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California Transportation Commission

EXECUTIVE GUIDE

Issues for 2002

From 2001 Annual Report
to the California Legislature
Adopted December 13, 2001

Contents

Introduction

The California Transportation Commission per Government Code Section 14535 and 14536 submits an annual report to the Legislature each December summarizing the policies and decisions implemented by the Commission during the prior year and identifying upcoming transportation challenges for Legislative consideration.

The Commission's 2001 Annual Report was submitted to the Legislature in two volumes -- **Volume I** titled "**Issues for 2002**" and **Volume II** titled "**2001 Activity and Accomplishments**." This "**Executive Guide**" is a summary of the crucial transportation challenges and opportunities facing California that are identified and discussed in Volume I. The Executive Guide is issued as an introduction for the public and interested parties to the full Commission report. The full report is available upon request from the Commission's office. Please call (916) 654-4245 to request a copy.

Issues raised in this year's and prior years' annual reports are not intended to be viewed as deficiencies solvable in a particular year, but rather as opportunities and risks that must be considered during the ongoing policy-setting and decision-making processes.

Several issues will be more fully articulated in the following formal reports being issued by the State during the coming year:

- Implementing the Global Gateways Program
- Governor's Commission on Building the 21st Century
- California Transportation Plan
- 10-Year Rail Passenger Program Report
- Draft High Speed Rail Scoping Document

California Transportation Commission

Issues for 2002

Transportation Finance: ACA 4

The Traffic Congestion Relief Act, enacted in Fiscal Year (FY) 2000, provides $6.8 billion in new transportation funding between FY 2000-01 and FY 2007-08. One and a half billion dollars came from the General Fund in the FY 2000-01 budget. The remaining $5.3 billion represents a transfer of state sales taxes revenues on gasoline and diesel fuel from the General Fund to transportation.

In 2001, the Legislature approved Assembly Constitutional Amendment 4 (ACA 4), which would permanently dedicate state sales taxes revenues on gasoline and diesel fuel to transportation purposes. This change will take effect if voters approve Proposition 42 at the March 2002 election.

The Commission supported the dedication of state revenue from the sales tax on gasoline and diesel fuel to the Traffic Congestion Relief Program (TCRP), and strongly supports the continued dedication of these revenues to transportation uses beyond FY 2007-08 through the approval of Proposition 42 (ACA 4).

2002 State Transportation Improvement Program Outlook

The 2002 State Transportation Improvement Program (STIP) will add three new programming years, FY 2004-05 through FY 2006-07, to the five year program, with a total capacity of about $4.8 billion for new project funding. In adopting the 2002 STIP, however, the Commission will face programming challenges unprecedented since the enactment of SB 45 in 1997.

The greatest challenge is that project nominations may exceed capacity, potentially up to $7 billion. Not all project nominations may be programmed, and the Commission will have to decide which projects may advance now and which must wait for a future STIP cycle.

The second major challenge is that over two thirds of the new capacity is available only for the STIP's last two years, while many and perhaps most nominations will be for projects that could be delivered earlier. Without caution, this could result in overcommitments against available funds.

Other programming issues include limitations on State-only funding and the need for strategies to complete the funding of projects programmed only for environmental, design, or right-of-way work.

Project Nomination and Selection. STIP projects are nominated through Regional Transportation Improvement Programs (RTIPs) and the Caltrans' Interregional Transportation Improvement Program (ITIP), each due December 15, 2001. The ITIP nominates projects for funding from the 25% of STIP funds dedicated to the interregional improvement program. The regions nominate projects from the 75% of funds dedicated to the regional program and subdivided by formula to county shares. To the extent that some regions choose to reserve a portion of their current county shares for future programming, the Commission may use the freed up capacity to support advances of future shares elsewhere. The ITIP and RTIPs were permitted to include nominations in excess of current shares for this purpose. In selecting projects for funding beyond the current share, the STIP Guidelines stated the Commission's intent to consider regional priorities and the extent to which each RTIP includes projects that (1) implement a cost effective RTIP, (2) complete projects included in the prior STIP, (3) implement the TCRP, (4) leverage federal discretionary funds, and (5) match ITIP partnership projects.

