CALIFORNIA TRANSPORTATION COMMISSION

2005 ANNUAL REPORT TO THE CALIFORNIA LEGISLATURE

Adopted

December 15, 2005

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A Message from the Chair

Members of the Legislature:

I am pleased to submit to you the California Transportation Commission's annual report to the Legislature for 2005. State law mandates that the Commission report to you each year identifying timely and relevant transportation issues facing the state and summarizing the Commission's major policy decisions in the past year. The law also mandates that our report summarize the impact of loans from transportation funds to the General Fund.

The good news for 2005 is that the Governor, with support from the Legislature, authorized the first full transfer of gasoline sales tax revenues to transportation under Proposition 42. That transfer provided over $1.3 billion for transportation investment through the State Transportation Improvement Program, the Traffic Congestion Relief Program, and local subventions for road repair and transit.

The bad news is that state funding for transportation remains unstable, unreliable, increasingly inflexible, and woefully inadequate. For the first time, annual revenues from the basic per-gallon fuel tax and from truck weight fees are insufficient even to meet ongoing state highway maintenance, operations, and rehabilitation costs. As a result, those revenues—which are restricted under the California Constitution to transportation purposes—are no longer available for the construction of transportation improvements. State funding for transportation improvements is now dependent entirely on sales tax transfers, including Proposition 42 transfers (about 70%) and direct transfers to the Public Transportation Account (about 30%). Over the last five years, these transfers have proven to be a notoriously unstable and unreliable revenue source, subject to suspension and diversion in each annual budget. An effective transportation program requires stable and reliable resources because it usually takes several years of environmental, design, and right-of-way work to make a transportation project ready for construction.

Meanwhile, the imbalance of funding from Proposition 42 and Public Transportation Account transfers creates inflexibility—so much so that the Commission anticipates that the 2006 STIP will delete some highway projects while leaving transit funding unprogrammed. In any case, the sales tax transfers alone are insufficient to provide an adequate base of funding for transportation improvements. Originally conceived as supplements to the funding provided by the basic per-gallon fuel tax, these transfers—even when fully authorized—provide no more than about half of the amount the state was making available for transportation improvements just a decade ago.

The Commission is encouraged that the Governor and members of the Legislature have expressed their intent to address the state's infrastructure needs in the coming year. The Commission looks forward to working with you and the Administration to reconcile the need for transportation funding that is stable, reliable, flexible, and adequate with the need to resolve the state's structural budget deficit.

Sincerely,

Joseph Tavaglione

Joseph Tavaglione, Chair
California Transportation Commission

The Commission in Brief

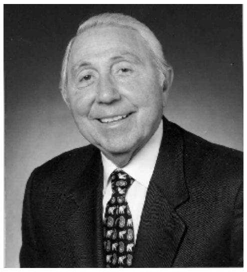
The California Transportation Commission is created under state law, charged primarily with responsibility for making project-specific and location-specific decisions in the programming and allocation of state transportation funds. It is also charged to advise and assist the Secretary of the Business, Transportation and Housing Agency and the Legislature in formulating and evaluating state policies and plans for transportation programs. The Commission is independent of the Department of Transportation and does not have authority or responsibility for the Department's operations or its budget.

The Commission consists of eleven members, with nine members appointed to staggered four-year terms by the Governor with the advice and consent of the Senate. There are two nonvoting ex-officio members appointed from the Senate and the Assembly, usually the chairs of the Senate and Assembly transportation policy committees. The nine public members may not simultaneously hold an elected public office or serve on any local or regional board or commission with business before the Commission. They are appointed to assure a geographic balance, with members from both the north and the south and from both urban and rural areas of the state.

The Commission conducts its business in open meetings. Among its functions, it approves project-specific allocations of appropriated funds, and it adopts the biennial State Transportation Improvement Program (STIP), the five-year plan for project allocations. In consultation with the Department and regional agencies, the Commission adopts procedures for carrying out its responsibilities, including the adoption of the biennial STIP fund estimate and the adoption of STIP guidelines.

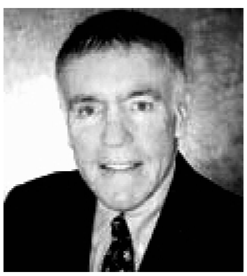
The Commission is required each year to submit to the Legislature an annual report summarizing the decisions allocating transportation funds and identifying timely and relevant transportation issues facing the State of California. The annual report is also required to include a summary and discussion of loans and transfers between transportation funds and the General Fund, as well as their impact on cash flow and project delivery. This report is intended to fulfill that commitment to the Legislature.

The Commissioners



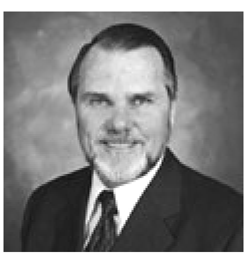
Mr. Joseph Tavaglione
Chair

Mr. Tavaglione, of Riverside, has been the President of Tavaglione Construction and Development, Inc., since 1961. The company holds construction licenses in California, Nevada, Louisiana, Hawaii, Utah, Arizona, New Mexico, and Washington. Mr. Tavaglione is a prior member and former Chairman of the California Contractors State License Board. He is also a past representative of California as the President of the National Association of State Contractors' Licensing Agencies.



Mr. Jeremiah F. Hallisey
Vice Chair

Mr. Hallisey, of San Francisco, has served as president of the law firm of Hallisey and Johnson since 1971. He previously served as special trial counsel for the Alameda-Contra Costa Transit District for two years. Mr. Hallisey was a Governor's appointee to the Commission on Building for the 21st Century. He also previously served as a trustee of the California State University and for two years served as a University of California Regent.



Mr. Bob Balgenorth

Mr. Balgenorth, of Folsom, has served as the President of the State Building and Construction Trades Council of California, AFL-CIO, since 1993. He is elected to the Executive Council of the California Council of the California Labor Federation, AFL-CIO. Mr. Balgenorth also serves on the Apprentice Council and currently serves on the Workforce Investment Board. Previously, he was the Business Manager and Financial Secretary of Local #441 of the International Brotherhood of Electrical Workers (IBEW) from 1989 to 1993. In 1982, Mr. Balgenorth was elected Executive Secretary of the Orange County Building Trades Council, where he served for ten years. He has served as a member or trustee of number labor boards and committees, including the Southern California IBEW Pension Trust. Mr. Balgenorth was a Governor's appointee to the Commission on Building for the 21st Century, serving as Co-Chair of the Infrastructure Committee.

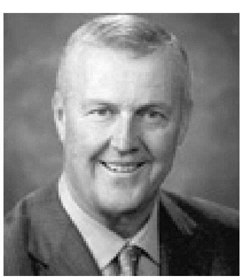
The Commissioners

Ms. Marian Bergeson

Ms. Bergeson, of Newport Beach, served in the State Legislature, first as an Assemblywoman, then as a State Senator. Her Senate district included Imperial County and portions of San Diego, Riverside, and Orange Counties. In the Senate, she chaired the Local Government Committee and the Select Committee on Planning for California's Growth. She authored many infrastructure and transportation bills including the consolidation of transportation agencies in Orange County (OCTA) and the creation of what is now the California Infrastructure and Economic Development Bank. She was later elected to the Orange County Board of Supervisors. In 1996, Governor Wilson appointed her as his Secretary of Child Development and Education, and she was appointed to the State Board of Education in 1997.

Mr. John Chalker

Mr. Chalker, of San Diego, was appointed to the Commission on December 14, 2005 and is currently managing director and portfolio manager for LM Capital Group, a money management firm. He previously served with Merrill Lynch & Co., from 1980 to 1995, concluding his tenure as a vice-president and senior financial consultant. He is a co-founder and member of the Alliance in Support of Airport Progress in the 21st Century and is a member of the Board of Directors for the San Diego Regional Chamber of Commerce. Mr. Chalker is a former member and chair of the Contractors State License Board.



Mr. James C. Ghielmetti

Mr. Ghielmetti, of San Francisco, is the Chief Executive Officer and Owner of Signature Properties Inc., the Northern California land development and homebuilding firm he founded in 1983. Since 1994, he has focused on the local transportation issues by chairing the Transportation Committee of the Tri-Valley Business Council. Mr. Ghielmetti was appointed to the Alameda County Transportation Authority Expenditure Plan Development Committee in 1997, the Board of Directors of the Bay Area Council in 1999, and the Governor's Commission for the 21st Century in 2000. He served on the Solutions on Sunol Coalition Leadership, a group comprised of the Tri-Valley Business Council, the Silicon Valley Manufacturing Group, the Fremont Chamber of Commerce, and the Contra Costa Council.

The Commissioners

Mr. Allen M. Lawrence

Mr. Lawrence, of Los Angeles, has been a member of the Commission since January 2000. He is the Chairman and Chief Executive Officer of Allen Lawrence & Associates, Inc., a major regional insurance brokerage firm which he founded in 1971. Mr. Lawrence is a licensed property & casualty broker and life insurance agent. He is a National Commissioner for, and serves on the Executive Committee of, the Anti-Defamation League. He is a member of the California Department of Insurance's Agents and Brokers Advisory Committee, as well as the Council of Insurance Agents & Brokers, and the Society of Insurance Counselors. Mr. Lawrence is a member of the California Trucking Association and the Southern California Contractors Association.

Mr. R. Kirk Lindsey

Mr. Lindsey, of Modesto, has been president of Brite Transport System, Inc., since 1972. He is a managing partner of B&P Bulk and a partner of P&L Properties. Mr. Lindsey is a member of the board of directors of the Stanislaus Partners in Education, a member and past president of the California Trucking Association, and a member of the Governor's Workforce Investment Board. He is also the past chairman of the local Workforce Investment Board of Stanislaus County. Mr. Lindsey is a disabled veteran of the United States Army.

Mr. Esteban E. Torres

Congressman Torres, of Los Angeles, served in the United States House of Representatives from 1983 to 1999, representing the 34th Congressional District that includes Pico Rivera, La Puente, Whittier, Montebello, and parts of East Los Angeles. During his tenure in the Congress, Torres was a member of the House Committee on Appropriations, where he served on the Subcommittee on Transportation. He also chaired the House Banking Subcommittee on Consumer Affairs and Coinage. In the late 1960's, Congressman Torres started The East Los Angeles Community Union (TELACU), a community development corporation that has grown into one of the largest anti-poverty agencies in the country. A veteran of the Korean War, Congressman Torres was appointed by President Carter in 1976 as ambassador to the United Nations Education, Scientific and Cultural Organization (UNESCO).

ISSUES FOR 2006

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Trends and Outlook for State Transportation Financing

California's state transportation program is in shambles, the victim of five years of neglect and abuse. Even as the Governor and Legislature were providing a welcome $1.3 billion infusion to transportation from Proposition 42 this year, another $1.9 billion was being delayed or diverted while the last vestige of a stable and reliable funding program was disappearing. The Proposition 42 funding was exhausted by September 2005, quickly consumed by the backlog of deferred projects. Once again, the California Transportation Commission has been forced to halt making new project allocations, pending budget action to approve the next Proposition 42 transfer or other transportation funding for 2006-07. Without such action, there will be no State Transportation Improvement Program (STIP) or Traffic Congestion Relief Program (TCRP) project allocations in 2006-07, not even to meet STIP commitments to reimburse local agencies for funds they have advanced under AB 3090 arrangements.

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Once again, the California Transportation Commission has been forced to halt making new project allocations.

Proposition 42 (2002) mandated that General Fund revenues from the sales tax on gasoline be transferred each year to the Transportation Investment Fund (TIF), which in turn is distributed among the TCRP, the STIP, and apportionments to cities and counties for local road rehabilitation. Proposition 42 also permits the Governor and Legislature to suspend the transfer each year under certain conditions, and 2005-06 was the first year for which the transfer was not suspended. The Proposition 42 transfer represents about 70% of the total sales tax on motor vehicle fuel going to transportation. The other 30% is transferred under provisions that predate Proposition 42 and is transferred directly to the Public Transportation Account (PTA)—before the General Fund receives its sales tax revenue—from which they are split between the STIP and apportionments to local transit operators. These direct transfers include the "spillover" (now about $300-400 million per year), a sales increment resulting from the last per-gallon tax increase in 1990 (about $70 million per year), and the sales tax on diesel (about $200 million per year). The spillover transfer, much like the Proposition 42 transfer, has frequently been diverted to the General Fund in recent years.

When Proposition 42 revenues were suspended in conjunction with the 2004-05 budget, $1.2 billion in revenues from tribal casino revenue bonds were offered as an alternative funding source for transportation. The bond revenue was scheduled as part of the 2004-05 budget. The bonds, however, were tied up in litigation and the revenues were rebudgeted for 2005-06 at a reduced revenue estimate of $1 billion. The State Treasurer estimated potential revenue at closer to $850 million. In any case, the bonds remain in litigation with no issuance in sight. The 2005-06 budget also saw the diversion of another $380 million in gasoline sales tax "spillover" from the Public Transportation Account to the General Fund. Other legislative actions in 2005 diverted still another $325 million in spillover scheduled for 2006-07—$200 million to the General Fund and $125 million to the Bay Area Toll Account for toll bridge seismic retrofit work.

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This year's federal transportation reauthorization act provided little relief for state programs...

State Highway Account funding for the STIP has been in decline for many years ...this was the year that this stable and reliable funding source disappeared completely.

The state transportation program reached a remarkable and disturbing milestone this year when the fund estimate for the 2006 STIP revealed that, from this time onward, there will no longer be any STIP funding coming from the State Highway Account—no funding at all from either the state or federal per-gallon fuel taxes. All State Highway Account revenues are now needed to cover state highway maintenance and operation costs and the capital costs of the State Highway Operation and Protection Program (SHOPP). For years, maintenance and rehabilitation costs have continued to rise while State Highway Account revenues have remained essentially flat. This year's federal transportation reauthorization act provided little relief for state programs—much of the federal increase was devoted to congressional earmarks, and the remaining funds were no more than forecast for the 2004 STIP. The level of State Highway Account funding for the STIP has been in decline for many years now, but this was the year that this stable and reliable funding source disappeared completely. In the 2006 fund estimate, the Commission was forced to constrain the SHOPP to the estimated level of State Highway Account revenues, which was less than the amount that the Commission had approved earlier through the needs-based SHOPP plan. Without additional revenue for the SHOPP, our ability to maintain the safety and integrity of the State highway system will become ever more severely compromised. Without the return of stable and reliable funding for the STIP, projects will be implemented only in fits and starts, with the inevitable cost and waste of resources that brings.

As recently as five years ago, the state had a transportation improvement program that was funded almost exclusively from user fees protected by the California Constitution (gasoline and diesel excise taxes and weight fees). Today, we have a program dependent entirely on motor fuel sales taxes—lacking constitutional protection and subject to the vagaries of the annual budget process. For each of the last five years, transportation funds have been taken to close the General Fund deficit. The current balance of transportation loans to the General Fund stands at $3.349 billion, and that does not include another $4.5 billion that was simply taken and never scheduled for repayment as a loan. The California Transportation Commission has been forced repeatedly to suspend making new allocations to projects from all three of the major components of the state transportation program, the STIP, the SHOPP, and the TCRP. Because of this state funding instability, regional and local agencies have also found themselves at times without access to the federal funds to which they were entitled under state law, the Regional Surface Transportation Program (RSTP) and the Congestion Mitigation and Air Quality (CMAQ) Program. Cities and counties have not been receiving the state subventions committed to them in statute for local road rehabilitation and repair.

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Compounding the problems of inadequacy and instability is a growing inflexibility in the funding that remains. With the disappearance of State Highway Account funding from the STIP and the growing prominence of Public Transportation Account funding, the capacity to add new transit projects in the 2006 STIP will probably exceed needs, while the capacity for highway projects will probably be insufficient to cover the costs of delay for projects that are already programmed.

Compounding the problems of inadequacy and instability is a growing inflexibility in the funding that remains.

Some projects in the STIP and the TCRP have been kept on schedule in the past by means of borrowing, either through the advancement of local funds for STIP and TCRP projects or through the Commission's issuance of bonds against future federal transportation fund apportionments. The capacity of local agencies to advance funds has been declining, however, as current transportation funding is cut off and as future funding is placed in greater doubt. The state's capacity to borrow against future federal funds is now severely limited by the fact that those funds are no longer available for the STIP. Meanwhile, the backlog of pavement and other rehabilitation needs on the state highway system is

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The Transportation Program in Crisis

The STIP and the SHOPP constitute the major part of the state transportation program. Together, they constitute the planned commitment of state and federal dollars to transportation projects. They are approved by the Commission and developed in cooperation with the Department of Transportation (Caltrans) and the state's regional transportation planning agencies. The STIP consists of improvements to the state highway system, the intercity rail system, and other road and transit facilities of regional significance. The SHOPP is the program for rehabilitation and safety work on the state highway system that does not involve increases in roadway capacity.

For two years, from June 2003 through June 2005, the Commission was forced to cease all funding allocations for new STIP projects and to severely restrict SHOPP allocations. The 2004 STIP, covering the five-year period from 2004-05 through 2008-09, delayed the scheduling of $5.4 billion in projects by two years or more. For 2005-06, with the infusion of funds from the Proposition 42 transfer, the Commission was able to resume STIP allocations for a three-month period, after which STIP allocations were halted again. The restriction on SHOPP allocations was loosened to allow for up to $1.8 billion in 2005-06, against a program and backlog of $2.2 billion. Needed improvements have been delayed, and the rehabilitation backlog has grown, only increasing ultimate costs. By June 2006, the Commission anticipates that there will be over $900 million in STIP and SHOPP projects that are either ready to go and placed on the shelf or that could have been ready except for the lack of funding. Over $1 billion in other scheduled STIP projects have been able to proceed only by borrowing against future STIP funds. About $490 million of that borrowing is the advancement of funding by local agencies, with a STIP commitment of repayment at a later date. Another $678 million is borrowing through State bonding against future Federal transportation funding apportionments.

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The TCRP, the other major element of the state transportation program, consists of $4.9 billion designated for 141 specific projects in the Traffic Congestion Relief Act of 2000. By law, the program was funded through the Traffic

Congestion Relief Fund (TCRF), which received $1.6 billion from the General Fund and gasoline sales tax in 2000-01 and was scheduled to receive a series of annual transfers from gasoline sales tax revenues over five years. The Commission allocates funds to the specific projects as they are ready. Since the program's inception, TCRF funds have been borrowed back for the General Fund and annual sales tax transfers have been postponed or suspended. Through 2002, the TCRP was kept intact only by using funds borrowed from the STIP. Throughout 2003 and 2004, the Commission could make no new project allocations at all. From July to September 2005, the Commission was able to allocate $584 million made available by the 2005-06 Proposition 42 transfer. But by June 2006, the Commission anticipates that another $1.2 billion in TCRP projects will be ready to go to construction but held back for lack of funding. Still another $591 million in projects are already proceeding with funds advanced by local agencies under letters of no prejudice.

Since the program's inception, TCRF funds have been borrowed back for the General Fund and annual sales tax transfers have been postponed or suspended.

The Transportation Congestion Relief Act of 2000 also created a program of local subventions to cities and counties for local road rehabilitation and repair. The TIF local road subvention program was supported in 2000-01 by a $400 million transfer from the General Fund and was to be supported in later years by a portion of the sales tax on gasoline. For 2001-02 and 2002-03, however, the Legislature postponed the sales tax transfers and instead funded the program with $293 million in transfers from the State Highway Account that would otherwise have supported the STIP. For 2003-04 and 2004-05, trailer bills to the Budget Act suspended the TIF local road subvention altogether, eliminating $424 million for local road rehabilitation and repair. For 2005-06, the program received $254 million from the Proposition 42 transfer. But for the next two years, 2006-07 and 2007-08, the TIF local road subvention program is scheduled to receive nothing from the Proposition 42 transfers, even if they take place—a payback scheduled in statute for the subventions funded from the State Highway Account in 2001-02 and 2002-03. Of the $424 million lost from prior suspensions, $192 million is scheduled to be repaid by tribal gaming bond proceeds and the other $232 million as a loan repayment from the General Fund by way of the Transportation Deferred Investment Fund in 2007-08. Under Proposition 42 and current statutes, the TIF local subventions would resume from 40% of the annual Proposition 42 transfer in 2008-09.

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Under state law, the RSTP and CMAQ programs are supported by federal program apportionments to the state. The state apportions the funds by formula to regional agencies for eligible projects. Ordinarily, regional and local agencies have access to the federal funds on a reimbursement basis whenever eligible projects are ready. However, access to federal transportation apportionments requires the use of obligational authority (OA) distributed by the federal government to the states. In 2003, Caltrans needed so much OA to support STIP and SHOPP projects already under construction that not enough was left to obligate new federal funding for RSTP and CMAQ projects. In effect, the state borrowed $200 million in local OA. That local OA is now scheduled for restoration over four years, beginning in 2006-07.

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Revenues Lost

The near elimination of the state transportation construction program over two years, July 2003 through June 2005, followed by a brief spurt of high activity from July to September 2005, followed again by another moratorium on project allocations, is indicative of the basic structural problem with California's system of transportation financing. Until a few years ago, the state's transportation program relied almost exclusively on user fees in the form of gasoline taxes and commercial vehicle weight fees. Article XIX of the California Constitution built a firewall around these revenues, protecting them from diversion for other purposes. In general, this provided a reliable basis for developing multi-year programs, and it could reasonably be assumed that funding would be available as projects were delivered. To be sure, the program went through cycles as funding fell behind delivery or delivery behind funding. The buying power of the revenues declined over time as cars became more fuel efficient, as project costs increased with inflation, and as gasoline taxes were seldom increased to keep pace. Sometimes earthquakes and other natural disasters diverted dollars for unplanned work. Changes in federal law or policy might also bring about unexpected changes.

To some extent, these factors are still at work. However, their effects on the state transportation program all pale by comparison to the impacts of state budget actions in recent years. The problems began soon after the enactment of the Transportation Congestion Relief Act of 2000 (AB 2928). That act not only made promises and commitments that have

not been kept, it made the entire state transportation program subject to the annual budget process. The constitutional firewall that had protected transportation funding for decades vanished in just three years.

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Transportation projects usually take several years to bring to fruition. Planning and environmental studies, design work, permits and mitigation strategies, and right-of-way acquisition all must precede construction. An effective transportation program cannot survive when resources are suddenly advanced and withdrawn on an annual basis. Further compounding the problem of funding instability is the instability inherent in the structure of the TCRP. Many of its 141 designated projects were not vetted through the transportation planning and programming process. Many projects were not fully funded by the TCRP, leading either to a skewing of other funding priorities or the wasting of resources.

Further compounding the problem of funding instability is the instability inherent in the structure of the TCRP.

Transportation Congestion Relief Act of 2000

The Traffic Congestion Relief (TCR) Act of 2000 committed $4.9 billion to the 141 designated projects of the TCRP, with funding originally to be provided through 2005-06, later extended to 2007-08. All $4.9 billion is funded through the TCRF created for that purpose. The TCR Act provided that the TCRF would be funded with:

- $1.5 billion from the General Fund in 2000-01 (including $400 million appropriated outside the TCRP for the local road maintenance and repair subvention program and another $5 million appropriated for high speed rail studies).
- $500 million from the state sales tax on gasoline in 2000-01.
- $3.314 billion to be transferred from the TIF, at the rate of $678 million per year for five years, originally from 2001-02 through 2005-06 and now from 2003-04 through 2007-08.

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The TCR Act created the TIF to receive transfers of General Fund sales tax revenues attributable to gasoline sales. It provided that each quarter, a fixed amount would be transferred to the TCRF, with the balance to be divided by formula, with 40% to cities and counties for local road maintenance and repairs, 40% to the STIP, and 20% to the

PTA. Of the 20% for the PTA, half would augment the State Transit Assistance (STA) program, which is distributed by formula to the state's transit operators, and half would augment STIP revenues. The TIF and the transfers to the TCRF were originally to sunset in June 2006.

The First Year: 2001-02 Budget and AB 438

The erosion of this major new source of transportation funding began almost immediately.

The erosion of this major new source of transportation funding began almost immediately. AB 438, the transportation trailer bill to the 2001-02 Budget Act, borrowed or delayed over $4.6 billion in transportation funds, including $1.16 billion in STIP funding either borrowed directly or used to backfill for TCR Act commitments. The General Fund was in trouble, and the stated intent was to borrow the transportation funds without delaying transportation projects. At the time, the three transportation funds (State Highway Account, PTA, and TCRF) held cash balances that were more than enough to meet the short-term cash needs of active STIP and TCRP projects. The TCRP had been jump started in 2000-01 with $1.6 billion, even though most TCRP expenditures were not expected for several years. For the STIP, program funding had been running ahead of program delivery since 1998. That was primarily because of circumstances peculiar to the 1998 and 2000 STIPs that made new funding capacity available earlier than it could be expended. For these reasons, the initial General Fund borrowing could be accommodated without delaying current STIP or TCRP projects. The borrowing, however, did mean that projects added in the 2002 STIP would be delayed by several years.

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AB 438 accomplished its borrowing through the following specific actions:

- It suspended implementation of the TIF for two years so that the state sales tax on gasoline would be dedicated to transportation from 2003-04 through 2007-08 rather than from 2001-02 through 2005-06. This retained about $2.35 billion for the General Fund in 2001-02 and 2002-03.
- It continued funding for the TIF local road subvention program for 2001-02 and 2002-03, funding it with $293 million from the State Highway Account. The Account was to be repaid by receiving the 80% rather than 40% of the TIF balance in 2006-07 and 2007-08. This meant that the TIF subvention program would not be funded in the latter two years.

- It authorized money in the TCRF to be loaned to the General Fund through the annual budget act, with loans to be repaid by June 2006. The 2001-02 budget transferred $238 million. The 2002-03 budget transferred another $1.145 billion, for a total of $1.383 billion. The first repayment, $183 million, was made through the 2004-05 budget. In 2004, tribal gaming bond revenues were dedicated to repaying the $1.2 billion balance, plus interest. Legislation in 2005 eliminated the June 2006 repayment date and absolved the General Fund of responsibility for repayment, making the debt payable only from the gaming bonds, now tied up in litigation.
- To backfill for the TCRP, it authorized loans of $275 million from the PTA and $180 million from the State Highway Account to the TCRF, with State Highway Account loans to be repaid by June 2007 and PTA loans by June 2008. The 2001-02 Budget implemented loans of $180 million from the PTA and $180 million from the State Highway Account. The 2002-03 budget added the other $95 million from the PTA.

<u>The Second Year: 2002-03 Budget and SB 1834</u>

The Commission took into account all of the transportation fund borrowing authorized by the AB 438 TCR refinancing package when it adopted the 2002 STIP fund estimate. However SB 1834, the transportation trailer bill for the 2002-03 Budget Act, authorized the borrowing of another $647 million to the fill the General Fund deficit, again with the stated intent of doing so without delaying projects. Because SB 1834 and the budget had not taken the 2002 STIP (adopted in April 2002) into account, this new borrowing meant new project delays, despite the statement of intent. Among SB 1834's specific provisions:

- It increased the authority to make budget loans from the State Highway Account to the TCRF from $180 million to $654 million. The $474 million increase was subject to repayment by the TCRF, with interest to be covered by the General Fund, by June 2007. The $474 million additional loan was included in the 2002-03 budget. After deducting $90 million to cover Caltrans expenditures of State Highway Account funds on TCRP projects, the loan balance stood at $564 million. With repayments of $100 million in the 2003-04 budget and $20 million in the 2004-05 budget, plus $21 million in accrued interest, the loan balance now stands at $465

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million. In 2004, a portion of tribal gaming bond revenues to the TCRF was dedicated to repayment of this loan. The loan remains due from the TCRF to the State Highway Account by June 2007, whether or not tribal gaming bond revenues are achieved. In the absence of gaming bond revenues, this repayment may come from the Proposition 42 transfer for 2006-07.

- It authorized the Director of Finance, outside the budget, to order a direct loan of $173 million from the State Highway Account to the General Fund, under the terms of Article XIX of the California Constitution. A loan in this amount was made in 2002-03 and repaid in 2003-04.

One provision of Proposition 42 that went into effect for 2003-04 was a restriction on suspending transfers to the TIF.

Proposition 42 (2002)

Proposition 42, a legislative constitutional amendment approved by 69% of the voters in March 2002, removed the June 2008 sunset date for the TIF and permanently dedicated the revenues from the sales tax on gasoline to the purposes already identified in statute. The prior statute, including the $4.9 billion for the TCRP, was continued through 2007-08. Then, beginning with 2008-09, no further funding would be transferred to the TCRF for the TCRP-designated projects, and all TIF revenues would be divided by formula, with 40% for local road subventions to cities and counties, 40% for the STIP, and 20% for transfer to the PTA. With half of the PTA augmenting the STIP, one-half of all TIF revenues would accrue to the STIP.

The protections of Proposition 42 were quickly set aside in 2003-04, the first year they came into effect.

One provision of Proposition 42 that went into effect for 2003-04 was a restriction on suspending transfers to the TIF. It required a finding by the Governor and the enactment of a bill passed by a two-thirds vote of both houses of the Legislature to suspend or reduce transfers for a fiscal year. Another provision permitted the Legislature, beginning in 2008-09, to change the percentages allotted to each purpose (local subventions, STIP, and PTA), but precluded any statute from redirecting TIF funds to any other purpose, including the TCRP.

The Third Year: 2003-04 Budget, SB 1750, and SB 1751

The protections of Proposition 42 were quickly set aside in 2003-04, the first year they came into effect. SB 1750 partially suspended the 2003-04 General Fund transfer to the TIF, limiting it to $289 million for transfer to the TCRF. The balance, estimated at $856 million, was retained for the

General Fund. Of the $289 million transferred, SB 1751 appropriated $189 million for the TCRP and directed that $100 million be transferred to the State Highway Account for expenditure on the STIP as a partial repayment of loans made to the TCRF by the State Highway Account under SB 1834 (2002).

The clear message was that Proposition 42 and the TIF, as great as their promise was, could not be relied upon for long-term support ...

SB 1751 also created the Transportation Deferred Investment Fund (TDIF) and specified that an amount equal to the suspended portion of the 2003-04 TIF transfer, with interest, be transferred to the TDIF by June 2009, with revenue to the TDIF to be available for the same purposes for which the suspended TIF transfer would have been available. The purpose of this was to treat the suspension as a loan, with the repayment not protected by Proposition 42. The clear message was that Proposition 42 and the TIF, as great as their promise was, could not be relied upon for long-term support of the state transportation program.

The Fourth Year: 2004-05 Budget, SB 1098, and SB 1099

That message was confirmed the following year when the Legislature enacted SB 1099 to suspend the Proposition 42 TIF transfer for 2004-05...

That message was confirmed the following year when the Legislature enacted SB 1099 to suspend the Proposition 42 TIF transfer for 2004-05, this time in full, retaining $1.138 billion for the General Fund. A companion bill, SB 1098, treated the suspension as a loan, specifying that an amount equal to the suspended 2004-05 TIF transfer, with interest, be transferred from the General Fund to the TDIF by June 2008, with the TDIF revenue to be available for the same purposes for which the 2004-05 suspended TIF transfer would have been available.

The 2004-05 budget did provide $183 million to repay the TCRF for loans to the General Fund. Of this amount, $43 million was transferred from the General Fund and $140 million was taken from sales tax revenues that would otherwise have gone to the Public Transportation Account (as part of the “spillover” formula). That reduced STIP revenues by $70 million and the State Transit Assistance (STA) program for local transit operators by $70 million. Of the $183 million loan repayment to the TCRF, the budget directed that $163 million be retained for TCRP projects and that $20 million transferred to the State Highway Account for partial repayment of State Highway Account loans to the TCRF.

Tribal Gaming Bonds: AB 687 (2004)

A potential substitute source of loan repayments was enacted through AB 687 (2004), which ratified several tribal gaming revenue compacts and provided authority to bond against future state revenues from those and any additional tribal-state compacts, with up to $1.5 billion in proceeds to be dedicated to the repayment of transportation program loans to the General Fund. AB 687 was purported to be a solution for transportation funding in 2004-05, in effect a replacement for the suspended Proposition 42 transfer. In reality, however, AB 687 has not yet provided any funding and has only added another level of complexity and further uncertainty to the transportation funding picture. It is not clear when or over what period of time this funding may become available, and it is not yet clear what effect potential procedural constraints may have on making the funds available, if and when bonds are sold.

...AB 687 has not yet provided any funding and has only added another level of complexity and further uncertainty to the transportation funding picture.

The sale of bonds has been delayed by litigation, including a lawsuit filed in September 2004 that challenged the ratification of the compacts through urgency legislation. When the litigation is resolved, other issues will remain. Though the language of AB 687 seemed to imply that $1.2 billion would be made available immediately, the 2005-06 budget reduced the estimate of proceeds to $1.0 billion. The State Treasurer has indicated that bond proceeds would likely be closer to $850 million. In any case, the amount and timing of bond proceeds will depend on several unknowns:

The sale of bonds has been delayed by litigation...

- The resolution of the legal challenge to the ratification of the compacts.
- The timing and magnitude of the underlying gaming revenues.
- The cost of credit enhancements, such as bond insurance. The State Treasurer indicates that this cost is likely to be high because of the unwillingness of the sovereign tribes to make their financial operations a public record.

...the amount and timing of bond proceeds will depend on several unknowns...

The authorized bond sale might not occur at one time, but could consist of a series of sales. AB 687 even included a provision for compact revenues to be applied directly to transportation if bond sales are determined not to be feasible.

The $1.5 billion in authorizations for transportation loan repayments are laid out in priority order by AB 687, with figures updated by SB 62 (2005):

- The first $1.222 billion would go to the TCRF to repay its loan to the General Fund. This amount would be available for use in the following priority order:
  1. $465 million to repay the State Highway Account for its loan to the TCRF. These funds would accrue to the STIP, and this loan repayment is otherwise due by June 2007.
  2. $290 million for allocation to TCRP projects.
  3. $384 million to be split with equal priority, with:
     - Up to $192 million to the PTA to repay part of its $275 million loan to the TCRF. These funds would accrue to the STIP, and this repayment is due by June 2008.
     - Up to $192 million to the TIF local streets and roads program, to pay the amount due from the TDIF for that program in 2008-09 as a result of the TIF suspension for 2003-04.
  4. $83 million to the PTA to repay the remainder of its loan to the TCRF. These funds would accrue to the STIP, and this loan repayment is otherwise due by June 2007.
  5. From any portion of the $1.222 billion that might remain (e.g., because the higher priority loan repayments are made earlier from other funding), funding of the amount due to the STA program in 2008-09 as a result of the TIF suspension for 2003-04 (about $47 million).
- The remainder of the $1.5 billion (no more than $278 million, unless higher priority loan repayments are made from other funding), would go to the TDIF for payment toward the amount due in 2007-08 as a result of the TIF suspension in 2004-05. The total TDIF due in 2007-08 is about $1.138 billion (plus interest).
- Any remaining amount would go to the TDIF for payment toward the remainder due in 2008-09 as a result of the TIF suspension for 2003-04. This total is about $909 million (plus interest), including the amounts identified in items 3 and 5 above.

AB 687 further mandated that the bonds be exempt, as much as possible, from federal taxation of interest. That should effectively preclude the use of bond proceeds to cover past expenditures, for example by liquidating TCRP letters of no prejudice or STIP cash reimbursements due under AB 3090 arrangements. It would further require that the projects to be funded from the proceeds of a bond sale be identified in advance. That may introduce further administrative complexity, especially with regard to the TIF local streets and roads program and the STA program for local transit.

The Fifth Year: 2005-06 Budget and SB 62

The last year saw some relief as the first full Proposition 42 transfer was made...

The last year saw some relief as the first full Proposition 42 transfer was made, providing the full $1.313 billion as scheduled for 2005-06. The scheduled repayment of loans through tribal gaming bond proceeds, however, was further delayed by litigation, and the 2005-06 budget reduced the estimate of proceeds from $1.2 billion to $1.0 billion. SB 62, the trailer bill to the budget, eliminated $380 million in spillover transfers from the PTA to the General Fund for 2005-06 and diverted another $200 million for 2006-07. In addition, SB 66 diverted still another $125 million in spillover to the Bay Area Toll Account as a part of the revised funding plan for the Toll Bridge Seismic Retrofit Program. Half of the amount of spillover diverted represents a loss to the STIP, and the other half is a loss to the State Transit Assistance program of formula apportionments to transit operators.

Summary of Scheduled Transfers and Loan Repayments

The following table summarizes the annual Proposition 42 TIF transfers and loan repayments as they are now scheduled, not taking any tribal casino bond revenue into account. The table includes the original General Fund transfer from 2000-01.

Scheduled Prop 42 Transfers and Loan Repayments
($ millions)

	TCRP	STIP	Loc Rds	STA	Total
Prior Years	$1,051	-$1,132	$ 693	$ 0	**$ 612**
2003-04	189	100	0	0	**289**
2004-05	163	20	0	0	**183**
2005-06	678	318	254	64	**1,313**
2006-07	213	1,098	0	70	**1,381**
2007-08	1,005	1,332	232	143	**2,713**
2008-09	389	1,005	804	201	**2,399**
2009-10	0	806	645	161	**1,612**
2010-11	0	847	678	169	**1,694**
Unscheduled	1,222	0	0	0	**1,222**
Total	**$4,910**	**$4,394**	**$3,306**	**$ 809**	**$12,196**

The $1.222 billion unscheduled TCRP funding in this table represents the loan repayment to the TCRF that is now designated for repayment by tribal gaming bond revenues. The 2006 STIP fund estimate assumed that $1 billion in tribal gaming bond revenues would be available by the end of 2005-06, with $290 million going to the TCRP, $465 million to the STIP as early repayment of the State Highway Account loan due in 2006-07, $122.5 million to the STIP as early repayment of the PTA loan due in 2007-08, and $122.5 million to the local road subvention program as an advance payment of the amount due in 2008-09. Otherwise, the numbers in this table are consistent with the adopted fund estimate. The figures in the table include the repayment of prior Proposition 42 suspensions—$1.259 billion in 2007-08 and $868 million in 2008-09.

Proposition 42 transfers are not the only dollars being diverted...

Public Transportation Account Spillover Transfers

Proposition 42 transfers are not the only dollars being diverted from the transportation program. Since 2003-04, annual budgets have diverted $1.046 billion in "spillover" dollars from the PTA to the General Fund and other purposes. Without the diversions, half of these funds would have been available for the STIP for rail and transit projects. The other half would have gone to the State Transit Assistance program, under which the State Controller apportions funds by formula to the state's public transit operators.

PTA Spillover Transfers and Diversions
($1,000's)

	PTA Transfer	Diversion	Total
2003-04	$1,225	$88,450	$88,675
2004-05	0	253,208	253,208
2005-06	0	380,480	380,480
2006-07	8,279	325,000	333,279
Total	**$9,504**	**$1,046,140**	**$1,055,644**

The spillover is a statutory provision that dates back to 1971 when the state sales tax was first extended to gasoline. At that time, the Transportation Development Act extended the sales tax to gasoline and simultaneously reduced the state sales tax by ¼ cent and created a new ¼-cent sales tax that went to county local transportation funds, primarily for local transit. In concept, the extension of the sales tax to gasoline was supposed to go to transportation, with the gasoline sales tax revenue just compensating for the shift of the ¼ cent from the state General Fund to local transportation funds. In fact, the gasoline sales tax generally exceeded the ¼ cent going to local transportation funds, and it could exceed them by more when the ratio of gasoline sales-to-total sales grew. So the Legislature included a provision in the law dedicating any state revenues resulting from this tax change to transportation purposes. This was the spillover. Spillover funds were transferred to the Transportation Planning Account, later redesignated the Transportation Planning and Development Account, and finally renamed the Public Transportation Account (PTA).

...the Legislature has amended the statutes for every year from 2001-02 through 2006-07 to divert the spillover to other purposes.

In 1990, Proposition 116 enacted an initiative statute designating the PTA as a trust fund. It further specified that provisions of statute governing its purposes and the sales tax transfers to the Account—including the spillover—were not to be changed except by a two-thirds vote of each house of the Legislature, and then only to further the purposes of the statutes as they were amended by Proposition 116. Nevertheless, the Legislature has amended the statutes for every year from 2001-02 through 2006-07 to divert the spillover to other purposes.

The PTA spillover is not a transfer from the General Fund. Under Section 7101 of the Revenue and Taxation Code, sales tax revenues are deposited in the Retail Sales Tax Fund. Section 7102 specifies transfers to be made from the Retail Sales Tax Fund. Section 7102(a) specifies various amounts to be transferred off the top, including three separate transfers to the PTA:

- Section 7102(a)(1) -- The spillover, as described above.
- Section 7102(a)(2) -- The increase in the sales tax derived from the increase in the per-gallon gasoline tax enacted in 1989.
- Section 7102(a)(3) -- The sales tax collected on diesel fuel.

Section 7102(b) then specifies that the balance remaining after the transfers in Section 7102(a) shall be transferred to the General Fund. Section 7104 specifies, incidentally, that the portion of the transfer to the General Fund that is attributable to revenue collected from the sale of gasoline is to be transferred to the TIF (Proposition 42). Thus the Proposition 42 transfer and the spillover and other PTA transfers are not duplicative, but complementary. A decrease in the spillover should increase the TIF transfer by the same amount; an increase in the spillover should reduce it.

...the Commission has responded to the diversion and loss of transportation funds by suspending new allocations, by monitoring cash flow closely, by encouraging local agencies to advance local funding for projects where they could...and by...delaying over $5.4 billion in projects by two years or more.

The Commission's Response

Over the past three years, the Commission has responded to the diversion and loss of transportation funds by suspending new allocations, by monitoring cash flow closely, by encouraging local agencies to advance local funding for projects where they could, by bonding against future federal transportation apportionments to fund a few large projects, and by reprogramming projects in the 2004 STIP, delaying over $5.4 billion in projects by two years or more.

- In December 2002, the Commission suspended allocations to all STIP, TCRP, and SHOPP projects except SHOPP projects for emergency repair, seismic retrofitting, and traffic safety.
- From April to June 2003, the Commission temporarily resumed STIP and SHOPP allocations, following an allocation plan for rationing programmed funding adopted in April. During those months, the Commission approved allocations to $1 billion of the $1.4 billion in projects that were ready to go.
- For 2003-04, the Commission once again suspended all STIP and SHOPP allocations except SHOPP projects for emergency repair, seismic retrofitting, and traffic safety. Allocations for other SHOPP projects were resumed on a limited basis in January 2004. For all of 2003-04, however, the Commission approved no new STIP project

allocations and $800 million in SHOPP, as compared with $1.3 billion programmed.

- For 2004-05, the Commission renewed the suspension of all STIP and SHOPP allocations, except for emergency and safety projects and projects funded from federal Transportation Enhancement (TE) funds, which were now included in the STIP. Even the repayment of AB 3090 cash reimbursements was withheld. In January 2005, the Commission resumed making other allocations on a very limited basis: only the highest priority SHOPP projects, $17.5 million in AB 3090 cash reimbursements, $12.1 million in rail and local bridge rehabilitation work. For all of 2004-05, the Commission approved project allocations of about $900 million, as compared with $1.5 billion programmed—and this was after the 2004 STIP had reduced 2004-05 STIP project programming to about $155 million.

- For 2005-06, the Commission resumed STIP, SHOPP, and TCRP allocations, following the adoption of allocation plans adopted for the STIP and SHOPP in June and for the TCRP in July. After September, the Commission halted allocations from the STIP and TCRP again, having allocated about $900 million for the STIP (out of $1.5 billion programmed) projects and $578 million for the TCRP.

