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August 25, 2014

Ms. Diana Antony
Manager, Bond Accountability
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Dear Ms. Antony:

Senate Bill 88 designates the California Transportation Commission (Commission) as the administrative agency for the Corridor Mobility Improvement Account, State Route 99 Corridor Account, Trade Corridor Improvement Fund, Traffic Light Synchronization Program, Highway Railroad Crossing Safety Account, Local Bridge Seismic Retrofit Program, and State & Local Partnership Program all programs funded by Proposition 1B. As the administrative agency, the Commission is required to report on a semi-annual basis to the Department of Finance on the progress of the projects in these Proposition 1B programs. The purpose of the report is to ensure that the projects are executed in a timely manner and within the approved scope and budget.

In accordance with Senate Bill 88, the Commission has prepared the attached Proposition 1B Semi-Annual Status Report (Report). The Report provides an overview of the status of the Proposition 1B Programs for which the Commission is the administrative agency, as well as an analysis of the key issues impacting the programs at this time. In addition, as the administrative agency, the Commission requires recipient agencies to report on the activities and progress made toward the implementation of the bond funded projects on a quarterly basis. The most recent quarterly reports are also attached for your information.

If you have any questions, please contact Stephen Maller at (916) 653-2070.

Sincerely,

ANDRE BOUTROS
Executive Director

Attachments

cc: Malcolm Dougherty, Acting Director, Department of Transportation
Kurt Scherzinger, Bond Program Manager, Department of Transportation

CALIFORNIA TRANSPORTATION COMMISSION

Proposition 1B Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006

Semi-Annual Status Report
July 2014

BACKGROUND

Proposition 1B, approved by the voters in November 2006, authorized the issuance of $19.925 billion in State general obligation bonds for specific transportation programs intended to relieve congestion, facilitate goods movement, improve air quality, and enhance the safety of the state's transportation system. These transportation programs included the Corridor Mobility Improvement Account (CMIA), State Route 99 Corridor Account (SR 99), Trade Corridors Improvement Fund (TCIF), Traffic Light Synchronization Program (TLSP), Highway-Railroad Crossing Safety Account (HRCSA), Local Bridge Seismic Retrofit Account (LBSRA), and State & Local Partnership Program (SLPP). Consistent with the requirements of Proposition 1B, the Commission programs and allocates bond funds in each of the above-mentioned programs.

In clarifying legislation to Proposition 1B, Senate Bill 88 (SB 88), enacted in 2007, includes implementation and accountability requirements for Proposition 1B projects and further defines the role of the Commission as the administrative agency for the CMIA, SR 99, TCIF, TLSP, HRCSA, LBSRA, and SLPP. SB 88 requires the Commission to report to the Department of Finance, on a semiannual basis, on the progress of the Proposition 1B bond projects in these programs. This report, as well as the Commission's Annual Report issued in December of each year, satisfies the reporting requirements of SB 88.

To date, the Commission has programmed all $11.6 billion of the Proposition 1B funds within its purview. The Commission has allocated $11.2 billion of the programmed Proposition 1B funds, to projects that were ready to commence construction.

Construction Cost Trends

The trend for lower construction costs continued in Fiscal Year 2013-14. The Department has received on average six bids per advertised contract, slightly lower from the prior fiscal year. The average low bid for contracts was 8.6% below the Engineer's Estimate for Fiscal Year 2013-14 versus 9.3% below the Engineer's Estimate for Fiscal Year 2012-13.

Proposition 1B savings

At its January 2014 meeting, the Commission adopted a policy for the use of accrued Proposition 1B savings. The Commission determined savings are to fund projects that provide new benefits to the traveling public and will not cover cost overruns on existing projects. Savings will be programmed and allocated per the individual Proposition 1B program requirements and existing Commission guidelines. Accrued CMIA savings will be exchanged for State Highway Account (SHA) funds originally allocated to STIP projects that commenced construction prior to December 31, 2012. Exchanged SHA funds will be redirected to the SHOPP. Savings accrued in the State-Local Partnership Program are not eligible for redirection and therefore will not be subject to reuse.