Funding Spread. Programming for each year in the STIP may not exceed the amount identified in the adopted Fund Estimate. The 2002 STIP represents a return to the pattern that was once the norm, but has not occurred since the enactment of SB 45. Most capacity is available in the later add-on years, with relatively little available to add funding in the early years. For varying reasons, each of the three prior cycles since SB 45 was relatively "front-loaded," with much capacity to add projects, even in a new STIP's first year. This meant that county shares were available virtually on demand. An agency could program a project and immediately receive an allocation of funds. Since SB 45, some agencies may have come to expect or even depend on this. With the 2002 STIP cycle, however, programming will once again call for advance planning and scheduling. In adopting the STIP, the Commission may program projects in years later than they were nominated, to insure that the amount programmed does not exceed the STIP funding available for each year.

State-only Funding. The 2002 STIP may face greater restrictions on the use of State-only funding (the funding of projects without using federal funds), particularly with the loss of Transportation Investment Fund revenues and the diversion of State Highway Account (SHA) funds in the STIP's early years. The Commission expects most STIP projects to qualify for federal funding and has revised its policy for approving State-only funding in the STIP. Even advance approval in the STIP cannot assure that State-only funds will be available when an agency requests a project allocation.

Future Funding Needs. Since SB 45, the law has permitted, and the Commission has encouraged, the sequential programming of a project's four components, environmental, design, right-of-way, and construction. A project may be programmed for one or more components without being funded for construction. Looking ahead to the 2002 STIP, the Commission is concerned whether sufficient STIP capacity will be available within county or interregional shares to complete such projects and how current projects might affect the capacity to program other projects. The Commission intends to evaluate project financial plans and future funding arrangements and may consider future funding viability as a factor in approving programming proposals.

Traffic Congestion Relief Program - Outlook for 2002

In 2000, the Davis Administration initiated proposals to help relieve traffic congestion, resulting in the Traffic Congestion Relief (TCR) Act of 2000. The Act provides $6.8 billion in new transportation funding, directing $4.9 billion, in specified amounts, to 141 designated transportation projects. The remaining $1.9 billion was directed to the STIP, local streets and roads maintenance and rehabilitation, and the Public Transportation Account (PTA). The identified $6.8 billion was to be funneled from the General Fund to the Transportation Investment Fund (TIF) over a six-year period.

Slowing economy impacts. The FY 2001-02 State Budget Act modified the revenue stream going into the TIF to free up $2.5 billion for General Fund expenditures over the FY 2001-02 and FY 2002-03 budget years. The modifications include postponing the transfer of General Fund revenues in FY 2001-02 and FY 2002-03 and providing a $238 million loan to the General Fund from the TCR Fund that will be repaid in FY 2004-05. It also extends the TCR Program for two years until FY 2007-08.

Traffic Congestion Relief Program Issues. In 2002, the Commission will face a number of TCR Program issues. These include: the July 6, 2002, project application deadline; consideration of alternative projects; proposed swap of funds among TCR Program projects; the use of TCR Program savings; effects on the STIP for projects not yet fully funded; treatment of project cost overruns; and the shift from project approval to focusing on project delivery.

The impact of agencies not meeting the statutory July 6, 2002, deadline for submitting projects for Commission approval is that funding can be redirected to other projects by the Legislature and the Governor. Other issues such as alternative projects, swapping of funds between TCR projects and project cost savings may require the Commission to consult with the Legislature and the Administration in interpreting the TCR Act of 2000. Further, the Commission may have to deal with projects that are not fully funded or have cost overruns. In these instances, the Commission must seek commitments from grantees to fully fund projects or cover cost overruns from other funding sources. Grantees may have to use local sales tax funds or their share of STIP funding to fully fund projects (and phases) and cover cost overruns with funds from competing and perhaps higher priority projects. The shift from project approval to delivery will require the Commission to ensure that grantees use the TCR revenues, along with other funding, as necessary, to bring in a completed phase or project within the schedule promised.