- The Commission has approved $596 million in STIP AB 3090 arrangements, under which a local agency advances a project with its own funds and in return receives programming either for cash reimbursement or for a replacement project in a later year.

- The Commission approved the issuance of Grant Anticipation Revenue (GARVEE) bonds, secured by future Federal transportation apportionments, to cover $658 million in costs for eight major STIP projects. The bond issuance was approved in January 2004.

- During 2003, the Commission approved $269 million in TCRP letters of no prejudice (LONPs). Under an LONP, a local agency implements a TCRP project with its own funds, retaining the option to claim the state TCRP funds dedicated for the project when and if they later become available. In January 2004, the Commission suspended approving new LONPs, given the uncertainties of future TCRP funding. In January 2005, the Commission resumed approving LONPs, using this year's

Proposition 42 transfer to pay back $102 million in LONPs for completed projects and approving $424 million in new LONPs.

- In August 2004, the Commission adopted the 2004 STIP, which added two new years (out to 2008-09) with no new funding. The new STIP reprogrammed $5.4 billion in projects carried forward from the 2002 STIP, delaying them by an average of two years. In accordance with statute, the fund estimate on which the 2004 STIP was based assumed that TIF transfers would proceed as scheduled, without suspension, and that all prior loans would be repaid as scheduled.
- The Commission, together with the Department, continues to monitor the demand and availability of cash flow for STIP, the SHOPP, and the TCRP.

Under existing law, the future of transportation funding in California now depends almost entirely on the actions of the Governor and Legislature with regard to the annual Proposition 42 transfers, the annual PTA "spillover" transfers, and the repayment of outstanding loans.

Future Funding Outlook

Under existing law, the future of transportation funding in California now depends almost entirely on the actions of the Governor and Legislature with regard to the annual Proposition 42 transfers, the annual PTA spillover transfers, and the repayment of outstanding loans. Closely tied to the repayment of loans is the resolution of the legality of the tribal gaming bonds and the sale of the bonds. With both the legality of the compact ratifications and the economic viability of the bonds in doubt, it is uncertain when and how much will be available from this source to repay existing loans. Most troubling is the uncertainty even as to when these questions will be resolved.

One prior area of uncertainty was lifted this year with the enactment of the new federal authorization act, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). It extended federal authorizations through 2008-09, providing $182 billion in highway funds nationwide over a five-year period, about $17.8 billion for California. With deductions for local programs and congressional earmarks, the amount available for the STIP and SHOPP is roughly the same as the amount assumed in the 2004 STIP fund estimate.

With all State Highway Account revenues now needed to support the SHOPP and maintenance and operations costs, the STIP is now entirely dependent on sales tax revenues and loan repayments.

With all State Highway Account revenues now needed to support the SHOPP and maintenance and operations costs, the STIP is now entirely dependent on sales tax revenues and loan repayments. Under the California Constitution, as amended by Proposition 42, gasoline sales tax revenues are transferred from the General Fund to the TIF to support both the TCRP and the STIP, as well as local road subventions and the State Transit Assistance program. Other statutes provide for the transfer of sales taxes collected on gasoline and diesel fuel directly from the Retail Sales Tax Fund to the PTA, which was established as a trust fund for planning and transit purposes by Proposition 116 (1990). Over each of the last five years, however, scheduled transfers to the TIF and PTA have been postponed, suspended, or diverted to backfill for General Fund deficits.

If these transfers and loan repayments are not all made as scheduled, projects in the STIP will not be funded.

By law, each STIP fund estimate is adopted on the basis of revenues in existing law. The 2006 STIP fund estimate (adopted in September 2005) assumed that Proposition 42 TIF transfers and PTA transfers will be made each year and that outstanding loans will be repaid on schedule. This fund estimate covers the five-year period from 2006-07 through 2010-11. If these transfers and loan repayments are not all made as scheduled, projects in the STIP will not be funded.

In deriving estimates of annual allocation capacity, the fund estimate further assumed that STIP project allocations could be made each year with reliance on the availability of cash in the following years to complete the projects. However, with State Highway Account dollars no longer available, with a history of budgetary diversions of sales tax dollars away from transportation, with a lack of constitutional protection for transportation funding, and with no real commitment of future transportation dollars from the Governor and Legislature, the Commission will need to restrict future STIP allocations further from the amounts programmed in the 2006 STIP, scheduled for adoption in April 2006. Under the program structure set in place by SB 45 (1997), the STIP was intended to be "a resource management document to assist the state and local entities to plan and implement transportation improvements and to utilize available resources in a cost-effective manner." That vision has been lost. There is a real danger that the STIP may be reduced to little more than an exercise in fantasy—a program based on phantom funding.

There is a real danger that the STIP may be reduced to little more than an exercise in fantasy—a program based on phantom funding.

<u>Funding and Allocation Outlook for 2006</u>

For the remainder of 2005-06 and 2006-07, the ability of the Commission to allocate to STIP or TCRP projects will be almost entirely dependent on the action of the Governor and the Legislature in approving or suspending the scheduled TIF transfer under Proposition 42. The STIP could also receive a relatively small amount of funding from the spillover and other PTA transfers, and both programs could receive additional funding from tribal gaming bond revenues, when and if they are realized.

For 2006-07, the Proposition 42 TIF transfer is scheduled to provide (based on the fund estimate projection of $1.380 billion):

- $678 million to the Traffic Congestion Relief Fund. This amount could be available either for TCRP projects or to repay the debts of the TCRF to the State Highway Account ($465 million) or the PTA ($275 million). AB 687 (2004) made both of those debts payable from tribal gaming bond revenues. However, the State Highway Account debt is due for repayment by the end of 2006-07 and should be repaid from this year's Proposition 42 transfer, given the cloud over tribal gaming bond revenues.

For the remainder of 2005-06 and 2006-07, the ability of the Commission to allocate to STIP or TCRP projects will be almost entirely dependent on the action of the Governor and the Legislature…

- $562 million (80% of the balance after deducting the fixed amount of $678 million) for STIP projects.
- $70 million (10%) to the PTA for the STIP.
- $70 million (10%) to the PTA for the State Transit Assistance program.

If tribal gaming bonds were authorized, their proceeds would be distributed as described in SB 62 (2005) and listed earlier in this chapter. If the proceeds were $1 billion, as assumed in the 2005-06 budget, they would provide:

- $465 million to the State Highway Account for the STIP, to repay the loan due June 30, 2007.
- $290 million to the TCRP.
- $245 million to be split equally between:
    1. $122.5 million to the PTA to repay part of its $275 million loan to the TCRF. These funds would accrue to the STIP, and this repayment is due by June 2008.
    2. $122.5 million to the TIF local streets and roads program, to pay part of the amount due from the TDIF for that program in 2008-09 as a result of the Proposition 42 TIF suspension for 2003-04.

If tribal gaming bonds were authorized after the $465 million State Highway Account loan had been repaid from the Proposition 42 transfer, then $1 billion in bond proceeds would provide:

- $290 million to the TCRP.
- $275 million to the PTA to repay its loan to the TCRF. These funds would accrue to the STIP.
- $192 million to the TIF local streets and roads program, to pay the amount due from the TDIF in 2008-09 as a result of the Proposition 42 TIF suspension for 2003-04.
- $47 million to State Transit Assistance program, to pay the amount due from the TDIF in 2008-09 as a result of the Proposition 42 suspension in 2003-04.
- The balance of $196 million to the TDIF for payment toward the amount due in 2007-08 as a result of the TIF suspension in 2004-05. This balance (up to $678 million) would go entirely to the TCRP.

ISSUES FOR 2006

Structural Reform of Transportation Finance

[The] ongoing budget crisis has exposed the need and perhaps created the opportunity for a major restructuring of transportation finance in California...

The continuing instability and inadequacy of California's transportation funding over the past five years is part of the larger structural imbalance in the state budget. This ongoing budget crisis has exposed the need and perhaps created the opportunity for a major restructuring of transportation finance in California—one that is stable, reliable, flexible, and provides an adequate base of revenue dedicated to the preservation, operation, and improvement of the state's transportation infrastructure. That restructuring should take into account both the potential for alternative sources of transportation revenue and the state's transportation needs and priorities.

<u>Need for Restructuring of Transportation Finance</u>

The volatility and poor financial condition of the state transportation program illustrate how untenable California's current transportation financial structure has become...

The volatility and poor financial condition of the state transportation program illustrate how untenable California's current transportation financial structure has become for the long-term maintenance and development of the state's transportation system. The Traffic Congestion Relief Act of 2000 and Proposition 42, despite the promise they held when enacted, simply have not worked. A transportation program that depends on such volatile and unreliable funding sources can only be a dysfunctional program. Even as the state's economic fortunes improve, the provisions of Proposition 42 dedicating gasoline sales tax revenues for transportation cannot provide the reliability needed to plan and implement projects that require years to develop. The state's overall needs in areas other than transportation are simply too great to sustain an effective transportation program under the current tax structure.

In hindsight, it is evident that the diversion of a portion of the state sales tax to transportation under the Traffic Congestion Relief Act and Proposition 42 contributed to the structural deficit in the state budget. To remedy that deficit will require:

- an increase in the general sales tax or other taxes to make up for the dedication to transportation;
- a reduction in nontransportation programs to make up for the dedication to transportation;

- a reduction in transportation investment to return the sales tax to nontransportation programs; or
- the establishment of an alternative financial structure for transportation with new revenues while returning the sales tax to the General Fund for nontransportation programs.

Borrowing is not a substitute for new revenue.

The postponements, loans, and suspensions of the last five years all reflect the third option—reducing transportation investment, even with a pledge that the funds will be returned at a later date. Without an expansion of the state transportation revenue base, making future Proposition 42 transfers and transportation loan repayments would almost surely mean choosing between the first two options—increasing other taxes or cutting other programs, a most unpalatable choice for the Legislature.

Bonding and Revenue

Borrowing is not a substitute for new revenue. Borrowing against a dedicated revenue source, as is done by many California counties with local transportation sales taxes, can be an effective tool for matching cash flow to project delivery. The same can be said for borrowing against tolls or other stable and reliable user fees. However, borrowing is effective only when matched against the delivery of priority projects and when the revenue source backing the borrowing is fully dedicated to transportation. The tradeoff then is between financing transportation by borrowing and financing on a pay-as-you-go basis, not a tradeoff between transportation and other programs.

The Legislature has considered, and this year will again consider, including transportation funding in a major infrastructure general obligation bond.

The Legislature has considered, and this year will again consider, including transportation funding in a major infrastructure general obligation bond. SB 1024 (Perata), for example, would provide one-time funding of $1.5 billion for the State Transportation Improvement Program (STIP) and $2.3 billion for "Proposition 42 Restoration." Such a proposal has merit, especially as a means to repay past borrowing from transportation funds, but it is not a substitute for the long-term stable revenue needed to sustain an effective state transportation program while closing the structural deficit. At most, it dedicates a finite stream of General Fund revenue by pledging it for bond debt service. But at best, that leads to one of the first two options described above—a need to raise other taxes or reduce other programs to support the transportation debt. At worst, it can create a "boom and bust" cycle in transportation funding—a period when funds are suddenly plentiful, followed by a period of underfunding when the proceeds are spent and perhaps subsequent legislation diverts other transportation funds to repay the debt.

When Proposition 192 suddenly released an infusion of cash...priorities were skewed as projects were often selected on the basis of their ability to expend funds quickly rather than on [the basis] of need.

This was the lesson from Proposition 192 (1996), a $2 billion general obligation bond measure for seismic retrofit work, including $650 million for toll bridges and $1.35 billion for the Phase 2 seismic retrofit program on other state highways and bridges. The 1994 STIP had added no new programming and the 1996 STIP had actually deleted over $500 million in projects in anticipation of the need to provide funding for the seismic retrofit work. When Proposition 192 suddenly released an infusion of cash for STIP work, it could not be put to work as effectively as it could have been with time for planning, programming, and project development work. Project priorities were skewed as projects were often selected on the basis of their ability to expend funds quickly rather than on need. The cash infusion meant high cash balances in the State Highway Account that masked the underlying inadequacy of revenues. In 2001-02 and 2002-03, incidentally, these balances became a target, as $1.177 billion was borrowed from the State Highway Account for the General Fund and to meet Traffic Congestion Relief Program (TCRP) commitments, which in turn led to cuts and delays in the STIP projects that had been programmed for those funds.

There are indications that the Governor intends to propose a major infrastructure bonding program...

There are indications that the Governor intends to propose a major infrastructure bonding program of his own this year, to include transportation. While no details of such a proposal have been released, the Commission makes the same general caution. Bonding is a financing mechanism, not a funding source. Some of the critical questions to ask for any transportation bonding proposal are:

Bonding is a financing mechanism, not a funding source.

- What is the underlying revenue source for the borrowing? Is it new revenue or a diversion of revenue from other programs or sources? Is the revenue source stable, reliable, and flexible?
- What is the proposed use of the borrowed funds? Is it to make permanent or long-term improvements with long-term benefits? Or is it to preserve, protect, or operate existing infrastructure?

- Are the size, schedule, benefits, and costs of the projects to be financed sufficient to merit the costs of borrowing as opposed to financing on a pay-as-you-go basis?

- How are project or program needs identified, and how are projects selected? Are the bonds focused on meeting high priority long-term needs with long-term benefits? Is the program equitable in terms of matching the revenue source to benefits received? Are the projects selected on the basis of an open planning and programming process, or are they the product of closed and partisan decision-making?

...California needs a transportation financial structure that guarantees a stable, reliable, flexible, and adequate source of funding across the years...

Meeting State Transportation Revenue Needs

In order to meet the state's growing needs for maintaining, rebuilding, and improving transportation, California needs a transportation financial structure that guarantees a stable, reliable, flexible, and adequate source of funding across the years, preferably a structure under which revenues can rise with construction costs and needs. Historically, California's state transportation program has relied most heavily on fuel taxes and commercial vehicle weight fees, with inviolable protections built into Article XIX of the California Constitution. When revenues from these state sources failed to keep pace with needs, 19 counties representing 87% of the state's population enacted local transportation sales tax measures. Revenues from all of these measures are protected from nontransportation uses by authorizing statutes, by local voter-approved ordinances, and by the terms of bond covenants.

When revenues from these state sources failed to keep pace with needs, 19 counties...enacted local transportation sales tax measures.

The state gasoline excise tax was last raised in 1990. Under the terms of a measure placed before the voters by the Legislature in 1990, the tax was increased from 9 cents to 14 cents per gallon on January 1, 1991, followed by annual 1-cent increases until the tax reached the current 18 cents per gallon on January 1, 1995. Of the 18 cents, about 6.5 cents supports subventions for local streets and roads and about 11.5 cents goes to the State Highway Account. State Highway Account funding is used first for Caltrans operating and maintenance costs, then for the capital improvements needed to maintain the safety and integrity of the state highway system, as programmed in the State Highway Operation and Protection Program (SHOPP), and finally for the STIP. In 1995, the State Highway Account revenues used for the STIP exceed those needed for the SHOPP.

Beginning this year, all State Highway Account revenues are needed for operating and maintenance costs and to support the SHOPP. No State Highway Account revenues remain for the STIP.

The 2006 STIP fund estimate illustrates the need for flexibility in state transportation funding.

These state transportation revenues were falling short five years later when the Traffic Congestion Relief Act of 2000, followed by Proposition 42 (2002), promised a needed though modest boost in funding through the Transportation Investment Fund (TIF), supported by transfers of the General Fund's sales tax revenues attributable to sales on gasoline. When implemented in full, the TIF would provide about $1.4 billion per year for transportation, roughly equivalent to a gasoline tax of 8 cents per gallon. After TCRP transfers are completed in 2007-08, half of all TIF revenues would go to the STIP (but not the SHOPP), the equivalent of about 4 cents per gallon. Meanwhile, State Highway Account funding for the STIP has disappeared, the result of increasing costs for state highway system operating and rehabilitation needs and flat revenues from the per-gallon gasoline excise tax. This year, for the first time, STIP funding will come entirely from sales tax revenues and loan repayments. Proposition 42 also promised an important though modest increase in funding for local road rehabilitation, where the Commission's SR 8 study of 1999 found an unfunded backlog of over $10 billion in needs, growing at an annual rate of $400 million per year. Though the program has received nothing at all for the last four years, it is scheduled to receive 40% of Proposition 42 transfers after 2007-08, roughly equivalent to a gasoline tax of about 3-4 cents per gallon.

The Commission may very well be forced to delete highway and road projects from the STIP at the same time that transit funding capacity goes unused...

Need for State Transportation Funding Flexibility

The 2006 STIP fund estimate illustrates the need for flexibility in state transportation funding. Of $1.8 billion in new capacity—which depends on all the transfers and loan payments provided for under current law—about two-thirds is for funding from the Public Transportation Account (PTA) and is available only for transit projects. Only about one-third is available for highway and road projects, perhaps not enough to cover project cost increases due to prior funding delays. The Commission may very well be forced to delete highway and road projects from the STIP at the same time that transit funding capacity goes unused because of the combination of the STIP's geographic restrictions and the uneven demand for transit capital improvements across the state. Ironically, the PTA used to have the effect of increasing STIP flexibility. Until five years ago, it was a relatively small part of total STIP funding, but could be used for projects that were not fundable from the State Highway Account, including buses and intercity rail. Now that PTA revenues have grown and the STIP is funded primarily from the TIF, the PTA reduces STIP flexibility. The TIF is available for any STIP purpose, and PTA revenues have multiplied because of the PTA transfer under Proposition 42 and the growth of other PTA transfers with the rising price of gasoline.

Defining the level of transportation funding needs is a challenging and imprecise task.

The Commission would recommend that this issue be addressed by statute reducing the PTA transfer from the TIF. For 2008-09 and later years, TIF transfers are be divided with 40% from the TIF directly for the STIP, 40% for local streets and roads, and 20% for the PTA. Proposition 42 permits these percentages to be changed by statute, provided that the funding is used only for the same three purposes—the STIP, local streets and roads, and PTA. Of the funding going to PTA, half goes to the STIP for transit projects and half goes to the State Transit Assistance program for allocation by formula to transit operators. If the percentage of Proposition 42 transfers going to PTA were reduced, the difference could be added to flexible funding for the STIP and to the TIF local streets and roads program.

However the priorities and needs are defined, it is clear that transportation financial needs are greater than the funding level...

Defining State Transportation Needs

Defining the level of transportation funding needs is a challenging and imprecise task. The SR 8 study found an unfunded backlog of needs in the neighborhood of $100 billion in 1999. The Department of Transportation (Caltrans) has been working with regional and local transportation interests around the state this year to define transportation priorities through its GoCalifornia project. The Business, Transportation, and Housing Agency has been studying needs in major corridors and gateways through its Goods Movement Action Plan. However the priorities and needs are defined, it is clear that transportation financial needs are greater than the funding level that was provided ten years ago. If Proposition 42 were removed from the equation, meeting that level would require the following increases in the gasoline tax or the equivalent from other sources:

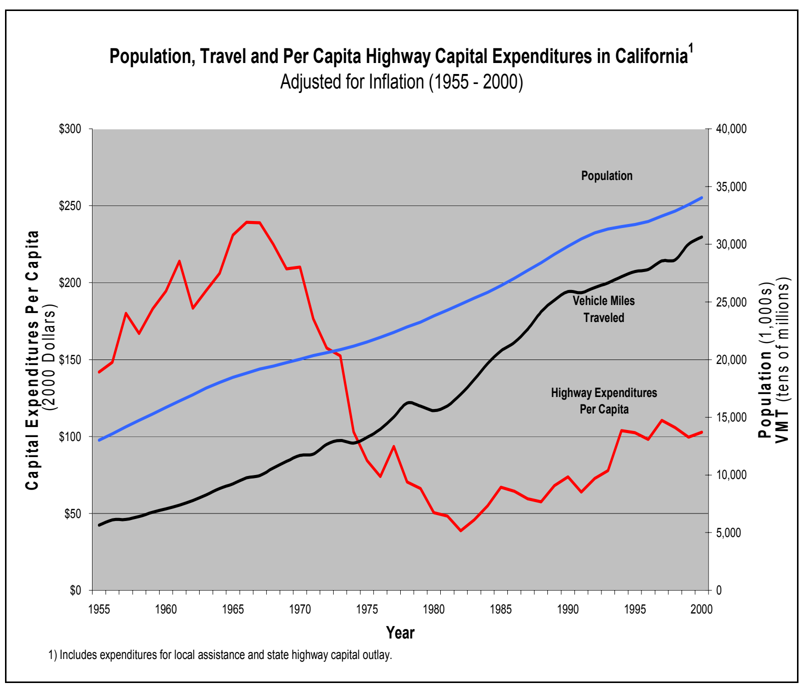
- An additional 1-cent per gallon to meet current needs for the SHOPP, as identified the Ten-Year State

Rehabilitation Plan (SHOPP Plan) presented by Caltrans and used as the initial basis for the 2006 fund estimate.

- About 10-12 cents per gallon for STIP funding from the State Highway Account, to provide a basic level of funding roughly equal to the program in the late 1990's. An augmented program that addresses interregional state transportation needs would require more, perhaps 20 cents.

- About 3-4 cents per gallon for local streets and roads, just to meet the current low level of state support. About 15 cents would be needed to match the levels of support the state provided in the 1980's. When the gasoline tax was raised in 1990, most of the increase went for the state program. The local share declined from about half to 35% of the total.

The following chart, presented by Caltrans at its GoCalifornia workshops, illustrates how the state's investment in transportation has failed to keep pace with the state's growth in population and travel demand.



Source: Caltrans Division of Transportation Planning

Although increasing the gasoline tax, with its Article XIX protection, would be the simplest and perhaps the most effective means for funding the state transportation program, there are other options that might also be considered. The California Constitution could be amended to afford the gasoline sales tax the same protections now provided the per-gallon tax under Article XIX. By itself, however, this would fall far short of providing adequate state transportation funding, and by closing off a source of General Fund revenue would likely lead to one of the first two options described above—either an increase in other taxes or cuts in other programs.

The state could explore new means of tolling highways, including high occupancy toll (HOT) lanes, and bonding against toll revenues. While very appropriate for specific situations and locations, these tolls could never provide support for a broad transportation program unless applied in a radical way never seen in the United States.

The Commission urgently recommends that the Legislature take action to raise the state gasoline tax or provide an alternative dedicated revenue source that will assure a steady, reliable, and flexible funding structure...

Ultimately, as the use of gasoline is replaced by alternative fuels, the state will need to move toward a vehicle miles traveled (VMT) tax or other direct user fees. That day, however, remains years and perhaps decades away. In the meantime, the higher taxation of gasoline consumption would carry with it an added incentive to reduce gasoline consumption—as, for example, through the use of hybrid-electric, other fuel efficient or alternative fuel vehicles—and reduce the nation's dependence on foreign oil. When VMT fees are introduced, they should be introduced into the funding mix gradually— supplementing, rather than replacing, taxes based on oil consumption so as not to provide a perverse incentive to consume larger quantities of oil.

A gasoline tax increase could be implemented directly by the Legislature or could be conditioned upon voter approval (as was done with Proposition 111 when the gasoline tax was last raised in 1990). Gasoline taxes could be enacted incrementally or indexed to assure that revenues keep pace with inflation and miles traveled while gasoline consumption per mile remains level or drops. The Commission urgently recommends that the Legislature take action to raise the state gasoline tax or provide an alternative dedicated revenue source that will assure a steady, reliable, and flexible funding structure for state and local transportation capital improvements in California, including the rehabilitation and reconstruction of existing facilities.

ISSUES FOR 2006

Outlook for 2006 STIP

The State Transportation Improvement Program (STIP) is updated biennially, with each new STIP adding two new years to prior programming commitments. The 2006 STIP, which will cover the five-year period through 2010-11, will include $3.8 billion to be reprogrammed from the 2004 STIP plus $1.9 billion in new capacity, a total of $5.7 billion. These figures exclude $365 million in GARVEE bond debt service payments over the STIP period, $367 million in scheduled AB 3090 cash reimbursements to local agencies that have previously used their own funds to advance STIP projects, and all costs to complete projects programmed in 2005-06 or earlier, including about $500 million in 2005-06 construction and local grant allocations that have not yet been made for lack of funding.

New programming in the 2006 STIP will be heavily constrained by funding type as well as by geographic distribution.

New programming in the 2006 STIP will be heavily constrained by funding type as well as by geographic distribution. For the first time since 1990, most new STIP funding will be limited to rail and transit projects. Of the $1.926 billion total, $1.355 billion is from the Public Transportation Account (PTA) and limited to rail and transit. Another $116 million is from federal Transportation Enhancement (TE) funds, limited to projects qualifying under that program. Only $455 million is estimated from the Transportation Investment Fund (TIF), which may be applied to any STIP project. As noted in the opening chapter of this report, no funding at all is available from the State Highway Account.

The Commission anticipates that the $455 million available for any project will be insufficient to cover cost increases…

The Commission anticipates that the $455 million available for any project will be insufficient to cover cost increases on existing state highway and other road projects. Project costs are increased whenever project funding is delayed, both with the ordinary escalation of costs over time and with the need to redo environmental work or design work when projects are placed on the shelf. In addition, Department of Transportation (Caltrans) and local agencies report extraordinary increases in construction costs over the past year as a result of extraordinary increases in the cost of oil and materials such as steel and concrete. An indirect source of cost increases is the lack of bid competition because of the state's lengthy withdrawal of construction funding and the state's unreliability as a construction industry client. To the extent that new capacity is insufficient to cover increases for currently programmed projects, the new STIP will need to delete some highway and road projects.

On the other hand, the Commission anticipates that it may be difficult to find $1.355 billion in qualifying rail and transit projects while maintaining the geographic equity in the STIP mandated by statute. It seems likely that the 2006 STIP will be deleting highway projects while leaving some transit capacity unprogrammed.

It seems likely that the 2006 STIP will be deleting highway projects while leaving some transit capacity unprogrammed.

The development of the 2006 STIP began with the adoption of the 2006 STIP fund estimate in September 2005 and will conclude with the new STIP adoption in April 2006. The California Transportation Commission exercised its option under state law to delay the development of the STIP by one month in order to take into account both state and federal legislation having a significant impact on the fund estimate. In particular, these included the federal reauthorization act (SAFETEA-LU) and the resolution of state funding for the east span of the San Francisco-Oakland Bay Bridge. The delay also permitted the fund estimate to take the impacts of the 2005-06 Budget Act more fully into account.

REVISED 2006 STIP DEVELOPMENT SCHEDULE

CTC adopts fund estimate and guideline amendments	September 29, 2005
Regions submit RTIPs	By January 30, 2006
Caltrans submits ITIP	By January 30, 2006
CTC STIP hearing, South (Los Angeles)	March 9, 2006
CTC STIP hearing, North (Sacramento)	March 15, 2006
CTC publishes staff recommendations	April 7, 2006
CTC adopts STIP (Fresno)	April 27, 2006

The Commission may include projects in the STIP only if they are first nominated either by one of the 48 regional agencies in its Regional Transportation Improvement Program (RTIP) or by Caltrans in its Interregional Transportation Improvement Program (ITIP). The STIP consists of two broad programs, the regional program funded with 75% of STIP funding and the interregional program funded from 25%. The 75% regional program is further subdivided by formula into county shares. County shares are available solely for projects nominated in the RTIPs. The Caltrans ITIP may nominate projects only for the interregional program. Where Caltrans and a regional agency agree, a project may be jointly funded from a county share and from the interregional share.

County and interregional shares apply by discrete four-year periods, with periods ending in 2007-08, 2011-12, etc. This means that each county and the interregional program must eventually receive its share, even if not in any particular year or STIP. The 2006 STIP will cover the last two years of one period and the first three years of the following period. That means that the Commission's first priority must be to assure that each county is programmed up to the level of its share for the period ending 2007-08. This does not mean that projects in those counties need be programmed for 2007-08 or earlier, only that they be added in this STIP. The fund estimate also identified a proportionate target for each county and an estimated full share for the period ending 2011-12. These amounts are targets only, since any county's share for the period ending 2011-12 might yet be met in the 2008 STIP.

A large element of the 2006 STIP will be the reprogramming and rescheduling of $3.367 billion in highway and other nontransit projects from the 2004 STIP.

The fund estimate identified 16 counties that must receive $222 million in new programming to meet the county share minimum as described above. Over half of this amount, $115 million, is for Orange County and another $46 million is for Riverside. A full listing is in a table at the end of the chapter on the fund estimate in the second section of this report.

STIP proposals will be made through the RTIPs and the ITIP, due for submittal to the Commission by January 30, 2006. The Commission is required to hold at least two public hearings on STIP proposals, and those have been scheduled for March 9, 2006 in Los Angeles and March 16, 2006 in Sacramento. By statute, the staff of the Commission is required to publish its STIP recommendations at least 20 days prior to STIP adoption. The staff recommendations are scheduled for April 7, 2006 with STIP adoption scheduled for April 27, 2006 in Fresno.

Programming of Highway Projects

A large element of the 2006 STIP will be the reprogramming and rescheduling of $3.367 billion in highway and other nontransit projects from the 2004 STIP. The first priority for the new capacity of $455 million will be to meet the $222 million in county share minimums in 16 counties and to cover cost increases of currently programmed projects. This

means that the new STIP will probably not include any new highway and road projects except as necessary to meet the county share minimums for the 16 counties and, perhaps, to replace existing projects proposed for deletion.

The following table illustrates the spread of current highway and other nontransit projects across fiscal years and the spread of capacity for these projects in the 2006 STIP:

2006 STIP Highway Programming
($ in millions)

Fiscal Year	**2004 STIP**	**2006 STIP**
2006-07	$1,134	$ 546
2007-08	1,065	905
2008-09	1,169	1,000
2009-10		671
2010-11		701
Total	**$3,367**	**$3,823**

Through the fund estimate, annual targets for the reprogramming of highway and other nontransit projects were identified for each county and for the interregional program to guide development of the RTIPs and the ITIP. The $455 million in new capacity was not included in those annual targets. For new capacity, the fund estimate identified county targets only for highway and transit projects combined, with the understanding that all new capacity for highways was in 2010-11 and that new capacity for transit was spread across all years of the STIP.

The statewide programming of highway and other nontransit projects will conform to the year-by-year fund estimate amounts listed above. The spread across the years for individual counties, however, cannot and will not match their individual targets. The actual scheduling will depend not only on the individual county targets, but on regional and interregional priorities and the deliverability of individual projects.

Programming of Rail and Transit Projects

The programming of new rail and transit projects in the 2006 STIP will be constrained more by overall county and interregional shares than by fiscal year or statewide capacity. For counties over 1 million in population, where one might expect to see most rail and transit proposals, STIP programming may not exceed the maximum identified in the fund estimate, which is the estimated county share through 2011-12. For other counties, state law permits programming to exceed the county share, as needed, to program a single large project. For the interregional program, there is no limit except statewide capacity. However, programming above the current share for rail and transit projects would reduce future share for highway projects.

The following table illustrates the spread of currently programmed rail transit projects across fiscal years and the spread of all PTA capacity (including the reprogramming of current rail and transit projects) in the 2006 STIP:

2006 STIP Rail and Transit Programming
($ in millions)

Fiscal Year	2004 STIP	2006 STIP
2006-07	$ 63	$ 504
2007-08	172	320
2008-09	149	320
2009-10		310
2010-11		285
Total	**$384**	**$1,739**

[TE funds] are the only federal funds generally available for the 2006 STIP and the only funds not subject to diversion through the annual state budget process.

The statewide programming of rail and transit projects will conform to the year-by-year fund estimate amounts listed above. The fund estimate did not otherwise provide rail and transit targets by county or year. The actual programming and scheduling of rail and transit projects will depend primarily on RTIP and ITIP proposals and the deliverability of individual projects. If there is an insufficient number of projects to use the statewide capacity for rail and transit projects, the excess capacity will remain unprogrammed and available for programming through later STIP amendments.

Programming of Enhancement (TE) Projects

The STIP also includes the programming of federal Transportation Enhancement (TE) funds, which may be used only for TE-eligible projects. These are the only federal funds generally available for the 2006 STIP and the only funds not subject to diversion through the annual state budget process. Eligible projects include: pedestrian and bicycle facilities; acquisition of scenic easements and scenic or historic sites; landscaping and other scenic beautification; historic preservation; rehabilitation of historic transportation buildings, structures, or facilities; preservation of abandoned railway corridors for conversion to pedestrian or bicycle trails; control and removal of outdoor advertising; archaeological planning and research; mitigation of water pollution due to highway runoff; and transportation museums.

The following table illustrates the spread of current TE projects across fiscal years and the spread of capacity for these projects in the 2006 STIP:

2006 STIP TE Programming
($ in millions)

Fiscal Year	**2004 STIP**	**2006 STIP**
2006-07	$ 89	$ 67
2007-08	79	70
2008-09	65	71
2009-10		71
2010-11		71
Total	**$233**	**$349**

The Commission's STIP guidelines permit the programming of either particular TE projects or annual TE reserves, with individual TE projects to be identified later, either by STIP amendment or at the time of allocation. The figures cited above include both the individual TE projects and the programmed reserves. As the figures indicate, $22 million in projects and reserves will need to be delayed from 2006-07 and about $31 million from the first two years, 2006-07 and 2007-08. This is primarily because SAFETEA-LU authorizes less for the TE program than had been assumed in the 2004 STIP. The current programming includes reserves of $38 million in 2006-07, $48 million in 2007-08, and $46 million in 2008-09.

TE reserves are treated the same as individual projects for purposes of the STIP timely use of funds rule. This means that if a project is not ready for allocation within the fiscal year it is programmed, it is dropped from the STIP unless the Commission approves an extension based on a finding that there is a delay due to circumstances beyond the control of the implementing agency. This provides a strong incentive not to program a project or a reserve in the first year of the STIP unless there is a high level of confidence that the project will be delivered. For this reason, it seems likely that the Commission will be able to reprogram each currently programmed TE project in the year it is now programmed or the year the project can be delivered, whichever is later.

The fund estimate provides annual TE targets for each county and the interregional share to guide development of the RTIP and the ITIP. However, the Commission encourages each region to identify particular projects in the year in which they can be delivered, regardless of target. The final TE project scheduling in the 2006 STIP will depend not only on individual county targets, but on the identification and deliverability of individual projects.

Prior Allocations and Commitments

The figures cited above for the reprogramming of 2004 STIP projects include only those projects the Commission assumes to be candidates for rescheduling. They do not include:

- Projects that have already been allocated funding.
- Projects scheduled for allocation in 2005-06, whether allocated or not. These projects and their funding, if not allocated, will automatically be carried forward into the 2006 STIP, provided that they have been delivered (are ready for allocation or are being implemented with other funding) or have received an extension under the STIP "timely use of funds" rule by June 2006. The calculation of targets for 2006-07 assumes that projects from 2005-06 are already funded at the levels at which they are now programmed. Funding for projects that have been delivered and funded from another source may be added to STIP targets and reprogrammed to another project.
- Amounts programmed for Caltrans environmental, design, and right-of-way work that was programmed for 2005-06 or a prior year. Funding for this work may, nonetheless, be reprogrammed in the 2006 STIP if Caltrans indicates that the work has not yet begun or has been suspended and it is proposed to delete the work from the STIP or to delay the beginning of work until 2007-08 or later. Where work is suspended, the amount of the Caltrans expenditure to date would remain as programmed and not be available for reprogramming.
- Debt service paid on outstanding federal Grant Anticipation Revenue (GARVEE) bonds.

- AB 3090 cash reimbursements programmed prior to the adoption of the fund estimate.

STIP Allocations in 2006

The ability of the Commission to allocate to STIP projects in the coming year will depend almost entirely on the actions of the Governor and Legislature to approve or suspend the scheduled Proposition 42 transfer for 2006-07. Without a transfer, there will be no project construction allocations, no funds to purchase right-of-way, no new environmental studies or design work for future projects, no local grants for STIP projects, and no cash reimbursements made to local agencies under AB 3090. All State Highway Account revenues, including federal funds, will be dedicated to the State Highway Operation and Protection Program (SHOPP), with none available for the STIP.

The ability of the Commission to allocate to STIP projects in the coming year will depend almost entirely on the actions of the Governor and Legislature to approve or suspend the scheduled Proposition 42 transfer for 2006-07.

The 2006 STIP fund estimate assumed that the STIP would receive $1.224 billion in revenues for the coming year from the following sources:

- $562 million from the TIF for the STIP from the 2006-07 Proposition 42 transfer.
- $70 million from the PTA from the Proposition 42 transfer.
- $465 million from the State Highway Account from tribal gaming bond proceeds, in repayment of the State Highway Account loan to the Traffic Congestion Relief Fund (TCRF), due for repayment by June 2007. As noted elsewhere in this report, this amount could alternatively be provided from the Proposition 42 transfer.
- $123 million from the PTA from tribal gaming bond proceeds, in partial repayment of the PTA loan to the TCRF, due for repayment in June 2008.
- $4 million from the PTA spillover (half of a total spillover of $8 million), after the $325 million in diversions for 2006-07 that were enacted in 2005 ($200 million to the General Fund under SB 62 and $125 million to the Bay Area Toll Account under AB 144).

This funding could support $150 million in scheduled AB 3090 cash reimbursements, $508 million in remaining project allocations scheduled for 2005-06, and another $609 million in projects for 2006-07. The latter figure is based on the fund estimate capacity for the 2006 STIP and is a

substantial reduction from the $1.031 billion now programmed for 2006-07. Even with this funding, the Commission's actual capacity to allocate to new projects in the coming year may be reduced if the Commission cannot rely on the availability of cash from the 2007-08 Proposition 42 transfer or other sources to complete projects begun in 2006-07.

ISSUES FOR 2006

Outlook for the Traffic Congestion Relief Program

The Traffic Congestion Relief Program (TCRP) consists of the 141 specific projects that were designated by the Governor and the Legislature for $4.9 billion in the Traffic Congestion Relief Act of 2000. The entire $4.9 billion was originally scheduled to be provided with new funding over the six-year period ending 2005-06. At this point, however, only $2.081 billion has been provided for the TCRP, with $1.362 billion in new funding and $719 million from the borrowing of State Transportation Improvement Program (STIP) funds. The TCRP program has a history of promises unfulfilled, and it has been faced with unstable funding and an uncertain future since it was created. The funds originally intended for the program have been repeatedly withheld, postponed, or borrowed for the General Fund. At one point, in November 2003, the Governor actually proposed to repeal the program altogether. For 2½ years, from December 2002 through June 2005, the Commission was unable to approve any new allocations for TCRP projects, while the Legislature provided just enough funding to continue reimbursements for the projects already allocated. For 2005-06, the Commission received its first full transfer of funding, and the Commission was able to resume making allocations for three months before halting them again.

The TCRP program has a history of promises unfulfilled, and it has been faced with unstable funding and an uncertain future since it was created.

The TCRP is funded through the Traffic Congestion Relief Fund (TCRF), which was created by the Traffic Congestion Relief (TCR) Act for that purpose. The $4.909 billion TCRP was scheduled to be funded through the TCRF with:

- $1.595 billion in 2000-01 from a General Fund transfer and directly from gasoline sales tax revenue.
- $3.314 billion in transfers from the Transportation Investment Fund (TIF), originally scheduled in statute over the years from 2001-02 through 2005-06, and now scheduled from 2003-04 through 2007-08. The transfers were to be $678 million per year for the first four years and the balance of $602 million in the fifth year. The TIF derives its revenues from the sales tax on gasoline.

To date, however, progress on TCRP projects has been slowed by continuing uncertainty over program funding. For the program's first five years, through 2004-05, most of the

state funds expended on the TCRP actually came from funds diverted from the STIP. For the first three years, through 2002-03, the TCRP received $1.051 billion, including $212 million from the initial General Fund transfer (the other $1.383 billion was borrowed back by the General Fund) and $839 million borrowed from STIP through the State Highway Account and the Public Transportation Account (PTA). Proposition 42 (2002) locked the annual TIF transfers into the Constitution, while allowing the transfer to be suspended in any year when approved by the Governor and a two-thirds vote in each house of the Legislature. For the next two years, the Governor and Legislature suspended the transfers and provided just enough funding to continue payments on TCRP projects that had already been allocated funds—$189 million in 2003-04 and $163 million in 2004-05.

...most of the state funds expended on the TCRP actually came from funds diverted from the STIP.

As a partial replacement for the 2004-05 suspension, the Legislature enacted AB 687 (2004), which authorized bonding against state revenues from tribal gaming compacts and dedicated the proceeds of the bond sales to repaying the balance of the TCRF loan to the General Fund. The repayment was designated to provide $290 million for the TCRP, and to repay various loan obligations of the TCRF. The bonds, however, were tied up in litigation and have yet to be sold.

For 2005-06, the Proposition 42 TIF transfer was not suspended, and the first full transfer of $678 million was made for the TCRP. At the recommendation of the Department of Transportation (Caltrans), the Commission approved a TCRP allocation plan that set aside $86 million to cover remaining payments on prior year allocations and $116 million to reimburse local agencies that had completed TCRP projects with their own funds under letters of no prejudice (LONPs)—the first LONP reimbursements to be allocated. This left $476 million in funding for new allocations directly to TCRP projects. These amounts were far less than the $1 billion in TCRP projects that were ready or expected to be ready for allocation in 2005-06. Many of the projects that have been delayed previously due to the suspensions, transfers, and loans to the General Fund are yet delayed again.

For 2005-06, the Proposition 42 TIF transfer was not suspended, and the first full transfer of $678 million was made for the TCRP.

For most projects, the TCRP commitment provides only a portion of the project's cost, requiring that a funding package be assembled that includes other sources. In many cases, project delivery depends on the willingness and ability of an individual agency to provide other funding sources to keep a project alive and moving. Most of the state funds expended on the TCRP have actually come from funds diverted from the STIP.

The continuing uncertainty in funding for the TCRP based on year-to-year budget decisions makes it difficult for the Commission, the Department of Transportation, regional agencies, and local implementing agencies to plan, program, and implement TCRP projects. The delivery outlook for TCRP projects depends largely on the confidence of implementing agencies that scheduled transfers and repayments to the TCRF will actually occur. The continuing postponements and suspensions of TIF and TCRF transfers have all worked to erode that confidence.

Program Status

By December 2005:

The continuing uncertainty in funding for the TCRP...makes it difficult...to plan, program, and implement TCRP projects.

- The California Transportation Commission had approved $4.174 billion in TCRP project applications, including at least one application for each of the 141 designated projects. An application defines the scope, cost, and schedule of a particular project or project phase. Application approval is equivalent to project programming and generally includes project expenditures planned for future years.
- Of the $4.174 billion in application approvals, the Commission had approved $2.066 billion in project allocations, including $102 million for projects completed under LONPs. The Commission anticipates allocating another $14 million for projects completed under LONPs by June 2006. An allocation encumbers state funding for a particular project or project phase. Under an LONP, a local agency may expend its own funds on a project and qualify for later reimbursement when and if funds become available.
- Of the amount allocated, $1.354 billion had been expended and invoiced (through November 2005).
- The Commission had approved $591 million in LONPs for which reimbursement allocations have not yet been made.
- The Commission had placed another $62 million in requested allocations on a pending list and had received a

report from Caltrans that another $480 million in projects would be ready for allocation in 2005-06.

