2010

ANNUAL REPORT TO THE CALIFORNIA LEGISLATURE

CALIFORNIA
TRANSPORTATION
COMMISSION

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CHAIR AND VICE CHAIR LETTER

MEMBERS OF THE LEGISLATURE:

We are pleased to submit the California Transportation Commission's (Commission) 2010 annual report to the Legislature.

In many ways, this was a pivotal year for the Commission and for California's transportation program. Operating in an atmosphere of extreme funding constraints caused by prolonged state budget negotiations and restricted bond sales, the Commission nevertheless was able to allocate more than $5 billion for transportation projects – marking the fifth consecutive year it has moved more than $4 billion in funding and enabling the California Department of Transportation to attain a construction activity level in excess of $9 billion this year.

Perhaps even more significant from a long-term perspective, it was in 2010 that the Commission authorized the first design-build procurements and public-private partnership (P3) projects provided for under the landmark Senate Bill 4 legislation signed into law in 2009. These actions – some of which were the product of spirited debate – have opened the door for California's transportation community to pursue more innovative financing and project delivery methods in the years to come. To date, the Commission has approved one public private partnership and seven design-build projects.

As future design-build and P3 projects are brought forward, the Commission will welcome opportunities to collaborate with the Legislature and stake-holders to refine its guidelines and fine-tune the process to ensure that well-conceived projects get a thorough but fair and expeditious response.

The state's current economic challenges did provide one tangible benefit in 2010; lower construction costs. We have been able to utilize contract award savings to fund additional projects that would otherwise be shelved. In the Corridor Mobility Improvement Account, for example, the Commission reprogrammed approximately $250 million of the savings to fund a number of additional projects across the state.

To date, the Commission has allocated more than $5 billion of the $11.6 billion of the Proposition 1B funds under its purview. However, due to the state's inability to sell bonds while the 2010-11 state budget was being deliberated, more than $700 million in Proposition 1B funding leveraging $3.3 billion in projects ready for construction are awaiting the availability of bond funding, as of November 2010.

The State Transportation Improvement Program (STIP) has also experienced its challenges in 2010. In May 2010, the Commission adopted the $5.73 billion 2010 STIP covering highway and road projects through 2014-15. The Commission had to work with less revenue than expected, so in programming the 2010 STIP, we were forced to defer many projects into later years. The 2010 STIP assumes that $469 million of the $1.094 billion estimated to be available for allocation in 2010-11 will be available from the sale of Proposition 1B bonds. If sufficient bond revenues do not materialize, even more STIP projects programmed in 2010-11 will be delayed.

The American Recovery and Reinvestment Act (Recovery Act) of 2009 provided much-needed funding for projects that might otherwise not have moved forward due to the state's transportation funding challenges. California received and immediately put to use nearly $2.6 billion in Recovery Act funds for highway and local street and road improvements across the state. Although Recovery Act funds provided invaluable but short-term benefits to transportation, the long-term funding needs remain a concern.

As we look toward next year, the Commission will focus on six issues. The annual report includes a more detailed discussion of these issues, and provides options and recommendations to the Legislature and the Administration on how they can be addressed.

- **Preservation of the state's transportation system.** The state's transportation system continues to deteriorate while its population grows and demand on the system increases beyond available financial resources.
- **Federal transportation re-authorization and climate change legislation.** The greatest challenge for re-authorization is the insolvency of the Highway Trust Fund. Additionally, the implementation of climate change policies, both at the national and state level, will require funding above and beyond current funding levels.
- **Implementation of Senate Bill (SB) 375.** SB 375, which requires coordination of planning decisions and investments in transportation with land use and housing, will require key legislation and dedicated funding for successful implementation.
- **Obtaining reliable funding to address the state's transportation needs.** There is a growing recognition that California needs to establish a reliable, sustainable and growing transportation funding system, but there are no easy answers. Nevertheless, new revenue sources are needed to address our aging and underfunded transportation infrastructure.
- **Innovative financing and the impact of debt service on future transportation resources.** The lack of adequate public funding for transportation projects has increased the urgency to borrow against future state revenues. Although borrowing of expected future revenues can accelerate the delivery of priority projects, the resulting debt service must be kept at a level so as not to jeopardize future transportation programs.
- **Innovative project delivery methods to advance the delivery of transportation projects.** Authorizing projects for design-build procurement and approving projects for public private partnership agreements have been a central element of the Commission's agenda for 2010. The Commission will employ lessons learned from its accomplishments for the successful application of these procurement options in the future.