Transportation System Security

The September 11, 2001, terrorist attacks in New York City and Washington, D. C. caused great concern regarding the security of the national transportation system and its exposure to continued terrorist activity.

California has developed unmatched emergency prevention and response capabilities because of natural disasters that have caused severe damage in the past to transportation infrastructure. Still, security planning needs to be an ingrained part of the overall transportation system planning and a basic element of each transportation improvement project.

State Strategic Committee on Terrorism. Subsequent to September 11, Governor Davis issued an Executive Order directing the State Strategic Committee on Terrorism to:

1) Evaluate the potential threat of terrorist attack;
2) Review California's current state of readiness to prevent and respond to a potential attack; and
3) Establish and prioritize recommendations for prevention and response.

The California Department of Transportation (the Department), in partnership with the California Highway Patrol and other state agencies, immediately began a review and assessment of security for critical transportation facilities, review of operational procedures involving the Department's Emergency Operations Centers, and evaluation of potential funding needs for security enhancements.

Continuing Requirements. To enhance transportation system security on an ongoing basis, state and federal agencies are evaluating:

- The vulnerability of surface transportation systems from local points to the state and national system as a whole.
- Current security technologies and procedures that can be effectively applied to the surface transportation system.
- New security technologies and processes to respond to the unique vulnerabilities of surface transportation.

This evaluation will identify the most effective security technologies and processes for implementation by surface transportation system owners and operators to reduce vulnerability to attack. To keep the aviation system operating under the increased security requirements, California must provide approximately $20 million to supplement federal emergency funding for security equipment, fencing and secure gates at California's smaller commercial, reliever, and feeder airports throughout the state.

Progress to date. A number of assessments of security risks and new procedures to address threats are underway by ports, airports, freight and passenger railroads, the Alameda Corridor and other agencies. These efforts must be coordinated so that "solutions" to problems do not create unnecessary inefficiencies in the state's highly integrated multi-modal transportation system. To achieve security goals and not compromise economic and quality of life goals, all parties must work even closer together than ever before.

There is no question that from now on transportation system designers must integrate security concerns into their plans, which will certainly increase costs.

Implementing "SCR 96" Global Gateways Program

The Legislature approved Senate Concurrent Resolution 96 (SCR 96) in April 2000 for the creation of a Global Gateways Development Program (GGDP) within the Department. The purpose of this new program is to identify and implement transportation infrastructure improvements to facilitate goods movement. The improvements will enhance overall mobility and increased access at and through international ports of entry, international airports, seaports, other major intermodal transfer facilities and goods movement distribution centers, and trade corridors in California.

The GGDP Report, which is nearly complete, will identify:

a) Global gateway transportation needs;
b) Priority gateway projects; and
c) Funding strategies for project implementation.

Global Gateways Development Program Importance. The fastest growing segment of California's economy is international trade and goods movement, which totals more than $350 billion per year. More than one in seven jobs in California are tied to trade.

California's "Global Gateways" include: the ports of Los Angeles, Long Beach, and Oakland; international airports at Los Angeles, San Francisco and Oakland; and international ports of entry from Mexico. The highways and railways that link these gateways to the rest of the nation represent the largest trade transportation complex in the country.

Goods Movement Challenge. California has serious and immediate constraints to its ability to adequately move goods. Development of the State's gateway facilities and freight transportation infrastructure has not kept pace with economic and trade growth. As a result, congestion, delays, accidents and freight transportation costs continue to increase. The transportation deficiency threatens to grow much worse with the ever increasing demand on the system. This challenge needs to be met with a consensus among the State's goods movement community, as well as with multi-state alliances to influence federal goods movement policy and funding support.

Funding Strategies. Significant investments have been dedicated to transportation infrastructure improvements that positively support the purposes articulated by SCR 96. The TCRP provides funding for improvements to the Alameda Corridor East, the gateway to the Ports of Los Angeles and Long Beach, and freeway access to the Otay Mesa Border Crossing at the California/Mexico border. Also, many projects within the interregional portion of the 2000 STIP benefited goods movement.

Sufficient funding to address all essential goods movement improvement projects will need to come from both innovative public-private partnership programs and modifications of existing state and federal transportation programs.