Program Challenges and Opportunities

The funding outlook for the TCRP in 2006 and later years will depend on whether or not the Governor and Legislature suspend scheduled Proposition 42 TIF transfers, whether and when they provide funds to repay prior Proposition 42 suspensions and other transportation loans, and whether and when tribal gaming bonds are sold. At present, the scheduled transfers and loan repayments due to the TCRP include:

TCRP Scheduled Transfers and Loan Repayments
($ millions)

$ 290	Tribal gaming bond proceeds (AB 687)
678	Proposition 42 TIF transfer, 2006-07
602	Proposition 42 TIF transfer, 2007-08
678	TDIF transfer, 2007-08, repayment of suspended 2004-05 TIF transfer
389	TDIF transfer, 2008-09, repayment of suspended 2003-04 TIF transfer
192	TDIF transfer, 2008-09, due to AB 687 shift of TCRF to local roads
$2,829	**Total revenues due, Traffic Congestion Relief Program**

The funding outlook for the TCRP...will depend on... Proposition 42 TIF transfers...[and repayment of] prior Proposition 42 suspensions and other transportation loans, and whether and when tribal gaming bonds are sold.

The annual TIF transfers are covered by Article XIX B of the California Constitution, added by Proposition 42 (2002). Under Proposition 42, the transfer may be suspended for a fiscal year only if a fiscal emergency is declared by the Governor and is approved by a two-thirds vote of each house of the Legislature in a bill separate from the annual budget act. In 2003-04, the TIF transfer was partially suspended, and in 2004-05, it was fully suspended. Each time, the Legislature treated the suspension as a loan, with the repayment to be made through the Transportation Deferred Investment Fund (TDIF) in a future year. These future TDIF payments are not covered by the constitutional protection of Proposition 42.

Any delays or reductions in tribal gaming bond proceeds would complicate this funding schedule in several ways. Under existing law, if the tribal gaming bond proceeds are not available:

- The $290 million scheduled for TCRP from the bond proceeds would be indefinitely postponed. It would become available later when the bonds are eventually sold or when unbonded tribal gaming revenues are received.

- The $678 million scheduled from the 2006-07 TIF transfer could be reduced to $213 million. The TCRF owes the State Highway Account $465 million, which is due for repayment by June 30, 2007. That $465 million is now due to be paid by tribal gaming bond revenues. Without those revenues, the State Highway Account repayment (which would go to the STIP) would have to come from funds that would otherwise go to the TCRP. In that case, the TCRP would recover the funding only when bonds are sold or when sufficient unbonded tribal gaming revenues are received.
- The $602 million scheduled from the 2007-08 TIF transfer could be reduced to $327 million. The TCRF owes the PTA $275 million, which is due for repayment by June 30, 2008. That $275 million is now due to be paid by tribal gaming bond revenues. Without those revenues, the PTA repayment (which would go to the STIP) would have to come from funds that would otherwise go to the TCRP. In that case, the TCRP would recover the funding only when bonds are sold or when sufficient unbonded tribal gaming revenues are received.
- The scheduled TDIF transfer to the TCRP in 2008-09 could be reduced by $192 million, from $581 million to $389 million. The $192 million is the amount that was originally scheduled for the TIF local streets and roads program from the 2003-04 Proposition 42 transfer. When that transfer was suspended, the $192 million was due to be repaid from the TDIF in 2008-09. With AB 687 (2004), the $192 million was scheduled to be paid from tribal gaming bond proceeds as an advance of the amount due from the TDIF in 2008-09. However, the tribal gaming bond proceeds would not reduce the total TDIF transfer in 2008-09 and the $192 million (or any portion of it) that had been advanced for the local streets and roads program would be transferred instead to the TCRF, augmenting the TCRP share that year from $389 million up to $581 million.

All of these figures would change if tribal gaming bond proceeds are sufficient to provide some, but not all, of the funding now scheduled. The following table summarizes TCRP funding without tribal gaming revenues:

TCRP Funding Without Tribal Gaming Revenues
($ millions)

$ 213	Proposition 42 TIF transfer, 2006-07
327	Proposition 42 TIF transfer, 2007-08
678	TDIF transfer, 2007-08, repayment of suspended 2004-05 TIF transfer
389	TDIF transfer, 2008-09, repayment of suspended 2003-04 TIF transfer
$1,607	**Total revenues, Traffic Congestion Relief Program**

TCRP funding for 2006-07 could reach $968 million…

The difference is $1.222 billion, which is the balance of the original General Fund debt to the TCRF, which has been rescheduled only for payment from tribal gaming revenues, whether from the proceeds of bonds or from annual revenues. Without these revenues, the TCRP is underfunded.

Program Outlook for 2006

A partial or full suspension of the …transfer could eliminate TCRP funding altogether.

As described above, TCRP funding for 2006-07 could reach $968 million, including $678 million from the Proposition 42 TIF transfer and $290 million from the proceeds of the sale of tribal gaming bonds. Without the tribal gaming bond proceeds, the TCRP could lose not only the scheduled $290 million, but also $465 million that the bond proceeds are scheduled to pay to the State Highway Account to repay a loan to the TCRF. That loan repayment is due by June 2007 and, without tribal gaming bond proceeds, the loan would need to be repaid from the TCRF, thus reducing the Proposition 42 transfer available for the TCRP from $678 million to $213 million. A partial or full suspension of the Proposition 42 transfer could eliminate TCRP funding altogether.

Even $968 million would fall short of the TCRP project amounts expected to be ready for allocation in 2006-07.

Even $968 million would fall short of the TCRP project amounts expected to be ready for allocation in 2006-07. Because the Commission has no assurance of future TCRP funding, the Commission's policy is to limit allocations to amounts actually made available in the current year. That will require that the Commission set priorities to ration the TCRP funding made available. Because no criteria or priorities were established for the TCRP when it was created, the Commission looks to the Governor and Legislature for guidance in establishing allocation criteria. The Commission's current policy is to make up to 50% of any new funding available to reimburse local agencies for projects they have completed under an LONP. For 2005-06, Caltrans recommended and the Commission agreed to give priority for new allocations to projects that were ready for construction over projects for preconstruction work.

Because no criteria or priorities were established for the TCRP when it was created, the Commission looks to the Governor and Legislature for guidance in establishing allocation criteria.

At the Legislature's direction, the Commission will be reviewing its LONP policy for 2006-07. SB 66 mandated that the Commission review its LONP guidelines for reimbursing local agencies with LONPs as of June 2005, particularly the policy that limits reimbursement to completed projects. The direction of SB 66 is to assure that these agencies "are reimbursed on an equitable basis that serves the interest of the entire state transportation program, taking into account various factors," including the impact on other TCRP projects, the cash flow requirements of TCRP projects, the extent to which the agencies have had to defer other STIP or TCRP projects because of advancing their own funds, the extent to which reimbursements would be spent on the construction phase of other STIP or TCRP projects, any adverse impact on the agency's other projects of following the current policy as opposed to reimbursing LONPs on a progress-payment basis, and the level of commitment made by the agency in expending its own funds for any component of a TCRP project, even if not under an LONP. At the same time, SB 66 specifically mandates that the Commission not increase its LONP reimbursements to more than the 50% of allocations provided under current policy.

The agencies and projects with LONP reimbursements subject to review under SB 66 include the following:

LONPs Approved Prior to June 30, 2005
($1,000's)

No.	Project Description	Phase	Amount
33	Los Angeles MTA, low-emission buses	Construction	$ 150,000
36	Los Angeles MTA, Eastside light rail	Construction	166,914
37.2	Los Angeles MTA, Exposition Light Rail	Environmental	14,000
58	San Bernardino AG, Rtte 10, Redlands	Construction	5,704
63	Riverside CTC, Route 60 HOV lanes	Construction	21,000
74.6	SANDAG, Pacific Surfliner(Leuadia)	Environmental	200
74.7	SANDAG, Pacific Surfliner (Encinitas)	Environmental	1,248
141	Union City, ped bridge over UPRR lines	Design	200
	TOTAL		**$ 359,266**

One important provision of AB 687 (2004) specifies that the interest on tribal gaming bonds shall, to the greatest extent feasible, be exempt from federal taxation. That means, for example, that they could not be used to reimburse prior capital expenditures and would preclude bond proceeds from being used to reimburse LONPs.

The continuing instability and uncertainty in TCRP funding makes it difficult for the Commission, Caltrans, regional agencies, and local implementing agencies to plan, program, and implement TCRP projects. The delivery outlook for TCRP projects depends largely on the confidence of implementing agencies that scheduled transfers and repayments to the TCRF, including the sale of tribal gaming bonds, will occur as scheduled. The continuing postponements and suspensions of TIF and TCRF transfers and the suspensions of TCRP project allocations have worked to erode that confidence. For most projects, the TCRP commitment provides only a portion of the project's cost, requiring that a funding package be assembled that includes other sources. In many cases, project delivery depends on the willingness and ability of an individual agency to provide other funding sources to keep a project alive and moving.

The history of suspended transfers and TCRF loans indicates that the TCRF is a vulnerable and unreliable source of project funding. Generally, the projects that are proceeding are those sponsored by the agencies that are the least reliant on TCRF funding for reimbursement. As of December 2005, the Commission had approved $421 million in TCRP LONPs that were not yet reimbursed. Other agencies have proceeded with TCRP projects using STIP funds, hoping to recover the TCRF funding at a later date. At the same time, the Commission was holding $62 million in pending allocations and expecting another $463 million before June 2006. Without some assurance of funding, it is likely that some TCRP projects will be further delayed or dropped altogether.

The following tables list the TCRP projects with LONPs approved since June 2005, projects on the pending allocation list, and the projects that Caltrans has identified as expected to be ready by June 2006. A table listing the allocation and expenditure status for each of the 141 TCRP projects is at the end of the Traffic Congestion Relief Program chapter in Section 2 of this Annual Report.

LONPs Approved, June-December 2005

($1,000's)

No.	Project Description	Phase(s)	Amount
1.2	Santa Clara VTA, BART Extension to downtown San Jose	Environmental	$ 170,000
7.2	Santa Clara VTA, Caltrain to Gilroy	Env, design, R/W	5,270
12.2	Contra Costa TA, Hercules Rail Station and Improvements	Environmental, design	2,200
22	San Francisco TA, Doyle Drive	Environmental	6,000
23	San Mateo TA, Caltrain grade separations.	Design	3,000
27.1	Alameda CMA, Vasco Rd re-alignment	Right of Way	6,350
31	Alameda CMA, Route 580 HOV-lane.	Design	6,000
37.2	Los Angeles MTA, Mid-City Transit Improvements	Design	16,700
51	Los Angeles MTA, Route 101/405 interchange improvs.	Construction	1,790
52	Los Angeles MTA, Rt 405 HOV/aux lanes, Waterford-Rt 10	Construction	9,648
53	City of Los Angeles, Automated Signal Corridors (ATSAC)	Construction	500
59	San Bernardino AG, Rt 10 Live Oak Cyn Rd interchange	Environmental	250
97.2	CSU Fresno, op imps on Shaw, Willow, Bullard & Barstow	Design, R/W	714
135	Sacramento County, Rt 99 Sheldon Rd interchange	Design	3,000
	TOTAL		**$ 231,422**

TCRP Pending Allocation List, December 2005

($1,000's)

No.	Project Description	Phase	Amount
15	Route 24 Caldecott Tunnel 4th bore	Design	$5,000
80	Mid-Coast Balboa LRT Extension, San Diego	Environmental	1,300
83.1	Rte 15 managed lane, transit, San Diego	Construction	23,100
116	Route 80 Light Rail Corridor; double-track, Sacramento	Construction	21,100
156	BART, seismic retrofit	Construction	11,530
	TOTAL		**$ 62,030**

Construction Ready for Allocation by June 2006

($1,000's)

No.	Project Description	Amount
1.2	Santa Clara VTA, BART to San Jose	$ 7,240
7.2	Santa Clara VTA, Caltrain to Gilroy	27,730
27.2	Alameda County CMA, Vasco Road ACE Parking	1,204
37.2	Los Angeles MTA, Mid-City Transit Improvements	208,100
60.2	Route 15; southbound truck climbing lanes, San Bernardino County	9,140
74.1	Pacific Surfliner; double track in San Diego County	9,300
75.2	San Diego Transit, acquire about 85 low-emission buses	7,700
82.2	Route 5/805 interchange, San Diego County	6,000
83.2	Route 15 managed lane, San Diego County	6,900
96	Fresno County, Friant Road, widen to four lanes	9,488
112	Kings County, Jersey Avenue, widen from 17th Street to 18th Street	1,500
118	Sacramento Emergency Clean Air/Transportation Plan (SECAT)	23,600
	TOTAL	**$ 317,902**

Pre-Construction Ready for Allocation by June 2006

($1,000's)

No.	Project Description	Phase(s)	Amount
1.2	Santa Clara VTA, BART to San Jose	Right of Way	$ 45,760
4	Route 680 northbound HOV lane, Sunol Grade	Design & Right of Way	2,500
14	Monterey County, Pajaro Yard and station improvements	Design	3,842
22	Doyle Drive Replacement	Design	6,000
30	Sonoma-Marin commuter rail passenger service	Environmental	1,200
38.2	Los Angeles MTA, SF Valley North-South bus corridor	Environmental	3,000
40	Route 10 HOV lanes over Kellogg Hill, Los Angeles Co	Right of Way	21,000
43	Route 5 Carmenita Rd interchange, Los Angeles County	Right of Way	33,460
49.2	City of LA, Hollywood Intermodal Transportation Center	Design	150
54.2	San Gabriel Valley COG, Valley View/BNSF grade sep	Right of Way	2,066
54.3	San Gabriel Valley COG, grade sep, Pico Rivera	Right of Way	3,000
55.1	San Bernardino AG, ACE grade seps, Colton-Ramona	Right of Way	3,000
59	Route 10 Live Oak Cyn Rd interchange, SBd County	Right of Way	330
87.2	Routes 94/125 connector ramps, San Diego County	Environmental	536
88.1	Route 5; realign freeway, San Ysidro, San Diego County	Design	7,000
95	Route 41 Friant Rd interchange, Fresno County	Design & Right of Way	450
103	Route 99; 7th Standard Rd interchange, Kern County	Right of Way	1,500
106	Campus Parkway, Merced County	Design & Right of Way	1,440
115	South Sacramento Light Rail Project-Phase 2 extension	Environmental	3,000
122	Route 65 widening, Tulare County	Design	1,300
126	Route 50 Watt Avenue interchange, Sacramento	Design	1,080
128	Shasta County, Airport Road reconstruction	Right of Way	200
129	Yucca Valley, Route 62 utility undergrounding	Design	240
146	Coachella Valley AG, Palm Avenue interchange	Right of Way	2,050
150	Santa Cruz MTD, Renovation of Metro Center	Right of Way	800
	TOTAL		**$ 144,904**

ISSUES FOR 2006

Outlook for the Transportation Investment Fund (TIF) Local Road Program

The Transportation Investment Fund (TIF) local road program is the local subvention program that was originally created by the Traffic Congestion Relief (TCR) Act of 2000 and made permanent by Proposition 42 (2002). Under the TCR Act, it was to receive 40% of the balance of gasoline sales tax revenue that remained in the TIF after annual set-asides for the 141 designated projects of the Traffic Congestion Relief Program (TCRP). Under Proposition 42, it is scheduled to receive 40% of all revenues after funding for the TCRP is completed in 2007-08.

This subvention program was designed to address critical shortages in funding for local streets and roads...

This subvention program was designed to address critical shortages in funding for local streets and roads, generally modeled after and supplementing the gasoline tax subventions that have been funded at about 6.5 cents per gallon since 1995. In both cases, the subventions are made directly by the State Controller to cities and counties. Half the funds (i.e., generally 20% of the balance after funding TCRP) are divided among counties by formula, 25% by county road miles, and 75% by vehicle registration. The other half is divided among cities by population. The funds may be used by a city or county only for street and highway maintenance, rehabilitation, reconstruction, and storm damage repair.

Since its creation, this program's funding has been even more unstable and unreliable than ...(STIP) and TCRP funding...

Since its creation, this program's funding has been even more unstable and unreliable than State Transportation Improvement Program (STIP) and TCRP funding:

- The program received a jump start of $400 million in 2000-01 from the General Fund. The annual TIF transfers of gasoline sales tax were not scheduled to begin until the following year.

- AB 438, the transportation trailer bill to the 2001-02 budget, delayed the beginning of TIF transfers from 2001-02 to 2003-04. It rescheduled TIF funding for the TCRP and STIP by two years, so that it would be for the five-year period from 2003-04 through 2007-08 rather than from 2001-02 through 2005-06. For the TIF local road program, the bill provided State Highway Account transfers totaling $293 million in 2001-02 and 2002-03 in lieu of the TIF transfers and provided that the local road program transfers would still end in 2005-06. For 2006-07 and 2007-08, the STIP would receive 80% rather than 40% of the TIF balance, in compensation for funding the local road program in 2001-02 and 2002-03.

- Proposition 42 (2002) made TIF transfers permanent, locked in the prior statute through 2007-08, and provided that the TIF local road program would receive 40% of all TIF revenues beginning in 2008-09. This effectively locked the program into the two-year hole with no funding for 2006-07 and 2007-08. Proposition 42 also permitted the suspension of the scheduled TIF transfer in any year, with a declaration by the Governor and two-thirds approval in each house of the Legislature.

- For 2003-04 and 2004-05, the TIF transfers were suspended and the TIF local road program received nothing. The legislation suspending the transfers treated them as loans to be repaid in 2007-08 and 2008-09 through the Transportation Deferred Investment Fund (TDIF). The TIF local road program was scheduled to receive $232 million from the TDIF in 2007-08 (the amount suspended in 2004-05) and $192 million in 2008-09 (the amount suspended in 2003-04).

- To compensate in part for the suspension of 2004-05, the Legislature enacted AB 687 (2004) to provide that tribal gaming bond proceeds be used for early repayment of various transportation loans, including the $192 million TDIF obligation to the TIF local road program for 2008-09. If all had gone according to plan, that $192 million would have been made available in 2004-05. But AB 687 was quickly tied up in litigation which remains unresolved today. A complicating issue is that the Legislature provided that the bond proceeds be made eligible, to the maximum extent feasible, for federal tax exemption. Under federal rules, projects to be funded would generally need to be identified in advance. This could considerably complicate program administration, an issue that is not yet resolved.

- For 2005-06, the Proposition 42 transfer was not suspended, and the program received $254 million, its first funding since 2002-03.

Outlook for 2006-07

For 2006-07, the TIF local road program is scheduled to receive no transfer at all, the result of the swap for State Highway Account funds made in AB 438 (2001) and the locking in of current statute by Proposition 42. The only prospect for program funding in 2006-07 is through the approval and sale of tribal gaming bonds. Even here, the picture is not clear. AB 687 (2004), as amended by SB 62 (2005), lays out priorities for the use of bond proceeds. The first $755 million is committed to other priorities: the first $465 million to repay the State Highway Account for a loan to the Traffic Congestion Relief Fund (TCRF) and the next $290 for the TCRP. Half of any amount above the first $755 million would then be made available to the local road program, up to a maximum of $192 million. So the full $192 million would be realized only if bond proceeds reach $1.139 billion. The 2004-05 state budget identified $1.2 billion in transfers. When the bonds were not sold, that was reduced to $1.0 billion in the 2005-06 budget. The State Treasurer has estimated that bond proceeds may be closer to $850 million.

When and if tribal gaming bonds are made available for the TIF local road program, the issue of project identification to comply with federal tax eligibility requirements will remain.

Future Years

For 2007-08, the TIF local road program is still not scheduled to receive part of the Proposition 42 transfer. However, it is scheduled to receive $232 million from the TDIF, the repayment for the suspension in 2004-05. TDIF transfers, however, are not protected by Proposition 42 and are subject to action through the state budget process.

Beginning in 2008-09, the program is scheduled to receive 40% of the total TIF transfer each year, and that 40% for 2008-09 is now estimated to be $612 million. In addition, the program would receive from the TDIF in 2008-09 any portion of the $192 million that is not made available from tribal gaming bonds.

Summary

In summary, the following table lays out the past funding and estimated future funding for this program under current law. As with all other programs funded under the TCR Act and

Proposition 42, all funding is dependent on actions taken during the annual budget process, making the program inherently unstable and unreliable.

...all funding is dependent on actions taken during the annual budget process, making the program inherently unstable and unreliable.

TIF Local Road Program Funding
($ millions)

2000-01	$400	Transfer from General Fund
2001-02	143	Transfer from State Hwy Acct (STIP)
2002-03	150	Transfer from State Hwy Acct (STIP)
2003-04	0	Prop 42 suspended
2004-05	0	Prop 42 suspended
2005-06	254	Prop 42 transfer
2006-07	0	Exchange for SHA transfers
2007-08	232	TDIF repayment of 2004-05 suspension
2008-09	192	Tribal gaming or TDIF, repay 2003-04
2008-09	612	Prop 42 transfer (estimated)
2009-10	645	Prop 42 transfer (estimated)
2010-11	678	Prop 42 transfer (estimated)

ISSUES FOR 2006

Outlook for the State Aeronautics Program

The rapidly expanding role of aviation in moving people and goods in the global economy requires the state to act proactively to position itself as a practical and accessible place for commercial and business aviation use. California's economic future is inextricably linked to providing the transportation infrastructure that will connect all areas of the state to the global economic system. If California is to remain competitive in the global economy, its aviation system must:

- be improved to facilitate significant growth in air passenger and cargo movement;
- provide access for and fully integrate increasing business and corporate aviation;
- ensure mobility around airports;
- mitigate the adverse community impacts of aviation; and
- continue a high quality of life for our citizens by integrating land use, transportation, and housing.

A continuing assessment of the state role in aviation is needed to ensure that California remains competitive.

California cannot meet these goals for its aviation system if it continues to leave aviation decision-making to the vagaries of local politics and priorities alone. The state should take responsibility—in cooperation with local, regional, and federal agencies—for providing the leadership and resources needed to develop the aviation system essential to our economy in the 21st Century. A continuing assessment of the state role in aviation is needed to ensure that California remains competitive.

Aviation Planning

The policy element of the California Aviation System Plan (CASP) defines the state's continuous aviation system planning process. It defines the roles of federal, state, regional, and local participants in the process. The policy element also covers issues affecting aviation and its relationship with other modes and defines the policies and implementing actions for guiding Department of Transportation (Caltrans) Division of Aeronautics activities and CASP development, including funding priorities for general aviation and air carrier public-use airports in California.

The Caltrans role in aviation is to plan and assist with the development of infrastructure capacity improvements and the maintenance of the airport system. For several years, the CASP policy element has emphasized how funding limitations restrict the Caltrans role and proposed options for increased funding of the state aviation program. In 2005, the Legislature considered a bill supported by the Commission (SB 335, Maldonado) that would have appropriated $15 million annually for five years for aviation capital improvements. The bill did not advance beyond the Senate Appropriations Committee, which expressed concerns about reducing its annual oversight role. The Senate Housing and Transportation Committee, however, supported a policy that funding for state Aeronautics Programs should increase and that the funds should be derived from aviation sources, such as the existing sales tax on general aviation jet fuel.

The Commission's role is to provide policy direction to Caltrans in the development of the aeronautics plans and programs, adopt the CASP and its various elements, program projects in the Aeronautics Program, and allocate funds.

Existing State Aviation Funding

Annual revenue deposited in the State Aeronautics Account in recent years is approximately $7.25 million. The Aeronautics Account is the sole state source of funding for the Division of Aeronautics and the programs it administers. The revenue sources are an 18-cent per gallon motor vehicle fuel excise tax on general aviation gasoline and a 2-cent per gallon excise tax on general aviation jet fuel. Air carrier and military aircraft and aviation manufacturing are exempt from the 2-cent per gallon excise tax on jet fuel.

The latest available data show that state and local governments collect about $215 million in tax revenues from aviation annually, and that only about $8 million of that is directed to address aviation needs. The tax revenues not applied to aviation include about $168 million in sales tax on jet fuel, $10 million in sales tax on general aviation aircraft, and $30 million in property tax. If the Legislature were to establish a set percentage of these revenues towards aviation needs, a stable baseline of funding could be established. For example, if 7% of the $215 million in tax revenues from aeronautics were directed on annual towards aeronautics, about $15 million would be directed annually to aeronautics. California could make significant progress in implementing state priorities for increasing airport capacity and safety, security, enhancing air passenger mobility, improving air cargo efficiency, and mitigating the impacts of airport operations on local communities.

The Commission has long supported increasing state funding to develop an integrated system of airports that adequately meets the demands of California's economy. The events of September 11, 2001 emphasized the critical role aviation plays in our economy, and those events have increased the need for investment in security measures to keep the aviation system operating. At a minimum, general aviation airports and air carrier public use airports should be funded to develop security plans and implement basic security measures. The Commission supports redirecting state sales tax revenues from the sale of jet fuel to fund state aviation programs. These tax revenues are a "user fee" paid by the aviation industry and users, in the same way that sales tax revenues on gasoline and diesel fuel, currently directed to highway and transit program funding, are user fees on drivers.

The Commission has long supported increasing state funding to develop an integrated system of airports that adequately meets the demands of California's economy.

Continuing Aeronautics Issues

The Commission, based on proposals from its Technical Advisory Committee on Aeronautics (TACA), recommends that the Legislature and the Administration act to address state aviation system needs through legislation that would provide a stable funding source of $15 million per year from the jet fuel sales tax for the Aeronautics Account, to be programmed and allocated by the Commission to publicly owned general aviation airports and air carrier public-use airports for airport security, safety, capacity needs, and comprehensive land use compatibility plans.

The Commission supports redirecting state sales tax revenues from the sale of jet fuel to fund state aviation programs.

At the Commission's direction, TACA will work in 2006 with representatives of the Business, Transportation and Housing Agency and Caltrans to:

- identify potential roles and policies for the state in developing California's aviation system.
- clearly identify the security needs that must be addressed according to the May 2004 Transportation Security Administration Security Guidelines for General Aviation Airports. It is likely that cities and counties, the owners of nearly all of California's 224 public-use general

aviation airports, will seek state funds to improve airport security.

- support appropriate legislative proposals that would:
    1. increase funding for Caltrans to assist smaller airports in securing state and federal aviation grants to insure that California receives the maximum amount of federal funding and uses state funds effectively;
    2. make the transfer of $10.8 million from the Aeronautics Account to the General Fund in 2002-2003 and 2003-2004 be a loan that will be repaid by a specific fiscal year(s);
    3. dedicate the Aeronautics Account revenues derived from general aviation to general aviation purposes; and
    4. amend current statute to allow local agencies to request Commission approval for an agency to use its own funds to advance the required match for Federal Airport Improvement Program grants with the promise for later repayment.
- authorize and fund the Caltrans Division of Aeronautics to provide information to pilots and business aviation departments to promote the use of a larger number of California's airports and use more efficiently the existing system capacity. Existing and newly upgraded facilities often are not used to their potential because of the tendencies that companies, like people, develop. Caltrans could help to manage both highway congestion and runway congestion by marketing alternatives to congested airports that are within a convenient distance of major business destinations.

ISSUES FOR 2006

Implementation of SAFETEA-LU in California

The federal Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was enacted on August 10, 2005 as Public Law 109-59. It authorizes federal surface transportation programs for highways, highway safety, and transit for the five-year period from October 1, 2004 through September 30, 2009, replacing the six-year authorizations in the Transportation Equity Act for the 21st Century (TEA-21), which expired September 30, 2003. A series of temporary authorization measures had extended prior federal programs until the enactment of SAFETEA-LU.

Some provisions of SAFETEA-LU...will require new state legislation to define how new federal programs will be implemented and to clarify or update state law...

For the most part, SAFETEA-LU continues the federal programs of TEA-21. Some provisions of SAFETEA-LU, however, will require new state legislation to define how new federal programs will be implemented and to clarify or update state law in light of SAFETEA-LU's changes to prior federal programs. In general, the distribution and use of federal transportation funds within California is governed by implementing state legislation, consistent with federal law. In recent years, about 60% of all federal funds have supported the State Transportation Improvement Program (STIP) and the State Highway Operation and Protection Program (SHOPP), with the remainder dedicated to various local assistance programs administered by the Department of Transportation (Caltrans). The largest of these have been the formula-driven Regional Surface Transportation Program (RSTP) and the Congestion Mitigation and Air Quality (CMAQ) program. Other local assistance programs include portions of federal safety and bridge programs and congressional earmarks.

$2.364 billion ...came in the form of congressional earmarks... $1.157 billion of which was taken from funds the state would otherwise have received through formula programs.

The new Act authorizes $182 billion in highway apportionments and earmarked projects nationwide over the five years, including $17.8 billion for California. About $2.364 billion of this amount (about 13.3% of the total for California) came in the form of congressional earmarks for designated projects, $1.157 billion of which was taken from funds the state would otherwise have received through formula programs.

Caltrans has initiated a review of the actions needed to implement SAFETEA-LU's new provisions, including the need for state legislation, in consultation with Commission staff and representatives of regional agencies, cities, counties, transit operators, and other interested parties. In particular, Caltrans hosted SAFETEA-LU implementation meetings with these representatives on November 2 and 14, 2005.

The principal implementation issues reviewed in these consultations included the following:

- The new federal Highway Safety Improvement Program, including the role of the Strategic Highway Safety Plan.
- The new federal High Risk Rural Roads program.
- The new federal Safe Routes to Schools program.
- The restructured federal Coordinated Border Infrastructure Program.
- Management of federal obligation authority (OA) for congressional earmark programs.
- Changes in federal eligibility for the CMAQ program.
- Proposed changes in the state's RSTP formula.
- Changes in the federal cycle for regional transportation plans and federal transportation improvement programs (FTIPs).
- Two new transit programs under which funding will be apportioned to the state for statewide competitive grants, New Freedoms and Jobs Access Reverse Commute.

The most significant change...concerns the replacement of the...(HES) program with a new federal Highway Safety Improvement Program...

Highway Safety Improvement Program

The most significant change in federal highway programs concerns the replacement of the old federal Hazard Elimination Safety (HES) program with a new federal Highway Safety Improvement Program (HSIP), supplemented by a new and separate federal Safe Routes to Schools (SRS) program, effective October 1, 2005. The new HSIP receives greater funding than the old HES program, is broader in scope, and is designed to provide states more flexibility in addressing their most critical safety needs. For the 2005 federal fiscal year (ending September 30, 2005), the HES program provided about $75 million to California. For the 2006 year, the new HSIP will provide about $119 million, and the new SRS program another $11 million.

Nationwide, SAFETEA-LU authorizes a total of $5.1 billion in HSIP funding over the four federal fiscal years through September 2009, including $449 million for California. Of this amount, $880 million ($65 million for California) is set aside over four years for the Railway-Highway Crossing program and $90 million ($8.3 million for California) is set aside annually for a new High Risk Rural Roads program.

SAFETEA-LU also mandates that each state develop a Strategic Highway Safety Plan...

The Railway-Highway Crossings program is an extension of a program formerly included under HES, but now with its own separate apportionment. The High Risk Rural Road program is a new program, with a set-aside from HSIP funding, for use only for construction and operational improvements on high risk rural roads, those are roads that are defined as rural major or minor collectors or rural local roads on which the accident rate exceeds the statewide average for such roads or on which increasing traffic volumes will likely create an above-average accident rate. According to Caltrans, about 98% of the qualifying rural roads in California are local roads rather than state highways.

After approval of the state Safety Plan, only projects from the Plan may receive HSIP funding.

SAFETEA-LU also mandates that each state develop a Strategic Highway Safety Plan (SHSP) and submit annual reports to the federal Secretary of Transportation that describe at least 5% of the state's most hazardous locations, progress in implementing HSIP-funded projects and their effectiveness in reducing fatalities and injuries. The safety plan is to be used to identify and analyze highway safety problems, including projects or strategies to address them, and evaluate the accuracy of data and the priority of projects. After approval of the state Safety Plan, only projects from the Plan may receive HSIP funding. The Governor or a responsible state agency designated by the Governor approves the Safety Plan. If a state does not have an approved Safety Plan by October 1, 2007, its annual HSIP funding will be frozen at the 2006-07 level pending Plan approval.

State legislation will be needed... to recognize the new federal HSIP funding program and to amend provisions relating to the state ...[Safe Routes to Schools] program.

State legislation will be needed to rewrite the state's Federal Aid for Highway Safety Improvements Act (commencing with Section 2330 of the Streets and Highways Code), both to recognize the new federal HSIP funding program and to amend provisions relating to the state SRS program. In the Caltrans consultations on implementing SAFETEA-LU, there was general agreement that long term state implementation of the HSIP funding program should depend on the outcome of the development of the SHSP, while more immediate implementation should be modeled after the old HES program. Because SAFETEA-LU permits the use of HSIP funding for HES purposes pending the development of the Safety Plan, the parties agreed generally that existing state law could and should be followed in the meantime.

Safe Routes to Schools

The most difficult implementation issue relating to the change in federal safety programs concerns the status and funding of the state SRS program.

The most difficult implementation issue...concerns the status and funding of the state SRS program.

Prior to the enactment of TEA-21 in 1998, the federal HES program was directed specifically to the elimination of safety hazards on public roads other than interstates—generally spot improvements such as guardrail, median barriers, curve corrections, pavement markings, and surface treatments. State law called for this funding to be spent in approximately equal amounts on state highways and local roads. State highway projects were implemented through the SHOPP, and local road projects through the Caltrans local assistance safety program. Under the local assistance program, safety projects are funded on a statewide basis according to identified need. The amount of federal HES funding that has been devoted to the SHOPP has been far less than the amount of qualifying state highway safety projects programmed in the SHOPP.

In practice, the state SRS construction program has been funded entirely with state funds that were substituted for the federal funds...

TEA-21 included a provision extending eligibility for HES funding to include projects on bicycle and pedestrian paths or any traffic calming measure. In response, AB 1475 (1999, Soto) created a state SRS construction program, with federal HES funds to be split in approximately three equal parts between the SHOPP, the local assistance safety program, and the state SRS program. The state SRS program provided for Caltrans local assistance grants to local governments on a statewide competitive basis for the construction of bicycle and pedestrian safety projects and traffic calming projects. Criteria included the potential for reducing child injuries and fatalities and the potential for encouraging increased walking and bicycling among students. The program was created with a sunset date of January 1, 2002, which was first extended to January 1, 2005 by SB 10 (2001, Soto) and then to January 1, 2008 by SB 1087 (2004, Soto). In practice, the state SRS construction program has been funded entirely with state funds that were substituted for the federal funds, in order to simplify program administration, with the program funding level based on the prescribed share of the state's federal HES funding.

SAFETEA-LU both eliminated the HES program and created a new separate federal SRS program. The new federal program is generally consistent with California's state program, which in turn was based on language in the former federal HES program. However, there are some differences that should be addressed in implementing state legislation. The new federal program requires that between 10% and 30% of the federal funds be expended for noninfrastructure activities to encourage walking and bicycling to school; including public awareness campaigns, traffic education and enforcement, student safety education, and management of SRS programs. The federal program also allows for funding of planning and design of infrastructure facilities, as well as construction, and permits assistance to state agencies, regional agencies and nonprofit organizations, as well as local governments.

...additional state SRS funding will reduce funding for the... SHOPP or for local assistance safety programs.

The more difficult issue, however, concerns the future amount and source of funding for the state program. For 2004-05, the state SRS program was funded at a level of $25 million in state funding, based on the amount of one-third of the state's federal HES funds. The new federal program is funded at $11 million for 2005-06, growing to $22 million in 2008-09. Clearly, the federal SRS funding should be applied to the state SRS program, though that will mean that there is no longer any escaping federal administrative requirements for at least some SRS projects. The issue is how much in additional resources should be devoted to the state SRS, how that amount should be determined, and from what source it might come. Under SAFETEA-LU, HSIP funds may be used for SRS purposes if that is part of the state's SHSP. Additional funding might also come from state funds, as it has in the past. Either way, additional state SRS funding will reduce funding for the SHOPP or for local assistance safety programs. The 2006 STIP fund estimate assumed that federal SRS funding would be used for the state SRS program and that HSIP funding would be split equally between the SHOPP and local programs.

The Caltrans consultations on SAFETEA-LU implementation agreed that, for 2005-06, Caltrans would recommend funding the state SRS program at a level of about $43 million, calculated as one-third of the total of federal HSIP and SRS apportionments, with the funding to come from the $11 million in federal SRS and the other $32 million from federal HSIP or state funds. It was also agreed that Caltrans would solicit additional projects for 2005-06 because the federal SRS criteria differ from those for the existing state program. Recommendations and decisions on funding beyond 2005-06 would be deferred pending development of the state SHSP.

Recommendations and decisions on funding beyond 2005-06 would be deferred pending development of the SHSP.

Coordinated Border Infrastructure Program

SAFETEA-LU includes a new Coordinated Border Infrastructure Program, with apportionments distributed among the states bordering Canada and Mexico according to a formula that is based 20% on incoming commercial trucks, 30% incoming personal motor vehicles and buses, 25% weight of incoming cargo by commercial trucks, and 25% number of land border ports of entry. Eligible projects include improvements to the safe movement of motor vehicles at or across the international border and may include projects located in Canada or Mexico. Projects must be located within 100 miles of an international land border.

[Border program projects] must be located within 100 miles of an international land border.

TEA-21 included a similar Border program, but all funding was earmarked for projects selected by Congress. Under SAFETEA-LU, this funding is not earmarked and project selection is left to the states. Over the life of SAFETEA-LU, California is projected to receive about $106 million.

The Commission recommends that the Legislature amend state law to have this project selection take place through the STIP process, with Border program funding to be programmed through the interregional program of the STIP, with an exemption from the geographic distribution formulas that otherwise apply to the STIP. This means that projects would be proposed by Caltrans through its Interregional Transportation Improvement Program (ITIP) or through an amendment to the STIP. This would balance flexibility with accountability, providing the opportunity for public review and comment, even for alternative proposals, without creating a separate grant or application process. This approach was endorsed in the Caltrans consultations.

The Commission recommends that the Legislature amend state law to have this project selection take place through the STIP process... with an exemption from the geographic distribution formulas that otherwise apply to the STIP.

Management of Congressional Earmarks

SAFETEA-LU included a record high level of Congressional earmarks—designations of specific dollar amounts in the Act for specific projects. Usually these earmarks provide only a portion of the funding actually required to complete a project,

SAFETEA-LU included a record high level of Congressional earmarks...

and so project sponsors must find additional funding from other federal, state, or local sources.

The system by which federal obligation authority (OA) is made available for earmarked projects is much more complex than in prior acts. In TEA-21, nearly all earmarks were described as "high priority projects," and each project received its own OA, which was not transferable to other projects. In the end, most projects could receive the full OA made available, which was somewhat less than the authorized amount, generally about 90 percent.

The system by which federal obligation authority (OA) is made available for earmarked projects is much more complex than in prior acts.

Under SAFETEA-LU, however, there are five separate groups of earmarks, with varying levels of OA flexibility. Some projects received earmarks from two groups.

- <u>Section 1702, High Priority Projects (HPP) numbered 1-3676</u>. California has 379 projects for $1.014 billion. As under TEA-21, each project receives its own OA, with 20% made available each year. In the end, OA may be restricted to a portion of the total authorized amount, probably about 90%. Individual projects delivered early may use OA borrowed from another project, but borrowed OA must be returned the following year.

- <u>Section 1702, High Priority Projects (HPP) numbered over 3676</u>. California has 47 projects for $143 million. OA is made available to the state for this group as a whole, not for individual projects.

- <u>Section 1934, Transportation Improvements (TI)</u>. California has 13 projects for $97 million. OA is made available to the state for this group as a whole. In addition, OA may be transferred freely between this group and the high-numbered HPP group. Any project in either of these two groups may receive OA for up to 100% of its authorized amount, though this would mean reduced availability for other projects within the two groups.

...there are five separate groups of earmarks...

- <u>Section 1301, Projects of Regional and National Significance (PRNS)</u>. California has 9 projects for $450 million. OA is made available to the state by the group as a whole. Any project may receive OA for up to 100% of its authorized amount, though this would mean reduced availability for other projects within the same group. Though OA may be temporarily loaned to or borrowed from another group, it may not be transferred permanently.

- Section 1302, National Corridor Infrastructure Improvement Program (NCIIP). California has 6 projects for $660 million. This group has the same flexibility and restrictions as PRNS. OA may not be transferred permanently.

The primary policy question for the state is whether California should place any restrictions or provide any guarantees for projects within the various groups...

For each group other than HPP, the OA made available is 10% in the first year, 20% in the second, 25% in the third, 25% in the fourth, and 20% in the fifth. All OA is permanent, so that OA unused in one year remains available in the following years.

The primary policy question for the state is whether California should place any restrictions or provide any guarantees for projects within the various groups, as by reserving or assigning OA to projects or regions. The consensus in the Caltrans SAFETEA-LU consultation was that Caltrans should manage earmark OA so that funds are made available for each project within the groups on a first-come first-served basis, up to 100% of the federally authorized amount. This means that projects that are delivered early may receive full OA, while projects that are late in delivery may find that OA is no longer available for the authorized earmark.

Congestion Mitigation and Air Quality (CMAQ) Formula

...projects that are late in delivery may find that OA is no longer available for the authorized earmark.

SAFETEA-LU continues the federal CMAQ program first established in 1991. As originally established, the CMAQ program distributed funding to the states on the basis of the weighted population of air basins that were not in attainment of federal air quality standards, with the population weighting dependent on the severity of air pollution in the basin. Once apportioned to a state, the funds could be expended within any qualifying air basin in the state without regard to formula. Implementing state legislation (Section 182.7 of the Streets and Highways Code) designated that CMAQ funds would be apportioned to regions on the basis of the same weighted population formula used in the federal law.

SAFETEA-LU incorporates a recent change in EPA ozone standards under which two California regions, Santa Barbara and Monterey Bay (Monterey, Santa Cruz, and San Benito Counties) are no longer nonattainment areas. The weighted populations for these regions are therefore no longer included in the federal or state distribution formulas. However, SAFETEA-LU also includes a provision that permits states to expend CMAQ funds in areas required to file air quality maintenance plans under the Clean Air Act, including the Monterey Bay and Santa Barbara areas. This means that the Monterey Bay and Santa Barbara areas now qualify for CMAQ under federal law, even though the federal apportionment is not based on their population and state law does not make them eligible for future apportionments.

In consultations to date, the Monterey Bay and Santa Barbara regions have agreed to accept future ineligibility for the state CMAQ program, provided that some provision is made for them to receive phase-out apportionments of CMAQ over about a three-year period. Other regions have agreed, though precise formula language for such a phase-out is still under negotiation. The Legislature can expect to see a proposal for such a CMAQ phase-out in state SAFETEA-LU implementation legislation this year.

Proposed Changes in the State RSTP Distribution

SAFETEA-LU continues the federal Surface Transportation Program (STP), under which funds are apportioned by population and may be expended for virtually any surface transportation purpose. Under federal law, 62.5% of STP funds are apportioned and restricted geographically, with California receiving 12 apportionments by population, one for expenditure in each of the state's urbanized areas with a population over 200,000 and a 12th apportionment for the remainder of the state. From the 12th area apportionment, the federal law identifies a subapportionment that must be expended in rural areas under 5,000 population. This subapportionment is 110% of the amount the state received under the old federal-aid secondary (FAS) program in 1990-91, adjusted for the 1990 census.

The other 32.5% of federal STP funds are flexible funds that may be expended anywhere in the state.

Under SAFETEA-LU, an Equity Bonus apportionment replaces what had been known as Minimum Guarantee under TEA-21. Each of these apportionments was designed to make up the difference between what a state received under various other apportioned programs and a guaranteed return of the state's contributions to the federal Highway Trust

Fund. As with Minimum Guarantee, Equity Bonus apportionments are redistributed to supplement the basic apportionments of various "core programs," including STP. As with Minimum Guarantee, a portion of the Equity Bonus added to STP is added to the geographically-restricted area apportionments, though the portion is much less than 62.5%. The remainder is flexible and may be expended anywhere in the state.

