Attachment A

Report on Road Fund Revenue Sources & FY 2017-18 Forecast

The Road Fund is a special revenue fund established per state law to account for revenues that are legally restricted for County road and bridge construction and related maintenance projects. There are two (2) units that comprise the Road Fund; (1) Engineering, which focuses on capital road and bridge project management (e.g.; design, permits, construction) and traffic engineering, and two (2) Road and Bridge Maintenance, whose activities include maintaining infrastructure within the County right-of-way (e.g. mowing/trimming, pot holes, signs, grading, debris, dead animals), as well as supporting County Sanitation Districts.

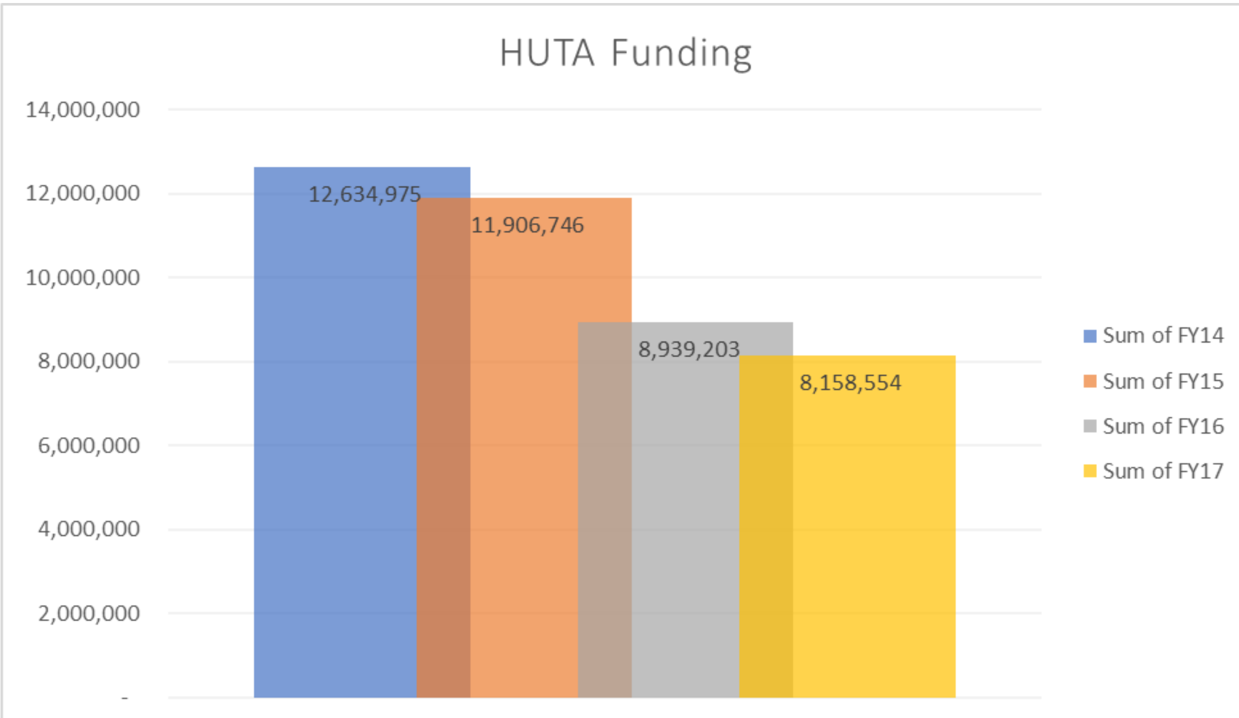
Historically Road Fund activities have been primarily funded by the State Highway Users Tax Account (HUTA or Gas Tax), Discretionary funds either from General Fund Contribution or Transient Occupancy Tax (TOT), and Federal, State, and Local Grants. New funding sources from Senate Bill 1 (SB1) and Measure X are anticipated in the current year, which should provide an ongoing revenue stream for the next 30 years. However, there is an effort underway to repeal SB1 and the first quarterly receipt of Measure X funds were significantly lower than expected. Thus, RMA is moving forward cautiously with projects funded with these new revenue streams.