Program focus. The Global Gateways Development Program will focus on the following:

- Defining roles and responsibilities of the State, regional transportation planning agencies and other local agencies in planning, funding, developing, operating and maintaining critical public portions of the goods movement transportation system.
- Working with a statewide coalition of public and private sector goods movement stakeholders to define California's position on the Federal Transportation Equity Act reauthorization (in 2003). The goal is to secure federal cooperation in meeting the state's goods movement needs by providing a stronger goods movement emphasis and increased funding in federal transportation programs.
- Identification of the appropriate new and existing state funding source for truck, rail, seaport and airport goods movement projects.

The overarching strategic goals of this program are to "**enhance capacity of goods movement and improve efficiencies of the goods movement system.**"

Federal Transportation Equity Act Legislation Reauthorization for 2003-2009

The Transportation Equity Act for the 21st Century (TEA-21), a six-year act, expires on September 30, 2003—less than two years away. Congress will be enacting a new surface transportation act to replace it, and this is the critical year to inform Congress and the Federal Administration of California's transportation needs and the solutions that will best serve its economic growth. Transportation interests in California should identify common interests and speak as a single voice in Washington so that members of the California Congressional delegation can work in unison to shape the reauthorization bill.

Some of the key issues are as follows, though not all may be resolved in the reauthorization:

- How high should federal funding levels be?
- What is the proper balance among national, state, regional and local focus in decision-making?
- What should be done about unrelieved congestion?
- What should Congress do to link transportation and land development more closely?
- What, if anything, should Congress do about insufficient progress toward cleaner air? What changes, if any, should be made in the Federal Congestion Mitigation and Air Quality (CMAQ) funding program?
- What should Congress do to streamline federal processes?

- How much funding should go to safety and research programs?

The California Association of Councils of Governments (CalCOG) is working to craft a consensus policy position, to be signed by California's 16 urban regions and the State (the Business, Transportation and Housing Agency, the Department, and the Commission), to guide members of the California delegation and promote an early and unified effort to influence the Reauthorization Act. The essence of that consensus position will probably include all or most of the following points:

- Increase, or at least maintain, guaranteed funding levels.
- Ensure full access to Federal Highway Trust Fund revenues.
- Broaden program flexibility, avoiding new programs and federal discretionary programs.
- Strengthen formula programs, especially the transit programs, the CMAQ program, and the Surface Transportation Program.
- Accelerate federal decision-making and simplify program requirements.
- Provide new funding to improve national security and global economic competitiveness.

Revisiting SB 45 State Transportation Improvement Program Reform

After four years of experience with the major STIP reforms of SB 45 (1997), the Commission finds that most of the reforms have succeeded in achieving their goals, promoting project delivery and increasing overall funding flexibility. However, the Commission recommends that the Legislature revisit one of those reforms, the program structure that redefined the STIP to include two subprograms, with 25% of all STIP funds dedicated to an interregional program developed by the Department and the other 75% dedicated to a regional improvement program, with funding further divided by formula to individual county shares subject to programming by regional agencies.

This program structure has not lived up to its original promise and has frustrated the efforts of the Department and the Commission to meet the expectations of the Governor, the Legislature, and local elected officials. The common expectation is that the State is, or should be, responsible for meeting high priority needs, especially on State highways, while the current structure puts most decision-making in regional hands.

The original expectation was that regional agencies would take charge of identifying and meeting high priority system needs. In practice, however, many regions have subdivided their county shares by formula and delegated the selection of projects to individual cities and county public works departments. Meanwhile, many agencies and private interests have come to treat the interregional program as a competitive grant program rather than a means to implement a statewide interregional system strategy. Some have come to see the interregional program as the primary means for funding a State highway project, a function the program was neither defined nor funded to do.

The Commission has not taken a position in support of any particular revisions to SB 45. However, the Commission recommends that the Legislature take action to remedy the current structural imbalance between the STIP regional and interregional programs and identifies the following three alternative approaches:

1. Greatly increase the percentage of STIP funding for the interregional program, perhaps to 50% or more.
2. Change the scope of regional and interregional programs so that the interregional program is more focused on interregional needs and provide more flexibility to program projects in the regional program. A key element of this approach would be to permit the Department to nominate projects for funding directly from the regional program.
3. Implement some combination of the first two approaches.