Under state law in effect since 1993, the portion of federal STP (including Minimum Guarantee) that is geographically restricted has been apportioned to regional agencies by county population under the state's Regional Surface Transportation Program. Where a county's population share of RSTP is less than 110% of the amount the county received under the old FAS program in 1990-91, adjusted for the 1990 census, the state's apportionment to that county is augmented up to that amount without reducing the apportionment of any larger county. This requires the state to apply about $8 million per year from of its flexible STP funds to RSTP, in addition to the population-restricted STP funds. The state RSTP also mandates that each regional agency annually suballocate its RSTP apportionment so that each city and county within the region receives at least 110% of its 1990-91 level from the old federal-aid urban (FAU) and FAS funds.

State legislation to implement SAFETEA-LU should update the statute for RSTP to refer to the Equity Bonus rather than the Minimum Guarantee apportionment. Representatives of cities and counties have also suggested that the state RSTP statute be amended to guarantee a greater proportion of federal STP, including Equity Bonus, for cities and counties. There are at least three different kinds of proposals.

- To increase the RSTP guarantee for small counties to something above the 110% of 1990-91 FAS levels. Advocates for this change argue that it is not fair that large counties have seen their shares grow with the overall program while small counties have not. The counter argument is that this is a grandfather provision that has always allowed small counties to receive more than their population share.
- To increase the RSTP mandate for suballocations by larger regions to cities and counties. Advocates for this change argue generally that regions do not give adequate attention to the streets and roads needs of cities and

counties and that the state should require them to do so. The counter argument is that this is a matter that should be determined locally rather than by the state.

- To dedicate more than the population-restricted federal funds to the RSTP. Advocates for this change argue generally that state funding of local streets and roads and other local transportation needs is insufficient. The principal counter arguments are that this would break the longstanding agreement to tie RSTP apportionments to the federal law's restrictions and that this would only divert funding from the SHOPP, which is also underfunded.

The Commission recommends that the Legislature maintain the RSTP ties to the federal STP program and its geographic restrictions.

The Commission recommends that the Legislature maintain the RSTP ties to the federal STP program and its geographic restrictions. As discussed elsewhere in this report, state funding is inadequate to meet the needs of either state highways or local roads, and shifting federal funds from one to the other will not contribute to resolving the state's overall transportation funding deficit. The state already has direct subvention programs to cities and counties for local roads that should be expanded through increased revenues, not by diversion from the SHOPP. The Commission supports the allocation of RSTP funding to regional agencies and would support the elimination of the RSTP mandate for suballocations in urban areas, which is not based in federal law.

The state already has direct subvention programs to cities and counties for local roads that should be expanded through increased revenues, not by diversion from the SHOPP.

New Transit Programs

SAFETEA-LU establishes two new federal formula transit programs with funds to be directly to large urbanized areas (over 200,000 population) and to the state for smaller urbanized areas and nonurbanized areas. They are the Section 5316 Jobs Access Reverse Commuter (JARC) program and the Section 5317 New Freedom (NF) program. The JARC program provides funding for local programs offering access to jobs and reverse commute transportation services for low-income individuals. The NF program provides funding for projects that provide new public transportation opportunities for disabled persons, beyond the requirements of the Americans with Disabilities Act of 1990. The JARC program is estimated to provide $19.8 million to California in 2005-06, growing to $23.6 million in 2008-09. The NF program is estimated to provide about $9.7 million in 2005-06, increasing to $11.5 million in 2008-09.

Each of these new programs directs 60% of funding to large urbanized areas, 20% to smaller urbanized areas, and 20% to other areas. Projects are to be selected through an annual competitive application process—regionally for the large urbanized areas and statewide for small urbanized and nonurbanized areas.

Sections 5316 and 5317 contain provisions permitting the transfer of state apportionments, but only after the state has completed the statewide competitive process, awarded grants, and consulted with local officials. Neither provision allows for the transfer of program administration prior to the competitive process, as some regional agencies would prefer. This is an issue still pending clarification from the Federal Transit Administration.

ISSUES FOR 2006

Goods Movement and Logistics

California is the nation's loading dock.

California is the nation's loading dock. More than 40% of the goods imported through the ports of Los Angeles and Long Beach are destined for delivery outside of California. That percentage rises to nearly 60% when factoring in goods transloaded in the region but targeted for shipment to other parts of the United States. Conversely, 60% of the Port of Oakland's cargo volume consists of agricultural products and other goods shipping from California to overseas destinations.

California's ability to succeed economically rests on its ability to move goods reliably and efficiently, with minimal delay.

These rising goods movement volumes on California's transportation system significantly impact highway and rail capacity, congestion, and mobility. California's ability to succeed economically rests on its ability to move goods reliably and efficiently, with minimal delay. "Just-in-time" delivery is the way of doing business throughout the state. In goods movement, time is money and products and services are only as good as their timely and reliable delivery. Congestion is growing on many key segments of the California transportation system, and congestion drastically reduces the productivity of the overall freight network by increasing the time required to transport goods. The growth demands of freight movement have reduced mobility and system reliability and have increased transportation costs.

The growth demands of freight movement have reduced mobility and system reliability...

Congestion is not just a cost borne by freight operators. Companies with production schedules timed to take advantage of deliveries to an assembly line as they are needed, or "just in time," must instead plan for items to arrive early. This consumes space and inventory, expending resources that could otherwise be spent on productive activity. Higher transportations costs due to congestion reduce a firm's ability to invest improving product quality and introduce new products. Moreover, these higher costs are passed onto business consumers who build them into the prices they charge retail customers.

Logistics, or goods movement, is more than truck traffic or rail movements between a port and an inland distribution center. Logistics incorporates the truck traffic that brings bread to grocery store shelves, lumber to the hardware store shelves, and materials to manufacturing shelves. Every one of these movements involves moving on roadways and railways that are increasingly congested with long-distance logistics movements. Yet, without these regular deliveries, local, regional, and state economic activity would suffer.

Agricultural and local distribution activities, by their nature, will always involve trucks. No other mode provides a cost competitive and reliable enough alternative. Trucking dominates shipments in California to an even greater extent than for the rest of the nation. In California, trucking represents almost 63% of ton-miles of shipments compared to 38.5% for the nation as a whole. Some existing city and county ordinances restrict delivery times and unloading locations, which hamper the delivery of goods. The ability to add capacity in delivery corridors is highly constrained due to the growth of the adjacent communities.

Trucking dominates shipments in California to an even greater extent than for the rest of the nation.

The growth in international trade freight movement, on top of the growth in farm-to-market and intraregional truck traffic, is overwhelming our transportation system. In 2004, $397 billion worth of U.S. trade ($274 billion in imports and $123 billion in exports) went through California's sea, air, and land ports. Nearly 80% of these exports and imports either originated in or were destined for some other state. The majority of international goods arrive through west coast ports, with 40% coming from the Los Angeles and Long Beach ports alone.

Nearly 80% of ...exports and imports either originated in or were destined for some other state.

In recognition of the importance of logistics on the state's economy and the role goods movement plays in California's air quality improvement efforts, both the Schwarzenegger Administration and the Legislature initiated efforts in 2004 to develop policy approaches to increasing capacity and reducing congestion while improving air quality.

Governor Schwarzenegger created a cabinet-level effort led by Business, Transportation and Housing Secretary Sunne Wright McPeak and California Environmental Protection Agency Secretary Alan Lloyd. In 2005, they convened stakeholders to develop a Phase One report on the "who" and "what" of the state's logistics activity. This Phase One report represented the first time that a gubernatorial administration had dealt with goods movement in a coordinated fashion. The Administration's Phase Two efforts, however, have devolved into a port-centric effort focused on the major ports in Los Angeles County and Oakland. As important as these ports are to the state's economy and as much as they impact the state's highway and rail networks, the coastal urban emphasis does not recognize adequately the role that goods movement plays throughout California, particularly in the San Joaquin Valley and the international border region of San Diego and Imperial counties.

The Legislature has also been involved in developing goods movement policy through the California Marine and Intermodal Transportation System Advisory Council (CALMITSAC). Established as a regional subunit of the Marine Transportation System National Advisory Council chartered by the federal Secretary of Transportation under the Federal Advisory Council Act, CALMITSAC has examined infrastructure, environmental, and homeland security issues in California. Through the enactment of AB 2043 (2004), the State Legislature requested that CALMITSAC study and compile information on the impacts of port growth on the state's transportation system and report its findings to the Legislature with recommendations on methods to better manage port growth and address the environmental impacts of moving goods through the ports. The report is being developed through study efforts in both northern and southern California, and it is scheduled for delivery to the Legislature in the mid- to late 2006.

In January 2005, the California Transportation Commission established a Goods Movement Advisory Committee. The Goods Movement Advisory Committee is charged with recommending to the Commission policy action that the Legislature and the Administration could consider in order to address the growing demands for goods movement and California's ability to remain competitive economically. In particular, the Advisory Committee is charged with reviewing, considering, and advising the Commission on the following matters:

- Infrastructure needs as they relate to goods movement.
- Where state and federal investments in infrastructure would have the most effective impact on California's economy.
- Topics and issues for roundtables to bring together private goods movement stakeholders and public goods movement planners to share information on local goods movement issues.
- Review of goods movement related legislative bills and recommended positions.

To address the challenges of goods movement in California, the state and the regions have initiated a variety of integrated studies and workshops. The Metropolitan Transportation Commission (MTC) issued its "Regional Goods Movement Study for the San Francisco Bay Area" in December 2004. The purpose of the study was to help MTC develop priorities for allocating transportation funds for goods movement activities, to provide local decision-makers with economic impact information, and to prepare a common freight platform for MTC and its partners. The Southern California Association of Governments (SCAG) issued the "Southern California Regional Strategy for Goods Movement: A Plan for Action" in February 2005 (amended March 2005). The plan seeks to address the wide range of issues involved in goods movement, including congestion, infrastructure improvements, air quality, economic opportunity in the logistics industry, and global competitiveness.

The air quality impacts of land use decisions and transportation infrastructure improvements will drive transportation investment...

Ultimately, success will be measured by the arrangements made between appropriate state agencies, metropolitan planning organizations, and the environmental community. The air quality impacts of land use decisions and transportation infrastructure improvements will drive transportation investment and require that jurisdictions work with local air quality districts to determine impacts to existing facilities and other locations. It will be incumbent upon the Commission, Caltrans, and regional agencies to develop a framework for analyzing the trade-offs to achieve air quality conformity and to apply that framework to the overall air quality benefits in both particular locations and statewide. Once the air quality issues are addressed, it will be easier to focus on the infrastructure improvements required. The Commission can play an important role as a forum for the discussion and resolution of the air quality-transportation improvement issue.

2005 ACTIVITY AND ACCOMPLISHMENTS

2005 ACTIVITY AND ACCOMPLISHMENTS

Proposition 42 Transfer

For 2005-06, $1.313 billion in gasoline sales tax revenue was transferred to the Transportation Investment Fund (TIF), in accordance with the Traffic Congestion Relief (TCR) Act of 2000, as amended, and Article XIX B of the California Constitution, as added by Proposition 42 (2002).

What the Transfer Means

This was the first time a full Proposition 42 TIF transfer had been made, and it provided a welcome boost for the state transportation program after four years of TIF postponements and suspensions. Under law, the TIF funding provided:

- $678 million transferred to the Traffic Congestion Relief Fund (TCRF) for projects in the Traffic Congestion Relief Program (TCRP).
- $254 million (40% of the balance after deducting the $678 million for the TCRP) for allocation and expenditure directly from the TIF on State Transportation Improvement Program (STIP) projects.
- $254 million (40%) for transfer to the State Controller for apportionment to cities and counties by formula, to be used for local street and road maintenance, rehabilitation, reconstruction, and storm damage repair. Of this amount, half (20%) was for apportionment to cities and half (20%) for apportionment to counties.
- $127 million (20%) for transfer to the Public Transportation Account (PTA). Of this amount, half (10%) was for allocation and expenditure on PTA-eligible rail and transit projects in the STIP. The other half (10%) was for apportionment by the State Controller to local transit operators by formula under the State Transit Assistance program.

The 2005-06 budget also assumed the availability of another $1.0 billion from the proceeds of tribal gaming bonds. If bonds were sold and the proceeds were $1.0 billion, they would provide the following additional funding to repay various loan obligations of the TIF and TCRF:

- $465 million for the STIP, to repay a loan from the State Highway Account.
- $290 million for the TCRP.
- $122.5 million for the STIP, to repay a loan from the PTA.
- $122.5 million for the TIF local streets and roads program.

On this basis—assuming both the Proposition 42 transfer and the availability of tribal gaming bond revenues, together with about $1.8 billion from the State Highway Account to support the State Highway Operation and Protection Program (SHOPP)—the

Department of Transportation (Caltrans) embarked on a delivery program of about $4.2 billion in projects for the fiscal year.

Even without the tribal gaming bond proceeds, the Commission was able to allocate about $900 million to STIP projects and about $600 million to TCRP projects this year. For 2006-07, it is clear that there will be no STIP or TCRP allocations at all without either the Proposition 42 transfer or tribal gaming bond revenues. Only allocations for the SHOPP would continue, with its funding from the State Highway Account.

What the Transfer Does Not Mean

The Proposition 42 transfer—as welcome and important as it was—did nothing to resolve the issue of a state transportation program that is inherently unstable, unreliable, inflexible, and inadequate. Major transportation projects take several years to plan, design, and make ready for construction. Yet the Commission, Caltrans, and the regional and local agencies that plan and implement transportation infrastructure projects have no way of knowing how much funding will be available next year, much less the next five years. Proposition 42 funding was there this year, but not the year before, and no one can say about next year or the year after that. The timing of tribal gaming bonds and the repayment of past Proposition 42 suspensions are in doubt at least as much. This makes the STIP little more than a fantasy, an exercise based on phantom funding. Major STIP and TCRP projects that go to construction in one year draw cash over three years or more. When the Commission and Caltrans cannot be sure whether cash will be available next year to support projects started this year, it becomes necessary to hold back on starting new projects, saving this year's cash for next year's expenditure. That causes cash balances to rise, leading some to assume that funding is more than sufficient, when in fact it is a sign of just the opposite—that the program is dangerously unstable and inadequate.

Guaranteeing that Proposition 42 would be funded every year and that all loans would be repaid on schedule could remove the instability and unreliability, but even that would not resolve the issues of inflexibility and inadequacy. The 2006 STIP fund estimate assumes that all transfers and loan repayments will occur on schedule. But 75% of the new programming capacity for the 2006 STIP is from the PTA, available only for transit projects. The PTA, which once contributed to STIP flexibility by counterbalancing constitutional restrictions on state gasoline taxes and weight fees, now does just the opposite. Now, the PTA is the inflexible and relatively large funding source that complements the fully flexible revenues from the TIF. The State Highway Account, meanwhile, no longer funds the STIP at all.

Even if fully funded, Proposition 42 would not be enough to fund an adequate program. When prior loans are repaid and the TCRP is completed, the STIP will be left with 50% of annual Proposition 42 transfers (40% directly from TIF, 10% through PTA). That is only about half of the amount, in constant-value dollars, that was being provided ten years ago for the STIP from the State Highway Account. State Highway Account dollars have now been entirely lost to the STIP—the result of a flat gasoline tax and the rising costs of state highway operations and maintenance and the rising costs of rehabilitation and traffic safety improvements funded through the SHOPP. Proposition 42 is not enough to make up for the loss of per-gallon gasoline tax dollars.

2005 ACTIVITY AND ACCOMPLISHMENTS

Traffic Congestion Relief Program

The California Transportation Commission allocated $483 million to Traffic Congestion Relief Program (TCRP) projects from July through September 2005, the first TCRP allocations in 2½ years. The Commission suspended TCRP allocations in December 2002 when then-Governor Davis proposed to suspend the first $678 million in annual Proposition 42 transfers. For both 2003-04 and 2004-05, the Governor and Legislature suspended Proposition 42 transfers and provided just enough TCRP funding to continue payments on allocations that had already been made, not enough to support new allocations. For 2005-06, the Governor and Legislature identified the availability of one-time revenues for the state budget in deciding for the first time not to suspend the Proposition 42 transfer, thus allowing the transfer of $678 million for the TCRP. From this amount, the Commission set aside $86 million to complete the funding of prior allocations, $116 million for allocations to reimburse local agencies for projects completed under an approved letter of no prejudice (LONP), and $476 million for direct project allocations. With $7 million added from the rescission of prior allocations, the Commission allocated a total of $483 million directly to projects.

The $483 million is far short of the amount needed for all the TCRP projects that the Department of Transportation (Caltrans) reports could be ready for allocation in 2005-06. The Commission had fully allocated the $483 million by September 2005. By December 2005, there were $591 million in outstanding LONPs, and Caltrans estimates that still another $525 million in TCRP projects will be ready for allocation by June 2006.

In July 2005, for the first time, the Commission adopted an allocation plan for TCRP allocations. The plan assumed the $678 million from the Proposition 42 transfer, plus another $290 million in tribal gaming bond proceeds that could become available when and if the bonds are sold. Following the findings and recommendations of Caltrans, the Commission's plan gave priority to projects for construction or procurement that could have a contract award within six months.

Background

The TCRP is the $4.9 billion commitment to 141 specific projects designated by the Governor and the Legislature as part of the Traffic Congestion Relief (TCR) Act of 2000 (AB 2928 and SB 1662). The TCRP is funded through the Traffic Congestion Relief Fund (TCRF), which was created by the TCR Act for that purpose. The TCRP was scheduled to be funded through the TCRF with:

- $1.595 billion in 2000-01 from a General Fund transfer and directly from gasoline sales tax revenue.
- $3.314 billion in transfers from the Transportation Investment Fund (TIF), originally over the years from 2001-02 through 2005-06, and later changed to 2003-04 through

2007-08. The transfers were to be $678 million per year for the first four years and the balance of $602 million in the fifth year.

Subsequently, $1.383 billion of the General Fund contribution was borrowed back from the TCRF by the General Fund. Today, that loan balance stands at $1.222 billion and, since AB 687 (2004), has been scheduled for repayment from the proceeds of tribal gaming bonds. The tribal gaming bonds were originally to have been sold in 2004-05, but have been delayed indefinitely because of litigation challenging the state's approval of the tribal compacts. The original obligation of the General Fund to repay the loan by June 30, 2006, was cancelled by SB 62 (2005).

Under Proposition 42 (2002), the scheduled General Fund transfers to the TIF may be suspended only upon a declaration by the Governor and with the approval of both houses of the Legislature by a two-thirds vote in a bill separate from the budget act. The transfers were suspended for both 2003-04 and 2004-05, with just enough transferred to make reimbursements for prior TCRP allocations. The amounts suspended were rescheduled by legislation for repayment through the Transportation Deferred Investment Fund (TDIF) in 2007-08 and 2008-09. The TCRP is now scheduled to receive TDIF transfers of $678 million in 2007-08 (the amount suspended in 2004-05) and $389 million in 2008-09 (the amount suspended in 2003-04).

Ultimately, all of the tribal gaming bond proceeds would accrue to the TCRP. AB 687 (2004), as amended by SB 62 (2005), provides that $290 million in proceeds would go directly to the TCRP. The remainder would be dedicated to early repayment of loans owed by the TCRF, which would in turn free up funds for the TCRP.

Program Status

As of December 2005, the Commission had approved $4.174 billion in TCRP project applications, including at least one application for each of the 141 designated projects. An application defines the scope, cost, and schedule of a particular project or project phase. Application approval is equivalent to project programming and generally includes project expenditures planned for future years.

Of the $4.174 billion in application approvals, the Commission had approved $2.066 billion in project allocations. An allocation encumbers state funding for a particular project or project phase.

Last year, Caltrans reported to the Commission that $1.116 billion had been expended and invoiced through November 2004. Caltrans reports that, since that time, another $238 million has been expended and invoiced, bringing the total through November 2005 to $1.354 billion.

2005-06 TCRP Funding

For 2005-06, the Governor and Legislature did not suspend the Proposition 42 transfer to the TIF, thereby allowing the statutory transfer of $678 million to the TCRF for the TCRP. The TCRP was also scheduled to receive $290 million from the proceeds of sale of the tribal gaming revenue bonds authorized by AB 687 (2004), rescheduled from 2004-05 due to litigation. SB 62 (2005) amended the provisions of AB 687 to increase the amount of debt being paid by the bonds from $1.214 billion to $1.222 billion, accounting for one more year's interest. It also deleted the statutory provision that required repayment of the General Fund's $1.222 billion debt to the TCRF by June 30, 2006, although it left intact the obligations of the TCRF to repay debts of $465 million to the State Highway Account by June 30, 2007 and $275 million to the Public Transportation Account (PTA) by June 30, 2008. SB 62 specified that the $1.222 billion debt to the TCRF be repaid from tribal gaming bond proceeds or, to the extent that those proceeds are insufficient to repay the loan amount, from future tribal gaming revenues, the proceeds of additional bonds, or from the General Fund.

2005-06 TCRP Allocation Plan

Although the Proposition 42 transfer was clearly enough to allow the Commission to begin making TCRP allocations again for the first time since December 2002, it was just as clear that $678 million, or even $968 million if the tribal gaming bond proceeds became available, would not be enough to fund all TCRP projects that would be ready. Because there could be no assurance of when additional TCRP funding would become available, Caltrans recommended and the Commission agreed that allocations should be limited to what could be supported within the current year's funding.

In July 2005, Caltrans recommended and the Commission adopted the following criteria and priorities for the use of 2005-06 TCRP funding:

- Set aside cash to complete payments on prior TCRP project allocations ($86 million).
- Allocate reimbursements to local agencies for TCRP projects that they have completed under approved LONPs ($116 million).
- Allocate the TCRP funding "match" for TCRP projects that:
    1. Will receive a State Transportation Improvement Program (STIP) construction allocation in 2005-06; and
    2. Support a prior STIP construction action (e.g. GARVEE approval).
- Allocate construction or procurement funding at the July 2005 and August 2005 Commission meetings for those TCRP projects that can have a construction or procurement contract executed by the end of the calendar year (December 31, 2005).
- Receive a report from Caltrans at the September 2005 Commission meeting with a plan for additional construction or procurement allocations, identifying:

1. TCRP projects that can have a construction or procurement contract award before the end of the fiscal year (June 30, 2006).
2. Prior TCRP project allocations with funds that are lapsing or can be rescinded with savings.

In adopting this allocation plan, the Commission also specified that project allocations in 2005-06 would be subject to the implementing agency awarding a construction or procurement contract within six months of allocation.

2005-06 Allocations

After the allocation plan's first two priorities (meeting prior allocations and liquidating LONPs for completed projects), $476 million in new allocation capacity remained. At the July and August meetings, the Commission approved $336 million for 9 projects, leaving a balance of $140 million. At that point, there still remained $352 million in projects that would be ready to proceed to construction in 2005-06.

For the September meeting, Caltrans completed its review of prior TCRP project allocations and identified $7 million that had lapsed or could be rescinded, bringing the total available for new projects to $147 million.

At its September 2005 meeting, the Commission allocated the remaining capacity of $147 million to 11 projects, bringing the total of new allocations to $483 million for 20 projects. With the allocation of all available funding, the Commission suspended making further allocations to TCRP projects until additional funding is made available. The following tables list the new TCRP projects allocated in 2005-06, the additional TCRP construction allocation requests received through December 2005, the other TCRP construction allocation requests that are anticipated by June 2006, and the TCRP nonconstruction allocation requests anticipated for 2005-06.

TCRP Project Allocations, June-September 2005

($1,000's)

No.	Project Description	Amount
9.4	Capitol Corridor, Oakland - San Jose, track improvements	$ 2,925
17	Route 101, add reversible HOV lane through San Rafael, Marin County	12,249
35.2	Pacific Surfliner, triple track intercity rail line within Los Angeles County	86,785
35.3	Pacific Surfliner, fifth lead track, Los Angeles County	7,064
44	Rte 47 (Terminal Island Fwy), interchange at Ocean Blvd Overpass in Long Beach	2,726
49	City of Los Angeles, Hollywood Intermodal Transportation Center	2,500
54.1	Alameda Corridor East; grade separations, Los Angeles County	68,727
62.1	Route 91; HOV lanes through downtown Riverside (University Av to Route 60/215)	17,000
70.2	Route 22; HOV lanes, Route 405 to Route 55 in Orange County (design/build HOV)	123,700
73	Alameda Corridor East; (Orangethorpe Corridor) grade separations in Orange Co.	11,800
74.8	Pacific Surfliner; within San Diego Co. (O'Neil to Flores Double Track)	2,400
79	North County Light Rail; Oceanside to Escondido in San Diego County	80,000
90	Route 99; widen freeway to 6 lanes, Kingsburg to Selma in Fresno County	16,140
97.1	Operational improvements near California State University at Fresno (City of Clovis)	215
97.2	Operational improvements near California State University at Fresno (City of Fresno)	4,670
107	Route 205; widen freeway to 6 lanes, Tracy to I-5 in San Joaquin County	25,000
118	Sacramento Clean Air/Transportation Plan; reduce diesel engine emissions	10,900
119.2	Low emission replacement buses (Yolo bus service operations)	1,227
123	Oceanside Transit Center; parking structure	590
159	Route 101; redesign and construction of Steele Lane interchange	6,000
	TOTAL	**$482,618**

Pending TCRP Allocation Requests, December 2005

($1,000's)

No.	Project Description	Phase	Amount
15	Route 24 Caldecott Tunnel 4th bore	Design	$ 5,000
83.1	Rte 15 managed lane, transit, San Diego	Construction	23,100
80	Mid-Coast Balboa LRT Extension, San Diego	Environmental	1,300
116	Route 80 Light Rail Corridor; double-track, Sacramento	Construction	21,100
156	BART, seismic retrofit	Construction	11,530
	TOTAL		**$ 62,030**

2005-06 TCRP Construction Allocation Requests Anticipated

($1,000's)

No.	Project Description	Amount
1.2	Santa Clara VTA, BART to San Jose	$ 7,240
7.2	Santa Clara VTA, CalTrain to Gilroy	27,730
27.2	Alameda County CMA, Vasco Road ACE Parking	1,204
37.2	Los Angeles MTA, Mid-City Transit Improvements	208,100
60.2	Route 15; southbound truck climbing lanes, San Bernardino County	9,140
74.1	Pacific Surfliner; double track, San Diego County	9,300
75.2	San Diego Transit, acquire about 85 low-emission buses	7,700
82.2	Route 5/805 interchange, San Diego County	6,000
83.2	Rte 15 managed lane, San Diego County	6,900
96	Fresno County, Friant Road; widen to four lanes	9,488
112	Kings County, Jersey Avenue; widen from 17th Street to 18th Street	1,500
118	Sacramento Emergency Clean Air/Transportation Plan (SECAT)	23,600
	TOTAL	**$317,902**

2005-06 TCRP Nonconstruction Allocation Requests Anticipated
($1,000's)

No.	Project Description	Phase(s)	Amount
1.2	Santa Clara VTA, BART to San Jose	Right of Way	$ 45,760
4	Rt 80 northbound HOV over Sunol Grade, Santa Clara-Alameda	Design, R/W	2,500
14	Monterey County, Pajaro Yard and rail station improvements	Design	3,842
22	San Francisco CTA, Doyle Drive replacement	Design	6,000
30	Sonoma-Marin commuter rail passenger service	Environmental	1,200
38.2	Los Angeles MTA, SF Valley North-South bus transit	Environmental	3,000
40	Route 10 HOV lanes over Kellogg Hill, Los Angeles County	Right of Way	21,000
43	Route 5 Carmenita Road interchange	Right of Way	33,460
49.2	City of Los Angeles, Hollywood Intermodal Transportation Center	Design	150
54.2	San Gabriel Valley COG, Valley View/BSNF grade separation	Right of Way	2,066
54.3	San Gabriel Valley COG, Alameda Corridor East; Pico Rivera	Right of Way	3,000
55.1	San Bernardino AG, Alameda Corridor East; Colton - Ramona	Right of Way	3,000
59	Route 10 Live Oak Canyon interchange, Yucaipa	Right of Way	330
87.2	Routes 94/125 connector ramps, San Diego County	Environmental	536
88.1	Route 5, realign freeway, San Ysidro, San Diego County	Design	7,000
95	Route 41 Friant Rd interchange, Fresno County	Design, R/W	450
103	Route 99 7th Standard Rd interchange, Kern County	Right of Way	1,500
106	Merced County, Campus Parkway	Design, R/W	1,440
115	Sacramento RT, South Line light rail, Phase 2 extension	Environmental	3,000
122	Tulare County, Route 65 widening	Design	1,300
126	Sacramento County, Route 50 Watt Avenue interchange	Design	1,080
128	Shasta County, Airport Road reconstruction and improvement	Right of Way	200
129	Yucca Valley, Route 62 utility undergrounding	Design	240
146	Coachella Valley AG, Palm Avenue interchange.	Right of Way	2,050
150	Santa Cruz MTD, renovation of Metro Center	Right of Way	800
	TOTAL		**$144,904**

Letters of No Prejudice (LONP)

AB 1335 (2001) authorized the Commission to grant an LONP for a TCRP project, allowing a local agency to expend its own funds on the project and qualify for later reimbursement when and if sufficient cash becomes available in the TCRF. AB 1335 also authorized the Commission to develop guidelines for LONPs. When AB 1335 was enacted, the TCRF had sufficient funding to support all TCRP allocations, and so there was no immediate demand for LONPs. However, the situation changed dramatically with the suspension of allocations and the suspension of Proposition 42 transfers beginning in 2003.

The Commission took action, in cooperation with Caltrans and regional and local agencies, to develop LONP guidelines and adopted them on August 14, 2003. At that time, the Commission reminded local agencies requesting LONPs that they proceed at their own risk because reimbursement is wholly dependent upon the availability of TCRF funding. Despite the risk, a number of local agencies found their TCRP projects to be of sufficiently high priority to proceed with local funds. The guidelines specified that up to 50% of the TCRP funding made available each fiscal year would be allocated for LONP reimbursements and that reimbursements generally would be made only upon completion of the project phase for which an LONP had been granted.

SB 66 (2005) requires the Commission, by June 2006, to review and revise its LONP guidelines with regard to LONPs that were approved prior to June 30, 2005, particularly

the provision limiting reimbursements to completed project phases. The bill also specifies that the Commission's 50% maximum allocated for reimbursements may not be increased.

Because of continuing funding uncertainty, the Commission stopped approving LONP requests in January 2004 and began placing LONP requests on a pending list. By the end of 2004, the Commission had approved ten LONP requests from six agencies totaling $269 million and placed an additional $595 million in LONP requests on a pending list. The Commission resumed approving LONPs in January 2005 and this year approved 17 new LONPs for $425 million and allocated $102 million to reimburse agencies for work completed under five LONPs. At the close of 2005, there were $591 million in outstanding LONPs.

TCRP LONP Reimbursement Allocations Approved, July-December 2005

($1,000's)

No.	Project Description	Phase(s)	Amount
27.3	Alameda CMA, Valley Center Project Parking	Construction	$ 980
38.1	Los Angeles MTA, SF Valley East-West bus rapid transit	Construction	98,000
74.5	San Diego NCTD, Pacific Surfliner, Encinitas Passing Track	Construction	1,635
152	South Pasadena Gold Line transit-oriented mixed-use development.	Construction	692
153	South Pasadena Gold Line utility relocation	Construction	550
	TOTAL		**$101,857**

TCRP Outstanding Letters of No Prejudice, December 2005

($1,000's)

No.	Project Description	Phase(s)	Amount
1.2	Santa Clara VTA, BART to San Jose	Environmental	$170,000
7.2	Santa Clara VTA, CalTrain, Mod. Platform & Gilroy Storage Tracks	Env,Des, R/W	5,270
12.2	Contra Costa TA, Hercules Rail Station and Improvements	Env & Design	2,200
22	San Francisco TA, Route 101 Doyle Drive reconstruction	Environmental	6,000
23	San Mateo TA, Caltrain Peninsula Corridor grade separations	Design	3,000
27.1	Alameda CMA, Vasco Rd re-alignment	Right of Way	6,350
31	Alameda CMA, Route 580; construct EB HOV lane	Design	6,000
33	Los Angeles MTA, low-emission buses	Construction	150,000
36	Los Angeles MTA, Eastside light rail line	Construction	166,914
37.2	Los Angeles MTA, Mid-City Transit Improvements, Exposition LRT	Env & Design	30,700
51	Los Angeles MTA, Route 101/405 interchange improvements	Construction	1,790
52	Los Angeles MTA, Route 405 HOV/auxiliary lane	Construction	9,648
53	City of Los Angeles Automated Signal Corridors (ATSAC)	Construction	500
58	SANBAG, Route 10 freeway widening through Redlands	Construction	5,704
59	SANBAG, Route 10 Live Oak Canyon Road interchange	Environmental	250
63	Riverside CTC, Rte 60 HOV west of Riverside	Construction	21,000
74.6	SANDAG, Pacific Surfliner, Leucadia Blvd grade separation	Environmental	200
74.7	SANDAG, Pacific Surfliner, Encinitas pedestrian crossing	Environmental	1,248
97.2	CSU Fresno, Op imps on Shaw, Willow, Bullard & Barstow	Design & R/W	714
135	Sacramento County, Rt 99 Sheldon Rd interchange	Design	3,000
141	Union City; pedestrian bridge over Union Pacific rail lines	Design	200
	TOTAL		**$590,688**

Traffic Congestion Relief Program Funds
($1,000's)

No.	Project Description	Eligible	Approved	Allocated	Expended
1.1	Extend BART to Downtown San Jose (Fremont to Warm Springs)	$111,433	$111,433	$ 54,115	$ 20,708
1.2	Extend BART to Downtown San Jose (Warm Springs to San Jose)	613,567	613,567	45,000	37,002
2	Fremont-South Bay Comm Rail: BART to San Jose (Alt project)	35,000	35,000	0	0
3	Rte 101; widen fwy to 8 lanes south of San Jose, Bemal to Burnett	25,000	25,000	25,000	25,000
4	Rte 680 northbound HOV, Sunol Grade, Santa Clara/ Alameda Co	60,000	60,000	2,000	499
5	Rte 101, add northbound lane through San Jose, Rt 87 to Trimble	5,000	5,000	5,000	5,000
6	Route 262 cross connector study, Rt 680-Rt 880, Santa Clara Co	1,000	1,000	1,000	1,000
7.1	CalTrain service to Gilroy (2nd main track-- Damien & Lick)	22,000	22,000	22,000	21,505
7.2	CalTrain service to Gilroy (modify platform & Gilroy storage tracks)	33,000	33,000	0	0
8	Route 880 Coleman Ave interchange near San Jose Airport	5,000	5,000	5,000	4,995
9.1	Capitol Corridor, Oakland-San Jose (Harder Road undercrossing)	600	600	600	600
9.2	Capitol Corridor, Oakland-San Jose (Emeryville station)	675	675	675	192
9.4	Capitol Corridor, Oakland-San Jose (track improvements)	23,725	23,725	23,725	16,071
10	Regional Express Bus, for services on HOV lanes, SF Bay Area	40,000	40,000	40,000	40,000
11	S F Bay Southern Crossing; feasibility and financial studies	5,000	5,000	3,200	3,119
12.1	Bay Area Transit Connectivity: I-580 Corridor	7,000	2,000	2,000	2,000
12.2	Bay Area Transit Connectivity: Hercules Rail Station	3,000	2,300	100	100
12.3	Bay Area Transit Connectivity: Route 4 Corridor	7,000	2,300	2,300	2,297
13	CalTrain Peninsula Corridor, San Francisco-San Jose	127,000	127,000	127,000	126,987
14	CalTrain, extension to Salinas in Monterey County	20,000	1,000	1,000	1,000
15	Route 24, Caldecott Tunnel; add 4th bore, Alameda/Contra Costa	20,000	20,000	15,000	8,555
16.1	Route 4 improvements, Contra Costa County (Railroad Rd)	25,000	25,000	25,000	25,000
16.2	Route 4 improvements, Contra Costa County (Loveridge Rd)	14,000	14,000	0	0
17	Route 101 reversible HOV lane through San Rafael, Marin County	15,000	15,000	15,000	1,032
18	Rte 101, widen to 6 lanes, Novato to Petaluma (Novato Narrows)	21,000	5,600	5,600	3,963
19	Bay Area Water Transit Authority; regional system	2,000	150	150	0
20.1	San Francisco Muni 3rd St Light Rail (Bay shore ext.)	126,000	126,000	126,000	126,000
20.2	San Francisco Muni 3rd St Light Rail, (Central Subway)	14,000	14,000	14,000	5,000
21	San Francisco Muni Ocean Ave Light Rail, reconstruct to Rte 1	7,000	7,000	7,000	7,000
22	Rte 101 Doyle Drive reconstruction, environmental study, SF	15,000	15,000	3,000	3,000
23	CalTrain grade seps at Poplar, 25th, & Linden, San Mateo County	15,000	4,000	1,000	1,000
24	Vallejo Baylink Ferry, low-emission ferryboats	5,000	5,000	5,000	5,000
25.1	Rt 80/680/12 interchange in Fairfield (MIS/Corridor Study)	1,000	1,000	1,000	1,000
25.2	Rt 80/680/12 interchange in Fairfield (North Connector)	3,000	3,000	3,000	2,789
25.3	Rt 80/680/12 interchange in Fairfield	9,000	9,000	9,000	3,470
26	ACE Commuter Rail, siding on UPRR line in Livermore Valley	1,000	1,000	0	0
27.1	Vasco Rd, Alameda & Contra Costa (Vasco Rd re-alignment)	6,500	6,500	150	150
27.2	Vasco Rd, Alameda & Contra Costa (Vasco Rd ACE parking)	3,000	3,000	1,796	1,726
27.3	Vasco Rd, Alameda & Contra Costa (Valley Center parking)	1,500	1,500	1,500	1,500
28	Parking Structure at Transit Village at Richmond BART Station	5,000	5,000	680	0
29	AC Transit; two fuel cell buses & fueling facility	8,000	8,000	8,000	4,804
30	Commuter rail service, Marin and Sonoma Counties	37,000	7,700	7,700	6,498
31	Ala-580 HOV lanes, Tassajara Rd/Santa Rita Rd to Vasco Rd	25,000	25,000	7,000	4,081
32.1	North Coast Railroad; defray administrative costs	1,000	1,000	1,000	1,000
32.2	North Coast Railroad; complete rail line from Lombard to Willits	600	600	600	600
32.3	North Coast Railroad; complete of rail line from Willits to Arcata	1,000	1,000	400	400
32.4	North Coast Railroad; upgrade rail line to Class II or III standards	5,000	5,000	100	100
32.5	North Coast Railroad; environmental remediation projects	4,100	1,146	1,146	1,041
32.6	North Coast Railroad; debt reduction	10,000	10,000	10,000	10,000
32.7	North Coast Railroad; local match funds	1,800	50	0	0
32.8	North Coast Railroad; repayment of Federal loan obligations	5,500	5,500	5,500	5,500
32.9	North Coast Railroad; long term stabilization projects	31,000	31,000	0	0
33	Low-emission buses, Los Angeles County MTA	150,000	150,000	0	0
34	Rail line, Pasadena to Los Angeles	40,000	40,000	40,000	40,000
35.1	Pacific Surfliner; run-through-tracks through LA Union Station	5,762	5,762	5,762	5,310
35.2	Pacific Surfliner; triple track within Los Angeles County	86,785	86,785	86,785	0
35.3	Pacific Surfliner; fifth lead track, Los Angeles County	7,453	7,453	7,453	351
36	Eastside Transit Extension, new light rail line in East Los Angeles	236,000	236,000	45,000	45,000
37.1	LA Mid-City Transit Improvements; Wilshire Bus Rapid Transit	6,200	6,200	6,200	5,913
37.2	LA Mid-City Transit Improvements; Mid-City/Exposition Light Rail	249,800	249,800	11,000	10,467

Traffic Congestion Relief Program Funds

($1,000's)

No.	Project Description	Eligible	Approved	Allocated	Expended
38.1	S F Valley Transit Extension; East-West Bus Rapid Transit	145,000	145,000	145,000	47,000
38.2	San Fernando Valley Transit Extension; North-South bus transit	100,000	2,000	2,000	1,887
39	LA-405 NB HOV lane over Sepulveda Pass, Rte 10 to Rte 101	90,000	15,000	15,000	5,752
40	LA-10 HOV lanes over Kellogg Hill, near Pomona	90,000	33,100	12,100	3,366
41.1	LA-5 HOV lanes (Rte 118 to Rte 14)	40,175	40,175	9,749	2,695
41.2	LA-5 HOV lanes (Rte 170 to Rte 118)	9,825	9,825	9,825	1,992
42.1	LA-5, widen to 10 lanes (Seg A, Orange County to Rte 605)	109,000	109,000	6,000	895
42.2	LA-5, widen to 10 lanes (Seg B, Rte 605 interchange to Rte 710)	8,000	8,000	0	0
42.3	LA-5; widen to 10 lanes (Segment C, Rte 710 interchange)	8,000	8,000	0	0
43	LA-5 Carmenita Road interchange in Norwalk	71,000	71,000	290	372
44	Rte 47 (Terminal Island Fwy)Ocean Blvd interchange, Long Beach	18,400	18,400	18,400	14,071
45	Rte 710; Gateway Corridor Study, Los Angeles County	2,000	2,000	2,000	2,000
46	Route 1 intersection at Route 107 in Torrance, reconstruct	2,000	2,000	700	817
47	Route 101 California Street off-ramp in Ventura County	15,000	620	620	606
48	Rte 101 corridor study, Rte 170 (LA) to Route 23 (Thousand Oaks)	3,000	3,000	3,000	3,000
49	Hollywood Intermodal Transportation Center	10,000	2,850	2,850	350
50	Route 71 freeway through Pomona, Los Angeles County	30,000	4,800	4,405	4,405
51	Route 101/405 aux lane & interchange ramp, Sherman Oaks	21,000	9,990	8,200	7,598
52	Rte 405; HOV & aux lanes in West LA, Waterford Ave to Route 10	25,000	25,000	0	0
53	Automated Signal Corridors (ATSAC), San Fernando Valley	16,000	16,000	15,500	13,693
54.1	Alameda Corridor East; grade separations, Los Angeles County	130,300	130,300	130,300	25,876
54.2	Alameda Corridor East grade seps, LA County (Santa Fe Springs)	15,300	15,300	0	0
54.3	Alameda Corridor East; grade seps, LA County (Pico Rivera)	4,400	4,400	0	0
55.1	Alameda Corridor East; grade seps, SBd County (Montclair)	18,800	18,800	4,540	1,160
55.2	Alameda Corridor East; grade seps, SBd County (Ontario)	34,178	700	700	557
55.3	Alameda Corridor East; grade seps, SBd County (SANBAG)	42,022	34,060	8,610	2,726
56	Metrolink track & signals, San Bernardino Line, San Bernardino Co	15,000	15,000	15,000	14,188
57	Route 215 HOV lanes through San Bernardino, Rte 10 to Rte 30	25,000	25,000	0	0
58	Rte 10, widen freeway through Redlands, Route 30 to Ford Street	10,000	10,000	4,296	4,019
59	Route 10 Live Oak Canyon interchange, Yucaipa, SBd County	11,000	11,000	2,868	2,576
60.1	Route 15 southbound truck climbing lanes in San Bernardino Co	10,000	860	860	859
61	Route 10 Apache Trail interchange east of Banning in Riverside Co	30,000	3,900	1,222	1,222
62	Rte 91 HOV lanes through Riverside (Mary St to University Av)	20,000	15,700	3,700	1,742
62.1	Rte 91 HOV lanes through Riverside (University Av to Rt 60/215)	20,000	20,000	20,000	1,487
63	Route 60 HOV lanes west of Riverside, Rte 15 to Valley Way	25,000	25,000	4,000	3,660
64.1	Route 91 Green River interchange, ramp to NB Rt 71 in Riv Co	5,000	590	0	0
70.1	Route 22 HOV lanes in Orange County (Soundwall)	16,800	16,800	16,800	15,960
70.2	Route 22 HOV lanes in Orange County (design/build HOV)	189,700	189,700	189,700	134,539
73	Alameda Corridor East (Orangethorpe) grade seps in Orange Co.	28,000	28,000	28,000	16,200
74.1	Pacific Surfliner; within San Diego Co (Oceanside double tracking)	6,000	6,000	500	428
74.2	Pacific Surfliner; within San Diego Co (LOSSAN Corridor EIS/EIR)	15,262	2,498	2,498	2,498
74.3	Pacific Surfliner; within San Diego Co (maintenance yard)	18,152	0	0	0
74.4	Pacific Surfliner, within San Diego Co (track & signals at Fallbrook)	450	450	450	450
74.5	Pacific Surfliner; within San Diego Co. (Encinitas passing track)	3,288	3,288	1,635	1,635
74.6	Pacific Surfliner; within San Diego Co. (Leucadia Blvd grade sep)	200	200	0	0
74.7	Pacific Surfliner; within San Diego Co. (Encinitas grade sep)	1,248	1,248	0	0
74.8	San Diego Transit Buses; low-emission buses (MTDB)	2,400	2,400	2,400	0
75.1	San Diego Transit Buses; low-emission buses (MTDB)	21,000	21,000	21,000	21,000
75.2	San Diego Transit Buses; low-emission buses (NCTD)	9,000	9,000	1,300	1,300
76	Coaster Commuter Rail, train set, in San Diego County	14,000	14,000	14,000	13,993
77	Route 94 environmental studies, San Diego to Rte 125	20,000	4,000	4,000	1,127
78	East Village light rail access, San Diego County.	15,000	15,000	15,000	9,390
79	North County Light Rail, Oceanside to Escondido, San Diego Co	80,000	80,000	80,000	20,915
80	Mid-Coast Light Rail, extend Old Town light rail to Balboa Ave	10,000	1,300	0	0
81	San Diego Ferry; high-speed ferryboat, San Diego - Oceanside	5,000	3,784	3,784	3,784
82.1	Route 5/805 interchange, San Diego Co (Genesee-Lomas Sta Fe)	19,000	19,000	19,000	5,231
82.2	Route 5/805 interchange, San Diego Co (Via de la Valle-LSF)	6,000	6,000	0	0
83.1	Route 15 managed lane, San Diego (Stage 1) (Transit elements)	28,800	28,800	5,700	5,700
83.2	Route 15 managed lane, San Diego (Stage 1) (Freeway elements)	41,200	41,200	34,300	32,339
84	Route 52, new 6-lane freeway to Santee, San Diego County	45,000	45,000	25,000	28,111