On July 12, 2017, the Board approved a five (5) year project priority list, using TOT, Measure X, and SB1, that programmed the estimated revenue from those sources (project list is attached as Attachment B). Each of the Road Fund's primary revenue streams is discussed below, along with their funding conditions and parameters, including a discussion of the impact that the Soberanes Fire and 2017 winter storms had on the Road Fund, the maintenance deficit, the erosion of Fund Balance, the budget forecast for FY 2017-18, and the impact any changes to the TOT allocation would have on the Road Fund.

Highway Users Tax Allocation (HUTA)

The HUTA (Gas Tax) has diminished since FY 2013-14 when the legislature changed the formula to redirect money away from counties for State purposes. In FY 2013-14 the Road Fund received $12.6 million in HUTA funding, and three (3) years later, FY 2016-17 HUTA receipts were $8.2 million. The result is a net decline in Road Fund HUTA revenues of $4.4 million or 35.4% over the last three (3) years. The loss of these revenues has resulted in a significant erosion of uncommitted available fund balance.

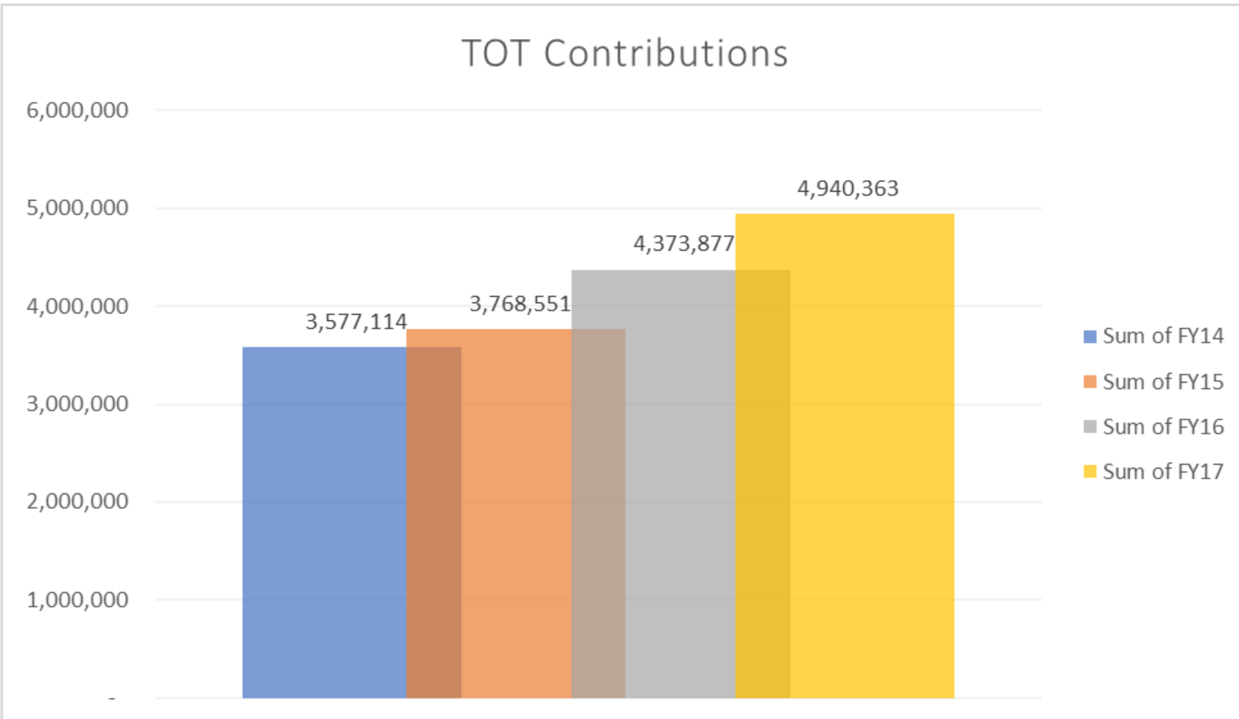
To remain eligible for the annual HUTA allocation, the County must maintain its existing commitment of local funds for street, road and highway purposes; this is referred to as Maintenance of Effort (MOE). Pursuant to Streets and Highways Code (SHC) section 2036, the County must spend at least the annual average of its expenditures from its general fund during the 2009-10, 2010-11, and 2011-12 fiscal years, which is $2.3 million ($2.5 million in FY 2009-10, $2.2 million in FY 2010-11, and $2.2 million in FY 2011-12). The MOE calculation includes unrestricted funds the County spends, at its discretion, for street, road, and highway purposes from the general fund. One time allocations that have been expended for street and highway purposes, but are not available on an ongoing basis, are excluded from the calculation. For instance, the General Fund contribution for winter storms is excluded from the MOE calculation. The County reports the MOE to the State Controller's Office (SCO) annually in accordance with SHC section 2151 and the SCO performs an annual audit of the report. If the SCO finds the County noncompliant, the County must return the HUTA funds it received during the fiscal year.



