025-26.*

Aero 5. *Section 21682.5 of the Public Utilities Code requires an annual transfer equal to the pro rata share of transportation duties attributable to aviation planning and research from the Aeronautics Account. This amount is projected to remain constant at $30,000 in each year of the FE.*

Aero 6. *Section 21602(f)(2) of the Public Utilities Code authorizes transfers from the Local Airport Loan Account (LALA) to the Aeronautics Account in order to fund the California Aid to Airports Program, subject to the approval of the DOF and the Commission. Transfers may not decrease the LALA fund balance below $5 million. The 2022 Aeronautics Account FE assumes a transfer in the amount of $2.5 million from 2021-22 to 2023-24 subject to concurrence with the DOF.*

Aeronautics Expenditures

Aero 7. *The annual funding provided to 149 publicly owned, public-use and eligible General Aviation airports through the Annual Credit grant program will remain at the same level of $10,000 per year for each qualified airport over the FE period.*

Aero 8. *The Airport Improvement Program (AIP) Matching Grant program total for each fiscal year is allocated by the Commission in the preceding year and is based on historic trends and available resources. The state match for the AIP Matching Grant is set by the Commission annually and is assumed to remain at 5 percent over the FE period.*

Aero 9.	*Before adding to Acquisition & Development (A&D) capacity, resources must first fund the California Aid to Airports' AIP Matching Grant Program and Annual Credit Grant Program. The Commission may allocate all ending cash balances available for programming during the FE period, which may include funding for A&D. The 2020 Aeronautics Program included a list of A&D projects scheduled for funding through 2021-22. The Commission will determine future A&D projects when it adopts the next two-year Aeronautics A&D Program.*

Aero 10.	*State operations include staffing for aeronautics and planning activities. State operations will display expenditures authorized in the 2021-22 Budget Act. Based on the DOF's price letter, state operations will be increased by 2.7 percent per year for 2022-23 through 2025-26.*

Aero 11.	*The Federal Aviation Administration (FAA) amended a policy regarding proceeds attributed to aviation fuels, specifying that tax revenues derived from aviation gas and jet fuel must be allocated for airport related projects. The 2022 FE assumes no change to the disposition of aviation fuel taxes.*