Traffic Congestion Relief Program Funds

($1,000's)

No.	Project Description	Eligible	Approved	Allocated	Expended
85	Route 56, new freeway between I-5 and I-15 in City of San Diego	25,000	25,000	21,570	19,665
86	Rte 905 freeway on Otay Mesa, Rte 805 to Mexico Port of Entry	25,000	25,000	25,000	21,346
87.1	Routes 94/125 connector ramps, San Diego Co (interim)	781	781	781	284
87.2	Routes 94/125 connector ramps, San Diego Co (ultimate)	59,219	2,190	1,551	1,551
88.1	Route 5; realign at Virginia Av, San Ysidro (southbound)	9,700	300	300	194
88.2	Route 5; realign at Virginia Av, San Ysidro (northbound)	300	300	300	68
89	Route 99 Shaw Avenue interchange in northern Fresno	5,000	1,600	1,600	828
90	Route 99, widen to 6 lanes, Kingsburg to Selma, Fresno Co	20,000	20,000	20,000	3,591
91	Route 180 expressway, Clovis Av to Temperance Av, Fresno Co	20,000	20,000	12,561	12,558
92	San Joaquin Corridor, track & signals near Hanford in Kings Co	10,000	10,000	0	0
93	Rte 180 environmental studies, Mendota to I-5,Fresno Co	7,000	7,000	7,000	2,242
94	Route 43, 4-lanes, Kings County Line to Rte 99 in Fresno Co	5,000	2,600	525	525
95	Route 41 Friant Road interchange in Fresno	10,000	10,000	1,930	1,505
96	Friant Road, 4 lanes, Copper Av to Rd 206 in Fresno County	10,000	10,000	512	458
97	Operational improvements near CSU Fresno (CSU Fresno)	2,100	2,100	2,100	2,100
97.1	Operational improvements near CSU Fresno (City of Clovis)	1,600	1,600	1,600	1,305
97.2	Operational improvements near CSU Fresno (City of Fresno)	6,300	6,300	5,188	467
98	Peach Ave widening, ped overcrossings, Fresno County	10,000	10,000	600	256
99.1	San Joaquin Corridor; track and signals (Calla to Bowles)	3,000	3,000	3,000	3,000
99.2	San Joaquin Corridor; track and signals (Stockton to Escalon)	12,000	7,000	0	0
100	San Joaquin Valley Emergency Clean Air Attainment Program	25,000	25,000	25,000	18,461
101	Santa Cruz Metropolitan Transit District, low-emission buses	3,000	3,000	3,000	3,000
102.1	State Street smart corridor, Santa Barbara (Outer State St)	268	268	268	267
102.3	State Street smart corridor, Santa Barbara (Rte 101 access)	1,032	1,032	82	0
103	Route 99 Seventh Standard Rd interchange, north of Bakersfield	8,000	8,000	1,900	1,183
104	Route 99 freeway, Merced Co, Buchanan Hollow Rd to Healey Rd	5,000	5,000	4,413	13
105	Route 99 freeway, Madera County Line to Buchanan Hollow Rd	5,000	5,000	2,800	0
106	Campus Parkway, Merced County, Route 99 to Bellevue Road	23,000	23,000	0	0
107	San Joaquin-205; widen to 6 lanes, Tracy to I-5	25,000	25,000	25,000	0
108	San Joaquin-5 northbound lane, Route 205 to Route 120	7,000	7,000	761	535
109	Route 132 expressway in Modesto, Dakota Av to Route 99	12,000	12,000	608	608
110	Route 132 expressway, Rt 33 to San Joaquin-Stanislaus Co Line	2,000	500	500	453
111	Route 198 expressway, Rt 99 to Hanford in Kings & Tulare Co	14,000	853	853	897
112	Kings County, Jersey Avenue; widen from 17th St to 18th St	1,500	1,500	0	0
113	Kern 46; widen to 4 lanes, Route 5 to San Luis Obispo Co Line	30,000	300	300	300
114	Kern-65, Route 99 to Tulare County Line	12,000	1,674	376	380
115	Sacramento South Line Light Rail extension towards Elk Grove	70,000	4,000	4,000	4,000
116	Sacramento Route 80 Light Rail double-track	25,000	25,000	3,900	2,370
117	Sacramento Folsom Light Rail extensions	20,000	20,000	20,000	20,000
118	Sacramento Emergency Clean Air/Transportation Plan (SECAT)	66,000	66,000	42,400	42,400
119.2	Low emission replacement buses (Yolo bus service operations)	3,000	3,000	3,000	2,383
121	Metropolitan Bakersfield System Study - City of Bakersfield	350	350	350	350
122	Route 65 widening, 7th Standard Road to Route 190 in Porterville	3,500	3,500	2,200	1,517
123	Oceanside Transit Center; parking structure	1,500	1,500	1,500	910
126	Route 50/Watt Avenue interchange; widening, modifications	7,000	720	720	650
127	Route 85/Route 87; interchange completion, San Jose	3,500	3,500	3,500	3,500
128	Airport Road, Shasta County, reconstruction	3,000	233	47	47
129	Route 62 utility undergrounding, Yucca Valley	3,200	3,200	150	150
133	Feasibility studies, UPRR grade seps, Elk Grove	150	150	150	147
134	Route 50 Sunrise Blvd interchange, Sacramento County	3,000	3,000	3,000	2,780
135	Route 99 Sheldon Road interchange, Sacramento County	3,000	3,000	0	0
138	Cross Valley Rail; upgrade track from Visalia to Huron	4,000	4,000	4,000	4,000
139.1	Balboa Park BART Station expansion (BART Segment 1)	5,460	5,460	5,460	5,269
139.2	Balboa Park BART Station expansion (Muni Geneva Segment 1)	540	540	540	490
140	City of Goshen; overpass for Route 99	1,500	851	851	1,136
141	Union City; pedestrian bridge over Union Pacific rail lines	2,000	2,000	120	120
142	West Hollywood, Santa Monica Boulevard	2,000	2,000	2,000	2,000
144	Seismic retrofit of Golden Gate Bridge	5,000	5,000	5,000	5,000
145	Rail siding in Sun Valley between Sheldon St and Sunland Blvd	6,500	6,500	6,500	6,446
146	Palm Drive interchange, Coachella Valley	10,000	10,000	0	0

Traffic Congestion Relief Program Funds

($1,000's)

No.	Project Description	Eligible	Approved	Allocated	Expended
148	Imperial-98, 4 lanes, Route 111 to Route 7	8,900	3,500	2,500	1,351
148	Imperial-98, 4 lanes, Rt 111 to Rt 7 (Encinas Av-Meadows Rd)	1,100	1,100	1,100	1,100
149	Low-emission buses on Rt 17, Santa Cruz MTD	3,750	3,750	3,750	3,750
150	Renovation or rehabilitation of Santa Cruz Metro Center	1,000	1,000	200	116
151	5 alternative fuel buses, Pasadena Area Rapid Transit System	1,100	1,100	1,100	1,100
152	Pasadena Blue Line transit-oriented mixed-use development	1,500	1,500	1,500	808
153	Pasadena Blue Line utility relocation	550	550	550	0
154	Route 134/I-5 interchange study	100	100	100	100
156	BART seismic retrofit and core segment improvements	20,000	20,000	8,470	7,354
157	Route 12, Route 29 to I-80 through Jamison Canyon	7,000	7,000	4,100	3,465
158.1	Olympic Blvd/Mateo St/Porter St intersection (widen Mateo)	725	725	725	725
158.2	Olympic Blvd/Mateo St/Porter St intersection (widen Olympic)	1,275	1,275	680	0
159	Route 101 Steele Lane interchange, Sonoma County	6,000	6,000	6,000	0
	Totals ($ in thousands):	**$4,908,900**	**$4,174,386**	**$2,066,181**	**$1,354,070**

Project Numbers correspond to numbering in Government Code Section 14556.40

Commission approvals and allocations are through December 2005.

Expenditures through November 30, 2005 - as reported by the Department.

2005 ACTIVITY AND ACCOMPLISHMENTS

2004 State Transportation Improvement Program (STIP) and State Highway Operation and Protection Program (SHOPP) Allocation Plans

In July 2005, the California Transportation Commission was able to resume making STIP project allocations for the first time since June 2003, thanks largely to the approval of the 2005-06 Proposition 42 transfer to the Transportation Investment Fund (TIF) in the 2005 budget. By September, however, this infusion of cash had been committed, and new STIP allocations were once again suspended, except for transit projects eligible for Public Transportation Account (PTA) funding, Transportation Enhancement (TE) projects using federal funds not available for other purposes, and small amounts dedicated to planning, programming, and monitoring (PPM), matching federal bridge replacement funds for local projects, and required mitigation for projects already under construction. SHOPP allocations were generally resumed, although still constrained by the State Highway Account funding available, which is not enough to allocate to all projects including those delayed from prior years for lack of funding.

The Proposition 42 transfer provided $318 million for the STIP this year, including $254 million applied directly to the STIP for any STIP purpose and another $64 million made available for the STIP from TIF funds transferred to the PTA. In June, the Department of Transportation (Caltrans) projected the total STIP and SHOPP allocation capacity for the new fiscal year at $900 million for the STIP and $1.8 billion for the SHOPP, a total of about $2.7 billion, assuming the Proposition 42 transfer but excluding tribal gaming bond revenues. This was against programmed amounts of $1.7 billion for the STIP and $2.2 billion for the SHOPP, a total of about $3.9 billion. The 2004 STIP had already delayed $5.4 billion in STIP projects by an average of two years because of earlier budget actions to borrow and suspend transportation funding. Now estimated allocation capacity fell far short of even the 2004 STIP and SHOPP amounts primarily because:

- The Proposition 42 transfer from the General Fund to the TIF that had been anticipated for 2004-05 in the 2004 fund estimate had been suspended.
- The tribal gaming bond measure revenues anticipated in the 2004 fund estimate had not materialized.
- The sales tax spillover transfers to the PTA that had been anticipated for 2004-05 and 2005-06 in the 2004 fund estimate had instead been diverted to the General Fund.
- The Commission could not rely upon the availability of cash from Proposition 42 TIF transfers or PTA spillover transfers for 2006-07 and 2007-08 to support the liquidation of allocations approved in 2005-06, as it had assumed in the 2004 fund estimate of capacity.

Allocations for 2004-05

The 2004 STIP was adopted to be consistent with the December 2003 fund estimate, as required by law. After excluding costs for TE project and Caltrans project development and right-of-way, the adopted STIP programmed about $82 million for projects in 2004-05 and $1.510 billion for 2005-06. However, the 2004-05 budget included the suspension of the Proposition 42 transfer that had been assumed in the fund estimate, requiring the Commission to further delay and restrict allocations.

The Commission had suspended making STIP allocations in June 2003, and that suspension was extended by the August 2004 STIP adoption through at least December 2004. From July through December 2004, the only allocations approved, other than TE, were $180 million for the annual Caltrans right-of-way program and $227 million for the SHOPP minor and safety programs. Even AB 3090 cash reimbursements were deferred.

In January 2005, Caltrans reported its projected "sustainable allocation level" for 2004-05 to be $900 million, including the $407 million already allocated. The Commission adopted the following allocation plan for the remainder of 2004-05:

- Allocations were limited to projects programmed and ready to vote in 2004-05.
- First priority was given to projects in the following types and categories:
  1. SHOPP projects in categories identified by Caltrans as of higher priority than pavement rehabilitation. These included $246 million programmed for emergency, safety, and seismic retrofit projects; $27 million for prior commitments; $14 million for major damage restoration; and $54 million for bridge rehabilitation.
  2. STIP project in the following categories:
     - AB 3090 cash reimbursements ($17.5 million).
     - Projects with federal TE funding.
     - Required mitigation for construction already completed ($0.9 million).
     - Intercity rail seismic safety and track protection ($10.3 million).
     - Local bridge projects match federal bridge (HBRR) funding ($1.8 million).
     - Planning, programming, and monitoring ($8.4 million).
- Any remaining capacity would be allocated for the highest priority state highway pavement rehabilitation projects, as determined by Caltrans.

Allocations for 2005-06

A new review of allocation capacity and criteria was undertaken at the beginning of the 2005-06 fiscal year, taking into consideration the revenues provided by the Proposition 42 transfer and the budget's rescheduling of tribal gaming bond revenues for 2005-06.

On June 16, 2005, the Commission held a special meeting to consider options and criteria for making STIP and SHOPP allocations in 2005-06 and, at the July 14 regular meeting adopted the following criteria:

2005-06 STIP/SHOPP ALLOCATION PLAN PRIORITIES AND CRITERIA

- Limit allocations to STIP and SHOPP projects programmed for allocation in 2005-06 and to projects with extensions to 2005-06.
- All projects programmed for 2005-06 in the following categories will receive allocations as they are delivered:
  1. SHOPP projects, as identified by the Department.
  2. Projects eligible for funding from federal Transportation Enhancement (TE) funds.
  3. Projects eligible for funding from the Public Transportation Account (PTA).
  4. Annual STIP allocations for planning, programming, and monitoring.
  5. Required STIP mitigation projects for construction projects already allocated.
  6. Projects to match federal bridge (HBRR) funds.
- Projects programmed for 2005-06 in the following categories will receive allocations as delivered (first-come, first served) until <u>September 2005</u> or until the Commission has allocated <u>$500 million</u> for these projects, whichever is earlier. At that time, the allocation plan will be reviewed, and these projects may be given priority for allocation in the following category order:
  1. Interregional road system projects.
  2. Highway/railroad grade separation projects.
  3. Projects to increase the capacity of other state highways and local roads by adding new lanes.
  4. Operational improvements, including improvements to interchanges, intersections, signals, turn lanes, etc.
- The Commission will give lower priority to STIP projects in the following categories, funding them only when funding comes from TE or PTA or when funding is sufficient to fund all projects in higher priority categories:
  1. Local road rehabilitation and reconstruction.
  2. Bicycle and pedestrian facilities.
  3. Landscaping.
  4. Enhancements, including soundwalls and signage.
  5. Transportation demand management, including ridesharing and freeway service patrols.
  6. Reserves not designated for specific projects (RSTP/CMAQ match, AB 3090 replacement).
- Allocations will be made for any project component programmed in 2005-06 (environmental, design, right-of-way, or construction) according to the criteria above.
- Within each category above, the Commission will consider the following for individual projects on a case-by-case basis, as necessary:
  1. Regional and Caltrans priority.
  2. Season-sensitivity of project (if not voted now, project misses the construction season).
  3. Project delivery status and order of delivery.
  4. Match of available TCRP funds.
  5. Status of county shares.
- The Commission will regard project components brought for a vote as meeting STIP timely use of funds deadlines, even if an allocation vote is not possible for lack of funds. The Commission will consider time extensions on a case-by-case basis only.
- For project allocations made in 2005-06, the Commission will allocate funds for construction or for purchase of equipment subject to the condition that they be encumbered by award of a contract within <u>six months</u> of the date of the allocation of funds. This Commission will apply this deadline in addition to the timely use of funds deadlines in Section 65 of the STIP guidelines. The Commission may extend this six-month deadline at the request of the agency implementing the project if it finds that an unforeseen and extraordinary circumstance beyond the control of the agency has occurred that justifies the extension.
- For projects receiving allocations in 2005-06, Caltrans will provide monthly reports to the Commission on projects that have not been awarded within <u>four months</u> (rather than six months) of the date of the Commission's allocation.

As adopted in July, the Allocation Plan called for about $1.8 billion for the SHOPP and about $800 million for the STIP. Of the $800 million, $125 million was allocated to Caltrans for its annual right-of-way program allocation, leaving about $675 million in STIP capacity for Caltrans construction projects and local grant projects. Excluding the right-of-way allocation, the 2005-06 STIP projects were divided into three allocation categories:

- Projects to be allocated as programmed, including:
    1. $71 million in transit projects, to be funded from the PTA.
    2. $90 million in projects to be funded from TE funds, which are not available for other purposes.
    3. $11 million in annual allocations to regional agencies for project planning, programming, and monitoring.
    4. $10 million to match federal funds to rehabilitate bridges on local roads.
- Projects to be allocated to capacity-increasing projects on a first-come first-served basis. The plan assumed about $500 million for this purpose, against a total of about $955 million programmed.
- Projects not to be allocated until and unless enough additional capacity becomes available to support all projects in the first two categories. These included:
    1. $6 million in state highway landscaping.
    2. $68 million for local road rehabilitation.
    3. $5 million for local road enhancements not programmed for TE funds.
    4. $9 million for ridesharing programs.
    5. $3 million in undesignated reserves.

Of the middle category, $454 million had been allocated by August, and the Commission agreed at the September meeting to proceed with approval of all allocations ready by that time, a total of $604 million. SHOPP allocations would be restricted as needed, and no further STIP project allocations would be made, except from the first category.

The following table summarizes the STIP projects programmed for 2005-06 and allocated through December 2005.

2005-06 STIP Allocations through December 2005

($1,000's)

	Total Programmed	Caltrans Support	Subject to Allocation	Allocated
Public Transportation (PTA)	70,541	0	70,541	
Enhancement (TE)	89,713	1,201	88,512	
Plan, prog, monitor (PPM)	11,249	0	11,249	
Local rd bridge rehab	10,233	0	10,233	
Subtotal, Category 1			**180,535**	**63,205**
Interregional roads	649,698	51,356	598,342	
Grade separations	32,957	3,900	29,057	
State highways, widen	148,782	8,448	140,334	
State highways, operational	56,094	6,616	49,478	
Local roads, capacity	123,908	0	123,908	
Local roads, operational	13,335	0	13,335	
Subtotal, Category 2			**954,454**	**603,849**
State highways, landscaping	6,985	1,131	5,854	
Local roads, rehab	68,492	0	68,492	
Local roads, non-TE enhance	5,365	0	5,365	
TDM/ridesharing	9,437	0	9,437	
Undesignated reserves	3,415	0	3,415	
Subtotal, Category 3			**92,563**	**0**
Total, Categories 1-3	**1,300,204**	**72,652**	**1,227,552**	**667,054**
Annual R/W allocation			125,000	
Total allocations, including R/W			**1,352,552**	

GARVEE Bonding

Under State and federal law, the Commission may select some projects from the STIP and SHOPP to be funded from the proceeds of federal grant anticipation (GARVEE) bonds, secured by future transportation apportionments. The Commission approved the state's first issuance of GARVEE bonds in January 2004 for $658 million for eight projects from the 2002 STIP.

By December 2004, the Commission had identified a potential second issuance of $306 million for six projects from the 2004 STIP. The nonfederal match was to come from $18 million in direct STIP funding and another $122 million in TCRP funding. However, because STIP and TCRP funding in 2004-05 were both so dependent on the proceeds of sale of the tribal casino revenue bonds, the Commission decided to defer action on GARVEE bonding until the legal issues impeding the bond sale were resolved. That never happened in 2005, and so the bond issuance was not authorized.

With the draft of the new fund estimate for the 2006 STIP, it became clear that future federal funds—the funds used to secure GARVEE bonding—would all be required for the SHOPP, with none available for the STIP. Thus any GARVEE bonding for STIP projects would mean reducing funding for an already underfunded SHOPP. With that, all further consideration of GARVEE bonding was deferred indefinitely.

AB 3090

The Commission continued to work with regional and local agencies in 2005 to advance some STIP projects through the use of local funds. Under AB 3090 (1992), the Commission may approve an arrangement under which a local agency advances its own funds for a STIP project and is programmed to receive either an undesignated replacement project or a cash reimbursement in a later fiscal year. This mechanism can work well to keep projects moving through short term state cash flow shortages. However, the potential for use of AB 3090 has diminished as the instability of the STIP has become long term and structural and as the availability of local funds has declined, often because of earlier backfilling for state commitments.

Replacement projects are subject to reprogramming as funding conditions change, and so uncertainty in future funding creates a risk for the local agency. Cash reimbursements, on the other hand, represent another form of borrowing against the future. The reimbursements cannot be changed and have the highest priority, after GARVEE debt service, for any STIP capacity available in the year reimbursement is due. The local agency takes some risk that no STIP capacity may be available to make the reimbursement (as happened in the first half of 2004-05). The greater risk, however, is to the proponents of all the other projects that may be displaced. For this reason, the Commission's policy has been to give preference to replacement projects wherever feasible. Generally, reimbursements are considered only where the source of local funds could not or would not be made available for an AB 3090 replacement project.

During 2005, the Commission approved AB 3090 cash reimbursements of $99.0 million for four projects:

- $66.3 million to the San Joaquin Council of Governments for the Route 205 Tracy widening, due in three installments of $22.1 million each from 2008-09 through 2010-11.
- $23.0 million to the Ventura County Transportation Commission for the Lewis Road project providing access to CSU Channel Islands, due in 2010-11.
- $6.4 million to the Santa Cruz Metropolitan Transit District for its Metrobase project, due in 2008-09.
- $3.3 million to Imperial County for the Dogwood Road widening, due 2008-09.

During the year, the Commission also approved AB 3090 replacement project arrangements of $41.9 million for three projects:

- $19.0 million in Orange County for the Imperial grade separation.
- $14.0 million in Riverside County for the Route 91 Green River Road interchange.
- $7.9 million in Riverside County for Route 60 HOV lanes.

2005 ACTIVITY AND ACCOMPLISHMENTS

2006 STIP Fund Estimate and Guidelines

The development of the 2006 State Transportation Improvement Program (STIP) began this year with the Commission's adoption of the 2006 STIP fund estimate, together with the adoption of amendments to the STIP guidelines, on September 29, 2005. According to that fund estimate, revenues to the State Highway Account are no longer sufficient to provide any funding at all for the STIP. All State Highway Account revenues are now needed to cover state maintenance and operating costs and the capital costs of the State Highway Operation and Protection Program (SHOPP). For years, those costs have been rising steadily while State Highway Account revenues have remained essentially flat.

With the exception of the small Transportation Enhancement (TE) program, the STIP is now entirely dependent on revenues that are subject to annual decisions made through the state budget process. Those revenues include Proposition 42 transfers, the repayment of prior Proposition 42 suspensions, annual "spillover" revenues to the Public Transportation Account (PTA), and tribal gaming bond revenues designated to repay prior loans to the General Fund. All of these revenues are provided for under state law, but none can be regarded as reliable and all are at risk.

When the Department of Transportation (Caltrans) presented the draft fund estimate in July, the Commission agreed that the adoption of the fund estimate, ordinarily scheduled for August, should be delayed until the Commission's September meeting to allow Caltrans to take into account final action on the schedule of state funding for the Toll Bridge Seismic Retrofit Program mandated by AB 144 (2005) and to take into account final action on the new federal reauthorization act (SAFETEA-LU). State law permits the Commission to postpone the adoption of the fund estimate if it finds that legislation pending before the Legislature or the Congress may have a significant impact on the fund estimate. In that case, the Commission is mandated to extend the dates for the remainder of the STIP development process.

The Commission approved this revised schedule in September:

REVISED 2006 STIP DEVELOPMENT SCHEDULE

CTC adopts fund estimate and guideline amendments.	September 29, 2005.
Regions submit RTIPs.	By January 30, 2006.
Caltrans submits ITIP.	By January 30, 2006.
CTC STIP hearing, South (Los Angeles).	March 9, 2006.
CTC STIP hearing, North (Sacramento).	March 15, 2006.
CTC publishes staff recommendations.	April 7, 2006.
CTC adopts STIP (Fresno).	April 27, 2006.

The adoption of amendments to the STIP guidelines for the new STIP cycle followed a review at the Commission's May meeting and hearings at the July and August meetings. In accordance with statute, Caltrans prepared and presented the draft fund estimate in July, following assumptions that had been reviewed in April and approved in May. Both the fund estimate assumptions and figures were reviewed and revised once again before the September adoption.

<u>Fund Estimate in Two Tiers</u>

With so much STIP funding clearly at risk, the Commission asked Caltrans in April to prepare the draft fund estimate in two tiers, based on two funding scenarios, to help identify programming issues. Both tiers were to be developed using the same assumptions for most revenue sources—including all federal funding—and using the same assumptions for all cost commitments. The difference between the tiers was to be limited to the assumptions for the state revenue at risk:

- Annual Proposition 42 transfers to the Transportation Investment Fund (TIF). The TIF transfers called for under existing law were suspended, at least in part, for each of the first two years after the approval of Proposition 42 (2002). The transfer for 2005-06 was identified as available from one-time-only funds.
- The repayment of loans based on prior year suspensions of TIF transfers, scheduled to be made through the Transportation Deferred Investment Fund (TDIF). No repayment of loans has yet been made, and they are not protected by Proposition 42. The Governor was supporting Proposition 76 on the November 2005 ballot, which would have rescheduled the repayments over 15 years.
- The repayment of loans made from the State Highway Account and the PTA, which are now scheduled to be repaid from the proceeds of tribal gaming bonds as authorized under AB 687 (2004). The sale of bonds was originally scheduled for 2004-05, and the current budget rescheduled it to 2005-06. The implementation of the gaming bond legislation is now in litigation, with no resolution in sight.
- Annual transfers of the “spillover” to the PTA. The spillover dates back to the Transportation Development Act (TDA) of 1971, which created the statewide ¼-cent local transportation fund sales tax, decreased the state sales tax by ¼-cent, and extended the sales tax for the first time to gasoline. The spillover represented the amount by which state sales tax revenues exceeded what they would have been without the TDA, and the statute directs that this amount be transferred by the Controller quarterly from the Retail Sales Tax Fund to the PTA. Annual budgets, however, have redirected the spillover to the General Fund instead of the PTA for all but two quarters since July 2002, and the agreement on funding the Toll Bridge Seismic Retrofit Program has already redirected most of the spillover for 2006-07.

The upper tier of the fund estimate was to assume that all of these at-risk revenues would be available to the full extent provided for by existing state law. The lower tier was to assume that none of these revenues would be available.

Early on, there was some thought given to preparing the STIP in two tiers. Prior to the adoption of the fund estimate, however, it was clear that the lower tier of the fund estimate would mean no capacity at all for the STIP—not merely a lack of new capacity,

but no capacity to allocate to any projects at all for the full five-year STIP period. In the end, it was clear that there would be no lower tier for the STIP and that the entire STIP (other than TE) would be fully dependent on funding sources that are unreliable and at risk.

2006 Fund Estimate

On September 29, 2005, the Commission adopted the 2006 STIP fund estimate, including estimates of STIP shares and programming targets for each county and the STIP interregional program. The fund estimate covers the five-year period of the 2006 STIP, 2006-07 through 2010-11, and estimates total statewide new programming capacity of \$1.926 billion. That new capacity includes \$116 million in federal TE funds, \$1.355 billion from the state PTA (available only for public transit projects), and just \$455 million from sources available for highway and road projects, including the TIF, TDIF, and State Highway Account funds scheduled for repayment by tribal gaming bonds. In addition, the programming of the 2006 STIP will consist of reprogramming and rescheduling \$3.984 billion in projects carried forward from the 2004 STIP, and the fund estimate provided annual targets for this rescheduling.

In addition, the 2006 STIP will include prior STIP cash commitments that are not subject to rescheduling: \$353 million over the five-year STIP period for the payment of GARVEE bond debt service and \$371 million for scheduled AB 3090 cash reimbursements.

The following table summarizes the new and reprogrammed capacity for the 2006 STIP by fund source and purpose, excluding the \$353 million for GARVEE debt service:

SUMMARY OF 2006 STIP CAPACITY
(\$ in millions)

	AB 3090	Reprogram	New	Total
Federal Enhancement (TE)	\$ 0	\$ 233	\$ 116	\$ 349
Public Transportation Account (PTA)	180	384	1,355	1,919
Highway/roads (TIF, TDIF, SHA)	191	3,367	455	4,013
Total	**\$371**	**\$3,984**	**\$1,926**	**\$6,281**

The following table is a breakdown of the \$1.926 billion in new capacity by fiscal year:

SUMMARY OF 2006 STIP NEW CAPACITY BY YEAR
(\$ in millions)

	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Enhancement (TE)	\$ 0	\$ 0	\$ 0	\$ 45	\$ 71	\$ 116
Transit (PTA)	439	145	176	310	285	1,355
Roads (TIF,TDIF,SHA)	0	0	0	0	455	455
Total	**\$439**	**\$145**	**\$176**	**\$355**	**\$811**	**\$1,926**

The following table is a breakdown of the $3.984 billion in reprogramming capacity by fiscal year:

SUMMARY OF 2006 STIP REPROGRAMMING CAPACITY BY YEAR
($ in millions)

	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Enhancement (TE)	$ 67	$ 70	$ 71	$ 25	$ 0	$ 233
Transit (PTA)	64	172	148	0	0	384
Roads (TIF,TDIF,SHA)	546	905	1,000	670	246	3,367
Total	**$677**	**$1,147**	**$1,219**	**$695**	**$246**	**$3,984**

For comparison, the following table identifies where the $3.984 billion to be reprogrammed is now programmed:

SUMMARY OF 2004 STIP PROJECTS TO BE REPROGRAMMED
($ in millions)

	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Enhancement (TE)	$ 89	$ 79	$ 65	$ 0	$ 0	$ 233
Transit (PTA)	64	172	148	0	0	384
Roads (TIF,TDIF,SHA)	1,134	1,064	1,169	0	0	3,367
Total	**$1,287**	**$1,315**	**$1,382**	**$ 0**	**$ 0**	**$3,984**

None of these tables includes project amounts now programmed for 2005-06, and the fund estimate assumes that they are funded. Without proceeds from the sale of tribal gaming bonds, the Commission estimates that about $500 million in 2005-06 STIP projects will remain unallocated at the end of the fiscal year. Whatever the amount, any remaining 2005-06 projects will be carried forward to the 2006 STIP with funding that is in addition to the above amounts.

STIP and SHOPP Revenue Sources

The STIP revenues identified in the fund estimate come from the following sources:

SUMMARY OF 2006 STIP REVENUE SOURCES
($ in millions)

Account	Amount	Percent
State Highway Account	$ 209	3.5%
Transportation Investment Fund (TIF)	3,530	59.9%
Transportation Deferred Investment Fund (TDIF)	417	7.1%
Public Transportation Account (PTA)	1,739	29.5%
Total	**$5,895**	**100.0%**

These amounts differ somewhat from those in the earlier tables because they exclude TE funds, which are federal funds dedicated to that purpose alone, and because they include funds needed to cover the shortage for 2005-06. The State Highway Account funds are derived entirely from loan repayments now scheduled from the sale of tribal gaming bonds.

- The **State Highway Account** is the sole source of revenue for the SHOPP and until recently was the principal source of revenue for the STIP. It includes revenues from state fuel taxes and weight fees and those federal transportation revenues that are apportioned directly to the state. State fuel taxes and weight fees are restricted by Article XIX of the California Constitution to projects on streets and highways and public mass transit guideway fixed facilities. Federal transportation apportionments are not restricted by Article XIX but are subject to various provisions of Federal law. Unlike state Article XIX revenues, they may be used for transit rolling stock. However, they may not be used for intercity rail projects, and matching funds must come from nonfederal revenues that are not bound by Article XIX.

- The **Transportation Investment Fund (TIF)** was first established by the Traffic Congestion Relief (TCR) Act of 2000 to receive revenues from the state sales tax on gasoline from 2001-02 through 2005-06. Specific dollar amounts were to be transferred from the TIF to the Traffic Congestion Relief Fund (TCRF) to fund specific projects identified in the Traffic Congestion Relief Program (TCRP) also created under Act, with the remaining TIF balance to be distributed, 20% to the PTA, 40% for the STIP, and 40% for subventions to cities and counties for local street and road rehabilitation work.

  The Transportation Refinancing Plan in AB 438 (2001), a trailer bill to the 2001-02 Budget, delayed the start of the transfers to 2003-04 and extended them to 2007-08. For 2001-02 and 2002-03, the State Highway Account replaced the 40% for local subventions, and additional transfers from the State Highway Account to the TCRF were authorized as short-term loans so that TCRP projects could continue. For 2006-07 and 2007-08, the transfer to the STIP was increased from 40% to 80% and the local road subvention was eliminated; this was repayment for the State Highway Account covering the subventions in 2001-02 and 2002-03 ($154 million in 2001-02 and $200 million in 2002-03).

  Proposition 42, a legislative constitutional amendment approved by the voters in March 2002, eliminated the June 2008 sunset date for the TIF and permanently dedicated the revenue to the purposes identified in statute. The existing statutory program, including the TCRP, was continued through 2007-08. Then beginning with 2008-09, no further funding is to be transferred to the TCRF, and all TIF revenues are to be divided by formula, with 40% for subventions to cities and counties for road maintenance and repairs, 40% for the STIP, and 20% for transfer to the PTA. With half of the PTA augmenting the STIP, one-half of all TIF revenues would accrue to the STIP.

  Proposition 42 also permitted the suspension of annual transfers to the TIF. To suspend or reduce the transfers in any fiscal year requires a finding by the Governor and the enactment of a bill passed by a two-thirds vote of both houses of the Legislature. Since the annual budget also requires the approval of the Governor and a two-thirds vote of both houses, the decision to approve or suspend the TIF transfer, in

whole or in part, has come to be regarded as a regular part of the General Fund budget process. Proposition 42 also permits the Legislature to enact a statute passed by a two-thirds vote of both houses to change the percentages allotted to each purpose (local subventions, STIP, and PTA). However, no statute may redirect TIF revenues to any other purpose, including the TCRP.

STIP revenues from the TIF are available for any STIP purpose, including those that are not eligible for either federal Highway Trust Fund revenues or state revenues restricted by Article XIX.

- The **Transportation Deferred Investment Fund (TDIF)** was first created by AB 1751 (2003) to provide a conduit for deferred payments from the General Fund for the purposes of the Transportation Investment Fund. In AB 1751, the Legislature committed to make payments to the TDIF in 2008-09 equivalent to the amount of the 2003-04 TIF transfer that was suspended ($856 million), plus interest. In SB 1098 (2004), the Legislature committed to make payments to the TDIF in 2007-08 equivalent to the amount of the 2004-05 TIF transfer that was suspended ($1.259 billion), plus interest. The effect of these two bills was to designate the suspended amounts as loans from the TIF, though the loan repayments had no constitutional protection. Amounts transferred to the TDIF are to be distributed between the TCRP, the STIP, PTA, and local subventions according to the schedule for the TIF transfers they replace.

- The **Public Transportation Account (PTA)** was designated by Proposition 116 in 1990 as a trust fund available only for planning and mass transportation purposes. Under the terms of Proposition 116, the Legislature may use PTA funds only for purposes that further this intent. That has not, however, precluded the diversion of revenues before they reach the PTA. Under statute, the PTA receives revenue from four primary sources: (1) the "spillover" transfer described above; (2) the sales tax on diesel fuel, (3) the additional sales tax attributable to the gasoline tax increase approved by voters in 1990, and (4) the transfer from the TIF and TDIF described above. The STIP receives the portion of PTA revenue that remains after the funding of various non-STIP appropriations, including the formula-based State Transit Assistance program, state rail operations and planning. STIP revenues from the PTA may be used only for mass transportation capital projects, including vehicles and including intercity rail projects and short line railroad rehabilitation.

Fund Estimate Assumptions

Available programming capacity is determined in the fund estimate by estimating available revenues and deducting current commitments against those revenues. The methodology and assumptions used in the 2006 STIP fund estimate were initially reviewed in April 2005 and approved by the Commission in May. After Caltrans presented its draft fund estimate in July and before the adoption in September, the assumptions were updated to take into account the Commission's approval of a schedule of transfers to the Toll Bridge Seismic Retrofit Program under AB 144 (2005) and to take into account the passage of the federal transportation reauthorization act (SAFETEA-LU).

"Programming capacity" does not represent cash. It represents the level of programming commitments that the Commission may make to projects for each year within the STIP period. For example, cash will be required in one year to meet commitments made in a prior year, and a commitment made this year may require the cash over a period of years. The fund estimate methodology uses a "cash flow allocation basis," which schedules funding capacity based upon cash flow requirements and reflects the method used to manage the allocation of capital projects.

The fund estimate is developed based on existing statute, including the 2005-06 Budget and AB 144 (2005) and the new federal reauthorization act as described above. In general, the fund estimate assumes that future revenues from current sources will follow current trends, and it assumes that commitments for state operations will be consistent with the current budget and trends. Commitments for capital programs are based on current programming levels. Among the most notable revenue assumptions:

- As described in the discussion of the two tiers above, it assumes that all annual Proposition 42 TIF transfers will be made as prescribed in statute, that the TDIF transfers will be made as prescribed in statute, that all PTA spillover transfers will be made as prescribed in statute, and that tribal gaming bond revenues will be available as prescribed in statute and the 2005-06 budget.

- It assumes a minimum level of operating cash of $340 million for the State Highway Account and $65 million for the PTA.

- It assumes that fuel excise tax revenues to the State Highway Account will grow at an annual average rate of 2.0% and that weight fees will increase at approximately 2.5% annually.

- It assumes that gasoline and diesel fuel sales tax revenues for the PTA will grow as projected by the Department of Finance, with growth rates of 1.7% for gasoline and 3.4% for diesel.

- It assumes that state operations costs (excluding capital outlay support) are based on the 2005-06 budget and increase by 3.1% per year. It assumes a $50 million "efficiency savings" in state operations in each year, a total of $250 million over the fund estimate period. It assumes additional costs to cover a previously negotiated raise in Caltrans engineers' salaries at $44 million in 2005-06, increasing by an additional $44 million each year through 2008-09. It assumes that maintenance and operations costs associated with transportation management systems will increase by 2.7% in 2006-07 and by 2.5% annually thereafter.

- It assumes that the SHOPP is constrained to the amount of funding available from the State Highway Account under the lower of the two funding tiers--$1.70 billion in 2006-07, escalated at 3% per year. This results in a SHOPP that is reduced from the originally-approved assumption, which was to base the SHOPP of the 2005 Ten-Year SHOPP Plan level of $1.73 billion per year (excluding support), escalated over the period.

- It assumes that PTA support for intercity rail and bus operations is continued at a base level of $73.1 million per year, with additional expenditures over the STIP period of $57.5 million on existing routes and $107.6 million on new routes, plus $62.8 million for the overhaul of locomotives and passenger cars.

- It assumes that federal obligation authority will be 93% of the amount of apportionments authorized under SAFETEA-LU, consistent with historical experience. It assumes that federal programs will be extended beyond the end of SAFETEA-LU (2008-09). It assumes that 61% of federal funds are available for the SHOPP and STIP, with 39% for local programs, including earmarks.

- It assumes that the TCRF loan repayment of $465 million will be made to the State Highway Account in 2005-06 by the tribal gaming bond measure, as first authorized by AB 687 (2004) and as scheduled in the 2005-06 budget. It assumes that the TCRF loans repayment of $275 million will be made to the PTA in two parts: $122.5 million in 2005-06 by the tribal gaming bond and the remaining $152.5 million by the end of 2007-08 directly from the TCRF.

<u>Amendment of STIP Guidelines for 2006 STIP</u>

On September 29, 2005, the Commission also adopted amendments to the STIP guidelines. Under statute, the guidelines are to service as "the complete and full statement of the policy, standards, and criteria that the commission intends to use in selecting projects to be included in the state transportation improvement program." The statutes also call for the Commission to adopt guideline amendments prior to the adoption of each fund estimate.

This year's amendments addressed the following areas:

- <u>Criteria for Measuring Performance and Cost Effectiveness</u>. The statutes mandate that the STIP guidelines include "objective criteria for measuring system performance and cost-effectiveness of candidate projects." The guidelines adopted for the 2000 STIP established a set of criteria and provided broad discretion to regions and Caltrans in determining which criteria were most appropriate for their use. At the recommendation of Caltrans, the Commission amended the guidelines this year to prescribe the use of uniform criteria and measures and to define when they should be applied to individual projects.

- AB 3090 Policy. The Commission's AB 3090 policy, as adopted in April 2003, was incorporated into the STIP guidelines without change. AB 3090 (1993) permits the Commission to approve an arrangement whereby a local agency advances funding for a STIP project in exchange for either a future cash reimbursement commitment or a future replacement project. The policy generally gives preference to replacement project arrangements, limits cash reimbursement to circumstances where local funds could not or would not otherwise be made available, and limits reimbursements to no more than $200 million each year and to no more than $50 million each year for any single agency or county.