General Fund/Transient Occupancy Tax (TOT)
In FY 2012-13, the Board, in recognition that well maintained roads contribute to the value and overall economic vitality of the County, added the Road Fund to the list of recipients for the County Transient Occupancy Tax (TOT) Revenue contribution formula. In FY 2013-14, the Board revised the General Financial Policies so that the TOT contribution percentage to the Road Fund would increase by 1% until it reached 25%. The recommended contribution percentage per annum were as follows: FY 2013-14 (20%); FY 2014-15 (21%); FY 2015-16 (22%); FY 2016-17 (23%); FY 2017-18 (24%); FY 2018-19 (25%); and thereafter remain at 25%. Prior to the policy revision, the General Fund contributed a flat $2 million to the Road Fund to maintain roads, funding the Chip Seal Program.

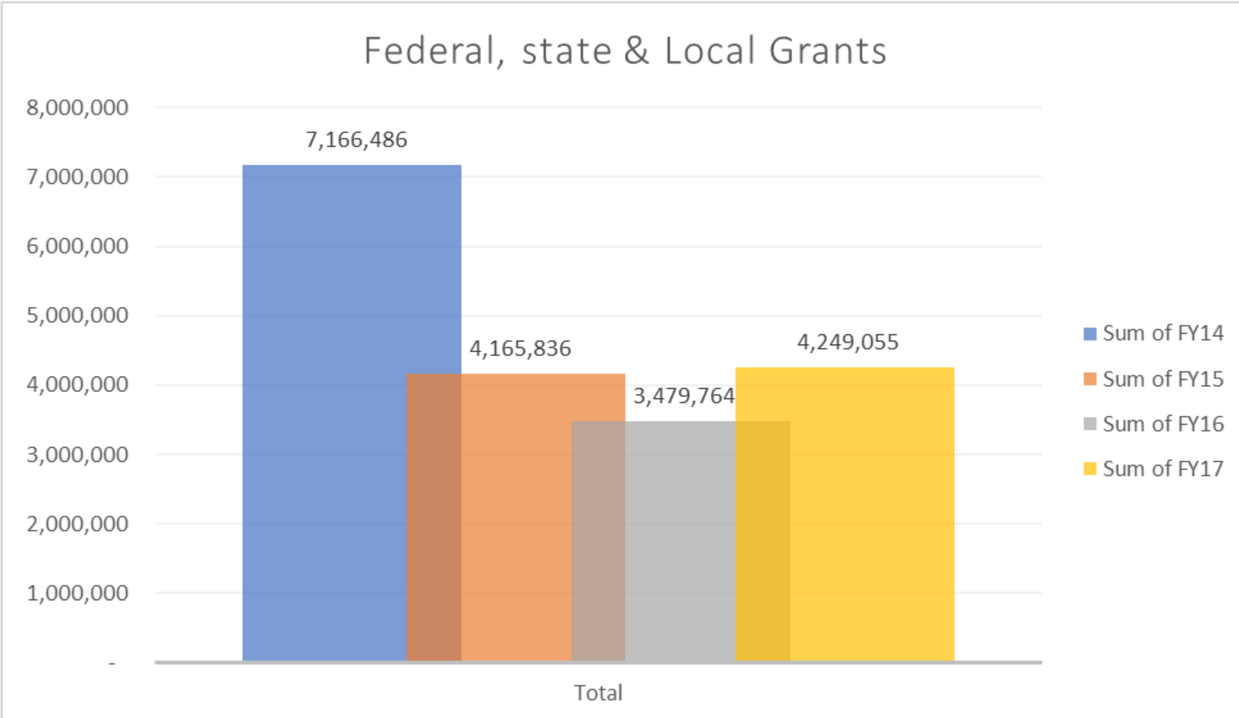
TOT is intended to fund $2 million for the annual Chip Seal Program and the remaining amount funds road and bridge overlay projects. However, as mentioned above, the HUTA revenue has been declining since FY 2014-15, as reflected in the HUTA Funding table. The impact of this has been compounded by increasing non-discretionary costs; such as, negotiated pay increases, benefits, general liability insurance, indirect chargeback or COWCAP, and the Enterprise Resource Project (ERP). For the past two (2) years, the Board approved redirecting TOT from the Blanco Road Overlay Project to avoid layoffs.

