MEMORANDUM

To: CHAIR AND COMMISSIONERS
CALIFORNIA TRANSPORTATION COMMISSION

CTC Meeting: May 15-16, 2025

From: STEVEN KECK, Chief Financial Officer

Reference Number: 4.3, Action Item

Prepared By: Keith Duncan, Chief
Division of Budgets

Subject: **2026 STATE TRANSPORTATION IMPROVEMENT PROGRAM AND AERONAUTICS ACCOUNT FUND ESTIMATES – FINAL ASSUMPTIONS**

ISSUE:

Should the California Transportation Commission (Commission) approve the final assumptions for the 2026 State Transportation Improvement Program (STIP) Fund Estimate and the 2026 Aeronautics Account Fund Estimate?

RECOMMENDATION:

The California Department of Transportation (Department) recommends that the Commission approve the final assumptions for the 2026 STIP Fund Estimate and the 2026 Aeronautics Account Fund Estimate.

BACKGROUND:

At the May 2025 Commission meeting, the Department will be requesting the Commission to approve one alternative from each of the following options located in Section One of the attached document:

- The Economic & Statutory Impact on Revenues (Fuel Consumption)
- Federal Revenues
- Motor Vehicle Account Transfers

Should the Commission approve the final assumptions, the Department plans to present the two Draft 2026 Fund Estimates at its June 2025 meeting, and the final versions of both Fund Estimates for adoption at the August 2025 meeting.

At the March 2025 Commission meeting, the Department presented the 2026 STIP Fund Estimate Draft Assumptions and requested that the Commission consider the "Alternatives" included as part of the assumptions in Section One. The Department has been working closely with Commission staff to finalize the draft assumptions. Statute requires that the Fund Estimate be based on current state and federal guidelines for estimating revenues. Should any budgetary action require the Department to update the assumptions between now and subsequent presentations, the Department will inform Commission staff and present the changes during the upcoming Commission meetings.

The final assumptions for the 2026 STIP Fund Estimate provide the basis for forecasting available capacity for the 2026 STIP and the 2026 State Highway Operation and Protection Program, while the assumptions for the 2026 Aeronautics Account Fund Estimate determine available capacity for the Aeronautics Account. The 2026 STIP Fund Estimate Final Assumptions are attached.

Attachment

- 2026 Fund Estimate Final Assumptions

2026 Fund Estimate Final Assumptions

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INTRODUCTION

This report contains key assumptions and methodologies to be adopted during the California Transportation Commission (Commission) meeting on May 15-16, 2025, 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 2026 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 2026 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 2026 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 2026 FE, including placeholders for assumptions derived in sections one and two of this report.

Between now and the August 2025 presentation date for the proposed adoption of the 2026 FE, the 2025-26 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 15-16	FE Assumptions approved by Commission
June 26-27	Draft FE presented to Commission
August 14-15	Final FE presented to Commission for adoption

SECTION ONE:
OPTIONS

THE ECONOMIC & STATUTORY IMPACT ON REVENUES

Option: How aggressive of an assumption should the 2026 FE display revenues given California's current economic climate, greater fuel efficiency in vehicles driven within the state, and the state's transition to zero-emission vehicles (ZEV), with their 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 until early 2020 when the COVID-19 pandemic had an immediate and significant negative impact on the state's economy and fuel consumption. Fuel consumption has rebounded; however, it has yet to reach pre-pandemic highs and the state's economic forecast is still in flux.

In February of this year, the UCLA Anderson Forecast, one of the most widely watched and often-cited economic outlooks for California, forecast that higher inflation and changes in federal policy under the new administration may adversely impact the economy. With the economy's continued growth and elevated inflation, the Federal Reserve has already signaled that rate cuts, if they were to occur, will be at a more gradual pace. Short-term interest rates are estimated to remain higher for a longer period and with inflation anticipated to make a modest return, long-term interest rates are forecast to go higher. Additionally, changes in tariff policy could be passed through into prices and fully born by the economy, resulting in higher price levels for many goods and services. Unemployment rates are forecast to increase to 5.8 percent and remain above 5 percent into late 2026. Consumer prices are forecast to be in the lower 3 percent range over the next two years. Real income is forecast to grow from increased activity in the tech sector, but employment growth will remain relatively flat at 1 percent per year.

