

# Memorandum

# TAB 18

To: CHAIR AND COMMISSIONERS  
CALIFORNIA TRANSPORTATION COMMISSION

CTC Meeting: January 20-21, 2016

Reference No.: 4.17  
Action Item

From: NORMA ORTEGA  
Chief Financial Officer

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Division of Budgets

Subject: **REVISED 2016 STATE TRANSPORTATION IMPROVEMENT PROGRAM FUND  
ESTIMATE ASSUMPTION FOR THE PRICE-BASED EXCISE TAX RATE**

## **RECOMMENDATION:**

The California Department of Transportation (Department) recommends that the California Transportation Commission (Commission) approve an updated Price-Based Excise Tax Rate assumption for the Amended 2016 State Transportation Improvement Program (STIP) Fund Estimate.

## **ISSUE:**

Assumptions for the Amended 2016 STIP Fund Estimate provide the basis for forecasting available capacity for the 2016 STIP and the 2016 State Highway Operation and Protection Program. Revenue assumptions were based in part on the Department of Finance estimation that the Price-Based Excise Tax Rate on gasoline would increase incrementally over the fund estimate period. In May 2015, the Commission approved the assumptions for the 2016 STIP Fund Estimate. In August 2015, the 2016 STIP Fund Estimate was adopted by the Commission.

On January 7, 2016, the 2016-17 Governor's Budget was released, reflecting a lower projected 2016-17 Price-Based Excise Tax rate than was previously estimated by the Department of Finance. In response to the decreased rate, the Department worked with Commission staff to develop updated Price-Based Excise Tax Rate scenarios over the fund estimate period, including a Recommended Projection. These scenarios are detailed in the "Revised 2016 STIP Fund Estimate Assumption for the Price-Based Excise Tax Rate" attached.

Section 14525(d) of the Government Code states that the Commission may amend the Fund Estimate prior to March 1 of each even-numbered year. The Department has developed an Amended 2016 STIP Fund Estimate for adoption that incorporates the Recommended Projection. If the Commission chooses to approve an alternate Tax Rate scenario, the Department will provide an Amended Fund Estimate on the following day of the Commission meeting.

**BACKGROUND:**

On March 26, 2015, the Department presented the Draft Assumptions for the 2016 STIP Fund Estimate to Commissioners and Commission staff for their review. The Department worked with Commission staff to update and make any necessary changes to the assumptions and methodologies. The finalized assumptions were presented and approved by the Commission on May 28, 2015.

The 2016-17 Governor's Budget reflects a lower Price-Based Excise Tax Rate than the Department of Finance projected in 2015. Because the Price-Based Excise Tax is the primary revenue source for the STIP, lower rates have been incorporated into the updated Price-Based Excise Tax Rate scenarios, which will result in decreased STIP capacity over the fund estimate period.

Attachment



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**REVISED 2016 STIP FUND  
ESTIMATE ASSUMPTION FOR  
THE PRICE-BASED EXCISE  
TAX RATE**

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PREPARED BY  
THE DEPARTMENT OF TRANSPORTATION  
DIVISION OF BUDGETS

# UPDATE TO THE FINAL ASSUMPTIONS

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The Department has worked with Commission staff to update the 2016 STIP Fund Estimate (FE) Assumptions in order to reflect a decrease in the Price-Based Excise Tax Rate over the fund estimate period. The original Adopted 2016 STIP FE, and updated Rate scenarios, are explained in detail below:

**Adopted 2016 STIP Fund Estimate Rates:** Assumed a price-based excise tax rate on gasoline for 2016-17 of 14.1 cents per gallon, increasing to 18 cents prior the end of the FE period. This scenario utilized the 2015-16 Governor’s Budget and February 2015 Department of Finance (DOF) projections, but assumed a higher Price-Based Excise Tax Rate on gasoline in the last two years of the FE period. This scenario incorporated annual growth rates on weight fee revenues and static gasoline and diesel fuel consumption. See the table titled “Adopted 2016 STIP Fund Estimate” on Page 3.

## UPDATED SCENARIOS

*Each of the following scenarios assume that all elements of the above approved assumption remain unchanged with the exception of price-based excise tax rates.*

**A - Recommended Projection:** The Department has worked with Commission staff to develop a Rate scenario that mirrors the assumption that Price-Based Excise Tax Rates reach 18 cents prior to the end of the FE period, while reflecting lower rates in early years when compared to the original scenario. The linear approach to fiscal year Rate adjustments reflect the adopted assumption of an incremental increase in each year of the FE. Rates based on the Recommended Projection represent a middle-ground between other scenarios, and are projected to reduce STIP revenue by approximately \$801 million, and total revenue by approximately \$1 billion, when compared to the original scenario. See the table titled “A - Recommended Projection” on Page 3.