In FY 2016-17, eight (8) filled road maintenance positions were affected by the loss of revenue. To balance the Road Fund Budget, additional reductions were required resulting in the reduction of four (4) filled positions. Then again in FY 2017-18, the Board approved deferring the Blanco Road Overlay Project to redirect TOT funds to avoid layoffs of twenty-two (22) Road Fund positions. Even with the redirection of TOT, RMA still had to make other adjustments within the Road Fund to avoid layoffs. As a result, $2 million has been spent on the Chip Seal Program, which was completed during the summer months, and the remaining $3.5 million of TOT contribution was allotted to restoring filled positions.



Federal, State and Local Grants

Federal, State, and Local Grants are awarded on a competitive basis and are restricted for specific projects. Most grants include a matching requirement, which are provided for by HUTA, TOT, Traffic Impact Fees and other grants eligible for matching. However, HUTA has declined and TOT funded projects have been deferred to cover staff costs for the past two (2) fiscal years, which limits the ability of the Road Fund to match grants when awarded. Furthermore, given the Soberanes Fire and winter storm responses, staff assigned to work on grant funded projects were reassigned to work on response and recovery efforts.



New Funding and their Parameters
Measure X
In November 2016, The Transportation Agency for Monterey County (TAMC) passed a sales tax measure (Measure X), which is estimated to provide the County $6.2 million annually for 30 years for local road repair, maintenance, and safety projects beginning in FY 2017-18. Measure X funds will primarily be used towards consultant and contractor costs, and only a nominal amount is planned to fund County Staff salary and benefits for project and construction management. Thus far, the County has received one payment of $1.1 million for April, May and June 2017. If this is reflective of the next three (3) quarterly payments, Measure X funds would total $4.3 million for FY 2017-18, instead of $6.2 million, which may be reflective of the fires and floods that adversely impacted local events resulting in a decline in sales tax revenue. However, TAMC reported that the State Board of Equalization allocates funding conservatively and then adjusts the revenue the following quarter based on actual receipts. RMA is awaiting the next distribution, which is anticipated in late December 2017, to prepare a more accurate estimate based on actuals. Until then, RMA will approach initiating Measure X funded projects cautiously.

As a condition of receiving Measure X funds, the County must abide by the Maintenance of Effort (MOE) requirements imposed by Measure X Master Programs Funding Agreement, Article IV Section A.6. The MOE requirement was established to ensure Measure X recipients continue to provide general fund resources for street and highway purposes annually, using the new funding to supplement, not supplant transportation expenditures. The annual general fund contribution cannot be less than the annual average contribution made during the preceding three (3) fiscal years, as reported to the SCO pursuant to SHC section 2151, which is $4.1 million for the County ($4.1 million in FY 2013-14, $3.8 million in FY 2014-15, and $4.5 million in FY

2015-16). The MOE calculation excludes general fund contributions for one (1) time capital expenses and any voter approved fund sources used for local transportation that have expired. The MOE reported to TAMC must match the amount reported to the SCO.