In addition to California's economic impact on fuel consumption, in 2020, Governor Newsom signed Executive Order N-79-20 which set rules and regulations to transition all new passenger and light vehicle purchases from fuel consuming internal combustion engines to ZEV by 2035. The forecast for this transition displays increasingly diminished fuel consumption which will affect transportation revenues.

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 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 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 comparison purposes for gas and diesel consumption. Consumption values indicated are flat (remain unchanged) in diesel and gas demand beginning 2025-26. The net result is a display of notable growth in base excise and incremental excise tax resources over the five-year FE period.

Alternative B: This scenario utilizes the most recent (Federal) Energy Information Administration (EIA) projections for gas and diesel consumption. This federal-based model indicates consumption values at a marginal downward trend in gas and diesel demand over the FE period. Consumption changes are expected to be more than offset by the consumer price rate adjustments suggested by DOF. The net result is a display of 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 2025-26 Governor's Budget. Consumption values indicate a gradual decline in diesel and gas demand through the end of the FE cycle. Consumption changes are expected to be partly offset by the consumer price rate adjustments suggested by DOF. The net result is a display of marginal growth, followed by flattening and the beginning of decline in excise tax resources over the five-year FE period.

Alternative D: This scenario utilizes fuel industry modeling from the most recent British Petroleum P.L.C (BP) projections for gas and diesel consumption. Consumption values indicate a 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 net result is a display of notable growth in base excise and incremental excise tax resources over the five-year FE period.

Alternative E: This scenario utilizes California Air Resources Board's (CARB) EMFAC 2021 projections for gas and diesel consumption that are currently available. Consumption values indicate a 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 net result is a display of marginal growth in base excise and incremental excise tax resources over the five-year FE period.

Alternative F: This scenario utilizes CARB most current available model (EMFAC 2021) projections with customizations that reflect compliance with Advanced Clean Cars II regulation. Consumption values indicate a decline in gas demand. Consumption changes are expected to be partly offset by the consumer price rate adjustments suggested by DOF. The net result is a display of gradual decrease in base excise and incremental excise tax resources over the five-year FE period. CARB anticipates releasing an updated EMFAC 2025 model that will directly incorporate Advanced Clean Cars II regulation in Spring of 2025.

ALTERNATIVE A (Utilizing Zero-Growth Flat Consumption Values)

Gross Revenues	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	5-Year Total
Base Excise Taxes on Gasoline & Diesel	$3,646	$3,739	$3,849	$3,942	$4,039	$4,128	**$19,698**
Incremental Excise Tax on Gasoline	2,883	2,961	3,039	3,117	3,195	3,266	**15,577**
Weight Fees	1,347	1,382	1,419	1,458	1,497	1,537	**7,293**
Weight Fee Diversion (to General Fund)	(1,347)	(1,382)	(1,419)	(1,458)	(1,497)	(1,537)	**(7,293)**
Total:	**$6,529**	**$6,700**	**$6,888**	**$7,059**	**$7,234**	**$7,394**	**$35,275**

ALTERNATIVE B (Utilizing EIA Consumption Values)

Gross Revenues	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	5-Year Total
Base Excise Taxes on Gasoline & Diesel	$3,646	$3,696	$3,760	$3,800	$3,836	$3,863	**$18,955**
Incremental Excise Tax on Gasoline	2,883	2,926	2,965	2,998	3,024	3,042	**14,955**
Weight Fees	1,347	1,382	1,419	1,458	1,497	1,537	**7,293**
Weight Fee Diversion (to General Fund)	(1,347)	(1,382)	(1,419)	(1,458)	(1,497)	(1,537)	**(7,293)**
Total:	**$6,529**	**$6,623**	**$6,725**	**$6,798**	**$6,860**	**$6,906**	**$33,911**

ALTERNATIVE C (Utilizing DOF Consumption Values) Recommended

Gross Revenues	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	5-Year Total
Base Excise Taxes on Gasoline & Diesel	$3,646	$3,669	$3,701	$3,700	$3,692	$3,673	**$18,436**
Incremental Excise Tax on Gasoline	2,883	2,899	2,910	2,907	2,896	2,875	**14,486**
Weight Fees	1,347	1,382	1,419	1,458	1,497	1,537	**7,293**
Weight Fee Diversion (to General Fund)	(1,347)	(1,382)	(1,419)	(1,458)	(1,497)	(1,537)	**(7,293)**
Total:	**$6,529**	**$6,569**	**$6,611**	**$6,607**	**$6,588**	**$6,548**	**$32,922**