- Selection of project for GARVEE bonding. The guidelines were amended to specify that any selection of projects for GARVEE bonding will be made by STIP amendment, rather than through the regular STIP process. It also incorporated into the permanent guidelines other provisions from the Commission's procedures specific to the 2004 STIP:

  1. The Commission's expectation that bonding will generally be for projects exceeding $25 million.
  2. The Commission's expectation that bonds may be sold whenever the Commission has identified a sufficiently large amount for bonding to warrant a sale and that each bond will be structured for debt service payments over a term of no more than 12 years.
  3. The Commission's policy that the nonfederal portion of project costs will be funded from within current STIP and SHOPP capacity and that the ability of a local agency to contribute non-STIP funding will not be a major criterion in the selection of projects for bonding.

Policies and Procedures Specific to the 2006 STIP

As part of the STIP guidelines, the Commission also adopted specific policies and procedures addressing the particular circumstances of the 2006 STIP and fund estimate. These included the following:

- Public Transportation Account funding. The fund estimate indicates that the 2006 STIP will be funded entirely from those funds that differentiated the tiers and that most new capacity will be available from the PTA, which is limited by statute to mass transportation purposes. This will necessitate a different approach to programming. The Commission will not be able to program without regard to project type and funding type, as it has in the past.

- Annual targets for reprogramming. The 2006 fund estimate will identify separate TE and non-TE programming targets for each county and the interregional share, including (1) annual targets for reprogramming amounts remaining from the 2004 STIP and (2) targets for new programming.

The availability of PTA funding means that PTA projects need not be rescheduled and may be proposed for advancement. Targets for the reprogramming of non-PTA projects will be determined by deducting current PTA programming from the overall non-TE reprogramming targets.

All county targets are provided for guidance only. Although the targets are calculated precisely in a way designed to be equitable, the targets should not be interpreted in an overly rigid way. A region may propose any amount in any year, and the Commission may program more or less than the target in any year for any region. The Commission does, however, urge attention to the targets. The more closely a region's program conforms to the targets, the more likely it is that the Commission will be able to incorporate the region's proposal into the STIP without change.

- County Shares and Targets. The 2006 STIP will program the last two years of one four-year county share period (2006-07 and 2007-08) and the first three years of the next four-year period (2008-09 through 2010-11). In the 2006 fund estimate, the calculation of county shares will use the 2004 fund estimate for the share period ending 2007-08 as a base, notwithstanding the funding reductions that have occurred since the 2004 fund estimate. County shares for the period beginning 2008-09 will be recalculated, with any shortage in funds available through 2007-08 to be treated as a debit to the new share.

  The calculation of the annual reprogramming targets will take county and interregional share status into account. To provide for equity in reprogramming that recognizes county shares by period, the non-TE targets will be calculated in three parts: (1) a respread of funding that fits within the shares for the period ending 2007-08, (2) a respread of the additional funding that fits within the current shares, which are the shares calculated in the 2004 fund estimate, and (3) a respread of funding that represents advances against future shares. The first part would be respread first, to 2006 STIP's earliest years. The second part would be respread next, then the third. Thus funding representing advances would be respread to later years of the STIP.

- Prior projects. Some current STIP programming is not subject to reprogramming and this programming will not be counted in reprogramming targets (i.e., a region does not have the option of delaying the fiscal year of these items, even if that causes an annual target to be exceeded):

  1. Projects already voted an allocation or programmed for allocation in 2005-06.
  2. Programmed AB 3090 cash reimbursements.
  3. GARVEE bond debt service, where the Commission has approved the allocation of bond proceeds.
  4. Caltrans environmental, design, and right-of-way work now programmed for 2005-06 or prior years, unless Caltrans indicates that work has not yet begun or has been suspended and it is proposed to delete the work from the STIP or to

delay the beginning of work until 2007-08 or later. Where work is suspended, the amount of expenditure to date will remain as programmed.

- 2005-06 STIP Amendments and Allocations. Any changes to the STIP by amendment or by specific project allocations (e.g., cost increases at vote) will result in adjustments to county and interregional shares and will be taken into account in programming against 2006 STIP targets. Pending the adoption of the 2006 STIP, the Commission may defer consideration of proposed STIP amendments that could wait for incorporation into the 2006 STIP.

- New projects. Generally, new projects or project components added to the STIP that are not TE- or PTA-eligible will be programmed for 2010-11. Exceptions may be made if the new project is programmed within reprogramming targets in trade for projects currently programmed. Consistent with statute, the Commission will give preference in the programming of new projects or components to projects in counties with an unprogrammed share balance for the county share period ending 2007-08. Those counties are Butte, Colusa, Humboldt, Imperial, Lake, Madera, Merced, Modoc, Napa, Orange, Plumas, Riverside, Santa Barbara, Sierra, Stanislaus, Tahoe RPA, and Yolo.

- Transportation Enhancement (TE) projects and targets. The fund estimate will include annual TE project targets for TE programming from each county and the interregional share. Targets for new TE programming will be based on share formula proportions of the estimated statewide TE apportionments available for new programming. Targets for the reprogramming of current TE projects and reserves will be based on existing programming levels, respread according to statewide programming capacity. A Regional Transportation Improvement Program (RTIP) or Interregional Transportation Improvement Program (ITIP) may propose to program any amount in any fiscal year for TE, including the reprogramming of currently programmed projects. The Commission will change the proposed programming years for TE projects in the adopted STIP if, and only if, statewide TE proposals exceed statewide TE apportionments. If that occurs, the Commission may give priority to identified projects over TE reserves.

  After the adoption of the 2006 STIP, the Commission may entertain STIP amendments to advance TE projects or reserves if (1) the statewide programming of TE projects remains less than the statewide TE apportionment, or (2) the amendment proposes compensating delays in non-TE projects.

- Limitations on planning, programming, and monitoring (PPM). The fund estimate includes calculations of the statutory 1% and 5% limitations for PPM for each county share period. For the period ending 2007-08, these limitations are not reduced from the dollar amounts identified for that period in the 2004 STIP fund estimate. For the period beginning 2008-09, the limitations are calculated on the basis of the Tier A fund estimate for the 2006 STIP. Every RTIP may add new programming for PPM in 2009-10 and 2010-11, subject to the PPM 1% and 5% limitations. Although PPM programming will be counted against the annual non-TE programming targets, regions with zero targets for new programming need not delete or reduce other RTIP projects in order to add PPM to the two new years.

- Advance Project Development Element (APDE). There is no APDE identified for the 2006 STIP.
- Programming of cash commitments. All currently programmed STIP cash commitments (AB 3090 cash reimbursements and GARVEE debt service), including cash commitments through 2010-11, are included in the base of existing commitments for the 2006 STIP fund estimate. These commitments will be carried forward to the 2006 STIP automatically and need not be included in RTIP and ITIP proposals and will not be further deducted from county or interregional shares. If, after the fund estimate, a new project is approved by STIP amendment for cash, it will be counted against program capacity in a way that takes into account that the STIP fund estimate was calculated to reflect capacity to add projects drawing cash over a period of years. To reflect an equivalent draw on cash, a cash project will be counted 30% toward capacity for the fiscal year of the programmed cash commitment, 50% toward the prior year, and 20% toward the second year prior. For example, for a new AB 3090 cash reimbursement of $100 programmed for allocation in 2010-11, $20 would be counted toward the programming target for 2008-09, $50 toward the target for 2009-10, and $30 toward 2010-11.
- 2006 STIP proposals not to rely on new GARVEE or AB 3090 cash commitments. Each RTIP and the ITIP should include a proposed program that is consistent with the fund estimate and targets and that does not assume the programming of either new AB 3090 cash commitments or new GARVEE bonding. The RTIP or ITIP may include proposals for AB 3090 cash reimbursements or GARVEE bonding, but those proposals should be presented separately and will be considered separately by the Commission, subsequent to the initial STIP adoption. The Commission will not consider STIP proposals for new programming using short-term capacity that would be made available through longer-term bonding.
- Commission expectations for programming. In the 2006 STIP, the Commission expects to give first priority to the reprogramming of projects from the 2004 STIP. To the extent that new capacity is available, the Commission expects to give priority to:

  1. Cost increases to provide full funding for currently programmed project components due to escalation (reprogramming delay) and due to the rising cost of construction materials, consistent with programming capacity and the share targets identified in the fund estimate.
  2. New project components within unprogrammed county share balances identified in the fund estimate for the share period ending 2007-08. These projects may be programmed in any fiscal year, consistent with programming capacity and the share targets identified in the fund estimate.

- Escalation. Each RTIP and the ITIP should be based on project costs escalated to the year for which each project is proposed for programming, as specified in Section 51 of the STIP Guidelines. This applies to all projects being reprogrammed, as well as to any new projects.

- Performance Measures. The inclusion of specific performance measures in the 2006 STIP cycle is to provide regional agencies and Caltrans the opportunity to demonstrate how the goals and objectives contained in each Regional Transportation Plan (RTP) or the Interregional Transportation Strategic Plan (ITSP) are linked to the program of projects contained in each RTIP and the ITIP. With this in mind, each agency and Caltrans is being asked to provide a quantitative and/or qualitative evaluation of their respective RTIPs and the ITIP, commenting on each of the performance indicators and performance measures outlined in the guidelines. A table of performance indicators and measures was attached to the policies and procedures to assist agencies with this task, and it may be used as the evaluation report for the 2006 STIP cycle.

  The overarching goal for using performance measures in the 2006 STIP cycle is to begin a systematic and reliable process that all agencies can use to guide transportation investment decisions and to demonstrate the benefits of proposed transportation system investments. The information gathered in this STIP cycle will not only provide information on how performance measures are currently applied and reported across the state, but will also provide insight into improving performance measures, data collection and performance reporting procedures and integrating the results to enhance decision making. The information collected may also guide future revisions to the STIP, RTP, and Project Study Report (PSR) guidelines with the objective of strengthening the continuity and consistency from goal and objective setting to project selection and performance reporting.

County and Interregional Shares

The tables on the following two pages summarize the county and interregional share balances and targets identified in the 2006 STIP fund estimate. The first table includes the targets for new programming capacity, including a minimum amount, a target amount, and a maximum amount for each share, excluding TE projects. Separately listed are new programming targets for TE.

The minimum amount listed for each county is the amount the Commission must program in the 2006 STIP (if possible because funding is available and if eligible projects are proposed) to bring a county up to its county share for the period for the period ending 2007-08. This does not mean that the new programming must be programmed within the period ending 2007-08. It means that the programming should be added in this STIP, since this is the last STIP to include that period and the last STIP before completion of programming for the following county share period, the period ending 2011-12. There are 16 counties with minimums statewide, totaling $221.7 million, with Orange County accounting for over half the total.

The target amount for each county represents the amount that would bring each county to its calculated proportionate share of the $1.810 billion in new capacity through the end of the 2006 STIP period, taking into account its unprogrammed share balance from the 2004 STIP. Although $1.355 billion (75%) of the new capacity is from PTA funds available for transit only, the Commission did not set transit and nontransit target for individual counties. As outlined in tables earlier in this chapter, new PTA capacity is available across all years of the new STIP, while new capacity from non-PTA funds for highways and roads is available only for 2011-12.

The maximum amount listed for each county represents the amount that would fulfill each county's share through the end of the four-year share period that ends in 2011-12, which is one year beyond the 2006 STIP period. This is generally the maximum that the Commission may program in any county. Although statutes provide an exception that allows the Commission to program an advance against future share periods for a single large project in a county with a population of less than 1 million, it is highly unlikely that the Commission will have to capacity to add any such advances in this STIP.

The second table lists the county and interregional targets for the $3.751 billion from the 2004 STIP that will be reprogrammed in the 2006 STIP. These targets give first priority for early programming to the reprogramming amounts needed to bring counties up to their county shares for the four-year period ending 2007-08, then to the additional amounts needed to bring counties up to their proportionate shares for the 2006 STIP period, and then finally to any additional amount of reprogramming. The result is that counties that are far short of receiving their shares have all of their reprogramming targeted for retention in the first three years of the new STIP, while counties that have already have advances programmed against future share are targeted for reprogramming in the last two years.

Amounts subject to reprogramming do not include programmed GARVEE bond debt service, programmed AB 3090 cash reimbursements, or amounts programmed for 2005-06.

2006 STIP FUND ESTIMATE
New Programming Targets by County and Interregional Share
($ in thousands)

County	New Non-TE Programming Minimum	Target	Maximum	New TE Target	Total Target
Alameda	0	25,930	48,778	3,149	29,079
Alpine - Amador - Calaveras	0	10,897	14,765	533	11,430
Butte	0	13,332	17,701	602	13,934
Colusa	797	5,365	6,517	159	5,524
Contra Costa	0	47,883	62,692	2,041	49,924
Del Norte	0	3,162	4,264	152	3,314
El Dorado LTC	0	0	0	385	385
Fresno	0	0	0	2,176	2,176
Glenn	0	3,041	4,270	169	3,210
Humboldt	7,081	26,585	31,007	610	27,195
Imperial	13,898	43,201	50,588	1,018	44,219
Inyo	0	15,171	21,168	827	15,998
Kern	0	40,098	60,762	2,848	42,946
Kings	0	9,473	12,572	427	9,900
Lake	9,699	17,207	19,100	261	17,468
Lassen	0	11,139	13,951	387	11,526
Los Angeles	0	314,653	454,703	19,304	333,957
Madera	3,490	14,972	17,778	387	15,359
Marin	0	6,809	11,136	596	7,405
Mariposa	0	3,981	5,126	158	4,139
Mendocino	0	11,743	15,917	575	12,318
Merced	1,326	22,060	27,102	695	22,755
Modoc	2,792	6,679	8,172	206	6,885
Mono	0	11,341	15,781	612	11,953
Monterey	0	15,673	23,785	1,118	16,791
Napa	11,004	21,640	24,322	370	22,010
Nevada	0	0	0	323	323
Orange	114,466	283,729	325,958	5,821	289,550
Placer TPA	0	0	0	615	615
Plumas	2,520	9,628	11,320	233	9,861
Riverside	45,542	167,094	197,322	4,167	171,261
Sacramento	0	24,120	43,821	2,716	26,836
San Benito	0	5,546	7,016	203	5,749
San Bernardino	0	73,426	112,767	5,423	78,849
San Diego	0	3,740	49,786	6,347	10,087
San Francisco	0	10,320	21,996	1,609	11,929
San Joaquin	0	20,401	30,672	1,416	21,817
San Luis Obispo	0	30,301	38,557	1,138	31,439
San Mateo	0	24,441	36,464	1,657	26,098
Santa Barbara	2,160	39,574	49,007	1,300	40,874
Santa Clara	0	0	23,447	3,687	3,687
Santa Cruz	0	18,789	23,488	648	19,437
Shasta	0	10,554	15,329	658	11,212
Sierra	1,706	6,010	6,806	110	6,120
Siskiyou	0	12,253	15,569	457	12,710
Solano	0	14,951	21,963	967	15,918
Sonoma	0	0	2,936	1,180	1,180
Stanislaus	4,133	36,770	44,724	1,096	37,866
Sutter	0	2,609	4,407	248	2,857
Tahoe RPA	711	5,957	7,154	165	6,122
Tehama	0	7,791	10,188	330	8,121
Trinity	0	4,623	6,346	238	4,861
Tulare	0	36,483	46,192	1,338	37,821
Tuolumne	0	3,869	5,829	270	4,139
Ventura	0	0	0	1,907	1,907
Yolo	410	15,861	19,690	528	16,389
Yuba	0	3,571	4,948	190	3,761
Statewide Regional	**221,735**	**1,574,446**	**2,155,659**	**86,750**	**1,661,196**
Interregional	0	235,864	445,651	28,917	264,781
TOTAL	**221,735**	**1,810,310**	**2,601,310**	**115,667**	**1,925,977**

2006 STIP FUND ESTIMATE
Reprogramming Targets by County and Interregional Share
($ in thousands)

County	Total	2006-07	2007-08	2008-09	2009-10	2010-11
Alameda	125,336	18,798	32,963	39,801	24,818	8,956
Alpine - Amador - Calaveras	12,185	2,410	4,227	4,639	909	0
Butte	15,270	3,109	5,451	5,629	1,082	0
Colusa	3,002	935	1,639	428	0	0
Contra Costa	54,818	12,038	21,108	18,366	3,306	0
Del Norte	1,141	0	0	908	233	0
El Dorado LTC	20,041	1,266	2,220	4,371	8,286	3,899
Fresno	77,725	0	0	17,366	40,920	19,439
Glenn	4,320	735	1,290	1,894	401	0
Humboldt	18,190	5,664	9,932	2,594	0	0
Imperial	5,087	1,584	2,778	725	0	0
Inyo	50,544	12,882	22,588	13,197	1,877	0
Kern	138,166	29,985	52,579	41,751	11,541	2,311
Kings	13,346	3,278	5,747	3,744	577	0
Lake	3,283	1,022	1,793	468	0	0
Lassen	10,956	1,671	2,929	5,212	1,144	0
Los Angeles	501,312	79,595	139,569	230,109	51,265	773
Madera	3,840	1,196	2,097	548	0	0
Marin	21,653	3,440	6,032	7,642	3,503	1,036
Mariposa	3,167	811	1,423	818	115	0
Mendocino	28,897	7,463	13,087	7,338	1,008	0
Merced	10,026	3,122	5,474	1,430	0	0
Modoc	2,035	634	1,111	290	0	0
Mono	25,352	5,925	10,390	7,743	1,294	0
Monterey	91,784	22,325	39,147	24,074	5,307	930
Napa	5,030	1,566	2,746	717	0	0
Nevada	20,275	2,246	3,938	4,203	6,733	3,155
Orange	100,340	31,244	54,787	14,309	0	0
Placer TPA	82,814	0	0	2,347	52,691	27,776
Plumas	3,765	1,172	2,056	537	0	0
Riverside	82,736	25,763	45,175	11,798	0	0
Sacramento	33,673	0	0	7,135	17,947	8,591
San Benito	850	31	54	612	154	0
San Bernardino	262,367	55,477	97,278	80,007	24,193	5,412
San Diego	150,785	0	0	40,067	75,796	34,922
San Francisco	34,849	0	0	14,922	14,331	5,595
San Joaquin	46,991	7,988	14,007	18,379	5,633	984
San Luis Obispo	42,660	11,808	20,705	9,177	970	0
San Mateo	60,378	11,478	20,127	21,770	6,045	958
Santa Barbara	82,536	25,701	45,066	11,770	0	0
Santa Clara	33,040	0	0	0	21,549	11,491
Santa Cruz	19,818	3,770	6,610	7,860	1,578	0
Shasta	21,862	4,098	7,186	8,600	1,891	86
Sierra	239	74	130	34	0	0
Siskiyou	11,654	3,332	5,843	2,283	195	0
Solano	48,012	10,715	18,789	15,001	3,190	316
Sonoma	61,624	6,789	11,905	14,910	19,330	8,689
Stanislaus	45,521	14,175	24,855	6,491	0	0
Sutter	13,151	2,687	4,711	3,668	1,578	507
Tahoe RPA	2,203	686	1,203	314	0	0
Tehama	10,012	2,576	4,517	2,563	356	0
Trinity	16,021	3,909	6,854	4,549	710	0
Tulare	45,760	13,205	23,154	8,715	686	0
Tuolumne	2,762	0	0	1,750	817	195
Ventura	73,222	0	0	18,941	37,097	17,184
Yolo	7,998	2,490	4,367	1,141	0	0
Yuba	10,029	2,508	4,398	2,719	404	0
Statewide Regional	2,674,453	465,377	816,035	778,376	451,460	163,206
Interregional	1,076,892	143,360	251,381	366,185	232,962	83,004
TOTAL	3,751,345	608,737	1,067,416	1,144,561	684,422	246,209

2005 ACTIVITY AND ACCOMPLISHMENTS

2005 Report on County and Interregional Share Balances

Section 188.11 of the Streets and Highways Code mandates that the California Transportation Commission maintain a record of State Transportation Improvement Program (STIP) county share balances and that it make the balances through the end of each fiscal year available for review by regional agencies not later than August 15 of each year. This year, the Commission issued its eighth annual Report of STIP Balances, County and Interregional Shares.

This year's report was issued on July 8, 2005, and included all STIP amendments and allocations approved through June 30, 2005. The share balances were based on the allocation capacity identified through 2008-09 in the 2004 STIP fund estimate, adopted in December 2003. The 2006 STIP fund estimate adopted in September 2005 identified additional capacity through 2010-11. In order to provide a more complete base for the development of the 2006 STIP, this annual share balance report also included all current cash commitments made for AB 3090 cash reimbursements and for GARVEE debt service through the end of the next four-year county share period, 2011-12.

Under statute, STIP shares are applied by discrete four-year periods, periods ending in 2003-04, 2007-08, 2011-12, etc. The 2004 STIP fund estimate adjusted the share downward for the period ending 2007-08, while providing a new estimate covering the first year of the next period, 2008-09. This year's report of share balances included both the current cumulative share balances through 2008-09 (the last year of the 2004 STIP) and the share balances for the period ending 2007-08. The primary significance of the latter is that the Commission will give first priority in the 2006 STIP to projects in those counties that had unprogrammed balances for the period ending 2007-08. These are share balances that the Commission could not program in the 2004 STIP because no new capacity was available.

On the following page is the report's single-page summary of the status of all county shares and the interregional share, as reported at the Commission's August meeting. The full report also includes a summary for each individual county share and the interregional share. For each share, a summary in the full report identifies the carryover balance from June 30, 2004, any adjustments since July 1, 2004, and a listing of each project that is currently programmed from the share or that has been allocated from the share since July 2004.

SUMMARY OF STIP SHARE BALANCES

June 30, 2005

($1,000's)

County	Share Amount	Share Programmed	Unprogrammed Balance	Balance Advanced
Alameda	$ 105,351	$ 131,101	$ 0	$ 25,750
Alpine-Amador-Calaveras	15,850	14,059	1,791	0
Butte	28,700	15,787	12,913	0
Colusa	5,954	3,194	2,760	0
Contra Costa	72,322	59,103	13,219	0
Del Norte	2,264	1,594	670	0
El Dorado LTC	10,388	20,372	0	9,984
Fresno	25,816	81,708	0	55,892
Glenn	4,865	4,606	259	0
Humboldt	35,363	18,780	16,583	0
Imperial	31,578	5,087	26,491	0
Inyo	54,754	52,539	2,215	0
Kern	139,165	143,379	0	4,214
Kings	16,592	14,129	2,463	0
Lake	16,985	4,059	12,926	0
Lassen	16,445	11,665	4,780	0
Los Angeles	536,251	538,475	0	2,224
Madera	12,564	3,938	8,626	0
Marin	19,766	22,745	0	2,979
Mariposa	4,558	3,167	1,391	0
Mendocino	33,381	31,079	2,302	0
Merced	21,325	10,026	11,299	0
Modoc	5,297	2,035	3,262	0
Mono	29,409	27,504	1,905	0
Monterey	92,737	95,411	0	2,674
Napa	21,904	6,329	15,575	0
Nevada	12,339	21,410	0	9,071
Orange	299,206	110,995	188,211	0
Placer TPA	3,296	82,814	0	79,518
Plumas	10,099	4,299	5,800	0
Riverside	199,161	97,384	101,777	0
Sacramento	19,911	44,614	0	24,703
San Benito	3,440	1,220	2,220	0
San Bernardino	256,732	272,292	0	15,560
San Diego	67,143	167,402	0	100,259
San Francisco	22,781	38,869	0	16,088
San Joaquin	76,253	79,083	0	2,830
San Luis Obispo	54,287	42,660	11,627	0
San Mateo	63,039	65,794	0	2,755
Santa Barbara	104,318	85,766	18,552	0
Santa Clara	(19,808)	44,002	0	63,810
Santa Cruz	34,746	26,587	8,159	0
Shasta	23,330	23,592	0	262
Sierra	4,475	334	4,141	0
Siskiyou	17,829	13,078	4,751	0
Solano	48,871	49,781	0	910
Sonoma	41,153	60,412	0	19,259
Stanislaus	65,382	47,527	17,855	0
Sutter	11,693	13,151	0	1,458
Tahoe RPA	6,034	2,783	3,251	0
Tehama	12,411	10,042	2,369	0
Trinity	18,183	16,856	1,327	0
Tulare	63,740	49,218	14,522	0
Tuolumne	2,852	3,414	0	562
Ventura	45,821	79,814	0	33,993
Yolo	15,196	7,998	7,198	0
Yuba	10,486	10,029	457	0
Statewide Regional	**$2,953,983**	**$2,895,091**	**$ 533,647**	**$ 474,755**
Interregional	938,433	1,002,419	0	63,986
TOTAL	**$3,892,416**	**$3,897,510**	**$ 533,647**	**$ 538,741**

2005 ACTIVITY AND ACCOMPLISHMENTS

2004-05 Project Delivery

Project delivery (making projects ready to go to construction) remained a challenge in 2004-05 for the Department of Transportation (Caltrans) and local agencies, as it was in 2003-04, because of the continuing transportation funding crisis. At the beginning of 2004-05, Caltrans estimated that the Commission's total State Transportation Improvement Program (STIP) and State Highway Operation and Protection Program (SHOPP) project allocation capacity for the year would be under $1 billion. Upon adoption of the 2004 STIP on August 5, 2004, the Commission tabled all STIP allocations except federal transportation enhancement (TE) fund allocations. The Commission instructed Caltrans not to even place STIP allocation requests on the Commission's agenda unless they were for TE projects. The Commission allocated $180 million for Caltrans right-of-way activities and indicated the remainder of its allocation capacity for the year would be reserved for critical SHOPP projects. During the year, the Commission also allocated $1.1 billion in a lump sum for local assistance programs (a set of programs for state and federal funds that under state law are not subject to Commission programming, with programming and project selections made either by regional agencies or by Caltrans).

In January 2005, the Commission held a STIP/SHOPP Allocation Criteria Workshop and determined that very limited allocation capacity would be made available over the remainder of the fiscal year to STIP projects programmed for delivery in 2004-05. The Commission approved the following allocation priorities:

- SHOPP projects in categories identified as a higher priority than pavement rehabilitation.
- STIP projects in the following categories:
    1. AB 3090 cash reimbursements.
    2. Projects funded with federal TE funds.
    3. Required mitigation for construction projects already completed.
    4. Intercity rail seismic safety and track protection projects.
    5. Local bridge projects matching federal HBRR funds.
    6. Local planning, programming, and monitoring activities.
- Any remaining capacity would be allocated for the highest priority state highway pavement rehabilitation projects, as determined by Caltrans.

The Commission regularly tracks delivery for projects programmed and funded from the STIP, the SHOPP, the Regional Surface Transportation Program (RSTP), and the Congestion Mitigation and Air Quality (CMAQ) program. For the STIP and the SHOPP, the Commission measures delivery in terms of allocations made to projects programmed for each fiscal year. For the RSTP and CMAQ programs, under which federal funds are programmed directly by regional agencies, the measure of delivery is the obligation of the federal funds by a local agency.

Timely use of funds legislation ("use it or lose it"), together with supporting Commission policy, has provided programming and delivery incentives that have contributed greatly to an improvement in the project delivery record in recent years. SB 45 (1997) imposed the first such rule, requiring that STIP projects be allocated on schedule or be deleted from the STIP. The law permits the Commission to grant a one-time extension of an allocation deadline if it finds that circumstances beyond the control of the implementing agency have delayed delivery. AB 1012 (1999) required that regional agencies obligate RSTP and CMAQ apportionments for projects within three years.

With these incentives, Caltrans and local agencies have dedicated considerable effort toward improving project delivery. For several years, Caltrans has been committed to a goal of delivering 90% of the projects programmed each year and 100% of the dollar amount programmed. Normally, the 100% dollar commitment could be achieved by delivering some projects in advance of the year in which they are programmed. For 2004-05, however, the lack of funding made it impossible to achieve these goals as measured by allocations as a percentage of the amount programmed. Even measuring by allocations as a percentage of the allocation plan, the allocation criteria precluded "advance delivered" projects.

For 2005-06, incidentally, Caltrans has raised its delivery commitment to 100% of programmed projects. In order to achieve this goal, the Caltrans Director has established delivery contracts with each of his district directors and has instituted weekly delivery meetings with his delivery staff and invited participation from Commission staff.

The Commission determined that 2004-05 STIP and SHOPP projects not included in the allocation plan priority categories listed above would be reprogrammed for delivery in 2005-06, notwithstanding the Commission's general policy of not approving amendments to delay projects after the beginning of the delivery year. As for STIP projects in the higher priority categories, the Commission determined that timely use of funds rules would apply and that a project not meeting delivery deadlines would lapse and be deleted from the STIP on June 30, 2005 if the Commission had not approved a waiver of the allocation deadline for the project.

The Commission adopted the 2004 STIP consistent with fund estimate capacity that allowed less than $200 million to be programmed in 2004-05. This programming included projects ready to go to construction, Caltrans support and right-of-way activities, AB 3090 cash reimbursements, GARVEE debt service, and local project support activities.

Caltrans STIP Project Delivery

As stated above the Commission tracks project allocations as scheduled in the STIP. For Caltrans projects, the Commission allocates project funding only for construction capital outlay. The Commission does not allocate funds for Caltrans support activities (including environmental and design work, right-of-way support, and construction engineering), and it allocates right-of-way capital outlay funds on an annual lump sum basis, not by specific project. Because of the very limited STIP capacity identified in the 2004 STIP fund estimate, the Commission programmed only six Caltrans STIP projects in 2004-05 for a construction cost of $12.7 million. This is a minuscule fraction of the 58 projects valued at $1.427 billion that was programmed for Caltrans delivery in 2003-04.

Caltrans delivered the six projects scheduled for 2004-05, a 100% project delivery rate, and delivered the projects with an overall $200,000 cost saving. In addition, Caltrans achieved “ready to list” status on 18 other STIP projects valued at $357.5 million. “Ready to list” status means that a project is environmentally cleared, right-of-way is acquired, design is complete, and only an allocation of funds is needed for the project to proceed to construction contract advertisement and award. Because funds were not available, these 18 projects were shelved. If one were to count the 18 “ready to list” projects as “advance delivery,” Caltrans would have delivered $370 million of construction value for a net overall STIP dollar delivery rate of 2,960% for the fiscal year.

The following chart summarizes the Caltrans 2004-05 STIP delivery record and compares it against the prior two years:

Caltrans STIP Delivery
($ in millions)

	2002-03		2003-04		2004-05	
	Dollars	**Projects**	**Dollars**	**Projects**	**Dollars**	**Projects**
Programmed	$459.1	39	$1,427.0	58	$12.7	6
Extensions	-55.8	-4	-621.0	-31	0	0
Lapsed	-1.4	-1	0	0	0	0
Delivered as programmed	$401.9	34	$806.0	27	$12.5	6
Percent of projects		87%		47%		100%
Advanced	85.4	6	267.0	2	357.5	18
Delivered, with advances	$487.3	40	$1,073.0	29	$370.0	24
Percent of dollars	106%		75%		2,960%	
Prior-year extensions delivered	0	0	103.0	9		
Total delivered	$487.3	40	$1,176.0	38	$370.0	24
Funded by allocation			0	0	12.5	6
Funded through AB 3090			165.1	13		
Funded through GARVEE			514.7	5		
Placed on pending list, not funded			$ 496.2	20	$357.5	18

Caltrans is scheduled to deliver about $850 million in STIP construction projects in 2005-06. Although the Commission’s STIP allocation capacity is $690 million for both Caltrans and local projects, Caltrans has publicly stated that it will deliver all of its programmed 2005-06 construction projects even if only to shelf. The 2005-06 commitment of $850 million is about equal to the sum of unfunded projects from 2003-04 and 2004-05, which illustrates how the financial crisis has warped the project delivery process. The Caltrans STIP delivery commitment for 2005-06 has already been met, and the Commission may not have enough allocation capacity in 2006-07 to allocate to the projects delivered in 2005-06.

Local STIP Project Delivery

For local agency projects, unlike Caltrans projects, the Commission allocates all programmed STIP funds and tracks each discrete programming component (environmental, design, right-of-way, and construction) as a separate project. In the 2004 STIP, the Commission programmed 176 local projects in 2004-05 valued at $92.7 million. This is less than one-third of the $316.5 million programmed for 444 local projects in 2003-04. The STIP allocation plan, on the basis of criteria described above, excluded 31 of projects $36.3 million, and those projects are subject to rescheduling to future years in the 2006 STIP. Of the remaining 145 local projects included in the allocation valued at $56.4 million, local agencies delivered 113 projects valued at $38.6 million for an overall project delivery rate of 78% and dollar delivery rate of 68%.

For the 32 undelivered allocation plan projects, the Commission granted delivery deadline extensions to 24 projects valued at $10.0 million (18% of the allocation plan commitment), and local agencies lapsed 8 projects valued at $7.8 million (14% of the allocation plan commitment). The lapsed $7.8 million reverted to county share balances, to be available for programming in the 2006 STIP.

The following chart summarizes the local 2004-05 STIP delivery record and compares it against the prior two years:

Local STIP Delivery
($ in millions)

	2002-03		2003-04		2004-05	
	Dollars	Projects	Dollars	Projects	Dollars	Projects
Programmed	$409.9	456	$316.5	444	$92.7	176
Ineligible per allocation plan					-36.3	-31
Total eligible for delivery					$56.4	145
Extensions	-36.6	-45	-86.1	-91	-10.0	-24
Lapsed	-11.4	-35	-8.8	-33	-7.9	-8
Delivered as programmed	$361.9	376	$221.6	320	$38.6	113
Percent of projects		82%		72%		78%
Advanced	104.8	57				
Delivered, with advances	$466.7	433	$221.6	320	$38.6	113
Percent of dollars	113.9%		70%		68%	
Prior-year extensions delivered	50.4	53				
Total delivered	$517.1	486	$221.6	320	$38.6	113
Funded by allocation			3.4	39	38.6	113
Funded through AB 3090			44.7	21		
Funded through GARVEE			51.2	3		
Placed on pending list, not funded			$122.3	257	$ 0	0

Local agencies are scheduled to deliver about $390 million in STIP projects in 2005-06.

Caltrans SHOPP Project Delivery

The SHOPP delivery record for 2004-05 was very complicated and convoluted due to the funding crisis. Originally, Caltrans was committed to deliver 358 projects valued at $1.1 billion. At its August 2004 meeting, the Commission indicated that only the most critical SHOPP projects should be brought forward for allocation. In January 2005, when the Commission established an allocation plan for the remainder of the fiscal year, 160 of the programmed SHOPP projects valued at $274 million were excluded from the allocation plan on the basis of the developed allocation criteria. Caltrans amended into the program an additional 48 critical projects valued at $71 million. Caltrans delivered 226 allocation plan projects worth $721 million for an overall 92% SHOPP project delivery rate. In addition, Caltrans achieved "ready to list" status on 86 other SHOPP projects valued at $281 million that could have been allocated by the Commission if funds were available. In total dollar value, Caltrans delivered $1.0 billion in allocation plan SHOPP projects for a net overall dollar delivery rate of 113% for the fiscal year. Unfortunately, funding limitations permitted the Commission to allocate only $597 million available to allocate to SHOPP projects, so only 199 of the 312 delivered SHOPP received allocations. It is fair to conclude that Caltrans achieved all the SHOPP delivery that was possible in 2004-05, given the overall funding constraints.

The following chart summarizes the Caltrans 2004-05 SHOPP delivery record and compares it against the prior two years:

Caltrans SHOPP Delivery
($ in millions)

	2002-03		2003-04		2004-05	
	Dollars	**Projects**	**Dollars**	**Projects**	**Dollars**	**Projects**
Programmed	$614	136	$847	238	$1,087	358
Ineligible per allocation plan					-274	-160
Total eligible for delivery					$ 813	198
Added by amendment	31	10	118	22	71	48
Total programmed	$645	146	$965	260	$ 884	246
Delivered	$599	137	$782	194	$ 721	226
Percent of projects		94%		75%		92%
Advanced	54	12	30	6	281	86
Delivered, w/advances	$653	149	$812	200	$1,002	312
Percent of dollars	101%		84%		113%	
Total delivered			$812	200	$1,002	312
Funded by allocation			712	175	597	199
Placed on pending list, not funded			$100	25	$ 405	113

In 2004-05, Caltrans was very aggressive in managing the SHOPP. Between the regular SHOPP program, the SHOPP minor program, and emergency projects, Caltrans fully utilized the entire $760 million provided by the Commission for SHOPP projects. As will be discussed further below, Caltrans was unable to use all of the $180 million annual right-of-way allocation and requested that the Commission transfer $20 million from the right-of-way allocation to the SHOPP. The Commission approved the Caltrans request, and the $760 million figure includes the $20 million shift from right-of-way.

The 2004-05 winter storms were very severe, and the $45 million emergency reservation proved too small to cover all the emergency projects Caltrans needed to award in order to keep the state's highways open to traffic. All emergency projects are a draw against allocation capacity, and once the $45 million prudent emergency reservation was exhausted, the number of pavement rehabilitation projects that could have been allocated was reduced to cover the emergency projects. Although most emergency projects qualify for federal emergency relief reimbursement, that reimbursement is not automatic and is often not received as a cash reimbursement for several years.

There are other types of projects that are not included in the Commission-approved SHOPP, but represent a delivery effort by Caltrans and, for record keeping purposes, are kept under the SHOPP umbrella. These categories of projects include: Minor projects, emergency and seismic retrofit projects allocated by Caltrans under Commission Resolution G-11, and SHOPP-administered TE projects.

The following table lists 2004-05 delivery for these categories, comparing it against the prior two years:

Other Caltrans Delivery
($ in millions)

	2002-03		2003-04		2004-05	
	Dollars	**Projects**	**Dollars**	**Projects**	**Dollars**	**Projects**
Minor program	$87.0	196	$ 79.5	168	$ 49.5	107
Emergency	73.2	93	26.0	65	112.3	121
Seismic, phase I	0.9	51	3.0	3	0	0
Seismic, phase II	44.6	8	2.2	4	0.6	2
SHOPP TE	33.8	18	8.4	12	1.8	3
Total	**$239.5**	**366**	**$119.1**	**252**	**$164.2**	**233**

Caltrans Annual Right-of-Way Allocation

Commission Resolution G-91-1 authorizes Caltrans to suballocate funds from the Commission's yearly allocation for the total right-of-way program to individual projects for the acquisition of right-of-way, relocation of utilities, and other necessary related right-of-way activities. Caltrans is also authorized to allot funds for acquisition of hardship and protection parcels when circumstances warrant such acquisitions. At the June 2004 meeting, Caltrans requested $250 million for right-of-way activities based on its determination of acquisition needs for 2004-05. The Commission allocated only $180 million, all that was available for right-of-way per the cash flow estimate. In May 2005, Caltrans reported to the Commission that it reviewed the remaining right-of-way allocation balance and determined that $20 million would not be expended by the end of the fiscal year. In order to utilize all available funds in 2004-05, Caltrans requested permission to redirect the $20 million to the SHOPP for allocation of pavement rehabilitation projects. The Commission allocated an additional $20 million in SHOPP pavement rehabilitation projects at the May 2005 meeting and formally adjusted the June 2004 $180 million right-of-way allocation to $160 million at its July 2005 meeting.

Caltrans spent the entire $160 million. Unfortunately, the lion's share of the funds was needed for projects already under construction and only about $34 million was available to acquire right-of-way for new STIP projects.

The Commission allocated $171 million for right-of-way activities for 2005-06 and Caltrans anticipates that about $100 million will be available for new STIP project acquisitions.

<u>Caltrans Environmental Document Delivery</u>

Tracking the completion of environmental documents is particularly important in flagging possible delays of future construction projects. This year, Caltrans achieved a 70% delivery rate for STIP final environmental document delivery, far better than the 19% rate of six years ago, yet short of the 90% goal desired by the Commission. Environmental impact reports and negative declarations make up the bulk of the STIP environmental effort, with an occasional categorical exemption occurring.

The Commission started tracking SHOPP environmental document delivery in 2001-02. This year, Caltrans delivered 93% of its SHOPP final environmental documents, exceeding the Commission's 90% goal. The preponderance of SHOPP environmental documents are categorical exemptions with a good number of negative declarations and an occasional environmental impact report. The following table summarizes STIP and SHOPP environmental document delivery reported in recent years.

Caltrans STIP/SHOPP Final Environmental Document Delivery

		STIP			SHOPP	
Fiscal Year	**Planned**	**Actual**	**Rate**	**Planned**	**Actual**	**Rate**
1997-98	52	19	36%			
1998-99	63	12	19%			
1999-00	90	40	44%			
2000-01	89	54	61%			
2001-02	44	32	73%	78	59	76%
2002-03	41	27	66%	63	54	86%
2003-04	43	27	63%	69	51	74%
2004-05	23	16	70%	96	89	93%

Another environmental category that the Commission is tracking is the Notice of Preparation (NOP). The NOP is the notice issued by a lead agency to inform responsible agencies and interested parties that it is preparing an environmental impact report for a project. Thus, the NOP is an indicator of early transportation project development. In 2001, Caltrans planned eight NOPs and actually completed 14. With recent funding constraints, the number of NOPs has dwindled from completing seven in 2002-03 to planning two in 2005-06. Caltrans began focusing its efforts on completing environmental documents for projects with funding available. However, once the environmental process is completed for the projects beyond the NOP stage, the number of Caltrans projects remaining in the environmental pipeline that are ready to move forward to construction will be sparse.

The environmental aspect of project delivery will be a concern when revenues become available again. Lack of projects means the revenues will remain unused and increase in the State Highway Account, presenting a skewed view that revenues are not needed. Caltrans should review the status of its projects in the project delivery pipeline and determine, through a risk assessment, which ones can move forward through the environmental process, even though no funding is immediately available. In this manner, projects can be ready for delivery when funding is available.

The Commission originally focused on environmental document delivery on a year-to-year basis. In 2003-04, the Commission requested that Caltrans begin tracking draft and final environmental documents that "rolled over" from the previous fiscal year. For 2002-03, 40 (57%) of 75 draft environmental documents planned for completion in 2002-03 were rolled over to 2003-04, while 23 (22%) of 104 planned final environmental documents were rolled over. At the end of 2003-04, Caltrans reported that eight of the draft environmental documents and seven of the final environmental documents that had been planned for 2002-03 still remained to be completed. By the end of 2003-04, 33 (59%) of 51 draft environmental documents planned for completion in 2003-04 were rolled over to 2004-05, while 27 (30%) of 88 planned final environmental documents were rolled over. The Commission asked that Caltrans continue tracking these delayed environmental documents, explain in the upcoming year why the projects continue to be delayed, and recommend, if appropriate, ways to complete delivery.

At the August 2005 Commission meeting, Caltrans noted in its fourth quarter Project Delivery Report that a number of new environmental documents would be rolled over from 2004-05 to 2005-06. The rolled over environmental documents included:

- 1 out of 2 notices of preparation (STIP)
- 10 out of 11 draft environmental documents (STIP)
- 18 out of 55 draft negative declarations (STIP and SHOPP)
- 3 out of 7 final environmental documents (STIP and SHOPP)
- 4 out of 32 final negative declarations (STIP and SHOPP)
- 1 out of 60 final categorical exemptions (STIP and SHOPP)

Caltrans reported that the delivery of many of these environmental documents had been delayed because of funding constraints and budget reductions. Caltrans reported that it was focusing its efforts and resources on delivering those environmental documents that were for projects with funding programmed for construction. Projects not programmed for construction were dropped or given lower priority. The Commission asked Caltrans to report back on the eight remaining rollover projects from 2003-04, as well as the delayed projects from 2004-05. Caltrans was asked to identify and explain the extent to which project environmental delays were due to external funding constraints, internal resource constraints, external delays, specific environmental issues, or other reasons.