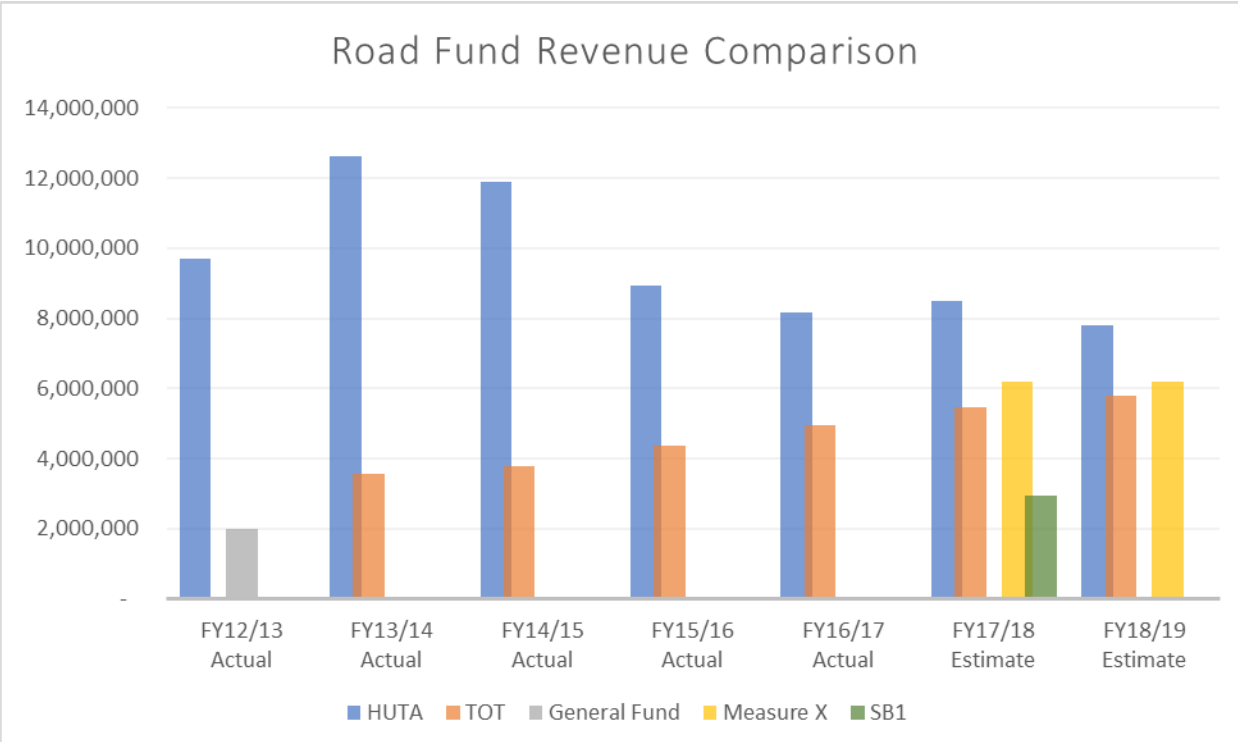
However, there are concerns that there could be a challenge that up to twenty five percent (25%) of TOT was committed for Road Fund purposes by the Board, since formal action was taken prior to Measure X. Therefore, MOE should be considered as 25% of TOT, not just the $4.1 million three (3) year average of transportation expenditures to date. In addition, there were several projects discussed while soliciting support for this measure; the River Road Wine Corridor and Blanco Road Overlay projects. Any change to project priorities would require careful consideration.

SB1 – The Road Repair and Accountability Act of 2017
SB1, a transportation funding package signed by Governor Brown in April 2017, includes various tax and fee increases, which will be phased in by the State over several years. The new transportation funding provides the County an opportunity to address unfunded maintenance needs plaguing County roadways. The California State Association of Counties (CSAC) issued a ten (10) year revenue estimate, which projects the County will receive $2.95 million in FY 2017-18, $7.57 million in FY 2018-19, $10.74 million in FY 2019-20, and continues to rise to $15.83 million in FY 2026-27. The first distribution is expected in January or February of 2018 and is similar to HUTA in that it is distributed monthly. The funding is restricted and must be spent on eligible road maintenance, rehabilitation, and critical safety needs on local streets and road systems.

Like HUTA revenue, SB1 also requires the County follow SHC section 2036, by maintaining its existing commitment of local funds for road purposes to remain eligible for allocations of Road Maintenance and Rehabilitation Account (RMRA) funding. The County must meet a Maintenance of Effort (MOE) requirement by spending at least the annual average of its general fund expenditures from FY 2009-10, FY 2010-11, and FY 2011-12, for street, road, and highway purposes from the County's General Fund. The average for those three (3) years is $2.3 million ($2.5 million in FY 2009-10, $2.2 million in FY 2010-11, and $2.2 million in FY 2011-12). The MOE calculation is the exact same as HUTA; it includes unrestricted funds the County spends, at its discretion, for street, road, and highway purposes from the general fund and excludes one (1) time allocations that are not available on an ongoing basis. If the State deems the County non-compliant, the State will require the County to reimburse funds received during that year.

