

CALIFORNIA DEPARTMENT OF TRANSPORTATION

Low Cash Balances Threaten the Department's Ability to Promptly Deliver Planned Transportation Projects

Audit Highlights . . .

Our review of the Department of Transportation's (department) delivery of projects in the State Transportation Improvement Program (STIP) and Traffic Congestion Relief Program (TCRP) revealed that:

- A lack of cash in the State Highway Account will result in the California Transportation Commission (commission) allocating almost \$3 billion less than it had originally planned for STIP projects scheduled in fiscal years 2002-03 and 2003-04.*
- Funding uncertainties associated with the Traffic Congestion Relief Fund (TCRF) have resulted in the commission halting all TCRP allocations, including those to 15 projects that currently need \$147 million in order to continue work.*
- Delayed or cancelled transportation projects will affect the State's aging transportation infrastructure, resulting in deteriorated highways, more traffic congestion, and reduced air quality, as well as higher costs for California residents, in terms of wasted fuel and lost productivity.*

continued on next page

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California Department of Transportation's and the California Transportation Commission's responses as of January 2004

The Joint Legislative Audit Committee asked us to examine the Department of Transportation's (department) delivery of projects in the State Transportation Improvement Program (STIP) and Traffic Congestion Relief Program (TCRP). We found that the department's ability to promptly deliver transportation projects is affected by low cash balances in the State Highway Account (highway account) and Traffic Congestion Relief Fund (TCRF), and consequently, delayed and cancelled transportation projects will negatively affect the State's aging transportation system. The low cash balances in the highway account and TCRF were caused by several factors.

Loans from the highway account and TCRF to the State's General Fund drained cash reserves from these accounts at the same time that the department saw highway account revenues decrease from weight fees. Further, uncertainties related to the former governor's mid-year spending proposal have caused the California Transportation Commission (commission) to halt all allocations to TCRP projects until the budget uncertainties are resolved. Moreover, the department's cash forecast updates continue to be optimistic, and consequently the department could end fiscal year 2003-04 with a negative account balance in the highway account. The department and the commission have alternatives to fund projects in the short-term. However, most of these alternatives also have the potential to decrease the future flexibility of scheduling projects for the STIP and one could be perceived as unfair, so the commission needs to carefully consider and set guidelines for their use.

☑ *Many of the commission's and the department's alternatives to provide needed funding for projects on a short-term basis have the drawback of reducing the department's flexibility to fund future projects, and one potential option available to the commission may be perceived as unfair.*

Finding: The department has insufficient cash to allow it and regional agencies to deliver planned transportation projects in the STIP and TCRP at the levels originally planned.

Lacking sufficient cash in its major transportation funds and accounts, the department and regional transportation planning agencies are unable to deliver many of their planned transportation projects scheduled in the STIP and TCRP. Specific areas our audit identified include:

- Projected cash shortages identified by the department in its December 2002 cash forecast caused the department to temporarily halt allocations to STIP and TCRP projects. While the department's revised March 2003 cash forecast update prompted the commission to resume allocations to STIP (but not TCRP) projects, the department's estimates may be overly optimistic, and could result in the commission making allocations for which the department will lack available funds when later presented with reimbursement requests from implementing agencies.
- Although the commission resumed allocations to STIP projects in April 2003, the allocations are at dramatically lower levels than originally planned. Specifically, 194 projects needing \$103 million in order to move forward with the next phase of project delivery will not receive allocations in fiscal year 2002–03. Moreover, the commission's actual and planned allocations for fiscal years 2002–03 and 2003–04 is almost \$3 billion lower than the amounts originally planned.
- Minimal cash reserves in the TCRF will affect the department's ability to deliver at least 106 projects that require a minimum of \$3.4 billion more in allocations to continue work. Since December 2002, 15 TCRP projects have submitted requests for allocations totaling \$147 million, and work has ceased on 12 of these projects due to lack of spending authority.
- The former governor's May 2003 revision to the governor's budget threatens TCRF funds, calling for the Legislature to delay \$938 million of the transfer of state gasoline sales tax revenues from the General Fund to the Transportation Investment Fund (TIF). Because state law provides for only a set number of annual transfers of specified amounts from the TIF to the TCRF, delays or reductions in amounts transferred to the TIF could result in a permanent annual loss of revenues to the TCRF of up to \$678 million, unless the Legislature acts to obligate the General Fund to repay the TCRF in the future.

- Delayed or cancelled projects will affect the State's aging transportation system, resulting in deteriorated highways, increased traffic congestion, and reduced air quality. Additionally, delays in making improvements means that California residents will pay higher direct costs for wasted fuel and lost productivity. Also, consumers will pay increased indirect costs of the delays in the form of higher prices for goods and services, as well as compounding repair costs for fixing later what the department should fix now.
- The department and commission have alternatives that they could use to fund projects over the short term. However, many of these alternatives have the potential to make future project scheduling inflexible, and one option—pursuing the ability for the commission to rescind TCRP allocations—could be perceived as unfair.

We recommended that, considering the State's fiscal crisis, the Legislature may wish to allow the TIF to transfer the entire \$678 million to the TCRF, and then authorize a loan of the money from the TCRF to the General Fund so that those funds would be repaid to the TCRF and therefore still be available in future years.

Further, we recommended that the department do the following to ensure that it can meet its short-term cash needs:

- Continue its efforts to become more precise in revising its revenue and expenditure estimates and ensure that these revisions are properly supported and presented in cash forecast updates to the commission.
- Continue to cautiously pursue other funding alternatives (GARVEE bonds, SIB loans, direct-cash reimbursement, and replacement projects) to meet short-term project funding needs, and continue to set limits on these alternatives to avoid making future project scheduling inflexible.

Finally, we recommended that should the commission be granted the authority to rescind unspent allocations, it should carefully consider statewide priorities and ensure that all counties are treated fairly before taking such actions.

Department and Commission Action: Partial corrective action taken.

The department states that its cash management team has expanded its cash forecasting activities to include a monthly analysis and projection of construction payments to contractors, which compose a large portion of the department's monthly cash disbursements. The department reports that its cash management team is also in the process of refining monthly projections of expenditures in the toll bridge seismic retrofit account, the TCRF, and the public transportation account to improve its projection of cash in the transportation revolving account. The department further reports that its cash management team has adopted a conservative approach to projecting anticipated federal collections due to uncertainty over passage of the new federal transportation act. Finally, the department reports that aside from monitoring and forecasting cash balances on a daily basis, its cash management team continues to update its internal project tracking database to monitor allocations and expenditures on capital outlay and local assistance projects. The department reports that it presented a quarterly cash update to the commission in September 2003 with recommendations on the amount of cash available for project allocations.

The department agrees with our recommendation that it should continue to cautiously pursue other funding alternatives. The department has implemented the Transportation Finance Bank Revolving Program (SIB loans) and is still developing GARVEE financing.

The commission stated that it has not been granted the authority to rescind unspent allocations, so no action has taken place.

Legislative Action: Unknown.

We are not aware of any action taken by the Legislature to allow the TIF to transfer \$678 million to the TCRF and to authorize the loan of these funds to the General Fund.