ALTERNATIVE D (Utilizing BP Consumption Values)

Gross Revenues	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	5-Year Total
Base Excise Taxes on Gasoline & Diesel	$3,646	$3,714	$3,797	$3,864	$3,932	$3,991	**$19,298**
Incremental Excise Tax on Gasoline	2,883	2,941	2,998	3,054	3,110	3,157	**15,261**
Weight Fees	1,347	1,382	1,419	1,458	1,497	1,537	**7,293**
Weight Fee Diversion (to General Fund)	(1,347)	(1,382)	(1,419)	(1,458)	(1,497)	(1,537)	**(7,293)**
Total:	**$6,529**	**$6,655**	**$6,796**	**$6,918**	**$7,042**	**$7,149**	**$34,559**

ALTERNATIVE E (Utilizing CARB EMFAC Consumption Values)

Gross Revenues	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	5-Year Total
Base Excise Taxes on Gasoline & Diesel	$3,646	$3,673	$3,718	$3,746	$3,778	$3,805	**$18,720**
Incremental Excise Tax on Gasoline	2,883	2,900	2,921	2,943	2,966	2,984	**14,716**
Weight Fees	1,347	1,382	1,419	1,458	1,497	1,537	**7,293**
Weight Fee Diversion (to General Fund)	(1,347)	(1,382)	(1,419)	(1,458)	(1,497)	(1,537)	**(7,293)**
Total:	**$6,529**	**$6,573**	**$6,640**	**$6,690**	**$6,744**	**$6,789**	**$33,436**

ALTERNATIVE F (Utilizing CARB ACC2 Consumption Values - All Vehicles)

Gross Revenues	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	5-Year Total
Base Excise Taxes on Gasoline & Diesel	$3,646	$3,614	$3,583	$3,516	$3,434	$3,327	**$17,474**
Incremental Excise Tax on Gasoline	2,883	2,846	2,796	2,730	2,648	2,542	**13,563**
Weight Fees	1,347	1,382	1,419	1,458	1,497	1,537	**7,293**
Weight Fee Diversion (to General Fund)	(1,347)	(1,382)	(1,419)	(1,458)	(1,497)	(1,537)	**(7,293)**
Total:	**$6,529**	**$6,460**	**$6,379**	**$6,246**	**$6,082**	**$5,870**	**$31,037**

Note: $ in millions

FEDERAL REVENUES

Option: How much Federal Obligational Authority (OA) should the FE display over the 2026 FE period?

Background: Since 2003-04, Federal Highway Administration (FHWA) federal formula funding has represented the majority of total resources available for the SHOPP. These funds 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, miscellaneous truck and tire fees, and augmentations from the federal general fund.

The state receives formula fund apportionments that are ultimately calculated based on California's contributions to federal excise tax, as a percentage share of total deposits into the FHTF. The actual amount of federal formula funds the state can use on projects each year is governed by the OA, which is set annually based on what Congress authorizes in its annual Federal Appropriation Act.

The Infrastructure Investment and Jobs Act (IIJA), approved on November 15, 2021, provided authorization of approximately $350 billion for the federal-aid highway program from Federal Fiscal Year (FFY) 2022 to 2026 and is the largest federal investment in public transportation ever. Over the five-year period, funding levels increased by approximately 1.8 percent annually. The IIJA will expire at the end of FFY 2026. At present, it remains unclear what the new federal administration will pursue as part of a new transportation act.

The 2026 FE covers fiscal years 2026-27 through 2030-31, which is outside of the IIJA'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 dramatically alter the resources available for allocation on projects, future FE cycles may incorporate adjustments in accordance with new federal authority.

The FHWA provided projected formula 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.

Alternative A: Assume OA is equal to the average proportion of federal apportionments available over the preceding six-years with base year of $5.2 billion and a zero-growth methodology in subsequent years. This would result in about $26 billion in OA over the FE period.