In October 2017, the Board approved amending the FY 2017-18 adopted budget to include $2.9 million in road projects to be funded by SB1. The approved project list includes Gloria Road, Iverson Road, Johnson Canyon Road, San Juan Grade Road, Hatton Avenue, River Road, and Jolon Road.

There is an effort by several California Republicans in Congress to repeal SB1 through a constitutional amendment filed with the Secretary of State. If enacted, funds collected between November 1, 2017 and the time of passage of the proposed constitutional amendment would not need to be repaid by the County. However, if the repeal efforts are successful, RMA will need to re-prioritize the project list to only utilize Measure X and TOT, and defer some projects to future years. Due to the uncertainty, RMA is moving forward cautiously with projects funded through SB1.



Soberanes Fire and Winter Storms
Significant natural events occurring in FY 2016-17, including the Soberanes Fire and the winter storms, have caused major damage to County roads, land, and infrastructure. On March 14, 2017, the Board authorized a $16.8 million transfer from the Strategic Reserve to the Disaster Assistance fund balance assignment to address these critical repairs in the current year and provide working capital to the RMA to "bridge" the gap between time of repair and receipt of potential reimbursements from Federal and State agencies. Of the $16.8 million, $13.1 million has been spent or encumbered for specific projects and the remaining $3.7 million is earmarked as funding sources in pending Board Reports. Actual winter storm repair costs are now estimated in excess of $50 million, with Federal and State reimbursements returning to the General Fund. It is anticipated that these funding sources will only compensate the County up to sixty five percent (65%) of the actual storm damage costs.

Maintenance Deficit - Pavement Management Plan 2015 & Preliminary Bridge Report
The County's infrastructure has not been adequately maintained or upgraded to meet demands, leading to a maintenance deficit estimated for pavement and bridges of $746 million ($741 million for pavement and $5 million for bridges). The financial resources required to address deferred maintenance far exceeds available funding.

The 2015 Pavement Management Plan shows the current overall pavement condition in Monterey County is poor and ninety nine percent (99%) of all centerline miles require some type of pavement treatment. The backlog of pavement repairs is $741 million and the current funding of $5 million provided for pavement repairs would need to increase to $15 to $20 million per year just to start to improve the pavement conditions on County roads.

The Preliminary Bridge Report prepared in 2015 reported 174 County owned bridges, of which 31 were determined to be Structurally Deficient (SD) or Functionally Obsolete (FO). There were 64 bridges that required maintenance repairs totaling $5 million and 31 bridges needing replacement for a total cost of $250 million.

The deterioration of pavement and bridges in Monterey County was decades in the making in part because the traditional sources of transportation funding at the State and Federal level have not kept up with inflation or the increase in Vehicle Miles Traveled. The condition of County roads and bridges has a direct impact on the citizens, visitors and commerce of this County. More funding is needed to begin the arduous process of treating and resurfacing all 1100 miles of pavement and repairing 64 bridges in the County.

Fund Balance

As of June 30, 2017, the Road Fund had a negative fund balance of $2.8 million, which was largely attributable to outstanding grant revenues not received. However, in past years, the Road Fund had a strong enough fund balance, that the timing of revenue receipts would not push the fund into a negative balance. Unfortunately, the fund balance in the Road Fund has steadily eroded in recent years as the revenue from the County's HUTA continues to decrease and nondiscretionary overhead costs increase. Additionally, RMA's response to the 2017 winter storms further complicated the financial condition of the Road Fund, as staff's regular work hours and associated benefits are not eligible for Federal and State reimbursement. Therefore, the Road Fund was not made whole for these expenditures from the General Fund's Disaster Assistance funds.

With SB1 and Measure X passing, RMA was looking forward to new funding sources that would provide an ongoing revenue stream over the next 30 years to rebuild fund balance and address significant unmet maintenance, rehabilitation, and safety needs. However, as previously mentioned SB1 is up for repeal, which means the funding is no longer guaranteed. RMA will move forward cautiously utilizing SB1 funds for projects.

