County of Santa Clara
Roads & Airports Department

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Prepared by: Dan Collen
Deputy Director

DATE: April 9, 2009

TO: Roads Commission

FROM: M.J Murdter

Michael Murdter
Director, Roads & Airports Department

SUBJECT: Road Fund FY 2010 Recommended Budget

RECOMMENDED ACTION

Accept report from the Roads and Airports Department relating to the Road Fund FY 2010 Recommended Budget

REASONS FOR RECOMMENDATION

The Department is projecting a balanced Road Fund budget for FY 2010. Anticipated revenues will offset recommended operating and capital expenditures of $38.4 million.

Looking forward, two major issues confront the Department. The first issue relates to the reliability of the Road Fund's revenue sources and the long-simmering structural problem related to the rate of expenditure growth versus revenue. As we have consistently reported in previous years, escalation in the Department's operating costs has far outstripped revenue from the gasoline excise tax, which is not indexed for inflation and has not been increased since 1990. Moreover, total gas tax revenue is falling due to the slowdown in economic activity. In FY 2000, gasoline excise tax revenue was $24.8 million and total Object 1 costs for 291 positions were $17.5 million, leaving $7.3 million to pay for services, supplies, and equipment. Ten years later, in FY 2010, gasoline excise tax is projected at $23.3 million and Object 1 costs are projected at $28.2 million for 258 positions, 33 fewer than 10 years ago. In other words, we need 100% of our gasoline excise tax revenue plus an additional $4.9 million just to meet payroll, despite an 11% reduction in staffing over the last 10 years.

Therefore, our ability to balance the Road Fund budget each year depends on receipt of Prop. 42 subventions. This revenue source provides $11 million annually and comprises nearly one-third of total Road Fund operating revenue. The Road Fund relies on the Prop. 42 revenue to fund the $4.9 million difference between Object 1 costs and gas tax revenue, as well as the rest of the operating budget. Although the recently enacted state budget fully funds Prop. 42 in FY 2010, the state's ability to suspend this revenue injects a great deal of uncertainty into the annual budget preparation process, and an actual suspension would be very difficult to handle. This revenue uncertainty highlights the importance of spending conservatively and looking for every opportunity to cut costs wherever possible.

The state budget also includes a three-month deferral of FY 2009 gas tax payments (approximately $5.8 million total) to help alleviate the state's cash flow problems, and last December disbursement of our most recent allocation of $2.4 million of Prop. 1B Local Streets and Roads funding was deferred indefinitely. The Department uses Road Fund balance to cover necessary cash outlays for work associated with these funding sources, which highlights the importance of maintaining a healthy fund balance to mitigate the impacts of revenue disruptions and deferrals.

The Department's strategy of maintaining a core maintenance staff funded primarily by our reliable gas excise tax revenue while executing additional work by contract when one-time or short-term funding is available has helped cushion the impact of revenue fluctuations on Road Maintenance Worker and other front-line service provider positions, and the Department plans to continue this strategy.

The second issue is more specific to FY 2010 and relates to the Department's efforts to develop a new business model for the acquisition and maintenance of heavy equipment and light duty vehicles. Fleet costs are a significant component of the Road Fund budget and the Department has striven to develop a practical and cost-effective strategy to mitigate the operational impacts related to the loss of on-site maintenance personnel at the East Yard and

West Yard (as well as the loss of lease revenue) resulting from Fleet's planned consolidation at their new facility on Junction Avenue in late 2009. The Department is shifting from a buy-and-own model to an all-inclusive lease model to avoid high initial equipment acquisition costs, avoid the inefficiencies and associated costs that would be introduced with respect to taking vehicles to the Junction facility for service, and to generate cost savings with respect to the various types of equipment required on only a seasonal or short-term basis. Leasing also provides considerably more cost certainty as well as flexibility with respect to changing the mix of equipment on hand if needed. Short-term rental of specific pieces of equipment lowers the total costs per operating hour for this equipment because overall utilization of the asset is increased (i.e., the capital costs are amortized over a higher number of productive hours.)

Staff is preparing a detailed Request for Proposals (RFP) for one-stop shopping for vehicle and equipment leases that include maintenance, as well as the capability to provide on-site maintenance of existing Road Fund-owned vehicles for the remainder of their useful lives (at which point they will be retired and replaced with leased vehicles.) We anticipate that it will take several years to transition completely to the new business model as existing Road Fund-owned vehicles are gradually replaced with leased vehicles.

ATTACHMENTS

- Roads Department Budget History Graph
- Roads Department FY 2010 Recommended Budget Items