Alternative B (Recommended Alternative): Assume OA is equal to the average proportion of federal apportionments available over the preceding six-years with base year of $5.2 billion and escalated annually using the inflationary rate during the entire IIJA funding period. This would result in about $27.4 billion in OA over the FE period and would represent year over year growth in OA of approximately 1.8 percent.

Alternative C: Assume OA is equal to the average proportion of federal apportionments available over the preceding six-years with base year of $5.2 billion and escalated annually using forecasted National Consumer Price Index. This would result in about $29.1 billion in OA over the FE period and would represent year over year growth in OA of approximately 4.2 percent.

Alternative D: Assume federal programs with direct general funding will no longer be included when the IIJA expires. Beginning in FFY 2027 with OA set at $4.7 billion and a zero-growth methodology in subsequent years. This would result in about $23.4 billion in OA over the FE period.

MOTOR VEHICLE ACCOUNT TRANSFERS

Option: What should the 2026 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. Despite the 2025-26 Governor's Budget displaying an estimated MVA fund balance of about $160 million for 2025-26, the account is projected to become insolvent without legislative action. The recent Governor's Budget proposed fund transfers from other state accounts and expenditure reductions to keep the MVA solvent. Due to the current circumstances facing the account, it is highly unlikely any portion of the MVA balance will be available for transfer to the SHA over the FE period.

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 2026 FE displays an assumption that transfers would occur, SHA resources would be overstated.

As recommended by the Department in the 2024 FE, an assumption that the Controller will not make any transfers to the SHA from the MVA over the FE period was chosen. The SHA failed to receive any transfers from the MVA for Section 42273 of the VC.

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 $15 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

Executive Order N-79-20

Issue: California's Executive Order N-79-20 requires that all new cars and passenger trucks sold are ZEV by 2035. The Order also requires the same emissions status for medium and heavy-duty vehicles by 2045. ZEVs include battery-electric vehicles, hydrogen fuel cell vehicles and plug-in hybrid electric vehicles. This transition from internal combustion engine (ICE) vehicles to ZEVs will dramatically reduce demand for gasoline and diesel fuels, which will negatively impact transportation revenues. Excise taxes on fuel consumption is the largest state revenue source for state and local transportation needs.

Background: In an effort to combat climate change, on September 23, 2020, Governor Newsom signed executive order N-79-20. The executive order tasked the CARB to develop and augment vehicle regulations for the transition to ZEVs. On August 25, 2022, CARB approved the Advanced Clean Cars II (ACC II) rule, which set regulations for California's path to quickly reduce light-duty, pickup truck and SUV emissions beginning with the 2026 models through 2035. The ZEV Regulation, which was designed to achieve the state's long-term emission reduction goals, was amended to increase requirements of ZEV sales and associated actions to support the wide-scale adoption. The Low-emission Vehicle Regulation was also amended to include increasingly stringent standards for ICE, smog producing, vehicles.

Transfer to State Transit Assistance

Issue: Before the enactment of Senate Bill (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 with the remaining 0.5 percent to be allocated to the State Rail Assistance (SRA) intercity rail and commuter rail. This results in approximately 73 percent of total sales tax revenue from diesel fuel 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 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 2026 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 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 2024 FE assumed that Section 183.1 resources would be transferred from the SHA into the TDSF annually. Because the 2026 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 1 – Road Repair and Accountability Act of 2017

Issue: The 2026 STIP FE assumes fuel excise tax rates to increase over the fund estimate period due to the enactment of SB 1.

SB 1 establishes an annual adjustment to fuel excise tax rates using the California Consumer Price Index as an inflator. Because SB 1 has indexed tax rates for inflation, there should be a higher degree of predictability as to resources generated from fuel excise taxes. Tax rates are expected to grow and offset forecasts which predict lower fuel consumption as the state transitions to increasingly fuel-efficient vehicles and ZEVs. Increases in excise tax resources would be realized by the SHA and the Road Maintenance and Rehabilitation Account (RMRA) and would increase programming capacity for the 2026 FE period. However, as we near 2035, accelerated declines in forecasted fuel consumption would impact excise tax resources and could decrease programming capacity in the future. The state should continue to explore alternative means of funding outside the traditional fuel-based excise taxes as more fuel efficient, alternative energy vehicles continue to replace internal combustion engines.

