Agenda Item 4a

METROPOLITAN
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COMMISSION

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Memorandum

TO: Legislation Committee

DATE: June 3, 2011

FR: Executive Director

W.I. 1131

RE: FY 2011-12 State Budget Update

Revenues Up but $10 Billion Shortfall Remains

Taking into account the $13.4 billion in reductions already adopted by the Legislature, as well as the $6.6 billion in higher revenue projections for the current year and FY 2011-12, the May Revise of the FY 2011-12 State Budget forecasts a $9.6 billion shortfall. This consists of a carry-in deficit of $4.8 billion from the current year and an operating shortfall of $4.8 billion — with a target reserve of $1.2 billion, the state now faces a $10.8 billion gap overall.

State Transit Assistance Funding Up by 26 Percent

The State Transit Assistance (STA) program, which provides the only source of state funding eligible to be used for transit operating expenses, is now forecast to provide $416 million statewide, up from $330 million in January. This increase is a result of higher diesel fuel prices since diesel sales tax now comprises the sole revenue source for STA. As shown in Attachment A, based on this funding level, the San Francisco Bay Area would receive approximately $150 million for local transit operators and regional transit coordination efforts. However, it should be noted that given the volatility of diesel fuel prices, the final amount will likely change. Furthermore, STA funding is based on the actual revenue generated so transit operators will not know their final STA amount for FY 2011-12 until after the fiscal year ends. Lastly, until a final state budget is adopted, there is still some risk that the Legislature could divert a portion of the sales tax on diesel fuel to help reduce the remaining shortfall in the General Fund. While Proposition 22 protects the majority of the sales tax on diesel fuel, it does not protect the new increment that was put in place as part of the gas tax swap. This amount is estimated to generate about $170 million in FY 2011-12, 41 percent of the total STA program.

Fall Bond Sale Proposed to Be Much Lower

The May Revise indicates the Administration intends to reduce its Fall bond sale from $5.8 billion to $1.5 billion in order to achieve $127 million in General Fund debt service savings. Of this amount, $530 million is tentatively reserved for Proposition 1B projects. As of April 2011, about $2.7 billion in cash proceeds remain available for Proposition 1B projects from prior bond issuances. The Administration indicates the cash on-hand, plus the additional $530 million, will provide sufficient funds to support Proposition 1B (2006) projects until the next planned bond sale in Spring 2012. However, according to Caltrans, there are approximately $3.5 billion worth of projects under construction that require additional cash in January 2012 to complete construction. In addition, the department reported that there are $980 million worth of Proposition 1B transit projects and another $421 million in Proposition 1B and Proposition 1A (high-speed rail connectivity) projects that can be delivered in FY 2011-12, but only if sufficient bonds are sold.

Regardless of the final size of the bond sale, a key issue at stake for transportation projects is how much of that sale is ultimately allocated to Proposition 1A and 1B projects, a decision made by the Department of Finance, based on input from Caltrans. Over the next month, MTC staff will work with other transportation stakeholders to make sure the Administration has an accurate understanding of next year's cash-flow needs for the region's transportation bond projects.

In order to provide more transparency about this process, the Senate Budget Subcommittee adopted placeholder trailer bill language that will require Caltrans and the Department of Finance to provide information to the Legislature to explain how they divide up the funds among the various competing programs.

Steve Heminger