Close-Out Phase

Now that the majority of Proposition 1B funds have been allocated and bond funded projects are under construction, the Commission continues to monitor the progress of on-going bond funded projects while transitioning into the close-out phase of the program. As projects are completed, the Commission is working with Caltrans and project sponsors to determine the degree to which benefits identified at the time of programming are achieved. The Commission realizes that for many projects, the benefits will not be immediately identifiable. For these projects, the Commission will continue to monitor and require that the project sponsor report the benefits achieved over time. In addition, the Commission has and will continue to consult with Caltrans for purposes of ensuring that Caltrans' annual audit plan of service encompasses audits of completed bond funded projects.

PROGRAM SPECIFIC UPDATES

Corridor Mobility Improvement Account (CMIA)

Proposition 1B authorized $4.5 billion in general obligation bond proceeds to be deposited in the Corridor Mobility Improvement Account. Funds in the CMIA are available for performance improvements on the state highway system, or major local access routes to the state highway system, that relieve congestion by expanding capacity, enhance operations, or otherwise improve travel times within high-congestion travel corridors.

In February 2007, the Commission programmed 54 projects valued at $9.1 billion using $4.5 billion in bond funds that leveraged another $4.6 billion in federal, state and local funds. In delivering the CMIA program, the Commission successfully capitalized on cost savings realized at construction contract award and grew the program to 90 projects valued at $11.88 billion. The Commission delivered the CMIA Program within the statutory December 31, 2012 deadline. Due to complexity, timing and construction phasing, some of the 90 projects were split resulting in 129 discrete construction projects.

As of June 30, 2014, 51 projects are complete with 27 of these having submitted Final Delivery Reports to the Commission.

State Route 99 Corridor Program (SR 99)

Proposition 1B authorized $1 billion in general obligation bond proceeds to be deposited in the SR 99 Account. Funds in the SR 99 Account are for safety, operational enhancements, rehabilitation, or capacity improvements on the SR 99 Corridor. The SR 99 Corridor traversing approximately 400 miles of the state's central valley. In total, there are 23 corridor projects in the program. Due to complexity, timing and construction phasing, some of the corridor projects were split, resulting in 27 discrete construction projects valued at more than $1.3 billion. During 2013-14, the Commission allocated a total of $50.8 million in SR 99 bond funds to projects ready to commence construction. As of June 30, 2014, five projects completed construction with two of these submitting Final Delivery Reports to the Commission.

Trade Corridors Improvement Fund (TCIF)

Proposition 1B authorized $2 billion of state general obligation bonds for the TCIF. Funds in the TCIF are available for infrastructure improvements along federally designated "Trade Corridors of National Significance" in the state or along other corridors within the state that have a high volume of freight movement. Acknowledging that the freight infrastructure needs of the state far exceed the $2 billion provided under Proposition 1B, the Commission supported a strategy to increase TCIF funding by $500 million from the State Highway Account to fund state-level priorities that are critical to goods movement. In April 2008, the Commission adopted a program approximately 20 percent more than the $2.5 available. The overprogramming assumed that new revenue sources would become available and would be dedicated to funding the adopted program. Unfortunately, new revenue sources to address the overprogramming have not materialized. However, the Corridor Coalitions diligently addressed the overprogramming and all three Corridor Coalitions – the Northern California Trade Corridors Coalition (NCTCC), the Southern California Consensus Group (SCCG), and the San Diego/Border Corridor (SDBC) – achieved their programming levels by May 2013.

There are currently 78 projects in the TCIF program valued at $5.9 billion. The Commission continues to work with the coalitions and project sponsors to recapture any cost savings at construction contract award and/or close out and redirect the savings on new projects that meet the TCIF criteria. In March 2014, the Commission approved a guideline amendment extending the start of construction date from December 2014 to December 2016. The two-year extension provides agencies additional time to develop the most critical and beneficial goods movement projects for funding in the TCIF program.