SB 1 establishes the RMRA. After specified allocations, 50 percent of the remaining funds are to be continuously appropriated to the department for maintenance and rehabilitation (SHOPP) purposes. Over the five-year FE period, it is estimated this will amount to $9.7 billion in additional resources to both maintenance and the SHOPP from the RMRA. Out of the $9.7 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 be directed from the PTA to STA and SRA.

Background: SB 1 was enacted April 28, 2017. The bill creates three new programs including the Road Maintenance and Rehabilitation Program, the Advance Mitigation Program, and the Solutions for Congested Corridors Program. It also creates two new accounts including the RMRA and the Trade Corridor 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.

Intercity Rail Passenger Program Increase

Issue: The 2026 STIP FE displays approved increases to the annual Budget Act appropriations for the Intercity Rail Passenger Program through fiscal year 2026-27. This change increases commitments in the PTA and will result in lower available capacity for the 2026 FE.

Background: The annual Budget Act appropriated approximately $131 million for the operation of state supported intercity rail passenger service. Through the annual business plan, the Department allocates the amount to Joint Power Authority agencies to administer and operate their respective services. The annual operating expense appropriation for intercity rail passenger operations remained fixed at $131 million since 2015 and did not keep pace with inflation. The program is facing an operating shortfall due to COVID-induced declines in ridership and increased costs to operate the service. As part of the discussions for the Budget Act of 2024 (AB 107), a three-year increase to the standard appropriations was approved for fiscal years 2024-25 through 2026-27 and average approximately $70 million annually over the three-year period.

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.

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, 2025.

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 2026-27 through 2030-31) 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 $9.7 billion in additional resources to the SHOPP from the RMRA. Out of the $9.7 billion in additional resources, $2 billion is designated for bridge and culvert maintenance and rehabilitation.

Conversion to Capacity

H. The 2026 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.

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 2025-26, gasoline base excise tax will be 23.1 cents per gallon and diesel base excise tax is 20.6 cents per gallon. These consumption-based revenues are transferred from the Highway Users Tax Account 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 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 SMIF and Other Regulatory Licenses and Permits will total approximately $76 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, which are ultimately governed by California's contribution as a percentage share of total contributions into the FHTF.

The most recent Federal Highway Act, the IIJA, was signed into law on November 15, 2021, and provided authorization of approximately $350 billion for the federal-aid highway program from FFY 2022 to 2026.

The 2026 FE covers 2026-27 through 2030-31, which is outside of the IIJA'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 2026 FE assumes an August Redistribution of $495 million per year based on the average amount received by California from 2016-17 through 2023-24. The Redistribution will be split approximately $312 million (63 percent) to the state, and $183 million (37 percent) to the local agencies.*

SHA 10. *The Federal-aid Highway Emergency Relief 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. California has averaged approximately $292 million annually over the previous five fiscal years.*

SHA 11. *The 2026 FE includes a $16 million "set-aside" for Coordinated Border Infrastructure projects. The set-aside is 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.*

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.*

SHA Expenditures

BCP Reservation:

Budget Change Proposals (BCP) and finance letters 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 13. *The 2026 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 STBGP State Match and Exchange, Bridge Inspection & Seismic Retrofit Programs, Freeway Service Patrol, Railroad Grade Separations, and SB 137 Exchange, in addition to other miscellaneous local programs.

SHA 14. *State expenditures assume allocations of approximately $178 million per year over the FE period, consistent with the Commission's 2024-25 initial lump sum allocation for Local Assistance (Resolution FM-24-01).*

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 15. *Capital Outlay Support (COS) expenditures are based on a continuation of all STIP components programmed prior to 2025-26 and all STIP components programmed to begin in 2025-26.*

SHA 16. *Capital expenditures are based on a continuation of all STIP project allocations prior to 2024-25, allocations in 2024-25, projects programmed in 2024-25, but not yet allocated, and projects programmed in 2025-26.*

SHA 17. *Prior R/W commitments are defined as all R/W projects in the STIP that are programmed for 2025-26 and prior years.*

SHA 18. *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 19. *Capital project costs shall be escalated at 6.19 percent annually, consistent with the historical trend of the National Highway Construction Cost Index (NHCCI) provided by FHWA.*