**B - Adopted STIP Fund Estimate Indexed to 2016-17 Rate Projection:** By adjusting the 2016-17 rate to reflect the updated DOF projection (rounded to the nearest cent) of 10 cents, rates for the remaining years of the FE period were reduced by 4.1 cents. This represents the most dramatic change in rates, and is projected to reduce STIP revenue by approximately \$1.3 billion, and total revenue by approximately \$1.6 billion, when compared to the original scenario. See the table titled “B - Adopted STIP Fund Estimate Indexed to Updated 2016-17 Rate Projection” on Page 3.

**C - Department of Finance Projection (as of December 2015):** In advance of the 2016 Board of Equalization meeting to set the 2016-17 price-based excise tax rate, the DOF released rate projections covering the FE period. This scenario represents the most conservative change in rates, and is projected to reduce STIP revenue by approximately \$198 million, and total revenue by approximately \$252 million, when compared to the original scenario. See the table titled “C - Department of Finance Rate Projection” on Page 3.

**D - Projection Based on EIA Publication:** The Energy Information Administration (EIA) produces the official energy statistics from the U.S. Government. The *Energy Outlook 2015* publication projects average national gasoline prices at the pump, including applicable taxes, through 2040. The Reference scenario includes a modest increase in crude oil prices, which

factors into a marginal increase in gasoline prices over the FE period. Average annual national prices were adjusted to California, based on a four-year historical comparison. Certain taxes were removed to reflect the methodology used to calculate the equivalent price-based excise tax rate for each fiscal year over the FE period. Rates based on the EIA *Energy Outlook 2015* are projected to reduce STIP revenue by approximately \$849 million, and total revenue by approximately \$1.1 billion, when compared to the original scenario. See the table titled “D - Projection Based on EIA Publication” below.

#### Adopted STIP Fund Estimate

<i>Price-Based Excise Tax Rate</i>	<i>\$0.141</i>	<i>\$0.159</i>	<i>\$0.169</i>	<i>\$0.180</i>	<i>\$0.180</i>	
Revenues (\$ in millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Price-Based Excise Tax on Gas (Non-STIP)	\$1,181	\$1,250	\$1,306	\$1,337	\$1,358	<b>\$6,432</b>
Price-Based Excise Tax on Gas (STIP)	\$403	\$495	\$537	\$599	\$589	<b>\$2,623</b>

#### A - Recommended Projection

<i>Price-Based Excise Tax Rate</i>	<i>\$0.100*</i>	<i>\$0.120</i>	<i>\$0.140</i>	<i>\$0.160</i>	<i>\$0.180</i>	
Revenues (\$ in millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Price-Based Excise Tax on Gas (Non-STIP)	\$1,111	\$1,184	\$1,257	\$1,303	\$1,358	<b>\$6,214</b>
Price-Based Excise Tax on Gas (STIP)	\$149	\$253	\$357	\$474	\$589	<b>\$1,822</b>

#### B - Adopted STIP Fund Estimate Indexed to Updated 2016-17 Rate Projection

<i>Price-Based Excise Tax Rate</i>	<i>\$0.100*</i>	<i>\$0.118</i>	<i>\$0.128</i>	<i>\$0.139</i>	<i>\$0.139</i>	
Revenues (\$ in millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Price-Based Excise Tax on Gas (Non-STIP)	\$1,111	\$1,181	\$1,237	\$1,268	\$1,289	<b>\$6,086</b>
Price-Based Excise Tax on Gas (STIP)	\$149	\$241	\$283	\$345	\$335	<b>\$1,352</b>

#### C - Department of Finance Projection (as of December 2015)

<i>Price-Based Excise Tax Rate</i>	<i>\$0.100*</i>	<i>\$0.170</i>	<i>\$0.164</i>	<i>\$0.177</i>	<i>\$0.186</i>	
Revenues (\$ in millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Price-Based Excise Tax on Gas (Non-STIP)	\$1,111	\$1,269	\$1,298	\$1,332	\$1,368	<b>\$6,378</b>
Price-Based Excise Tax on Gas (STIP)	\$149	\$563	\$506	\$581	\$626	<b>\$2,425</b>

#### D - Projection Based on EIA Publication

<i>Price-Based Excise Tax Rate</i>	<i>\$0.100*</i>	<i>\$0.147</i>	<i>\$0.147</i>	<i>\$0.148</i>	<i>\$0.150</i>	
Revenues (\$ in millions)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Price-Based Excise Tax on Gas (Non-STIP)	\$1,111	\$1,230	\$1,269	\$1,283	\$1,307	<b>\$6,201</b>
Price-Based Excise Tax on Gas (STIP)	\$149	\$420	\$401	\$401	\$403	<b>\$1,774</b>

\*Rate Based on Department of Finance Projection (rounded to nearest cent)