Local RSTP and CMAQ Projects

When AB 1012 (1999) first applied "use-it-or-lose it" provisions to the RSTP and CMAQ programs, it created a major incentive for on-time delivery and use of the funds. By October 1999, the regions had accumulated a $1.2 billion backlog of federal apportionments and left unused $854 million in current-year obligational authority (OA). Caltrans had to step in and apply that OA to other work in order to avoid having California lose the unused OA to other states.

AB 1012 specified that RSTP and CMAQ funds not obligated by a region within the first three years of federal eligibility are subject to redirection by the Commission in the fourth year. The Commission extended this rule to the regional TEA program by policy in 2001. Since the Commission discontinued the regional TEA program in August 2003 by reintegrated federal TE funds into the STIP, the sixth cycle is the last cycle where regional TEA funds are reported on. Caltrans monitors the obligation of funds apportioned to each region, reports the status of those apportionments to the Commission quarterly, and provides written notice to the regional agencies one year in advance of any apportionment reaching its three-year limit. Any region with an apportionment within one year of the limit is required to develop and implement a plan to obligate its balance before the three-year limit is reached.

- **Fifth Cycle, 2001-02 Federal Apportionment**

  Caltrans released its fifth cycle AB 1012 “use-it-or-lose-it” notices (for apportionments from the 2001-02 federal fiscal year) in December 2003. At that point, the unobligated amount subject to redirection on December 29, 2004 totaled $229 million. By the December 2004 deadline, all but $6.1 million had been obligated. At the December 2004 meeting, the Commission redirected $1.5 million in regional TEA funds back to Riverside County with a deadline of June 2005. At the January 2005 meeting, the Commission redirected back an additional $1.5 million in regional TEA funds ($1.3 million to San Bernardino County and $0.2 million to Mendocino County) with a deadline of June 2005 and $3.1 million in RSTP funds to Riverside County with a deadline of December 2005. Caltrans reports that all the redirected funds were successfully obligated by or prior to their respective deadlines.

- **Sixth Cycle, 2002-03 Federal Apportionment**

  Caltrans released its sixth cycle AB 1012 “use-it-or-lose-it” notices (for apportionments from the 2002-03 federal fiscal year) in November 2004. At that point, the unobligated amount subject to redirection on November 15, 2005 totaled $119 million. Caltrans later reported that the unobligated balance had dropped to $29 million by July 31, 2005 and based on the obligation plans submitted by local agencies, Caltrans anticipated that the $29 million balance would be fully obligated by the November 15, 2005 deadline. Unfortunately, at the Commission’s November 2005 meeting, based on preliminary September 2005 numbers, Caltrans reported that a $4.5 million unobligated balance remained ($0.8 million for CMAQ, $1.3 million for RSTP, and $2.3 million for regional TEA). As noted above, the sixth cycle is the last cycle where regional TEA fund numbers will be reported.

- **Seventh Cycle, 2003-04 Federal Apportionment**

  Caltrans released its seventh cycle AB 1012 “use-it-or-lose-it” notices (for apportionments from the 2003-04 federal fiscal year) in November 2005. At that point, the unobligated amount subject to redirection on November 2006 totaled $88 million.

Other Local Assistance Projects

Local agencies have dedicated considerable effort toward improving the delivery of local RSTP and CMAQ projects, but the success is not as good with respect to the other local assistance project categories, where the AB 1012 "use-it-or-lose-it" provisions are not in force. However, the 2004-05 local assistance appropriation is available for three years. Local assistance projects will continue to charge against this appropriation over the next two years.

The following table shows how the Commission's 2004-05 local assistance allocations, totaling $1.1 billion were used by local agencies in the first year of availability and provides a comparison with the usage of prior year availability as the two years of appropriation roll forward:

Use of Local Assistance Allocations, First Year of Availability
($1,000's)

	2002-03		2003-04		2004-05	
Category	**Allocation**	**Use**	**Allocation**	**Use**	**Allocation**	**Use**
RSTP	$372,945	$246,384	$372,945	$262,324	$376,211	$162,255
RSTP match & exchange	46,000	47,159	46,000	49,860	46,000	47,477
CMAQ	352,000	134,300	277,000	211,915	410,856	50,581
FTA transfers		266,298		361,134		259,323
Subtotal, RSTP/CMAQ	$770,945	$694,141	$695,945	$885,233	$833,067	$519,636
Br. Rehab & Replacement	98,640	84,576	98,640	113,452	130,248	50,880
Bridge Seismic Retrofit	65,490	62,569	52,490	41,248	67,880	25,479
Bridge Scour	4,200	698	4,200	0	3,375	1,815
RR Grade Crossing						
Protection	10,000	6,761	10,000	7,961	12,720	3,278
Maintenance	4,250	4,076	4,250	4,089	4,250	4,250
Grade Separations	15,000	13,493	15,000	15,000	15,000	5,720
Hazard Elimination/Safety	10,000	11,360	8,000	6,305	12,720	6,850
Safe Routes to School	20,000	23,734	22,000	24,594	25,440	5,467
Regional TEA	45,000	52,186	45,000	43,092	0	0
State Exchange	6,440	4,239	6,440	2,588	6,440	0
Demo Projects	0	175,454	0	83,927	0	62,389
Miscellaneous	3,625	20,367	3,625	41,304	3,625	14,593
Total	**$1,053,590**	**$1,153,654**	**$965,590**	**$1,268,793**	**$1,114,765**	**$700,357**

RSTP, CMAQ, and regional TEA are three funding categories where "use-it-or-lose-it" is in effect. Other categories appear not to be as aggressively expended. However, allocations have a three-year shelf life and additional delivery against the allocations will continue. For the RSTP and CMAQ programs, allocations applied to transit projects are transferred to the Federal Transit Administration (FTA). Those transfers are displayed separately on these tables and are included in the "use of allocation" figures for RSTP and CMAQ. It should be noted that Caltrans reports expenditures and FTA transfers of $1.269 billion from the 2003-04 allocation, 24% over the Commission allocation of $966 million. It is unclear under what authority these expenditures were made.

2005 ACTIVITY AND ACCOMPLISHMENTS

State Highway Operation and Protection Program (SHOPP)

The Department of Transportation (Caltrans) was due to submit an update of its Ten-Year State Highway Operation and Protection Plan (SHOPP Plan) to the Commission by January 31, 2005 to be approved and submitted to the Governor and Legislature by May 1. Caltrans never formally submitted the plan to the Commission or the Legislature, though Caltrans did make oral presentations of its findings of SHOPP need for the purpose of developing the 2006 STIP fund estimate. In this informal SHOPP Plan, Caltrans identified funding needs of $29.7 billion (in 2004 dollars) for the ten years from 2006-07 through 2015-16, excluding project development costs of about 30%. Including escalation and project development costs, the total costs identified were about $42 billion for the ten-year period.

This identification of need was based on achieving specific performance goals identified in the plan, including reducing the number and severity of collisions, improved trip reliability, and increased mobility by addressing system operational deficiencies.

From this overall need, Caltrans recommended and the Commission approved a constrained fund estimate SHOPP funding level of $1.73 billion per year (in 2004 dollars), excluding project development, for the five-year period of the 2006 fund estimate, 2006-07 through 2010-11. This recommendation, according to Caltrans, would address emergency, mandated, and safety issues; rehabilitating the existing state highway system sufficient to maintain it at its current level of service; and delaying beyond the fund estimate period other rehabilitation activities that would reduce the amount of distressed pavement or the number of deficient bridges. Caltrans would then focus on the most critical roadways and bridges, using preservation strategies in lieu of more costly major rehabilitation.

When the fund estimate was more fully developed, it became clear that even this constrained level could not be supported with all of the State Highway Account funding available. In the end, the Commission adopted the 2006 STIP fund estimate assigning all State Highway Account revenue to the SHOPP and limiting the STIP to annual Proposition 42 transfers (which may not be used for the SHOPP) and transportation loan repayments.

Background

Since 1998, Section 164.6 of the Streets and Highways Code has required Caltrans to prepare a biennial ten-year state rehabilitation plan for the rehabilitation and reconstruction of all state highways and bridges. The plan is to include specific milestones and quantifiable goals, strategies to control cost and improve efficiency, and a cost estimate for at least the first five years. According to statute, the ten-year plan is to be the basis for the annual Caltrans budget request and for the Commission's adoption of the biennial State Transportation Improvement Program (STIP) fund estimate.

With the concurrence of the Commission, Caltrans expanded the plan to include all elements programmed in the biennial four-year State Highway Operation and Protection Program (SHOPP), and the plan has come to be known as the Ten-Year SHOPP Plan. The SHOPP itself is the four-year program of projects designed to maintain the safety and integrity of the state highway system. The Ten-Year SHOPP Plan is to be prepared by Caltrans, submitted to the Commission by January 31 of odd-numbered years, and transmitted to the Governor and Legislature by May 1.

Until 2003, the law required the Ten-Year SHOPP Plan to be prepared and submitted in even-numbered years. Because that put the SHOPP Plan out of sequence with the biennial fund estimate (adopted in August of odd-numbered years), Caltrans proposed, and the Legislature enacted AB 1717 to change the submittal to May 1 of odd-numbered years. This means that the 2005 update was to be the first update since 2002.

SB 1098 (2004) further amended the law to require Caltrans also to prepare a five-year maintenance plan that addresses state highway system maintenance needs, to be updated concurrently with the Ten-Year SHOPP Plan. The law requires the two plans to attempt to balance resources between SHOPP and maintenance work to achieve identified milestones and goals at the lowest possible long-term total cost. If the maintenance plan recommends increases in maintenance spending, it must identify projected future SHOPP costs that would be avoided by increasing maintenance spending.

The initial Ten-Year SHOPP Plan, prepared in 1998, identified a total need of $8.6 billion and specific goals and targets in a number of different areas. Probably the most significant ones, from the Commission's perspective, were the goal to reduce deteriorated pavement to 5,500 lane-miles by 2008 and the goal to use longer-life pavement rehabilitation on roadways where the average daily traffic (ADT) exceeds 150,000 or average daily truck volume exceeds 15,000. Caltrans projected that reducing the pavement backlog to 5,500 lane-miles would allow it to maintain and rehabilitate system pavements at the lowest overall annual cost. The identified thresholds for using longer-life pavement would provide high user benefit and the most cost effective rehabilitation strategy.

The 2000 update of the Ten-Year SHOPP Plan identified a total funding need of $11.1 billion. At the same time, Caltrans identified a major increase in funding need for the traffic safety program, due in large part to a 1999 updating of the accident cost factors used to calculate the safety index. When the Commission adopted the revised 2000 STIP fund estimate in June 2000, Caltrans and the Commission had agreed to add another $390 million to the 2000 SHOPP's capacity.

For the 2002 STIP fund estimate (adopted in August 2001), Caltrans proposed and the Commission approved about $350 million in capacity increases for the five-year period above the levels in the 2000 Ten-Year SHOPP Plan.

2002 Ten-Year SHOPP Plan and 2004 SHOPP

Caltrans submitted the 2002 Ten-Year SHOPP Plan to the Commission in April 2002, one month after the Commission approved the 2002 SHOPP. It identified $22.3 billion in needs, excluding project development and escalation, about double the amount of funding called for in the 2000 Plan. Caltrans specifically noted the $22.3 billion was not a funding recommendation but an assessment of needs based on identified goals.

The presentation of the proposed 2004 STIP fund estimate was delayed from July 2003 to October 2003 because of funding uncertainties, and in September 2003, Caltrans identified four 2004 SHOPP funding level options without making a specific recommendation. The first option was a severely constrained SHOPP at approximately $1 billion per year. The second option was a status quo program of approximately $1.2 billion per year. The third option was an increase from status quo to approximately $1.7 billion per year. The fourth option was the total identified 2002 Ten-Year SHOPP Plan need of $22.3 billion, which translated to $2.2 billion per year. All of these amounts excluded project development and escalation.

Given the delays and diversions of STIP funding, the Commission directed Caltrans to prepare the 2004 STIP fund estimate assuming that the SHOPP cash draw levels identified in the 2002 STIP fund estimate (including support costs) would continue through 2006-07 and that the cash draw levels for 2007-08 and 2008-09 would be the same as for 2006-07. In the face of diminished transportation funding, the Commission chose not to decrease the SHOPP funding level but to keep it steady. The Commission acknowledged at the time that the assigned cash flow level for the SHOPP in the 2004 STIP fund estimate was inadequate to meet the rehabilitation needs of the aging state highway system and that Caltrans would not be able to meet its goal to reduce deteriorated pavement to 5,500 lane-miles by 2008. The Commission also directed that 85% of the annual funding be assigned to the safety, bridge preservation, roadway preservation, and mobility categories of the SHOPP. The Commission requested that Caltrans split the approved SHOPP funding among the SHOPP categories during the four-year 2004 SHOPP period. The SHOPP cash flow levels assumed in the 2004 STIP fund estimate translated to a $5.8 billion programming capacity in the four-year 2004 SHOPP program.

On April 8, 2004, Caltrans presented and the Commission approved the 2004 SHOPP. Caltrans built the 2004 SHOPP first by including nonallocated projects carried over from the 2002 SHOPP, programmed primarily in 2004-05 and 2005-06, and then by adding new projects, primarily programmed in 2006-07 and 2007-08. In addition, since the Commission was only able to allocate $800 million worth of SHOPP projects in 2003-04 and the actual amount programmed was over $1 billion, the difference was also reprogrammed in the first years of the 2004 SHOPP.

The following chart breaks out the SHOPP categories and compares the programmed funding in the 2004 SHOPP to the identified 2002 Ten-Year SHOPP Plan needs.

Comparison of 2004 SHOPP to Identified 2002 Ten-Year SHOPP Plan Needs
($ millions)

Category	Program	2004 SHOPP Reservation	Total	2002 Ten-Year SHOPP Plan
Collision Reduction	$ 858	$ 90	$ 948	$ 1,925
Bridge Preservation	1,095	21	1,116	2,890
Roadway Preservation	2,407	178	2,585	8,950
Roadside Preservation	198	12	210	1,592
Mobility	372	81	453	5,018
Facilities	187	23	210	883
Subtotal, Primary SHOPP Categories	**$5,117**	**$405**	**$5,522**	**$21,258**
Storm Water	$ 213	$ 42	$ 255	$ 710
Office Buildings	31	1	32	289
TE	8	0	8	22
Subtotal, Other Categories	**$ 252**	**$ 43**	**$ 295**	**$ 1,021**
TOTAL	**$5,369**	**$448**	**$5,817**	**$22,279**

2005 Ten-Year SHOPP Plan and 2006 SHOPP Fund Estimate

The following chart identifies the SHOPP categories used for the 2005 SHOPP Plan and compares it to the annual funding level originally recommended for development of the 2006 fund estimate.

Comparison of 2006 SHOPP Recommendation to 2005 SHOPP Plan Needs
($ millions)

SHOPP Category	2005 SHOPP Plan Total Ten Years	2006 Fund Estimate Annual Average
Emergency Response	$ 590	$ 59
Collision Reduction	3,130	340
Mandates	950	95
Bridge Preservation	3,232	250
Roadway Preservation	14,583	636
Mobility Improvement	4,660	240
Roadside Preservation	1,450	60
Facility Improvement	1,125	54
TOTAL (2004 dollars)	**$29,720**	**$1,734**

In presenting the 2005 SHOPP Plan to the Commission, Caltrans described the following ten-year goals:

- Emergency response: Restore roadway to full service within 180 days after major damage, including damage from earthquakes, floods, fires, and other emergencies.
- Collision reduction: Reduce the number of fatal and injury collisions by 10% (by 5,800 fatal and injury collisions per year).
- Mandates: Comply with state and federal laws and regulations.
- Bridge preservation: Prevent road closures due to bridge failure. Reduce rehabilitation needs from 800 to 400 bridges.
- Roadway preservation: Reduce pavement rehabilitation needs from 24% to 10% of the system (11,824 to 5,500 lane miles).

- Mobility improvement: Reduce trip time and improve trip reliability (reduce delay by 120 million vehicle-hours per year).
- Roadside preservation: Reduce long-term maintenance costs. Improve worker and traveler safety. Reduce deficient landscape from 12,800 to 400 acres.
- Safety roadside rests: Improve traveler safety and comply with ADA and CalOSHA mandates (rehabilitate seven existing and construct four new sites per year).
- Facility improvements: Address worker safety, CalOSHA requirements, and improve operation efficiency.

As described by Caltrans, the constrained $1.73 billion per year recommended for the 2006 fund estimate would:

- Fully fund all emergency response.
- Fully fund all identified safety improvements, initiate a proactive safety program, and complete all median barrier upgrades within five years.
- Fully fund all mandated programs to meet the statutory and regulatory time constraints imposed on each program. These include relinquishments, school noise attenuation, railroad crossing, hazard waste mitigation, storm water, and ADA curb compliance projects.
- Fully fund all bridge scour, bridge seismic and transportation permits projects, maintain the bridge rehabilitation needs inventory at 800 bridges, and address the most critical bridge widening and bridge replacement needs.
- Partially fund the roadway rehabilitation and pavement preservation programs to maintain the inventory of distressed pavement at its current level of 11,824 lane miles, and address the most critical needs in protective betterments, drainage corrections, and signs and lighting rehabilitation.
- Fully fund the Transportation Management System (TMS) program to provide the needed detection systems to improve system operations and implement transportation system performance measures. The recommended funding would also correct the highest priority operational improvements and keep the existing weigh stations functional and operating. Mobility improvements would reduce delay by 7 million vehicle-hours per year.
- Fully fund all identified worker safety maintenance access projects, roadside enhancements, and safety roadside rest areas to comply with current code and mitigation requirements.
- Partially fund highway planting to maintain distressed planting at its current level of 12,800 acres.
- Delay beautification, modernization and construction of new safety roadside rest areas to beyond the fund estimate period.

- Fully fund all equipment, maintenance, offices, and laboratory facilities sufficient to meet building codes and health and safety requirements, deferring improvements to operational efficiency.

Because State Highway Account revenues available under the 2006 fund estimate proved inadequate to meet this recommendation, the final fund estimate constrained the 2006 SHOPP to the total amount of State Highway Account funding available, about $1.70 billion per year, plus project development and escalation. Costs were escalated at 8.3% for construction capital expenditures in 2005-06, then 3% thereafter, resulting in a SHOPP capital program of $10.0 billion over the five-year fund estimate period.

2005 ACTIVITY AND ACCOMPLISHMENTS

Aeronautics Program

The Aeronautics Program is derived from a ten-year Capital Improvement Plan (CIP) comprised of a fiscally unconstrained list of projects from eligible airports. The Aeronautics Program, a biennial three-year program of projects, is fiscally constrained and is to be funded from the Aeronautics Account, which receives revenues from state general aviation fuel taxes. The projects in the Aeronautics Program provide a part of the local match required to receive federal Airport Improvement Program (AIP) grants and fund capital outlay projects at public-use airports through the Acquisition and Development (A&D) element of the California Aid to Airports Program (CAAP). The CAAP also includes a statutory annual grant program, which provides annual nondiscretionary grants of $10,000 for each general aviation airport in the state. Aeronautics Account funds are applied to Caltrans aeronautics operations and the annual grant program before the funds are available for the Aeronautics Program adopted by the Commission.

In September 2005, the Commission adopted the CIP that is a fiscally unconstrained list of 1,542 projects totaling an estimated $2.58 billion. A project must be included in the CIP before it can be considered for inclusion in the three-year Aeronautics Program. The 2006 Aeronautics Program will be developed from the CIP and presented next spring to the Commission for consideration. In the current 2004 Aeronautics Program, the Commission continued severe curtailing of allocations and restricted allocations to projects for federal AIP local match participation and A&D safety projects, due to recent transfers from the Aeronautics Account to the General Fund. Fifteen nonsafety A&D projects totaling $2.8 million remain unfunded.

In December 2005, the Commission adopted the 2005 California Aviation System Plan (CASP) Policy Element. The CASP is a comprehensive plan that lays out the state's policies and funding priorities for general aviation and commercial airports in the California Aeronautics Program. The updated CASP provides focus on strategic goals for safety and security, planning, accessibility, economy, and community values.

During the year, the Commission received advice from its Technical Advisory Committee on Aeronautics (TACA) regarding the CIP, CASP, and matching ratios. The Commission also received advice on pending legislation. It supported bills to increase funding for general aviation capital projects and changes in airport and land use compatibility law regarding schools near airports.

Commission's Aviation Responsibilities

The Commission's primary responsibilities regarding aeronautics include:

- advising and assisting the Legislature and the Secretary of the Business, Transportation and Housing (BT&H) Agency in formulating and evaluating policies and plans for aeronautics programs;
- adopting the CASP; a comprehensive plan defining state policies and funding priorities for general aviation and commercial airports in California; and
- adopting and allocating funds under the biennial three-year Aeronautics Program, which directs the use of Aeronautics Account funds to:
    1. provide a part of the local match required to receive Federal AIP grants; and
    2. fund A&D capital outlay projects for airport rehabilitation, safety, and capacity improvements at public-use airports.

Technical Advisory Committee on Aeronautics (TACA)

Section 14506.5 of the California Government Code states that the chairman of the California Transportation Commission shall appoint a Technical Advisory Committee on Aeronautics, after consultation with members of the aviation industry, airport operators, pilots, and other aviation interest groups and experts, as appropriate. TACA gives technical advice to the Commission on the full range of aviation issues to be considered by the Commission. The current membership of TACA includes representatives from airport businesses, aviation divisions of large companies, air cargo companies, pilots and aircraft owners, managers of commercial and rural airports, managers of operations at major commercial airports, metropolitan and local planning organizations, and federal and state aviation agencies.

This statutorily mandated advisory committee lends its expertise to the Commission as it carries out its responsibility in advising the Secretary of the BT&H Agency and the Legislature on state policies and plans for transportation programs in California. During 2005, TACA has continued to focus on a comprehensive review of the role and responsibilities of the Division of Aeronautics of the Department of Transportation (Caltrans) and the funding sources for the various state programs related to aviation. TACA has been working with Caltrans, the BT&H Agency and the Legislature to develop potential stable revenue sources and clarify roles and policies for the state in developing and maintaining California's aviation system with the current land use development.

The members of the Technical Advisory Committee on Aeronautics are:

- Hardy Acree, Director, Sacramento County Airport System
- Daniel Burkhart, <u>TACA Chairman</u>, Director of Regional Programs, National Business Aviation Association
- Joe Chan, Commissioner, Alameda County Airport Land Use Commission

- Jack Kemmerly, Director of California Operations, Exceptional Strategies, Inc.
- Chris Kunze, Manager, Long Beach Municipal Airport
- Harry A. Krug, Association of California Airports, Airport Manager, Colusa County Airport
- Mark F. Mispagel, Attorney/Consultant, Law Offices of Mark F. Mispagel
- John Pfeifer, TACA Vice Chairman, Aircraft Owners and Pilots Association (AOPA), California Regional Representative
- Alan Thompson, Senior Planner, Southern California Association of Governments
- Alexander Waters, Vice President of Business Development, KaiserAir, Inc.
- William T. Weil, Jr., Manager, California City Municipal Airport.
- Austin Wiswell, Ex Officio, Chief, Division of Aeronautics, California Department of Transportation (retired November 2005)
- James Ghielmetti, California Transportation Commission, Commission liaison
- Vacant, Ex Officio, Federal Aviation Administration

2005 Capital Improvement Program

In September 2005, the Commission approved the 2005 Ten-Year Capital Improvement Plan. The Plan, prepared by Caltrans, represents the fiscally unconstrained list proposed by eligible airports. The Ten-Year Capital Improvement Plan is the first step in the process that an airport must take in order to have a project considered for state funding. Caltrans, using a methodology and priority matrix approved in 2004 by the Commission, will develop a fiscally constrained list of airport development projects and airport compatibility plans for the Commission to consider for programming in Spring 2006. The Commission's matrix for projects takes into account in priority order: safety, capacity, and security enhancements. Plans are considered separately.

California Aviation System Plan (CASP) – Policy Element

The Commission, as part of its responsibilities, adopts the California Aviation System Plan. In November 2005, the Commission adopted the policy element of the CASP as recommended by Caltrans and TACA. The policy element is comprised of a comprehensive plan defining state policies and funding priorities for general aviation and commercial airports in California.

The updated CASP policy element focuses on:

- Safety and Security: it recommends strategies for improving safety not only for the airside of the airport but promoting compatible land use on the landside of airport operations.
- Planning: it recommends a proactive and collaborative planning approach to ensure that system improvements are made to meet current and future demand, while ensuring that statewide goals are met. The policy element also includes supporting proposed legislative initiatives and outreach to explain the benefits of aviation.

- Accessibility: it proposes strategies to improve ground access by reducing traffic congestion, as well as improving air access to the national system for small communities.
- Economy: it proposes to improve the economy by better managing and preserving the airport infrastructure, as well as expanding airport capacity. The policy element also proposes leveraging available revenues with other revenue to improve the system.
- Community Values: it recommends promoting land use decisions that integrate land use, housing, and transportation.

Legislation

The Commission advises and assists the Legislature and the Secretary of the BT&H Agency in formulating and evaluating policies and plans for aeronautics programs. Generally, the Commission informs the Legislature about general aviation issues through its Annual Report.

The Commission is concerned about the shifting of Aeronautics Account funds to the General Fund. In fact, the Commission focused over the last few years on the need to establish a stable funding source and for additional funding to allow more capital improvements for general aviation. TACA suggested legislation to make the Aeronautics Account a stable revenue source. The suggested legislation would prohibit permanent transfer of funds from the Aeronautics Account to the General Fund. All transfers would be treated as loans to be repaid with interest at a specified future date.

This year the Commission, acting upon TACA's advice, supported SB 335 (Maldonado). This bill proposed a set-aside of $15 million annually for five years derived from the sales tax on jet fuel for airport security, safety, and capacity grants as discussed in past Commission Annual Reports. (The bill did not address the $10.8 million in diversions from the Aeronautics Account to the General Fund between 2002 and 2004.) The Senate Transportation Committee passed SB 335. The Senate Appropriations Committee, however, expressed concerns about multiple-year appropriations and held the bill under submission. The Commission in a letter to the author reiterated its support for a stable aeronautics-funding source. The Commission also suggested that a specified percentage of estimated revenues from sales tax on aviation be dedicated for general aviation capital use rather than a specific dollar amount.

The Commission is also concerned about the impacts from incompatible land use on airports. The Commission, acting upon TACA's advice, supported AB 1358 (Mullin) which requires that a school district or charter school leasing properties or acquiring sites must have the site reviewed by Caltrans Division of Aeronautics. If Caltrans does not support the lease or acquisition, then no state or local funds may be apportioned or expended for the site. The bill was signed by the Governor on September 6, 2005. The

bill's passage protects students, promotes comprehensive land use planning, and keeps an airport operating rather than having it close due to incompatible land uses surrounding it.

Match Rate Unchanged

The Commission is required by statute annually to establish a local matching rate between 10% and 50% that local agencies must meet to receive A&D grants. At its April meeting, upon the advice of Caltrans and TACA, the Commission retained the 10% A&D local match requirement that has been in effect since 1995. This action continues to ensure that the maximum number of airports participate in the Aeronautics Program and be consistent with the matching rate required for federal AIP grants. Further, a low match rate does not result in a small number of large grants because statute limits California Aid to Airports Program Acquisition and Development grants to a maximum of $500,000 per airport per year.

2005 ACTIVITY AND ACCOMPLISHMENTS

Real Estate Advisory Panel

Given the increasingly complex and interwoven transportation, land use, and real estate issues facing California, the Commission decided to establish an expert panel to advise the Commission. At its May meeting, the Commission adopted a mission statement for the new advisory panel. The Real Estate Advisory Panel will:

- Advise the Commission on issues relating to real estate, land use, land use and transportation policies, and existing statutes and proposed legislation and their resulting impact on transportation.
- Advise the staff of the Commission and the Department of Transportation (Caltrans), within the framework of existing statutes and pertinent Commission policies, on maximizing income from leasing and managing properties owned by the state.

The Commission, at its August meeting appointed the Real Estate Advisory Panel members; all members are volunteers from the private sector. The Commission also appointed a Commissioner to serve as Chair of the Panel and act as the liaison to the Panel from the Commission. The appointees are:

- Nina Gruen, Gruen Gruen + Associates, San Francisco
- William J. Hauf, William J. Hauf Company, San Diego
- Peter Inman, Inman & Associates, Irvine
- Craig Lewis, Prudential Commercial Real Estate, Modesto
- George E. Moss, Moss Group, Encino
- Jack Nagle, Goldfarb & Lipman, Oakland
- Roslyn B. Payne, Jackson Street Partners Ltd., San Francisco
- Richard Zelle, Allied USA Corporation, Los Angeles
- Jim Ghielmetti, Panel Chair, California Transportation Commission

Members of the Advisory Panel bring expertise covering a wide range of disciplines and experience including finance, economics, real estate, property development, property management, redevelopment, land use, and transportation planning and programming. The Panel members will:

- evaluate and comment on complicated and/or controversial land use and real estate proposals referred to it by the Commission, including negotiated transactions and noncompetitive selections and potential discriminatory zoning.
- evaluate and comment on Caltrans' Airspace Program, wireless telecommunications program, and excess lands management.
- evaluate and comment on legislation regarding land use and transportation and share their perspective with the Commission.

2005 ACTIVITY AND ACCOMPLISHMENTS

2005-06 Environmental Enhancement and Mitigation Program

In July 2005, Governor Schwarzenegger vetoed funding for the 2005-06 Environmental Enhancement and Mitigation (EE&M) Program with this message: "I am deleting the $10,000,000 legislative augmentation for the discretionary Environmental Enhancement and Mitigation Demonstration Program that provides grants to local entities for highway landscaping, urban forestry, the purchase of resource lands, and roadside recreation such as the construction of hiking and biking trails. While preserving open space is an extremely important function in maintaining our environment, improving mobility and increasing maintenance for our state highways is critical. This augmentation is not the best use of scarce transportation funds."

This was the first time since the EE&M Program was created in 1989 that it was not funded. The program was established to fund environmental enhancement and mitigation projects directly or indirectly related to transportation projects, and funding is ordinarily provided by a $10 million annual transfer to the Environmental Enhancement and Mitigation Fund from the State Highway Account. EE&M projects must fall within any one of three categories: highway landscape and urban forestry; resource lands; and roadside recreation. Projects funded under this program must provide environmental enhancement and mitigation over and above that otherwise called for under the California Environmental Quality Act (CEQA).

Section 164.56 of the Streets and Highways Code mandates that the Resources Agency evaluate projects submitted for the program and that the California Transportation Commission award grants to fund projects recommended by the Resources Agency. Any local, state, or federal agency or nonprofit entity may apply for and receive grants. The agency or entity need not be a transportation- or highway-related organization, but it must be able to demonstrate adequate charter or enabling authority to carry out the type of project proposed. Two or more entities may participate in a joint project with one designated as the lead agency. The Resources Agency has adopted specific procedures and project evaluation criteria for assigning quantitative prioritization scores to individual projects. In funding the program, an attempt is made to maintain a 40/60 North/South split between California's 45 northern and 13 southern counties.

Through the 13 years of the EE&M Program, a total of 547 projects have been programmed at a total cost of $125.4 million. Approximately 34% have been highway landscape and urban forestry projects, 37% resource land projects, and 29% roadside recreation projects.

2005-06 EE&M Program

For the 2005-06 EE&M program, the Resources Agency evaluated 98 projects with a total cost of over $115.6 million. From this list of projects, the Agency recommended 44 projects for $10 million in EE&M funding. Because of the budget veto, the Commission never took action on the recommendation. The 44 recommended projects are listed in the following table:

2005-06 Environmental Enhancement and Mitigation Program
Resource Agency Recommendations

APPLICANT	PROJECT NAME	AMOUNT
Ventura County	Piru-Camulos Recreational Trail	$ 250,000
City of El Monte	El Monte Urban Forest Project	250,000
North East Trees	LA River Greenway: Headworks to Polywog Pond	225,000
Goleta Valley Beautiful	US 101/Los Carneros Interchange SW Tree Planting	32,108
City of South Gate	South Gate Urban Reforestation	244,800
City of Los Angeles	Growing Livable Neighborhoods	250,000
Hollywood Beautification Team	Native Habitat Restoration	149,205
City of El Monte	Rio Hondo River Park Project	250,000
City of Carpenteria	Carpinteria Creek Park Project	250,000
Back Country Land Trust	Viejas West Acquisition	300,000
Koreatown Youth & Community Ctr	Greening the Red Line	198,233
Department of Parks and Recreation	Chino Hills State Park Visitor Center	250,000
Los Angeles Conservation Corps	Audubon Nature Trail	181,575
Los Angeles County	Arroyo Seco Bicycle Trail - Phase I	250,000
Department of Parks and Recreation	Desert Cahuilla Preservation Project	250,000
W Riverside Co Reg Con Authority	Wilson Valley Conservation Resource Acquisition	237,330
San Diego County	Valley Center Heritage Trail	225,000
Department of Fish and Game	Mono County Burcham Flat Wetlands Acquisition	110,000
City of Visalia	Mill Creek and Downtown Plaza	242,100
City of Irvine	Jeffrey/I-40 Overcrossing Bike Trail Landscaping	108,368
Friends of the Desert Mountains	Coachella Valley Preserve Acquisition	250,000
City of Pasadena	Arroyo Seco So. Entrance Planting Restoration	75,000
Urban Corps of San Diego	Grantville Trolley Station	250,000
Riverside County	I-15/Cantu-Galleano Ranch Rd Interchange Enhancement	250,000
Lakeside Conservancy	RiverWay Trail (San Diego River Park)	250,000
Los Angeles County	Vermont Avenue Enhancement	52,000
Los Angeles County	Rosemead Blvd.	250,000
	TOTAL, NORTH COUNTIES	**$5,630,719**
Our City Forest	Trees for Hwy 85 Neighborhoods	$ 188,000
Shasta Land Trust	Cow Creek Watershed Easement Acquisition	500,000
Department of Fish and Game	Sonoma Creek/Bisso Ranch Acquisition	500,000
Mendocino Land Trust	Ridgewood Ranch Conservation Area	500,000
California Wildlife Foundation	San Joaquin River - Walk Your Watershed Trail	250,000
Fresno Metro Flood Control District	Basic Roadside Recreation Landscaping	250,000
City of Soledad	Soledad Tree Beautification and Safety Project	250,000
City of Folsom	Folsom Parkway Rail Trail Gap Closure	215,000
Sacramento County	American River Parkway Invasive Plant Management	250,000
Shasta County	Hat Creek Park Improvement	183,000
San Mateo County	Mirada Surf Coastal Trail Development	100,000
City of Berkeley	Berkeley Urban Reforestation	248,327
Department of Parks and Recreation	West Ridge Road to Trail Conversation	209,100
Sacramento County Regional Parks	Dry Creek Parkway Trail	100,000
City of Parlier	Parlier - Safety Trail & Landscaping Phase II	195,573
Sacramento County	Dry Creek Parkway Acquisition	250,000
Department of Parks and Recreation	Geary Ranch Road to Trail	180,281
	TOTAL, SOUTH COUNTIES	**$4,369,281**

2005 ACTIVITY AND ACCOMPLISHMENTS

Proposition 116 Programs

In 2005, the Commission allocated $2.5 million from the proceeds of Proposition 116, the $1.99 billion initiative bond measure approved in June 1990. As of December 2005, 15 years later, over $181 million of the original authorization still remains unallocated.

Proposition 116 enacted the Clean Air and Transportation Improvement Act of 1990, designating the $1.99 billion for specific projects, purposes, and geographic jurisdictions, primarily for passenger rail capital projects. Of this amount, Proposition 116 authorized $1.852 billion for expenditure for the preservation, acquisition, construction, or improvement of rail rights-of-way, rail terminals and stations, rolling stock acquisition, grade separations, rail maintenance facilities, and other capital expenditures for rail purposes; $73 million for 28 nonurban counties without rail projects, apportioned on a per capita basis, for the purchase of paratransit vehicles and other capital facilities for public transportation; $20 million for a competitive bicycle program for capital outlay for bicycle improvement projects which improve safety and convenience for bicycle commuters; another $30 million to a water-borne ferry program ($20 million competitive and $10 million to the City of Vallejo) for the construction, improvement, acquisition, and other capital expenditures associated with water-borne ferry operations for the transportation of passengers or vehicles, or both. The funds authorized under Proposition 116 are made available under a two-step process that is analogous to STIP funding and similar to the process later used for the Traffic Congestion Relief Program (TCRP). First, the Commission programs the funds for projects eligible under the original authorization, which it does by approving project applications that define a project's scope, schedule, and funding. Then the Commission allocates the funds when the project is ready for funding. The following table displays the amounts of the original Proposition 116 authorizations and the amounts that remain unallocated:

STATUS OF PROPOSITION 116 AUTHORIZED FUNDING

County	Agency, Project	Original Authorization	Remaining Unallocated
Humboldt/Mendocino	North Coast Railroad Authority	10,000,000	117,288
Los Angeles	Caltrans, Alameda Corridor	80,000,000	5,171,684
Los Angeles	Los Angeles County MTA, rail	229,000,000	62,083
Marin	County, rail	11,000,000	11,000,000
Monterey	County, rail	17,000,000	4,180,000
Nonurban counties	Counties, transit capital	73,000,000	68,548
Orange	City of Irvine, guideway	125,000,000	121,298,778
Peninsula Corridor	Peninsula Corridor JPB, Caltrain	173,000,000	1,453,656
Santa Clara	Santa Clara VTA, rail	47,000,000	137,957
Santa Cruz	County, rail	11,000,000	10,700,000
San Joaquin	SJCOG, Altamont Corridor	14,000,000	65,130
San Joaquin Corridor.	Caltrans, San Joaquin Corridor	140,000,000	2,670,955
Solano	City of Vallejo, ferry	10,000,000	581,841
Sonoma	County, rail	17,000,000	17,000,000
State Parks and Rec	Museum of rail technology	5,000,000	5,000,000
Statewide	Competitive, bicycle	20,000,000	599,456
Statewide	Competitive, water-borne ferry	20,000,000	29,350
Statewide	Caltrans, rail, undetermined	1,000,000	1,000,000
Total		**$1,003,000,000**	**$181,136,726**

Potential Reallocation of Funds

Under the terms of Proposition 116, all funds authorized for an agency were to have been obligated or spent by July 1, 2000, unless economically infeasible. For any funds not expended or encumbered by July 1, 2000, Proposition 116 permits the Legislature to reallocate funds by statute to another rail project within the same agency's jurisdiction. In the case of Caltrans, the reallocation must be to a state-sponsored passenger rail project. The Legislature has not yet reallocated Proposition 116 authorizations by statute, although in 2004 it did delete the statutory reference to $1 million for a Caltrans project without designating a substitute passenger rail project. After July 1, 2010, the Legislature may reallocate any unencumbered Proposition 116 funds to another passenger rail project anywhere in the state. Any legislative reallocation must be passed by a two-thirds vote in each house of the Legislature.

For the $73 million apportioned to 28 nonurban counties on a per capita basis, Proposition 116 also provides that the Commission may reallocate any funds remaining unprogrammed after December 31, 1992 on a competitive basis to other public transportation capital projects from any of the same counties.

Status of Individual Authorizations

The following is a summary of the status of the individual authorizations that remain unallocated as of December 2005:

- **Peninsula Corridor (Caltrain)**. Proposition 116 authorized and the Commission allocated $173 million to the Peninsula Corridor Joint Powers Board (PCJPB) for Caltrain capital improvements and acquisition of rights of way in San Francisco, San Mateo, and Santa Clara Counties. The originally allocated projects were completed, and in August 2005, the Commission deallocated $2,648,478, and in November, the Commission approved PCJPB's request for $1.38 million for new projects. The balance of $1,268,478 remains unallocated and available to the PCJPB for other Caltrain projects.

- **Humboldt and Mendocino Counties.** Proposition 116 authorized and the Commission allocated $10 million to the North Coast Railroad Authority (NCRA) for improvement of rail service, including rail freight service and tourist-related services, important to the regional economy of Humboldt and Mendocino Counties. As a result of project deletions, the sale of five rail cars, and disallowed project costs, this authorization now has an unallocated balance of $282,174. Of this amount, $164,886 represents disallowed costs that NCRA has agreed to repay over time ($12,000 per year from 2005 through 2007, and $42,962 per year from 2008 through 2010). Excluding the debt for disallowed costs, the net balance available to the NCRA is $117,288.

- **Los Angeles**. Proposition 116 authorized and the Commission allocated $80 million to Caltrans for grade separations along the Alameda-San Pedro branch rail line connecting Los Angeles and Long Beach Harbors with downtown Los Angeles and paralleling Alameda Street, to alleviate vehicle traffic congestion, conserve energy, reduce air pollution in the area, and facilitate the more efficient and expeditious shipment of freight to and from the Los Angeles and Long Beach Harbors. The allocated projects are now complete, and the Commission deallocated the unexpended balance of $5,171,684 in August 2005. These funds are now available to Caltrans for grade separations in the Alameda Corridor and could be reallocated by the Legislature to Caltrans for state-sponsored passenger rail projects anywhere in the state.

- **Los Angeles**. Proposition 116 authorized and the Commission allocated $229 million to the Los Angeles County Transportation Commission, now the Los Angeles County Metropolitan Transportation Authority (MTA), for expenditure on rail projects within Los Angeles County. The allocated projects are now complete, and the Commission deallocated the unexpended balance of $62,083 in August 2005. These funds are now available to the MTA for rail projects within Los Angeles County.

- **Marin.** Proposition 116 authorized $11 million either (1) to the County or a joint powers authority for a rail project along the Santa Rosa to Larkspur rail corridor, or (2) to the County for the purchase of paratransit vehicles and other capital facilities for public transportation. None of this funding has yet been programmed. AB 2224 (2002) created the Sonoma-Marin Area Rail Transit District (SMART) and authorized it to own, operate, manage, and maintain a passenger rail system within the Counties of Sonoma and Marin. SMART has indicated that its passenger train service is in design and that the timing of its Proposition 116 application is uncertain.

- **Monterey.** Proposition 116 authorized $17 million to the Transportation Agency for Monterey County (TAMC) for extension of Caltrain service or other rail projects within Monterey County. To date, $9.82 million has been programmed and allocated for the Monterey County Branch Line extension to reestablish rail transportation between San Francisco and Monterey, a service that ran from 1880 until 1971. The use of the $9.82 million was for right-of-way acquisition and related right-of-way costs. These activities have been completed. Another $3 million is programmed for the Caltrain extension from Gilroy to Salinas. Of that amount, $0.94 million has been allocated for right-of-way/appraisal activities. TAMC has indicated it expects to request reprogramming and allocation of the other $2.06 million in 2007-08 but has yet to indicate when it expects to request programming of the remaining $4.18 million.

- **Nonurban Counties.** Proposition 116 authorized $73 million for apportionment on a per capita basis to 28 nonurban counties without passenger rail projects. These amounts were available for paratransit vehicles or other public transportation capital projects. At one time, all but $51,886 (Alpine County) had been programmed and allocated. Through project close-outs and deletions, a total of $68,548 now remains unallocated. Under the terms of Proposition 116, the California Transportation Commission may reallocate the remaining funds on the basis of a competitive grant program to public transportation capital projects in any the 28 counties. The

Commission is required to adopt regulations or guidelines governing the competitive program before doing so.