Budget Forecast

The FY 2017-18 Road Fund budget was adopted on June 27, 2017 and included $42.5 million in expenditures, funded by $43.1 million in revenue, for a projected increase to fund balance of $531,536. Subsequently, the Board adopted budget modifications increasing appropriations to $47.0 million and revenue to $47.5, which resulted in no net change in projected fund balance of $531,536. The current forecast, using actual financial data through October 2017 and the most recently adopted Countywide Cost Allocation Plan (COWCAP), projects Road Fund expenditures at $53.7 million and revenue at $51.0 million, for a net loss of $2.7 million. The primary causes are the COWCAP, which increased $5.5 million; unbudgeted 2017 Winter Storm costs of $1.3 million; offset by $3.3 million in unbudgeted prior year revenue received this year, salary savings from vacancies of $291,000, and $500,000 in budgeted increase in fund balance.

The budget is developed using financial forecasting which includes the use of cost estimates that are subject to change. One variable cost is the Countywide Cost Allocation Plan (COWCAP), developed annually by the Auditor-Controller's Office, which identifies indirect cost incurred by central service departments and assigns them to benefiting departments. The budget is developed prior to the COWCAP being approved by the State Controller's Office (SCO); therefore, the budget is developed using the prior year's COWCAP. The Auditor-Controller's Office provided the SCO approved COWCAP for FY 2017-18 to departments on December 1, 2017. The approved COWCAP includes $6.7 million in indirect charges for the Road Fund; whereas the budget for COWCAP is $1.2 million, resulting in increased costs over $5.5 million.

There are currently 86 FTE positions in the Road Fund, of which four (4) are vacant. If the County were to layoff all 82 employees as of January 1st and not fill the remaining four (4) vacant positions, RMA would realize a savings of approximately $5.6 million, which would just cover the COWCAP increase. Road and bridge maintenance work and all projects would be stopped for the next six (6) months, jeopardizing federal and state grants for projects. RMA will work with the CAO Budget & Analysis Division to identify possible solutions, as the COWCAP modification impacts multiple departments.

The 2017 Winter Storms was an extraordinary event causing over $50 million in damage to County roads, land, and infrastructure. The Board of Supervisors authorized $16.8 million for repairs and $9.5 million was expended in FY 2016-17. The CAO Budget & Analysis Division included the remaining balance of $7.3 million in the FY 2017-18 budget as a financing source to cash flow RMA for continued repair work to restore infrastructure caused by the storms. However, the FY 2017-18 adopted budget for the Road Fund did not include the cost for ongoing winter storm repair costs as RMA planned to come back to the Board of Supervisors after compiling and assessing total damages and costs, to request additional appropriations funded by the CAO's $7.3 million financing source budget. Thus far, RMA has incurred $2 million in winter storm costs which are not budgeted. RMA plans to return to the Board in January to request appropriations for winter storm costs.

Road Fund Budget Forecast

	FY 2017-18 Modified Budget	FY 2017-18 Forecast	Variance
Beginning Fund Balance	(2,822,498)	(2,822,498)	-
Use of Funds			
Expenditures			
Salaries & Benefits	10,523,294	10,267,067	256,227
Services and Supplies	10,168,181	11,953,158	(1,784,977)
Other Charges	852,177	6,384,217	(5,532,040)
Capital Assets	25,465,297	25,057,268	408,029
Other Financing Sources	-	-	-
Subtotal	47,008,949	53,661,710	(6,652,761)
Source of Funds			
Revenue			
Taxes	1,037,127	1,086,264	49,137
Licenses, Permits & Franchises	789,681	789,681	-
Revenue from Use of Money & Property	7,735	10,585	2,850
Intergovernmental Revenues	34,625,983	38,024,240	3,398,257
Charges for Services	1,793,312	1,793,312	-
Miscellaneous Revenues	2,190,944	2,191,524	580
Other Financing Sources	7,095,703	7,095,703	-
Subtotal	47,540,485	50,991,309	3,450,824
Revenues Over/(Under) Expenditures	531,536	(2,670,401)	(3,201,937)
Projected Ending Fund Balance	(2,290,962)	(5,492,899)	(3,201,937)