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 20. *COS expenditures are based on a continuation of all SHOPP components programmed prior to 2025-26, SHOPP preliminary engineering components programmed in 2025-26, and SHOPP construction engineering components programmed to begin in 2025-26.*

SHA 21. *Prior R/W commitments are defined as all R/W projects in the SHOPP that are programmed for 2025-26 and prior years.*

SHA 22. *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 23. *Capital expenditures are based on a continuation of all SHOPP project allocations prior to 2025-26, 2024-25 programmed projects not yet allocated, projects programmed in 2025-26.*

SHA 24. *Capital project costs shall be escalated at 6.19 percent annually, consistent with the historical trend of the NHCCI provided by the FHWA.*

SHA 25. *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 26. *Closeout capital savings average approximately five percent. This is primarily due to unused contingency funds. The 2026 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 STBGP 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. The enactment of SB 1 established an additional $100 million in annual resources for ATP from the RMRA. A separate FE and adoption schedule is required for the ATP.

SHA 27. *The ATP divides approximately $181 million of state SHA and federal resources annually over the fund estimate period and is consistent with the 2025 Amended ATP FE adopted by the Commission in August 2024. ATP funding is not available for SHOPP or STIP capacity.*

SHA 28. *Per SB 1, $100 million in revenue 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.*

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 2025-26 are based on estimated program needs to cover current support positions in 2024-25 as well as proposed positions for 2025-26. The balance of projected expenditures will be divided between bridges, highway maintenance, and field work.*

Capital Outlay:

RMRA 5. *Capital expenditures are based on a continuation of all RMRA project allocations prior to 2025-26, 2024-25 programmed projects not yet allocated, and projects programmed in 2025-26.*

Capital Outlay Support:

RMRA 6. *COS expenditures are based on a continuation of all RMRA components programmed prior to 2025-26, RMRA preliminary engineering components programmed in 2025-26, and RMRA construction engineering components programmed to begin in 2025-26.*

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 $300 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 $4.45 billion and $292 million of the diesel sales tax revenue deposited in the PTA are to be transferred to STA and Commuter & Intercity Rail respectively over the FE period.

PTA 2. *The FE projects that net Retail Sales and Use Tax on diesel fuel will increase by an average of 2.8 percent annually over the FE period based on DOF projections and trends. The amounts corresponding to percentage splits that flow out of the PTA to STA and to Commuter and Intercity Rail are based on statute.*

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 BCP 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 consisting of 13 roundtrips on the Pacific Surfliner Service, 15 weekday and 11 weekend roundtrips on the Capital Corridor Service, and 7 roundtrips on the San Joaquins service will be used to forecast 2025-26 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 $164 million.*

C. *The Department assumes the three-year increase to the Intercity Rail Passenger Program for fiscal years 2024-25 to 2026-27 will be committed in the appropriation year.*

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 2025-26, all STIP components programmed to begin in 2025-26, 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. To date, $226 million has been allocated and it is estimated that as much as $174 million could be allocated between 2025-26 and 2026-27. Assume that TIRCP will absorb the ACE impact to PTA resources totaling $174 million in the 2026 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 2025-26 Governor's Budget proposal does not display any 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 to connect to high-speed train system and its facilities once the state's high-speed rail project is operational.

The 2025-26 Governor's Budget proposal includes approximately $51 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 2026 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 2026 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 2025-26 to 2029-30. The DOF has forecasted that aviation gasoline excise tax revenues and jet fuel excise tax revenues will decrease by approximately 9.35 percent throughout the FE period.*

Aero 3.	*The FE will display SMIF interest income based on the projected year ending cash balance of the Aeronautics Account as of June 30, 2025.*

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 3.2 percent per year for 2026-27 through 2029-30.*

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.*

Aeronautics Expenditures

Aero 6.	*The annual funding provided to 150 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 7.	*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 8.	*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.*

Aero 9.	*State operations include staffing for aeronautics and planning activities. The FE will display state operation expenditures authorized in the 2025-26 Budget Act and pro rata charges for the Aeronautics Account's portion of statewide general administrative costs. Based on the DOF's price letter, state operations and pro rata charges will be escalated by 3.2 percent per year for 2026-27 through 2029-30.*

Aero 10.	*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 2026 FE assumes no change to the disposition of aviation fuel taxes.*