

AGENDA: January 15, 2004

TO: Interagency Technical Advisory Committee
FROM: Rachel Moriconi, Senior Transportation Planner
RE: State Budget Update

RECOMMENDATION

This item is for information only.

BACKGROUND

Governor Schwarzenegger released his mid- year budget proposal in late November. The Governor's FY04/05 State Budget proposal is scheduled for release on January 9, 2004. Staff will provide a summary of the Governor's FY04/05 proposal at this meeting. Current estimates show a \$14 billion shortfall for next fiscal year, significantly less than the \$38 billion deficit that faced the state this time last year.

DISCUSSION

Mid-Year State Budget Proposal

Attached is a summary of the Governor's mid-year budget proposal (Attachment 1). If approved by the legislature, the Governor's proposal would result in additional funding reductions for transportation projects statewide, additional borrowing of federal transportation funds designated for local projects, and elimination of the Transportation Congestion Relief Program. Under the proposal to borrow Obligation Authority from local federal funds and replace it with Advance Construction funds, HBRR, HES, CMAQ, RSTP, TEA and other federally-funded projects would have to prepare an expenditure plan (estimating when they will need money over time) and submit paperwork for advance construction (AC), in addition to typical paperwork required to obligate federal funds (such as an E-76). This will mean more paperwork for local agencies and Caltrans Local Assistance and a loss of guarantees that funds will be available once an agency is ready to invoice Caltrans for its projects.

Recommended Response for Project Sponsors

What does this all mean? If you have an outstanding federally-funded project (HBRR, CMAQ, HES, TEA, etc.) that you would normally obligate through Local Assistance, request to obligate your funds soon, or risk extra layers of paperwork and possible risk of not being reimbursed right away if the legislature approves the Governor's plan.

If you still need to invoice for TCRP funds, do it now before they are gone.

If you have a project on the attached list (Attachment 2), work with Caltrans Local Assistance to bill for it now, close out the project, or request an extension from Caltrans (not always available for STIP-funded projects). Caltrans is looking at what projects can be taken off the books and what cost savings can be returned to the state. Caltrans previously distributed this list to individual project sponsors.

Other Budget News

Uncertainties related to the FFY03/04 Federal Appropriations bill and State Budget continue to delay release of Regional Surface Transportation Program exchange funds. Caltrans staff has indicated that though the RSTPX program will be delayed several months this year, it will eventually happen.

On a positive note, based on Caltran's cash forecasts for the State Highway Account, the California Transportation Commission has determined that they can once again begin allocating funds to some transportation projects. As discussed at previous meetings, these funds will primarily be directed to State Highway Operation and Safety projects (SHOPP) for the next several months, but some regions in the state are hopeful that at least some of these funds may be available for Project Programming and Monitoring (PPM).

SUMMARY

The Governor has released the FY03/04 mid-year Budget Proposal and is anticipated to release the FY04/05 Budget Proposal this month. This report provides a brief summary of the mid-year proposal and an update on other aspects of the FY03/04 State Budget.

- Attachments
1. State Budget Overview
 2. Projects with Lapsing Funds

State Budget Overview

Excerpted from Legislative Update Prepared by MTC, December 17, 2003

Governor Schwarzenegger Mid-Year State Budget Proposal: Divert Traffic Congestion Relief Money to General Fund

The long running state budget crisis entered a new phase with Governor Arnold Schwarzenegger's mid-year budget reductions and spending "cap" proposals. While the Legislature adopted a \$15 billion bond measure and "rainy day" fund proposal to place on the March 2004 ballot, it postponed action on the proposed cuts until January 2004 when the Administration will also present its FY 2004-05 budget proposal. Below is a summary of the major proposals affecting transportation.

Proposed Mid-Year Cuts

Governor Schwarzenegger requested cuts across a number of state agencies totaling \$1.9 billion in 2003-04 and \$1.9 billion in 2004-05. Of that amount, transportation would experience reductions totaling near \$1.1 billion or almost 30 percent of the proposed cuts over the two years. Three of the proposals raise policy questions, in addition to having major fiscal impact:

- 1. Redirect Local Federal Funds to the General Fund**

The Administration proposes to redirect \$800 million in federal transportation spending authority (called "obligation authority" and currently destined to local projects) to help balance the General Fund. Described as a one-time accounting change from an "accrual" to a "cash flow basis," this change would substantially affect project delivery in the Bay Area. While the Department of Finance characterizes this \$800 million as funding that is "sitting in Washington" instead of here in California, this is highly misleading.

Each year, California exhausts its share of annual OA. In fact, California is so successful in delivering its federally funded projects that we typically compete with other states at the end of the federal fiscal year for redistribution of any OA left on the table by other states. The Administration's proposal therefore brings nothing back to California that we wouldn't receive already; rather, it takes OA destined to local agencies and uses it to repay the state General Fund for its obligation to pay debt service for general obligation bonds approved by the voters in the 1990's. The impact of this proposal means that local federally eligible projects that are ready to go will be left on the shelf until new OA becomes available. Finally, when combined with \$200 million in local OA taken by the state last summer, as well as another \$200 million taken several years ago, the total impact of the state's proposed grab of local OA is \$1.2 billion.

- 2. Elimination of the Traffic Congestion Relief Program**

The Administration proposes to transfer \$189 million in the current budget from the Traffic Congestion Relief Fund (TCRF) to the General Fund and eliminate the statutory authority for the Traffic Congestion Relief Program (TCRP) program. The TCRP is an integral component of Proposition 42, passed by the voters in November 2002 by almost

70 percent. Prop 42 indicated that a large portion of the funds would be dedicated to the TCRP for the first five years.

This proposal would impact funding for SCMTD's Pacific Avenue Metro Center project. The Transit District should still be able to receive reimbursement for the replacement buses it has already purchased.