- **<u>Orange</u>.** Proposition 116 authorized $125 million to the City of Irvine for "construction of a guideway demonstration project." Of that amount, the Commission allocated $3.7 million to the City of Irvine for study of the Orange County Centerline light rail project in Irvine. The balance of $121.3 million remains unprogrammed and unallocated. In July 2005, the Orange County Transportation Authority (OCTA) Board voted to discontinue the Orange County Centerline light rail project. The City of Irvine and OCTA are currently pursuing the idea of other projects in the area that are Proposition 116-eligible and will be reporting to the Commission at its meeting in February 2006.

- **<u>Santa Clara</u>**. Proposition 116 authorized and the Commission allocated $47 million to the Santa Clara County Transit District, now the Santa Clara Valley Transportation Authority (VTA), for expenditure on rail projects within Santa Clara County. The allocated projects are now complete, and the Commission deallocated the unexpended balance of $137,957 in August 2005. These funds are now available to the VTA for rail projects within Santa Clara County.

- **<u>Santa Cruz</u>.** Proposition 116 authorized $11 million for intercity rail projects connecting the City of Santa Cruz with the Watsonville Junction or other rail projects within Santa Cruz County "which facilitate recreational, commuter, intercity and intercounty travel." To date, the City of Santa Cruz has been allocated $300,000 for ongoing and new pre-acquisition activities for the Santa Cruz Branch Line recreational rail project, including appraisals. The remaining $10.7 million remains unprogrammed and unallocated. The purchase of the Santa Cruz Branch Line is also programmed in the STIP for $10 million in 2008-09. The Santa Cruz County Regional Transportation Commission is currently working on the environmental documents and appraisal work; it expects to purchase the line for preservation purposes by 2006.

- **<u>San Joaquin</u>**. Proposition 116 authorized and the Commission allocated $14 million to the San Joaquin Council of Governments for expenditure on rail projects along the Stockton-Manteca-Tracy corridor to the Alameda County line (Altamont Corridor). The allocated projects are now complete, and the Commission deallocated the unexpended balance of $65,130 in August 2005. These funds are now available to the San Joaquin Council of Governments for Altamont Corridor rail projects and could be reallocated by the Legislature to any other rail project in San Joaquin County.

- **<u>San Joaquin Corridor</u>**. Proposition 116 authorized and the Commission allocated $140 million to Caltrans for expenditure on improvements to the Los Angeles-Fresno-San Francisco Bay Area passenger rail corridor and extension of the corridor to Sacramento. The allocated projects are now complete, and the Commission deallocated the unexpended balance of $2,670,955 in August 2005. These funds are now available to Caltrans for other projects in this corridor and could be reallocated by the Legislature for state-sponsored passenger rail projects anywhere in the state.

- **Solano.** Proposition 116 authorized and the Commission allocated $10 million to the City of Vallejo for expenditure on water-borne ferry vessels and terminal improvements. With the deallocation of project savings, the authorization has an unallocated balance of $581,841. The City has submitted an application to the Commission for allocation of the remaining funds pending the receipt of a Bay Conservation Development Commission permit.

- **Sonoma.** Proposition 116 authorized $17 million either (1) to the County or a joint powers authority for a rail project along the Santa Rosa to Larkspur rail corridor, or (2) to the County for the purchase of paratransit vehicles and other capital facilities for public transportation. None of this funding has yet been programmed. See the discussion of the Sonoma-Marin Area Rail Transit District under Marin County above.

- **Statewide Bicycle.** Proposition 116 authorized $20 million for a program of competitive grants to local agencies for capital outlay for bicycle improvement projects which improve safety and convenience for bicycle commuters. This entire amount was at one time programmed and allocated. However, through cost savings and project deletions, $599,456 now remains unprogrammed and unallocated. The Commission is evaluating other competitive bicycle programs to determine the best use of the remaining funds.

- **Statewide Rail - Caltrans.** Proposition 116 included a $1 million authorization to Caltrans (Public Utilities Code Section 99621) to complete a survey of all rail rights-of-way in the state. In 1993, Caltrans completed this survey using other funds and never applied for the Proposition 116 funding. Chapter 193, Statutes of 2004 (SB 111) deleted Section 99261 and its reference to the survey. However, SB 111 did not reallocate the authorization to another project. Under the terms of Proposition 116, the $1 million remains available, subject to authorization by the Legislature, which may only be "for a state-sponsored rail project" (Section 99684(c)).

- **Statewide Water-Borne Ferry.** Proposition 116 authorized and the Commission allocated $20 million for a program of competitive grants to local agencies for the construction, improvement, acquisition, and other capital expenditures associated with water-borne ferry operations for the transportation of passengers or vehicles. Through the deallocation of project cost savings, $29,350 now remains unallocated. The Commission is currently determining the best process to program and allocate the small amount remaining.

- **State Museum Department of Parks and Recreation.** Proposition 116 authorized $5 million to the Department of Parks and Recreation (DPR) for construction of the California State Museum of Railroad Technology, to be provided "when sufficient funding for the entire project is available." None of this funding has ever been programmed or allocated. The California State Parks Foundation estimates that the total cost of the museum to be $25 million. DPR has stated that its share of project costs has not increased because acquisition costs; such as right-of-way and buildings, are being donated by the new developer, Millenia Associates. The DPR has submitted its notice of intent for the Proposition 116 funds to the Department of Finance and the Legislature. DPR intends to apply to use the Proposition 116 funds for rehabilitation and structural stabilization of the structures in 2006.

2005 Commission Activity

In 2005, the Commission allocated $3 million in Proposition 116 funding, including $625,501 to Caltrans for construction of a parking lot at the Santa Fe Amtrak station in Fresno, $1,380,000 to the Peninsula Corridor Joint Powers Board for two Caltrain projects, $1,019,915 to the City of Napa for construction of a bicycle path and purchase of a transit vehicle, and $70,111 to the County of Tehama, and $6,300 to the County of Plumas and $13,255 to the County of Siskiyou for the purchase of transit vehicles.

In July and August, the Commission deallocated $11,807,231, leaving this amount to be reprogrammed for various purposes.

The following table lists the allocations and deallocations made by the Commission during 2005:

2005 PROPOSITION 116 ALLOCATIONS

Agency	Deallocation	Allocation
Caltrans – Alameda Corridor	$4,994,275	
Caltrans – Statewide Various	3,349,907	$ 625,501
Los Angeles County MTA	62,083	
North San Diego County TDB	4,925	
Peninsula Corridor JPB	2,648,478	1,380,000
Sacramento RT - Butterfield	4,931	
San Joaquin ACE	65,130	
Santa Clara VTA	137,957	
Rail Subtotal	**$11,267,686**	**$1,380,000**
City of Alameda	$ 671	
LA/Larkspur/East End	28,679	
Waterborne Ferry Subtotal	**$ 29,350**	**$ 0**
Napa County		$1,019,915
Nevada County	$ 7,445	
Plumas County		6,300
San Luis Obispo County	23,900	
Siskiyou County		13,255
Tehama County	17,999	70,111
Transit Subtotal	**$ 49,344**	**$1,109,581**
Bicycle - Competitive	460,851	
Bicycle Subtotal	**$ 460,851**	**0**
Total	**$11,807,231**	**$3,115,082**

2005 ACTIVITY AND ACCOMPLISHMENTS

Seismic Safety Retrofit Program

The massive state seismic safety retrofit program is nearly complete, with only a few of the most complex and difficult bridges remaining. The Phase 1 seismic program, initiated after the 1989 Loma Prieta earthquake, was completed in May 2000. Under the Phase 2 program, initiated after the 1994 Northridge earthquake, 1,139 bridges have been retrofitted (including two completed in fiscal year 2004-05), another eight bridges are under construction, and eight remain in design. Retrofit work on six of the seven state-owned toll bridges that required retrofitting is complete. Work on the San Francisco-Oakland Bay Bridge (SFOBB) is under way. Work on the SFOBB includes a new east span with ten construction contracts and retrofit of the west span and west approach with eight construction contracts.

The sole construction bid for the signature Self-Anchored Suspension (SAS) span portion of the SFOBB east span replacement structure received in May 2004 was so far over the Toll Bridge Seismic Retrofit Program's budget provided for in AB 1171 (2001) that Caltrans could not award the construction contract and let the bid expire. The Legislature responded by passing AB 144 in July 2005. AB 144 secured an additional $3.6 billion to complete the SFOBB projects. Caltrans advertised the $1.5 billion SAS portion of the SFOBB east span replacement project on August 1, 2005. Bids for the project are due in February 2006. The SFOBB east span "Skyway" contract is 80% complete and is projected to be finished in 2007. The SFOBB west approach project is approximately 56% complete and on schedule for completion in August 2009.

Caltrans recently completed seismic vulnerability studies on the Antioch and Dumbarton toll bridges. These two bridges were built in the late 1970's and early 1980's using design criteria developed after the 1971 Sylmar earthquake and were deemed by Caltrans in the early 1990's not to be vulnerable during a major seismic event. The results of the recent seismic vulnerability studies indicate that foundation response governs the performance of the bridges during a Maximum Credible Event (MCE) earthquake. Given the limitations of a vulnerability study, there is insufficient evidence to determine conclusively the performance of the two bridges during an MCE earthquake. Caltrans is recommending that a comprehensive seismic analysis based on complete and accurate geotechnical soil data be performed in order to make a final determination of the level of retrofit required for the two bridges.

Meanwhile, progress continues very slowly on the retrofit of local bridges, with slightly more than half of the bridge retrofits completed or under construction. The local agencies responsible for the retrofit work cite the lack of funds to match federal funds as the major reason for this slow progress.

Background

The state highway system has over 15,000 miles of maintained roads and over 12,000 bridge structures. Each bridge is inspected at least once every two years, and some bridges are inspected even more frequently. An additional 11,500 bridges are on the local city street and county road network.

Since the 1971 Sylmar earthquake, California has been engaged in an ongoing bridge seismic retrofit program. The 1989 Loma Prieta and the 1994 Northridge earthquakes exposed additional seismic vulnerability of California bridge structures and made the seismic retrofitting of bridges the number one transportation priority. Since the Loma Prieta earthquake, the seismic safety retrofit program has focused on bridges deemed most vulnerable or critical to emergency response capability during a widespread civil disaster. This includes most of the single-column support bridges in high priority fault zones and some of the most vulnerable multiple-column support bridges. Also included in this group are state-owned toll bridges.

The seismic safety retrofit program has been a major endeavor for Caltrans and the Business, Transportation and Housing Agency. The seismic safety retrofit program is comprised of four parts: Phase 1, Phase 2, toll bridges and local bridges. The current estimated combined cost to seismically retrofit the state-owned bridges on the state highway system is $11.11 billion: $1.08 billion for Phase 1, $1.35 billion for Phase 2, and $8.68 billion for the toll bridges. Nearly $1 billion more is required to retrofit local bridges not on the state highway system.

Phase 1

Using research developed following the 1971 Sylmar earthquake, Caltrans identified 1,039 state highway bridges in need of seismic retrofit. The bridges consisted mostly of single-column bridges deemed to be the most vulnerable during an earthquake. By May 2000, seismic retrofit construction of all Phase 1 bridges was completed at a cost of $1.08 billion, financed with gas tax money through the State Highway Account. Over the following years, Caltrans reported to the Commission that $9 million in allocated and encumbered Phase 1 funds remained unspent, but was required to settle outstanding construction claims. At the Commission's insistence, Caltrans reviewed the status of all Phase 1 projects with unexpended balances and determined that $3 million had been used to settle outstanding claims and that the $6 million balance could be disencumbered and returned to the State Highway Account. With this disencumbrance, Caltrans can finally close the books on the Phase 1 program.

Phase 2

After the 1994 Northridge earthquake, Caltrans determined that an additional 1,155 state highway bridges were in need of seismic retrofit based on updated screening criteria. A total of $1.35 billion ($1.21 billion in Proposition 192 bond funds, approved by voters in March 1996, and $140 million in State Highway Account and Multi-District Litigation

(MDL) funds, expended prior to the passage of Proposition 192) was set aside to finance the retrofit of the 1,155 Phase 2 bridges.

For 2004-05, Caltrans reported that it had completed construction on two more Phase 2 bridges, bringing the total completed as of June 30, 2005, to 1,139 bridges (98.6%). Eight more (0.7%) were under construction and eight others (0.7%) remained in the design stage. Caltrans reports that it expects to complete construction on all but two of the remaining Phase 2 bridges by mid-2009 (a two-year slip from the June 30, 2004 report). Three Phase 2 seismic retrofit projects require replacement of existing major bridge structures under heavy traffic conditions (Commodore Schuyler F. Heim Bridge on Route 47 in the City of Long Beach, and the 5th Avenue Bridge and the High Street Bridge on Route 880 in the City of Oakland). Caltrans does not expect to complete the seismic retrofit work on two of these three bridges until mid-2011 (a one-year slip from the June 30, 2004 report).

Of the $1.21 billion made available from Proposition 192 for the Phase 2 bridges, $1.166 billion has been allocated as of June 30, 2005. The $1.166 billion does not include the $81.2 million allocated for Pooled Money Investment Account (PMIA) loan interest expenses as these costs are offset by the interest earned by the Surplus Money Investment Fund. If the total cost to finish the Phase 2 bridges exceeds the remaining $44.0 million Proposition 192 unallocated balance, Caltrans' strategy is to utilize federal Highway Bridge Replacement and Rehabilitation (HBRR) funds available through the State Highway Operation and Protection Program (SHOPP) to contribute funds to projects where bridge replacement is the most cost-effective long-term retrofit and bridge rehabilitation solution.

Proposition 192 authorized the reimbursement of the State Highway Account with seismic retrofit bond funds for Phase 2 seismic retrofit expenditures made during fiscal years 1994-95 and 1995-96 with State Highway Account funds (approximately $103 million). However, federal tax law precludes reimbursement of previously expended funds with tax-exempt bond proceeds. As a result, Caltrans elected to apply Proposition 192 proceeds directly to future state highway rehabilitation projects. Through June 2005, Caltrans had reimbursed approximately $99.8 million of the $103 million from the Proposition 192 bond fund. This $99.8 million is included in the $1.166 billion total for Proposition 192 allocations.

Toll Bridges

Seven of the nine state-owned toll bridges required some type of seismic retrofit work (including the Vincent Thomas and San Diego-Coronado Bridges, for which toll collection has been discontinued). By August 2005, seismic work had been completed on six of the bridges, the San Mateo-Hayward, the Carquinez Eastbound, the Benicia-Martinez, the Vincent Thomas, the San Diego-Coronado and the Richmond-San Rafael. Seismic work is underway on the SFOBB. Caltrans estimates seismic safety will be achieved on the SFOBB west span approach by mid 2009 and on the SFOBB east span by mid 2012. The SFOBB west span retrofit was completed in July 2004.

The funding plan for the Toll Bridge Seismic Retrofit Program (TBSRP) was originally established by SB 60 (1997) and was updated for cost increases, especially on the SFOBB, by AB 1171 (2001). In August 2004, Caltrans reported that the TBSRP was experiencing major funding shortfalls again. The Legislature responded by passing AB 144 and SB 66, which the Governor signed into law on July 18, 2005 and September 29, 2005 respectively.

AB 144 established a comprehensive financial plan for the TBSRP, including the consolidation and financial management of all toll revenues collected on the state-owned toll bridges in the San Francisco Bay Area under the jurisdiction of the Bay Area Toll Authority (BATA). The bill provides $630 million in additional state funds and authorizes BATA to increase tolls on the Bay Area state-owned toll bridges by at least an additional $1.00 on January 1, 2007 to provide adequate funding to complete the TBSRP.

In addition, AB 144 and SB 66 significantly strengthen the program and project oversight activities for the TBSRP and the Benicia-Martinez Bridge New Span project (a Regional Measure 1 toll funded project). The bills created the Toll Bridge Program Oversight Committee (TBPOC) to implement project oversight and control processes for the TBSRP. The TBPOC is comprised of the Director of the Department of Transportation (Caltrans), the Executive Director of BATA, and the Executive Director of the California Transportation Commission. The TBPOC's program oversight activities include review and approval of contract bid documents, review and resolution of project issues, evaluation and approval of project change orders and claims, and issuing monthly and quarterly progress reports. Since AB 144 and SB 66 were signed into law, the TBPOC has met several times to implement the project oversight and control activities for the TBSRP.

The following chart identifies the cost estimates as incorporated in AB 1171 and as updated by AB 144 and SB 66 to retrofit the seven state-owned toll bridges.

Estimated Costs to Retrofit Toll Bridges

Bridge	AB 1171 Estimate	AB 144/SB 66 Estimate
Benicia-Martinez	$190,000,000	$177,830,000
Carquinez (eastbound*)	125,000,000	114,130,000
Richmond-San Rafael	665,000,000	914,000,000
San Diego-Coronado	105,000,000	103,520,000
San Mateo-Hayward	190,000,000	163,510,000
Vincent Thomas	62,000,000	58,510,000
San Francisco-Oakland Bay Bridge		
West Span	300,000,000	307,900,000
West Span Approach	400,000,000	429,000,000
East Span Replacement	2,600,000,000	5,516,600,000
Subtotal	**$4,637,000,000**	**$7,785,000,000**
Program Contingency	448,000,000	900,000,000
Total	**$5,085,000,000**	**$8,685,000,000**

* A replacement bridge for the westbound Carquinez was financed with Regional Measure 1 toll funds.

As stated above, the Richmond-San Rafael Bridge retrofit work was completed in July 2005. Caltrans and the TBPOC anticipate that there will be a cost savings of approximately $89 million on the Richmond-San Rafael project from the AB 144/SB 66 cost estimate shown in the chart above. The TBPOC resolved to use the Richmond-San Rafael savings to augment the TBSRP contingency line item.

The following chart identifies the AB 1171 and AB 144 mandated source accounts from which funds to retrofit the seven state-owned toll bridges will be derived.

Toll Bridge Seismic Retrofit Funding (AB 1171 & AB 144)

Source of Funds (AB 1171)	**Amount**
Bay Area Toll Bridges $1 Surcharge	$2,282,000,000
Proposition 192 Bonds	790,000,000
Public Transportation Account	80,000,000
San Diego-Coronado Bridge Account	33,000,000
Vincent Thomas Bridge Account	15,000,000
State Highway Account	1,437,000,000
State Highway Account Contingency	448,000,000
Subtotal Funds Available (AB 1171)	**$5,085,000,000**
Source of Funds (AB 144)	
Bay Area Toll Bridges Additional $1 Surcharge	$2,150,000,000
BATA Consolidation	820,000,000
Motor Vehicle Account (MVA)	75,000,000
Redirected Spillover *	125,000,000
State Highway Account	430,000,000
Subtotal Funds Available (AB 144)	**$3,600,000,000**
Total Funds Available	**$8,685,000,000**

*See ISSUES FOR 2006, Trends and Outlook for State Transportation Financing Chapter, Public Transportation Account Spillover Transfers Section for explanation of "spillover" concept.

Under AB 1171, toll bridge users were slated to pay for about 46% of the TBSRP's $5.1 billion price tag. Under AB 144, toll bridge users are now footing 61% of the $8.7 billion price. In exchange, the Bay Area's choice of bridge type will be honored a signature self-anchored suspension span will be constructed as part of the SFOBB east span replacement project. In addition BATA received authority from the Legislature to set Bay Area tolls as necessary to cover any cost increases beyond the $900 million AB 144 program contingency.

Pursuant to AB 144, at its September 29, 2005 meeting, the Commission adopted a schedule for the transfer of the remaining state funds to BATA to fund the TBSRP. The schedule contains the timing and sources of the state contributions, which begin in fiscal year 2005-06 and distributes the contributions over the years of the SFOBB project construction to ensure a timely balance between state sources and the contributions from toll funds. The Commission's adopted schedule for the transfer of funds allows BATA to pledge the state fund contribution to the financing of the TBSRP per BATA's adopted finance plan.

The following chart is the Commission-adopted state contribution schedule as amended December 15, 2005.

SCHEDULE OF STATE CONTRIBUTIONS TO THE TOLL BRIDGE SEISMIC RETROFIT PROGRAM
($ in millions)

Source	Description / FY	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total
AB 1171	SHA	$290									**$290**
	PTA	$80	$40								**$120**
	HBRR	$100	$100	$100	$42						**$342**
	Contingency				$1	$99	$100	$100	$148		**$448**
AB 144	SHA*	$2	$8				$53	$50	$17		**$130**
	MVA	$75									**$75**
	Spillover***		$125								**$125**
	SHA**									$300	**$300**
	Total	**$547**	**$273**	**$100**	**$43**	**$99**	**$153**	**$150**	**$165**	**$300**	**$1,830**

* Caltrans efficiency savings.
** SFOBB east span demolition cost.
*** See ISSUES FOR 2006, Trends and Outlook for State Transportation Financing Chapter, Public Transportation Account Spillover Transfers Section for explanation of "spillover" concept.

In the early 1990's, Caltrans determined that the Antioch and Dumbarton toll bridges built in the late 1970's and early 1980's using design criteria developed after the 1971 Sylmar earthquake were not vulnerable during a major seismic event. Since that time, Caltrans has pursued an aggressive seismic research program, and based on results from the research, has significantly revised its seismic design practices. Consistent with recommendations by the Caltrans Seismic Advisory Board, Caltrans regularly reassesses the seismic hazard and performance of its bridges. Due to the tremendous changes in seismic design practices that have occurred since the design of the Antioch and Dumbarton Bridges, a comprehensive assessment of the potential need and scope for seismic retrofit based on current knowledge is prudent. Caltrans recently completed seismic vulnerability studies of the two bridges. The results of the recent seismic vulnerability studies indicate that foundation response governs the performance of the bridges during an MCE earthquake.

A seismic vulnerability study is not a complete seismic analysis of a structure, but is an investigation of a few representative bents to determine the likelihood of the need for seismic retrofit. Caltrans has determined large foundation rotations are possible from a MCE at the two bridges. These rotations may result in damage to the superstructure and possible damage to the piles. Caltrans is working on a plan for a comprehensive seismic analysis of the two bridges. The plan will include a cost estimate, schedule, and risk management analysis.

Local Bridges

In addition to the work necessary on state-owned bridges, Caltrans was charged with the responsibility of identifying the seismic retrofit needs of all nonstate publicly owned bridges, except for bridges in Los Angeles County and in the unincorporated areas of Santa Clara County. To date, Caltrans, Los Angeles County, and Santa Clara County have identified 1,235 locally owned bridges in need of seismic evaluation. As of June 30, 2005, 269 (22%) of the 1,235 bridges were in the retrofit strategy development stage, 249 (20%) were in the design stage, 132 (11%) were under construction, and 584 (47%) were either completed or were judged not to require seismic retrofitting. The total cost of the local bridge retrofit program is roughly estimated at $1.105 billion. Approximately $505 million has been spent or obligated for local bridges to date, with $600 million estimated to be needed to complete the remainder of the local retrofit work. Because 518 (42%) of the 1,235 bridges are still in the strategy development or design stages, the $600 million estimate is subject to change. It is the responsibility of each public agency bridge owner to secure funding, environmental approvals, and right-of-way clearances, and to administer the construction contract.

The local bridge retrofit program is financed primarily from federal HBRR funds. The state had been providing up to $13 million per year in state local assistance funds as match for the federal HBRR funds. However, that was discontinued as a result of reductions approved in the 2003-04 and subsequent state budgets. Local agencies now need to secure the required match funds from the State Transportation Improvement Program (STIP) or other local sources. Because of the moratorium on STIP allocations that source was unavailable from July 2003 through June 2005. With the adoption of the 2005-06 STIP Allocation Plan, the Commission made HBRR match funding one of the top priorities for STIP allocation.

The vast majority of local bridges in the retrofit strategy development stage belong to two agencies. The Bay Area Rapid Transit District (BART) has 227 bridges and the Department of Water Resources (DWR) has 24 bridges. The 227 BART bridges are bridges that go over city streets and county roads. BART also has many other aerial structures and the Transbay Tube in need of seismic retrofit work. BART estimates that it needs about $1.3 billion to seismically retrofit all its structures. Voters in Alameda, Contra Costa and San Francisco counties passed a $980 million BART earthquake safety bond measure on the November 2004 ballot. This bond measure gives BART a stable dedicated revenue source to seismically retrofit its structures. BART now has 63 bridges in the design phase and soon will be moving into the construction phase. DWR appeared at the January 2005 Commission meeting and indicated that funding to undertake bridge analysis would be secured in the 2005-06 state budget and that analysis would begin in 2006-07 with construction to follow as early as 2007-08.

Status of Proposition 192

The Seismic Retrofit Bond Act of 1996 (Proposition 192) authorized $2 billion in state general obligation bonds for the seismic retrofit of state-owned bridges. SB 60 (1997) limited the amount of Proposition 192 funds that could be expended for state toll bridge seismic retrofit to $790 million. The other $1.21 billion was directed to the Phase 2 seismic retrofit effort.

As of June 30, 2005, the amount of Proposition 192 funds allocated for Phase 2 seismic retrofit totaled $1,166.3 million, including $809.7 million for capital outlay and right-of-way, $256.8 million for project support costs, and $99.8 million to reimburse the 1994-95 and 1995-96 seismic project support expenditures made with State Highway Account funds. The $81.2 million allocated for PMIA loan interest expenses that are usually offset by interest earned by the Surplus Money Investment Fund is not included in the $1,166.3 million total. The total amount of Proposition 192 funds allocated for toll bridge seismic retrofit as of June 30, 2005 totals $789.0 million, including $673.5 million for capital outlay and right-of-way, $106.0 million for project support costs, and $9.5 million to reimburse the 1994-95 and 1995-96 seismic project support expenditures made with State Highway Account funds.

The overall total of Proposition 192 funds allocated through June 2005 is $1,955.3 million, excluding the $81.2 million allocated for interest costs, leaving $43.7 million in bond authority available for allocation to Phase 2 retrofit projects and only $1.0 million for toll bridge projects.

2005 ACTIVITY AND ACCOMPLISHMENTS

2005-06 Elderly and Disabled Transit Program

In September 2005, the California Transportation Commission adopted the annual state project list for the Federal Section 5310 elderly and disabled person transit program, including projects for 77 local agencies at a cost of approximately $14 million.

Background

In 1975, Congress established what is now the Section 5310 program to provide financial assistance for nonprofit organizations to purchase transit capital equipment to meet the specialized needs of elderly and disabled persons for whom mass transportation services are unavailable, insufficient, or inappropriate. Congress later extended program eligibility to public bodies that certify to the Governor that no nonprofit organizations are readily available in their area to provide the specialized service. The program's implementing legislation designated the Governor of each state as the program administrator. In California, the Governor delegated this authority to the Department of Transportation (Caltrans).

In 1996, state legislation (AB 772) assigned the Commission a role in the Section 5310 program. It mandated that the Commission:

- direct the allocation of program funds,
- establish an appeals process for the program, and
- hold at least one public hearing prior to approving each annual program project list.

To implement this mandate, the Commission developed an annual Section 5310 review and approval process in cooperation with regional transportation planning agencies, state and local social service agencies, the California Association for Coordinated Transportation (CalACT) and Caltrans. The process adopted by the Commission calls for each regional agency to establish project scoring based on objective criteria adopted by the Commission. A State Review Committee then reviews the scoring and creates a statewide priority list using the same criteria. The State Review Committee consists of representatives from the state Departments of Rehabilitation, Developmental Services, Aging, and Transportation, with Commission staff acting as facilitator and coordinator. When the State Review Committee has completed its review, the Commission staff and the Committee hold a staff-level conference with project applicants and regional agencies to hear any appeals based on technical issues related to scoring. After the staff conference and a public hearing, the Commission adopts the annual program project list. The list generally includes projects up to 110% of the funding level anticipated for the upcoming federal fiscal year. The excess is to allow for the use of federal funds saved or turned back from prior year projects. All projects receive 80% federal funding and require a 20% local match. All of the project costs listed include the 20% local match.

Federal FY 2005-06 Program

For 2005-06, Caltrans received Section 5310 applications from 104 eligible agencies for a total funding request of $18 million. Caltrans' estimate of 2005-06 program capacity is $12.4 million. This put the estimated 110% level at $13.7 million (including the required 20% local match). The actual level of funding available for 2005-06 will depend on this year's federal appropriation for Section 5310, and on the level turned back from prior grants.

In accordance with the Commission's adopted procedures, all applications were first scored locally. The State Review Committee subsequently reviewed, and in some cases modified, the regional scores. Where the regional and State Review Committee scores were different, the differences were discussed with the regional agency. These discussions focused on the adopted procedures and whether the procedures had been correctly applied. On July 20, 2005, Commission staff and the State Review Committee also conducted a staff-level conference with the regional agencies and project applicants to hear any appeals based on technical issues that affected the scoring. No corrections were made to the statewide-priority list.

The Commission held its public hearing and approved the priority list on September 29, 2005. The Commission directed Caltrans to allocate funds to projects on the adopted list down to the level of actual available funding. The approved Section 5310 program project list for 2005-06 would fund 77 agencies for 175 replacement vehicles, 62 service expansion vehicles, and 25 supporting equipment projects.

SECTION 5310 STATEWIDE PROJECT LIST
Federal FY 2005-06 Cycle

AGENCY	COUNTY	AMOUNT
Family Bridges	Alameda	$ 112,000
Lifelong Medical Care	Alameda	117,500
Work Training Center for the Handicapped, Inc.	Butte	230,000
Contra Costa Association for Retarded Citizens	Contra Costa	393,000
City of Fresno/Fresno Area Express	Fresno	448,000
Fresno County Economic Opportunities Commission	Fresno	480,000
WestCare California	Fresno	41,000
Community Cornerstone, Inc.	Humboldt	56,000
ARC- Imperial Valley	Imperial	234,000
Sonia Corina, Inc. (dba Sunrise Driving Services)	Imperial	90,000
The Inyo-Mono Association for the Handicapped, Inc.	Inyo	56,000
Desert Area Resources and Training	Kern	138,631
New Advances for People with Disabilities	Kern	157,000
North Bakersfield Recreation and Park District (NBRPD)	Kern	57,500
The Bakersfield Association for Retarded Citizens, Inc.	Kern	369,000
Kings Rehabilitation Center, Inc.	Kings	247,000
Access Services Inc.	Los Angeles	533,000
AltaMed Health Services Corporation	Los Angeles	200,000
Asian Rehabilitation Service, Incorporated	Los Angeles	41,000
City of Azusa	Los Angeles	224,000
City of Inglewood	Los Angeles	123,000
City of Pasadena	Los Angeles	280,000
East Los Angeles Remarkable Citizens' Association, Inc. (dba EL ARCA)	Los Angeles	297,580
Grandview Foundation, Inc.	Los Angeles	137,000
IMOSA, Inc.	Los Angeles	45,000
Lanterman Developmental Center	Los Angeles	48,000
Motion Picture and Television Fund	Los Angeles	56,000
O.P.I.C.A., Adult Day Care Center	Los Angeles	45,000
Social Vocational Services, Inc.	Los Angeles	144,000
Steelworkers Oldtimers Foundation	Los Angeles	33,500
Tarzana Treatment Centers	Los Angeles	136,000
The Institute for the Redesign of Learning (dba The Almansor Center)	Los Angeles	48,000
The Mental Health Association in Los Angeles County (dba The Village)	Los Angeles	41,000
Monterey - Salinas Transit	Monterey	296,815
Napa County Transportation Planning Agency	Napa	152,000
St. Helena Hospital	Napa	160,000
Veterans Home of California - Yountville	Napa	484,500
Gold Country Telecare, Inc.	Nevada	117,700
AIDS Services Foundation Orange County	Orange	41,000
City of Buena Park - Buena Park Senior Center	Orange	48,000
Golden Rain Foundation of Laguna Woods	Orange	320,000
St. Jude Hospital, Inc.	Orange	123,000
Pride Industries One, Inc. (dba CTSA of Placer County)	Placer	141,000
Angel View Crippled Children's Foundation, Inc.	Riverside	56,000
Care Connexxus, Inc.	Riverside	60,000
Care-A-Van Transit System, Inc.	Riverside	89,000
Desert Healthcare Foundation	Riverside	171,000
Foundation for the Retarded of the Desert	Riverside	332,000
Peppermint Ridge	Riverside	160,132
Riverside Transit Agency	Riverside	410,000
Elk Grove Adult Community Training	Sacramento	48,000
Paratransit, Inc.	Sacramento	465,708
Paratransit, Inc. (Society for the Blind)	Sacramento	41,000
United Cerebral Palsy of Greater Sacramento, Inc.	Sacramento	360,000
Barstow Employment Specialized Training Opportunities, Inc. (BEST)	San Bernardino	96,000
Charles I. Cheneweth Foundation for the Developmentally Disabled	San Diego	337,500
St. Madeleine Sophie's Center	San Diego	90,000
Tri-City Hospital Foundation	San Diego	93,000
Edgewood Center for Children and Families	San Francisco	82,000

SECTION 5310 STATEWIDE PROJECT LIST
Federal FY 2005-06 Cycle

AGENCY	COUNTY	AMOUNT
Institute On Aging - Adult Day Services	San Francisco	112,000
Institute On Aging - On Lok Senior Health Program	San Francisco	168,000
United Cerebral Palsy Association of San Luis Obispo County (Ride-On)	San Luis Obispo	130,000
Easy Lift Transportation, Inc.	Santa Barbara	448,000
Achievekids	Santa Clara	123,000
Outreach & Escort, Inc.	Santa Clara	480,000
Pacific Autism Center for Education (PACE)	Santa Clara	447,000
Community Bridges	Santa Cruz	39,544
Regents of U. C., Santa Cruz Campus, Transp. & Parking Services	Santa Cruz	40,000
Shasta Senior Nutrition Programs	Shasta	90,600
Milestones Adult Development Center	Solano	280,000
Becoming Independent	Sonoma	149,000
The Petaluma People Services Center	Sonoma	96,000
Tehama County Opportunity Center, Inc. (dba North Valley Services)	Tehama	63,480
Golden Age Center	Trinity	60,000
Porterville Sheltered Workshop	Tulare	161,500
County of Tuolumne	Tuolumne	204,000
Association for Retarded Citizens - Ventura County, Inc.	Ventura	96,000
	TOTAL	**$ 13,622,190**

2005 ACTIVITY AND ACCOMPLISHMENTS

State Rail Program

State-supported intercity rail passenger service is operated in three corridors:

- Capitol (Auburn-Sacramento-Oakland-San Jose)
- Pacific Surfliner (San Luis Obispo-Los Angeles-San Diego)
- San Joaquin (Bay Area/Sacramento-Fresno-Bakersfield, via bus to Los Angeles)

Caltrans plans and administers state funding for the Pacific Surfliner and San Joaquin services, while the Capitol Corridor Joint Powers Authority (CCJPA) plans and administers the Capitol Corridor. Caltrans is responsible for developing the annual state budget requests for all three services. The National Passenger Rail Corporation (Amtrak) operates the services under contract with Caltrans and the CCJPA. Under the federal 1970 Rail Passenger Service Act (49 USC 24102), only Amtrak has statutory rights to access privately-owned railroads at incremental cost for intercity passenger rail service.

The California High-Speed Rail Authority was created to direct the development and implementation of high-speed rail. The 1996 Act creating the Authority defined high-speed rail as "intercity passenger rail service that utilizes an alignment and technology that make it capable of sustained speeds of 200 miles per hour or greater." The Authority approved this year a program-level environmental impact statement for a 700-mile system. A $9.95 billion bond measure that would provide initial financing for the system is scheduled for the November 2006 ballot, though the Legislature may yet delay or cancel it.

The state rail program faces the same funding constraints and uncertainties confronting the rest of the state transportation program. Until July 2005, intercity rail projects had not received State Transportation Improvement Program (STIP) funding since May 2003 and or Traffic Congestion Relief Program (TCRP) funding since December 2002.

The biennial five-year STIP programs funding from the State Highway Account (derived from gasoline taxes and weight fees), the Public Transportation Account (PTA) (derived from sales taxes on diesel and gasoline) and the Transportation Investment Fund (TIF) (derived from sales tax on gasoline). Under law, at least 2.25% of the STIP is programmed for intercity rail projects proposed by Caltrans. The $4.9 billion TCRP consists of 141 projects designated by the Traffic Congestion Relief Act of 2000, to be funded from General Fund transfers and the TIF. The TCRP includes $250.6 million designated for intercity rail projects.

For 2005-06, the Governor and Legislature, however, approved the transfer of Proposition 42 funding of $1.3 billion, including $318 million for the STIP and $678 million for the TCRP. This was enough to allow STIP and TCRP projects to resume again for three months. Additional funding that was to be made available for the STIP and TCRP from the proceeds of tribal gaming bonds are still on hold, however, pending resolution of a legal challenge. The outlook for rail program funding in 2006-07 will depend primarily on whether or not the Governor and Legislature suspend Proposition 42 TIF transfers again. The Governor and Legislature have also indicated that they will be considering bond measures for infrastructure development, and these could include funding to repay past loans of suspensions of STIP and TCRP funding.

Operating subsidies for the state-supported services have been relatively stable, with the state providing about $73 million annually from the PTA and Amtrak providing about $11 million annually from federal funds (which includes $10 million to operate the 30% of Pacific Surfliner service that is not state-supported). Threatened federal cutbacks in support for Amtrak are of concern to California primarily because of their implications for capital funding and for Amtrak's valuable operating rights.

Intercity Rail Delivery and Funding

Even with the Proposition 42 funding approved this year by the Governor and Legislature, STIP and TCRP funding is insufficient to cover the projects that are programmed and ready. Of the seven STIP intercity rail projects totaling $14.04 million that were programmed for 2005-06; only one project for $1.081 million received an allocation.

To date, the Commission has approved $123.9 million in TCRP intercity rail projects. During the July through September 2005 allocation window, it allocated $89.185 million to two intercity rail projects.

Caltrans Ten-Year Rail Plan

Under statute, the Department of Transportation (Caltrans) is required to prepare a biennial Ten-Year State Rail Plan. The plan is to be submitted to the Commission by October 1 of each odd-numbered year for advice and consent. The final plan is to be submitted to the Governor, the Legislature, and the Public Utilities Commission by the following March 1. The plan consists of a passenger rail element and a freight rail element.

Caltrans submitted the 2006 State Rail Plan to the Commission for advice and consent in November 2005. The goals of the plan are to provide for rail as an alternative mode of transportation while promoting congestion relief, clean air, fuel efficiency and improved land use. The plan contains standards for meeting its goals and sets priorities for increased revenues, increased capacity, reduced running times, and cost effectiveness. The final plan will reflect the Commission's advice to Caltrans to include a discussion:

- of the benefits of a stable funding source and increased funding to address future capital and operating requirements;
- on the need for a dedicated and reliable funding source to fund the major overhaul needed for locomotives and passenger cars and acquisition of new equipment; and

- regarding the benefits of encouraging and providing interconnectivity between rail and airports.

High-Speed Rail Programmatic Environmental Document

The California High-Speed Rail Authority is responsible for planning, constructing, and operating a high-speed rail system with trains capable of maximum speeds of 125 miles per hour. The Authority is the lead state agency for the Environmental Impact Report (EIR), and the Federal Railroad Administration (FRA) is the lead federal agency for the Environmental Impact Statement (EIS). In early 2004, the Authority released for comment its draft program-level EIR/EIS for a 700-mile high-speed train system serving Sacramento, the San Francisco Bay Area, the Central Valley, Los Angeles, the Inland Empire, Orange County, and San Diego. High-speed trains would be capable of maximum speed of at least 200 miles per hour with an expected trip time from San Francisco to Los Angeles in just over 2 hours and 30 minutes. The system is forecast to carry up to 42 – 68 million passengers per year by 2020 at a low passenger-cost per mile.

In November 2005, the Authority certified its Final program-level EIR/EIS. It modified the preferred alignment and station locations for the Final Program EIR/EIS to include:

- further study for a wide corridor between Burbank and Los Angeles Union Station;
- a Central California Traction alignment option between Sacramento to Stockton; and
- committing to work with local, state, and federal agencies on more planning studies between Fresno and Bakersfield to evaluate including a Visalia access point.

The Authority is now working on its "next tier" program-level environmental analysis for the Northern Mountain Crossing to determine the best alignment and station locations between the Central Valley and Bay Area. The Authority is also working on right-of-way preservation of high priority segments.

High-Speed Rail Bond Measure

SB 1169, enacted in 2005 as an urgency statute, delayed the submission of a $9.95 billion high-speed rail bond measure from the November 2004, as called for by SB 1856 in 2002, to the November 2006 ballot. The impetus for the delay was the state budget deficit and the funding uncertainty that faces the remainder of the state transportation program.

Known as the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, the measure would provide $9 billion to be issued in conjunction with any available federal funds to plan and construct a high-speed rail system pursuant to the business plan of the High-Speed Rail Authority. Another $950 million would be available for capital projects on other passenger rail lines to provide connectivity to the high-speed system and for capacity enhancements and safety improvements to those lines.

AB 713 (Torrico) would have extended the deadline from the current November 2006 date to November 2008. SB 1024 (Perata) would have canceled the high-speed rail bond measure in favor of a much larger infrastructure bond measure that included $1 billion for high speed rail. Although neither bill was enacted, reconsideration of the pending bond measure seems likely to be a part of the consideration of infrastructure bond measures in the coming legislative session.

Amtrak Restructuring

Amtrak continues to face an uncertain future. In the Amtrak Reform and Accountability Act of 1997, Congress mandated that Amtrak achieve self-sufficiency by the end of 2002 and created the Amtrak Reform Council to review its performance. In February 2002, the Council recommended to Congress that Amtrak be restructured. Many members of Congress support funding Amtrak to preserve a valuable national asset. Others do not.

On November 30, 2005, the President signed legislation appropriating $1.3 billion in federal aid for the 2006 federal fiscal year. This represented a Congressional rejection of the Administration's original proposal to eliminate Amtrak subsidies entirely. The debate over conflicting visions for Amtrak will continue, and California's interest in the debate will be focused on the need for capital facilities and operating rights.

For California, the potential loss of federal operating subsidies for Amtrak is of relatively little concern. Currently, California pays about $73 million per year in Amtrak operating costs, as compared with $11 million in federal funding. The California contribution is well over one-half the total contribution of all the states.

Of greater concern to California is that the state receive a fair share of any federal proposal for funding capital improvements. Past Congressional actions have directed the bulk of Amtrak appropriations to the Northeast Corridor. The latest Senate action targets the bulk of the capital funding towards the Northeast Corridor to bring it up to a state of good repair. A percentage of the capital funding, starting at 11% of the funds available and increasing to 33% over six years, will be available for state grants. These actions ignore the $1.7 billion that California has invested in intercity rail capital improvements since the mid-1970's.

Of most concern to California, however, is the federal statute that grants Amtrak operating rights, at incremental cost, for intercity rail passenger service on private railroads. In any restructuring, these rights should be maintained in the public domain, either through Amtrak, through another federal agency, or through delegation to the states. Without these operating rights, intercity passenger rail service in California could be severely curtailed. Only the route between Los Angeles and San Diego is now in public ownership. If California were to continue service without Amtrak's operating rights, the railroads could require the state either to acquire the right-of-way or to pay significantly more for operating rights than Amtrak now pays.

At the federal level, the issue of Amtrak restructuring remains unresolved. When the Administration and Congress takes up the issue again, California should work through its Congressional delegation to ensure that the state's primary interests are protected:

- Most importantly, through the preservation of Amtrak operating rights on private railroads.
- Through achieving a reasonable share of any federal funding for rail capital improvements, by recognizing the contribution of state matching funds.