Traffic Light Synchronization Program (TLSP)

Proposition 1B authorized $250 million for the Traffic Light Synchronization Program. The TLSP is subject to the provisions of the Government Code and includes $250 million under Section 8879.23(k) (2) for Caltrans to develop a program for traffic light synchronization projects or other technology-based improvements to safety, operations and the effective capacity of local streets and roads.

Government Code Section 8879.64(b), added by Senate Bill (SB) 88 (Committee on Budget and Fiscal Review, Chapter 181, Statutes of 2007), directed that $150 million from the TLSP be allocated to the City of Los Angeles for upgrading and installing traffic signal synchronization within its jurisdiction. SB 88 also designated the Commission as the administrative agency responsible for programming funds and authorized to adopt guidelines for the TLSP program.

On May 28, 2008, the Commission adopted the TLSP, programming 22 traffic light synchronization projects totaling $147 million for the City of Los Angeles and $96.8 million for 59 additional traffic light synchronization projects for agencies other than the City of Los Angeles.

As of June 2013, the Commission has allocated bond funds to all projects programmed except for five projects in the City of Los Angeles. Of the 81 projects include in the TLSP, 55 have completed construction with 38 submitting Final Delivery Reports to the Commission.

Highway-Railroad Crossing Safety Account (HRCSA)

Proposition 1B authorized $250 million for the Highway-Railroad Crossing Safety Account program to fund the completion of high-priority grade separation and railroad crossing safety improvements. The HRCSA funds are available, upon appropriation by the Legislature, to Caltrans, as programmed and allocated by the Commission.

The HRCSA program is subject to the provisions of the Government Code and includes two parts as follows:
Part 1 - Government Code Section 8879.23(j)(1) provides $150 million for projects on the priority list established by the Public Utilities Commission (PUC) pursuant to the process established in Chapter 10 (commencing with Section 2450) of Division 3 of the Streets and Highways Code.
Part 2 - Government Code Section 8879.23(j)(2) provides $100 million for high-priority railroad crossing improvements that are not part of the PUC priority list process.

The HRCSA program concluded its third programming cycle in June 2014 with approximately $16.8 million in program savings. In anticipation of the savings the Commission at its March 2014 meeting approved an update to the HRCSA guidelines to establish the schedule for the fourth (2014 HRCSA program) cycle. Approximately $16.8 million is available for programming in the 2014 HRCSA Program. Applications were due on July 1, 2014 and the 2014 HRCSA Program will be adopted by the Commission at its October 2014 meeting.

Local Bridge Seismic Retrofit Account (LBSRA)

Proposition 1B authorized $125 million for the Local Bridge Seismic Retrofit Account. The LBSRA funds provide the 11.5% required match for federal Highway Bridge Program funds available to the state for seismic retrofit work on local bridges, ramps and overpasses, as identified by Caltrans.

In April 2007, Caltrans identified 479 local bridges as eligible to receive LBSRA funds. The 479 local bridges were those bridges remaining from the local bridges initially identified as needing seismic retrofit under the Local Bridge Seismic Retrofit Program (LBSRP) funded with Federal Highway Bridge Funds programmed and allocated by the Commission. Subsequently, Caltrans and local agencies revised the list of eligible bridges to 385.

The Commission allocates LBSRA funds to Caltrans for sub-allocation to Local Agencies. As of June 30, 2014, the Commission in total allocated $67.2 million and Caltrans sub-allocated $41.1 million in LBSRA funds to Local Agencies. In fiscal year 2013-14 the Commission allocated $11.2 million and Caltrans sub-allocated $3.5 million in LBSRA funds to Local Agencies for 7 eligible projects.

Progress of LBSRA projects is tracked by Caltrans on the federal fiscal year since 88.5% of funds used to retrofit local bridges are federal Highway Bridge Program funds. Funds not sub-allocated by the end of the federal fiscal year revert back to the LBSRA for re-allocation by the Commission.