Financing Storm Water Runoff

Congress amended the Federal Clean Water Act in 1987 and mandated the regulation of pollution carried by storm water runoff into streams, rivers, bays and lakes. In California, the State Water Resources Control Board sets water quality standards and issues storm water runoff discharge permits.

The environmental community challenged the adequacy of effort by the Department, Los Angeles and San Diego in fulfilling their storm water runoff discharge permit requirements. The Department determined that to fully comply with the water quality standards set by the State Water Resources Control Board is economically infeasible and has applied for a variance from the water quality standards for transportation facilities on that basis. The U.S. Environmental Protection Agency indicated that the question of infeasibility of California's water quality standards was not a federal issue. The State Water Resources Control

Board indicated that the Department and other municipalities will not be granted variances from water quality standards, and that the standards will not be relaxed.

Treatment costs as high as **$114 billion** for storm water runoff have been identified in various studies and reports. A prior Commission report estimated that as much as $6 billion in costs are associated with runoff from State highways alone. Costs of this magnitude outstrip the capacity of the SHA. If the SHA is to be the sole source of funds for addressing the storm water runoff problem, meaningful investment in transportation infrastructure will be sacrificed for years to come. This is a matter deserving of serious legislative attention.

Continued Efforts Toward Environmental Streamlining

In each of its last two annual reports, the Commission has addressed the continuing need for streamlining the project environmental review process and the efforts made toward that end. The 1999 report discussed the need for environmental streamlining in detail, with recommendations aimed principally at legislative solutions. The 2000 report focused more on possible administrative reforms, with recommendations for the Department and State resource agencies. This year, the Commission cites the progress made, noting that the issues are not resolved and much work remains to be done.

Early in the year, the Commission sponsored a pair of environmental streamlining workshops, bringing together representatives from the Department, the Federal Highway Administration, regional transportation agencies, and State and federal resource agencies. In conjunction with those workshops, the three major State transportation and resource agencies (the Business, Transportation and Housing Agency, the Resources Agency, and the California Environmental Protection Agency) announced that they had concluded a tri-agency partnership agreement to promote streamlining. At a later meeting, the Commission reviewed the tri-agency efforts and heard suggestions made by federal agencies for reform. In mid-year, the Department made a formal proposal to the U. S. Department of Transportation to streamline the environmental process by jointly adopting a set of administrative measures between FHWA and the Department. At the end of the year, the tri-agency partnership reported to the Commission on its achievements to date and its expectations for the future.

Success will require a continuing focus on multi-agency cooperation to achieve the goal of timely delivery of transportation projects while protecting and enhancing the environment. The Commission is committed to providing leadership and a forum to maintain that continuing focus.

Aviation Issues – The State's Role in Aviation

The rapidly expanding role of aviation in moving people and goods in the global economy and transportation system security concerns compel a re-examination of the State's role in overall aviation system planning and capital investment in commercial and business aviation facilities.

State leadership priorities. Aviation issues were raised in prior annual reports, but the focus was on infrastructure capacity. For California to remain competitive in the global economy our aviation system must:

- Facilitate growth in air passenger and cargo movement.
- Provide access for and fully integrate increasing business and corporate aviation.
- Ensure mobility around airports.
- Responsibly mitigate adverse impacts of aviation on communities.

Critical statewide aviation program needs. Issues include:

- The dramatic funding gap between needs identified in the aeronautics Capital Improvement Program (CIP) for general aviation airports (a total of $108 million) and the portion of Aeronautics Account funds available to fund the CIP ($1.5 million per year).
- The need to have local Airport Comprehensive Land Use Plans in place to effectively manage development and minimize incompatible land uses surrounding airports.
- The growing public annoyance with aircraft noise as aviation activity increases.
- The need to provide adequate surface connections to airports, hereby improving airport capacity and minimizing traffic congestion in neighboring communities.
- The need to aggressively address commercial passenger and cargo capacity shortfalls.

