Transportation Commission Contingency Reserve Fund (TCCRF)
Background Information and Recommendations

Currently, the TC is taking a closer look for opportunities to better optimize uses of available funding, and to set policies to ensure the funding is allocated effectively. The size of the TCCRF is one area that members of the TC have questioned recently, so staff provides here some background information and recommendations for the TC's consideration.

Attached is a spreadsheet that illustrates information regarding the Transportation Commission Contingency Reserve Fund (TCCRF) from fiscal year 2002 through March of fiscal year 2012. This spreadsheet shows a few broad allocation types, including adjustments for differences in revenue projections, the allocations thereof, emergency requests for projects and returns thereof, and Loans and the repayments thereof.

At one time, $20 million was deemed to be the appropriate balance for TCCRF, but with the relative uncertainty in revenues beginning in fiscal year 2009 (when SAFETEA-LU expired), the balance was allowed to accumulate to a higher level. Presented here is a discussion and analysis of each of the broad categories, and a discussion and recommendation on what the current balance should be.

Annual Allocation (includes Snow and Ice Contingency Allocation)
This is the amount allocated through the annual budget process. The amount each year budgeted is recommended to the TC based on factors such as the contingency balance at the time of final budget preparation, anticipated needs that are not yet well enough understood to budget, and revenue variability.

Amounts actually budgeted have ranged from $7.4 to $56.2 Million, with an average of $23.8 Million in *increases* to TCCRF.

Roll Forward
The amount remaining in State Highway Funded cost centers at the end of the fiscal year, net of approvals for roll forwards. These amounts are affected by many factors including:

- Hiring freezes or limitations
- Snow and Ice needs
- Management constraints set on requests for retaining roll-forward funds within cost centers (these are netted out of the roll forward amount)

Amounts have ranged from $0 to $39.3 Million with an average of $5.6 Million in *increases* to contingency.

Federal Redistribution
FHWA reallocates obligation limitation that other DOTs are unable to use by federal fiscal year end to those states that can use it. CDOT applies for these funds, based on the amount that we can obligate on

a short timeframe. The amount redistributed depends upon the funding availability, and allocations are based on the regular formula allocations of those DOTs capable of obligating additional funding. CDOT has never failed to get some portion of these funds.

Amounts have ranged from $4.1 Million to $29.4 Million and average of $14.1 Million in *increases* to contingency.

Revenue Adjustments

These are amounts over or under the total revenue projection for the previous fiscal year(s).

Amounts have ranged from *negative* $25.7 Million to *positive* $449.4 Million with an average of $353.5 Million. When the amount is a negative the TC may choose to decrease the contingency to balance the budget rather than cut program in the regions. When additional funds come in, the additional funds are always initially placed in the TCCRF pending its allocation decisions. Consequently, there was one year where this caused a decrease to contingency, two years where no adjustment was made, and all other years, this was an *increase* to contingency.

Resource Allocation

In years where the TCCRF balance was considered higher than necessary, the TC allocated a portion of the funding to projects. This is generally due to revenues coming in higher than anticipated.

Amounts have ranged from $0 to $472.0 Million with an average of $373.5 Million in *decreases* to the contingency.

Decision Items

Similar to Resource Allocation, Decision Items were approved in years where the TCCRF balance was considered to be higher than necessary. The difference is that Resource Allocation is when funding was allocated to projects, Decision Items are where funding is allocated to an initiative or program, such as Road Equipment.

Amounts have ranged from $2.4 to $38.3 Million with an average of $5.5 Million in *decreases* to the contingency.

Emergency Project Allocations, Returns and Snow & Ice

Highlighted in yellow on the attachment are the adjustments pertaining to emergency projects, returns from emergency projects, and snow and ice contingency overages. These are the outflows that create the true need for a contingency fund. Many of the allocations are more optional than others and may have been made simply because the balance of the TCCRF was considered to be higher than necessary at the time. These allocations are not generally in that category, and the TC frequently does not have a lot of choices in dealing with these types of problems.

Amounts (netting outflows and returns) have ranged from an *increase* to contingency of $7.2 Million to a *decrease* in contingency of $30.6 Million, with an average of $10.3 Million in *decreases* to the contingency.

Loans and Loan Repayments

These are loans that the TC makes to Divisions within the Department, and their subsequent payback (netted for this description). Recent loans have been made to High Performance Transportation Enterprise for Operating costs until revenues ramp up and Division of Transit and Rail to advance funding to local transit agencies until FTA funding is finalized annually.

Amounts have ranged from a $13.2 Million *decrease* in contingency to a $34.9 Million *increase* in contingency, with an average of $4.7 Million *increase* in contingency. (Of course, in the end, they should net to zero.)

Miscellaneous

These are allocations to projects are programs that were not deemed emergencies, but had no other source of funding and were out of cycle for decision item consideration, and return of funding for items of similar nature for which TC had previously allocated contingency funding.

Amounts have ranged from a $13.1 Million *increase* in contingency to a $3.0 Million *increase* in contingency, with an average of $2.6 Million *increase* in contingency.

Key Issues in Recommendation for TCCRF

The key issues to examine are the emergency projects, emergency project returns, and snow & ice allocations, together with the items associated with revenue reconciliation (increases or decreases to revenue projections). These are the items where there is really no control mechanism, and which most radically effect the TCCRF balance.

<u>Revenue Adjustments and Federal Redistribution</u>

Taking Revenue Adjustments and Federal Redistribution together, the amounts have ranged between a $19.2 Million *decrease* in revenues and a $465.5 Million *increase* in revenues. There are many anomalies in these numbers that make them difficult to predict. They include:

- The only year that revenues did not exceed projections was fiscal year 2002 (which was booked in fiscal year 2003), when the department lost SB-1 funding
- The extremely high adjustments in fiscal years 2008 and 2009 were due to unanticipated funding from ARRA and HB 1310
- The relatively large entries in fiscal years 2011 and 2012 were caused by the unpredictable nature of the federal funding with the lapse in federal authorizing legislation and other issues

Another important issue in looking at these revenue reconciliation items is that OFMB has moved toward less conservative, more realistic, revenue projections going forward. This results in better cash management practices by getting the funding into the projects much faster and giving the regions a more stable revenue source. It will also result in fewer windfalls to the contingency, and it is more likely that there will be negative adjustments to revenue. With current cash management strategies, it is felt that this risk is worth the benefit of keeping projects moving. The department is developing strategies to better manage cash balances and spread any negative impact across time, lessening their impact. In addition, OFMB feels that current revenue projections strategies are still reasonable.

<u>Emergency Projects, Returns and Snow & Ice</u>
As stated previously, the most the TC has ever netted in allocations for emergency projects in one year is $30.6 Million. With a 50% cushion on top of this, a $45 Million contingency would seem adequate under normal circumstances.

<u>Recommendation</u>
Staff is working on being very bold in cash management strategies on several fronts. Although a lesser amount of contingency might seem the best course of action, there are a vast number of areas where CDOT is changing the way we do business. This, coupled with the continued uncertainty regarding federal revenues and a slowly eroding state revenue source, may result in surprises that require quick action and a healthy contingency.

In balancing all of these factors, staff recommends that the TC set a minimum *beginning* balance for TCCRF at 6% of the annual budget. However, in the effort to keep a leaner cash balance and ensure optimal use of funding, staff also recommends that new additions to TCCRF which bring contingency balance above this level be reviewed with the TC for prompt allocation. Depending upon circumstances, the staff recommendation to TC might be to add these funds to TCCRF, but unlike in the past, this would not be automatic and would require TC approval.