The status of individual projects in the LBSRA program is reported to the Commission on a quarterly basis. As of June 30, 2014, of the 385 local bridges eligible to receive LBSRA funds, all have completed their retrofit strategy development stage, 78 are in the design stage, 82 are under construction, and 225 were seismically retrofitted.

State Local Partnership Program Account (SLPP)

Proposition 1B authorized $1 billion to be deposited in the State-Local Partnership Program Account to be available, upon appropriation by the Legislature, for allocation by the Commission over a five-year period to eligible transportation projects nominated by an applicant transportation agency.

In 2008, the Legislature enacted implementing legislation (AB 268, Chapter 756, Statutes of 2008) to add Article 11 (commencing with Section 8879.66) to Chapter 12.491 of Division 1 of Title 2 of the Government Code. This statute defined the program, eligibility of applicants, projects and matching funds. The program was split into two sub-programs – a formula program to match local sales tax, property tax and/or bridge tolls (95 percent or $950 million) and a competitive program to match local uniform developer fees (five percent or $50 million).

The first projects were programmed in April 2009 (for the first fiscal year of 2008-09), and the last programming amendment was approved in June 2013. A total of $980.992 million was programmed and allocated throughout the five-year program ending June 30, 2013. During the final fiscal year 2012-13, the Commission allocated a net $475.73 million. With the end of the program, the Commission's role is now directed to project delivery and accountability. No further allocations will be made from the SLPP Account. The status of individual projects in the SLPP program is reported to the Commission on a quarterly basis. The most recent report, through June 30, 2014, shows that 138 projects (98 formula and 40 competitive) have completed construction, although not all have submitted a final close-out report to the Commission.

ACCOUNTABILITY

In clarifying legislation to Proposition 1B, on August 24, 2007, the Governor signed into law Senate Bill 88 (SB 88) which designates the Commission as the administrative agency for the CMIA, SR 99, TCIF, STIP, SLPP, Local Bridge Seismic Account, HRCSA, and SHOPP funded by Proposition 1B. SB 88 imposes various requirements for the Commission relative to adopting guidelines, making allocations of bond funds, reporting on projects funded by the bond funds, and ensuring that the required bond project audits of expenditures and outcomes are performed.

In addition, Executive Order S-02-07, issued by Governor Arnold Scharzenegger on January 24, 2007, significantly increases the Commission's delivery monitoring responsibility for the bond funded projects. Specifically, the Commission is required to develop and implement an accountability plan, with primary focus on the delivery of bond funded projects with their approved scope, cost and schedule.

A key element of the Commission's responsibility for accountability as an administrative agency for specific bond programs is submitting reports to the Department of Finance on a semiannual basis. The purpose of these reports is to ensure that projects are proceeding on schedule and within their estimated cost. As part of its Accountability Implementation Plan, the Commission requires bond fund recipients to report to the Commission on a quarterly basis. These reports are reviewed by the Commission and posted on the Bond Accountability website. In addition, the Commission prepares the Semi-Annual Proposition 1B Status Report and the Annual Report to the Legislature, which includes the status of the Proposition 1B Programs.

Another key element of bond accountability is the audit of bond project expenditures and outcomes. Specifically, the Commission is required to develop and implement an accountability plan which includes provisions for bond audits. Under the Executive Order, expenditures of bond proceeds shall be subject to audit to determine whether the expenditures made from bond proceeds:

- Were made according to the established front-end criteria and processes.
- Were consistent with all legal requirements.

- Achieved the intended outcomes.

The Commission's Accountability Implementation Plan includes provisions for the audit of bond projects. In order to ensure that the Commission is meeting the auditing requirements of an administrative agency, as mandated by SB 88 and the Governor's Executive Order, the Commission has entered into a Memorandum of Understanding with the Department of Finance to perform the required audits of Proposition 1B projects, effective July 1, 2009. In addition, the Department of Finance, in consultation with Commission staff, is currently developing the Fiscal Year 2013-14 Audit Plan for the Proposition 1B Bond Program.