State Role. The State should accept the responsibility to provide the leadership and resources, in cooperation with local, regional and federal agencies, to develop the efficient and secure aviation system that is essential for our economic success.

Intercity Rail Issues

Rail is a critical part of the multimodal transportation infrastructure. This year's Annual Report focuses on the continuing uncertain funding picture, project delivery, upcoming rail plans, and the uncertainty of Amtrak's future and its impacts on State Intercity Passenger Rail.

Uncertain Funding Picture. Intercity rail passenger service in California faces uncertainty in terms of adequate funding for operations and capital improvements. Last year, as part of the new Traffic Congestion Relief Act, additional funding was provided for the PTA, which funds, in part, rail service and improvements. Due to the slowing economy in 2001, this additional funding for PTA has been deferred for two years, making it difficult to fund beyond existing intercity rail service or rail/transit projects not eligible for SHA funds. The current shortfall of projected funding to needs, based on the Department's 10-year plan, is in excess of $2 billion.

Delivery obstacles. Another concern is project delivery for intercity rail and local rail projects. The Department re-organized so that most units working with the railroads would report to one person. The re-organization is intended to deal with railroads in a manner that improves project delivery. Still, further steps could be taken to improve delivery, such as having cabinet-level or directorate-level managers work with the railroads' management to speed delivery.

10-Year Rail Passenger Program. The Department is currently updating its 10-Year Rail Passenger Program Report, which proposes a $4 billion capital program, primarily funded from a proposed $12 billion federal bond. The Department's "fiscally constrained" funding alternative is to stretch the 10-year capital program to a 20-year capital program. The Commission directed the Department to develop a 10-year capital program, based upon historical STIP funding for Intercity Rail to provide a "fiscally constrained" comparison. The Commission also directed the Department to include in the 10-year plan a policy analysis of the goals and objectives of intercity rail service and measurement of whether or not those goals/objectives are being met.

Ultra High-Speed Rail. Currently high-speed rail planning by the High-Speed Rail (HSR) Authority includes evaluating routes, stations and the preferred technology for a statewide 700-mile system. A final draft document by HSR Authority scoping this proposed system should be completed early 2002.

Amtrak Future. Nationally, Amtrak's future remains uncertain.

The Amtrak Reform Council ordered Amtrak to develop a liquidation plan because it would not meet a federally mandated 2002 self-sufficiency deadline. Congress, however, may eliminate the Amtrak self-sufficiency requirement, as they deliberate on legislation on several multibillion-dollar Amtrak capital and security packages. Regardless of Amtrak's fate, California must ensure that Amtrak's mandate, allowing it to use private railroads to provide intercity passenger service, is continued or transferred. California must ensure that the federal funds are forthcoming, while Congress and the White House make a decision about Amtrak's future.

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STATUTORY REQUIREMENT FOR ANNUAL REPORT TO THE LEGISLATURE

(GOVERNMENT CODE)

CHAPTER 3. ANNUAL REPORT

Commission's Annual Report
Amended: Statutes of 1984, Chapter 95 (SB 283)

14535. The commission shall adopt and submit to the Legislature, by December 15 of each year, an annual report summarizing the commission's prior-year decisions in allocating transportation capital outlay appropriations, and identifying timely and relevant transportation issues facing the State of California.

Contents of Annual Report
Amended: Statutes of 2001, Chapter 113 (AB 438)

14536. (a) The annual report shall include an explanation and summary of major policies and decisions adopted by the commission during the previously completed state and federal fiscal year, with an explanation of any changes in policy associated with the performance of its duties and responsibilities over the past year.

(b) The annual report may also include a discussion of any significant upcoming transportation issues anticipated to be of concern to the public and the Legislature.

(c) The annual report submitted to the Legislature for the years 2001 to 2008, inclusive, shall include all of the following:

(1) A summary and discussion of loans and transfers authorized pursuant to Sections 14556.7 and 14556.8.

(2) A summary and discussion on the cash-flow and project delivery impact of those loans and transfers.

(3) A summary of any guidance provided to the department pursuant to Section 14556.7.