Impact of Redirecting Transient Occupancy Tax

The FY 2017-18 Road Fund budget includes $5.5 million in TOT funding. $2 million is allocated for the annual chip seal program, which is already spent/encumbered, and the remaining $3.5 million sustains field maintenance operations and capital project engineering by covering salary and benefit costs for twenty-two (22) road positions which would have otherwise been laid off. Protecting these positions preserved the heavily eroded Road Fund's staffing structure so that it can leverage emerging funding streams in the near future, namely the SB1 Transportation Tax and Measure X funding. If TOT contributions to the Road Fund were capped at $4.1 million, the certified MOE rate for FY 2017-18, it would result in a loss of $1.4 million in TOT. In order to account for a $1.4 million decrease in appropriations, setting aside the COWCAP increase, the Road Fund would have to layoff approximately 20 filled positions by January 1st, which would severely impact RMA's ability to maintain local roads and bridges and complete projects. However, when the $5.5 million increase in COWCAP is added to the potential loss of $1.4 million in TOT, the $6.9 million gap is more than the remaining budget for all 86 FTE positions combined. In other words, even if the County laid off all Road Fund employees, it would not cover the loss. Over the past few years, the number of Road Fund positions has been reduced from 122 (FY 2012-13) to 86 (FY 2017-18). The loss of any TOT revenue along with the increase in COWCAP will completely deplete the Road Fund.

To sustain the MOE, based on the Measure X formula, the required annual General Fund contribution was presumed to be no less than the annual average contribution made during the preceding three (3) fiscal years. For Monterey County, that would be $4.1 million ($4.1 million in FY 2013-14, $3.8 million in FY 2014-15, and $4.5 million in FY 2015-16). The RMA Director reached out to the Transportation Agency for Monterey County (TAMC) Executive Director to obtain clarification on how TAMC interprets the MOE for Measure X and SB1 and to ascertain whether a change in the County's current Financial Policies regarding the percentage of TOT allocation to the Road Fund would jeopardize future funding allocations. According to the TAMC Executive Director, the spirit of both Measure X and SB1 is that the County maintains its prior commitment to roads, which would be twenty four percent (24%) of TOT revenues in FY 2017-18 and twenty five percent (25%) of TOT revenues thereafter. TAMC urges the County to maintain this prior commitment of the TOT to road funding to keep the promise to voters that there would not be a "bait and switch of revenues". TAMC indicated that it would make this interpretation in the enforcement of the County's Measure X maintenance of effort and a loss in faith with the public would be very damaging, particularly in light of the SB1 repeal threat. The TAMC Executive Director also noted that while this year it may be viewed as advantageous to pick a fixed dollar amount, in future years when TOT revenues decline, the MOE requirement will remain based on the County's twenty five percent (25%) funding commitment, which may be lower than the current year fixed amount.

Road Fund – Revenue Source Matrix

	FY12-13 Actual	FY13-14 Actual	FY14-15 Actual	FY15-16 Actual	FY16-17 Actual	FY17-18 Estimate	FY18-19 Estimate
HUTA	9,708,555.00	12,634,975.00	11,906,746.00	8,939,203.00	8,158,554.00	8,510,168.00	7,804,820.00
TOT	-	3,577,114.00	3,768,551.00	4,373,877.00	4,940,363.00	5,480,243.00	5,794,215.00
General Fund	2,000,000.00	-	-	-	-	-	-
Measure X	-	-	-	-	-	6,209,059.00	6,209,059.00
SB1	-	-	-	-	-	2,950,000.00	-
SUBTOTAL	**11,708,555.00**	**16,212,089.00**	**15,675,297.00**	**13,313,080.00**	**13,098,917.00**	**23,149,470.00**	**19,808,094.00**
Grants	8,384,230.00	7,166,486.00	4,165,836.00	3,479,764.00	4,249,055.00	TBD	TBD
TOTAL	**20,092,785.00**	**23,378,575.00**	**19,841,133.00**	**16,792,844.00**	**17,347,972.00**	-----	-----
TOT Formula	Flat	20%	21%	22%	23%	24%	25%
Fund Balance	944,794.00	4,913,155.00	4,589,599.00	1,215,276.00	(2,822,498.00)	TBD	TBD
Position Count	122	124	114	112	78	86	86