3. Proposal to Divert \$138 million in Public Transportation Account Revenues to the General Fund

The Administration proposes to transfer \$138 million from the Public Transportation Account (PTA) to the General Fund to backfill for the deficit. The Administration's proposal includes a transfer of \$108 million over two years from revenues resulting from the sale of state (Caltrans) property and rental income to the General Fund. This revenue is currently deposited in the PTA, and is used for transit capital projects in the State Transportation Improvement Program (STIP) or on the state's intercity rail program.

The other element of the PTA diversion is a transfer of \$30 million in anticipated "spillover" revenue from the PTA to the General Fund. This is a clear violation of the compromise reached during budget negotiations last summer, which provided that the General Fund would retain up to \$87 million in spillover funds, leaving any additional amount – now estimated to be \$30 million – in the PTA. Since half of all PTA revenues go to the State Transit Assistance (STA) Program, this proposal would divert \$15 million in new, anticipated funds, and a like amount would be shifted away from the STIP or intercity rail. (The "spillover" mechanism only goes into effect during an economic downturn when gasoline prices are high. The intent of the spillover is to provide additional funding for mass transit services during these harder times when bus and rail operators are facing revenue shortfalls, and in many cases have already had to raise fares and/or cut service.)

According to the Legislative Analyst's Office, the total PTA diversion would leave the account with a \$73 million deficit at the end of FY 2004-05, requiring the deletion of projects from the STIP.

**Projects with Funds Lapsing by June 30, 2004
As of September 11, 2003**

Attachment 2

Location Name/ Agency Name	Fiscal Year	Project Number	Initial Project Amount (For FY)	Unliquidated Encumbrance (FY Project Bal.)	Purpose of Project / Project Description	Project Title/Location Desc
Santa Cruz County	1999-2000	RPSTPL-5936(041)	504,451.00	24,385.32	Road Improvement & Widening	Capitola Road from Santa Cruz city limits to Capitola city limits.
Santa Cruz County	1997-1998	STPLZ-5936(020)	1,442,232.00	28,845.07	SEISMIC RETROFIT	IN SANTA CRUZ COUNTY AT VARIOUS LOCATIONS.
Santa Cruz County	1997-1998	STPLZ-5936(020)	186,856.00	3,736.69	SEISMIC RETROFIT	IN SANTA CRUZ COUNTY AT VARIOUS LOCATIONS.
Santa Cruz County	1998-1999	STPLZ-5936(032)	9,750.00	1,147.47	Seismic Retrofit--R/W	IN SANTA CRUZ COUNTY @ VARIOUS BRIDGE LOCATIONS, BRD. #S 36C-0018, 0068, 0073, 0078, 0083, 0092, 0114, 0134 and 36C-0075, 0116.
Santa Cruz County	1998-1999	STPLZ-5936(032)	75,250.00	8,852.53	Seismic Retrofit--R/W	IN SANTA CRUZ COUNTY @ VARIOUS BRIDGE LOCATIONS, BRD. #S 36C-0018, 0068, 0073, 0078, 0083, 0092, 0114, 0134 and 36C-0075, 0116.
Santa Cruz County	1999-2000	STPLZ-5936(039)	42,819.00	4,327.93	Seismic Retrofit	IN SANTA CRUZ COUNTY @ LARKSPUR ST BRD#36C-068, EITHER WY BRD #36C-073, IRWIN WY BRD#36C-083
City of Santa Cruz	1997-1998	ER-3655(001)	2,632,349.00	1,096.69	Emerg. Opening/Force Acct. & Contract	In the City of Santa Cruz - (6) various locations - DAF#s CSC-SCR-001 thru 006 - Storm CA98-1
City of Santa Cruz	1997-1998	ER-3655(002)	248,790.00	123,006.77	Emerg. Opening/Force Acct. & Contract	In the City of Santa Cruz - (10) various locations - DAF#s JMS-SCRC-001 thru 007 & JMS-SCRC-009 thru 011
City of Santa Cruz	1999-2000	RPSTPL-5025(021)	281,015.00	225.56	Roadway Improvements	In the City of Santa Cruz on River St from Josephine St to Water St.
City of Santa Cruz	1997-1998	STPLHG-5025(016)	10,000.00	10,000.00	Construct new traffic signals	In the City of Santa Cruz on Soquel Ave between Capitola Rd and 7th Ave.
City of Santa Cruz	1998-1999	STPLHG-5025(016)	405,636.00	58,195.23	Construct new traffic signals	In the City of Santa Cruz on Soquel Ave between Capitola Rd and 7th Ave.
SCCRTC*	1999-2000	RPL-6149(015)	225,000.00	205,133.15	Environmental Review-rail line	(Santa Cruz Branch Line) Santa Cruz to Watsonville Junction - environmental review (proposed branch line)
City of Scotts Valley	1997-1998	ER-3655(003)	490,456.00	465,741.10	EO/FA-Contract	In the City of Scotts Valley on Glen Canyon Dr. and on Glenwood Dr. - DAF#s CSC-SCTV-001-0 & WFT-SCTV-001-0
City of Watsonville	1997-1998	BRLK-5031(005)	200,000.00	86,982.66	CONSTRUCT BRIDGE AT LOW WATER CROSSING	IN THE CITY OF WATSONVILLE AT HARKINS SLOUGH ROAD ON WATSONVILLE SLOUGH BRD. NO. 36C-LWC1
City of Watsonville	1997-1998	CML-5031(003)	6,800.00	6,800.00	INSTALL BIKE LANE	04-SCR-0-WAT: GREEN VALLEY RD: MAIN TO PENNSYLVANIA

* Funds will lapse on 2/29/04 due to prior extension. Cannot be extended again.