While all these issues will hopefully factor into decisions the Legislature and Administration must make in relation to the state's chronic budget deficits, the overriding challenge the Commission and indeed the entire state of California must face in 2011 and beyond is, how long can we continue to underfund the state's transportation infrastructure without further adverse – and permanent – impacts to jobs and our state's economy?

The Commission looks forward to working with the Legislature and the Administration to meet these challenges together.

Sincerely,

JAMES EARP
Chair

DARIO FROMMER
Vice Chair

THE COMMISSION IN BRIEF

The California Transportation Commission (Commission) is responsible for programming and allocating transportation funds used in the construction of highway, intercity passenger rail, and transit improvements throughout California.

The Commission consists of eleven voting members and two non-voting ex-officio members. Of the eleven voting members, nine are appointed by the Governor, one is appointed by the Senate Rules Committee, and one is appointed by the Speaker of the Assembly. The two ex-officio non-voting members are appointed from the State Senate and Assembly, usually the respective chairs of the transportation policy committee in each house. The Commission is a part-time body that meets one or two days per month, at which time they formally review, approve and/or adopt state transportation policy. The Commission is primarily responsible for the following activities:

- Adopting the biennial five-year State Transportation Improvement Program (STIP) and approving the biennial four-year State Highway Operation and Protection Program (SHOPP).
- Adopting the biennial five-year fund estimate of state and federal funds expected to be available for the STIP and SHOPP.
- Allocating state funds for capital projects, consistent with the STIP, SHOPP, Traffic Congestion Relief Program, Proposition 116 (Clean Air and Transportation Improvement Act of 1990), Proposition 1A (Safe, Reliable High-Speed Passenger Train Bond Act of the 21st Century), and Proposition 1B (Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006).
- Allocating state funds for capital grants from the Aeronautics Account and the Environmental Enhancement and Mitigation Program Fund.
- Adopting guidelines for the development of Commission administered programs and regional transportation plans.

- Approving project proposals for public private partnership agreements and authorizing projects for procurement utilizing the Design-Build Demonstration Program.
- Determining eligibility of projects for High Occupancy Toll lane implementation.
- Advising and assisting the Secretary of the Business, Transportation and Housing Agency and the Legislature in formulating and evaluating state policies and plans for state transportation programs.

The Commission is a part-time body that meets one or two days per month, at which time they formally review, approve and/or adopt state transportation policy.

The Commission is required to adopt and submit an annual report to the Legislature, by December 15 of each year. The report must include a summary of the Commission's prior-year decisions in allocating transportation capital outlay appropriations, and identifying timely and relevant transportation issues facing the State of California. The annual report must also include an explanation and summary of major policies and decisions adopted by the Commission during the previously completed state and federal fiscal year, with an explanation of any changes in policy associated with the performance of its duties and responsibilities over the past year. The annual report may also include a discussion of any significant upcoming transportation issues anticipated to be of concern to the public and the Legislature.

The Commission is supported by an executive director who oversees a staff of 19 and an annual budget of approximately $4 million. The executive director acts as a liaison with the Secretary of Business, Transportation and Housing Agency, the Director of the California Department of Transportation, and regional transportation agencies' executive directors and their respective staff. The executive director also acts as a liaison between the Commission and the Legislature and its staff, interpreting actions taken by the Commission and reporting to the Commission on areas of concern to the Legislature. Furthermore, the executive director serves as a member of the Toll Bridge Program Oversight Committee and the California Transportation Financing Authority.

ISSUES FOR 2011

The California Transportation Commission (Commission) will focus on the following six issues as we look ahead at 2011. The first is the preservation of the state's transportation system, and how the needs continue to grow beyond available financial resources.

Reliable, sustainable and growing transportation revenue sources are critical to ensure California's economic vitality and global competitive advantage. The second issue is the federal transportation re-authorization and climate change legislation. Congress must be encouraged to address the solvency of the Highway Trust Fund and to reduce the regulatory barriers that delay efficient state use of federal funding. In addition, Congress and the Legislature are urged to ensure that any enacted climate change legislation at the federal or state level is accompanied by the tools, flexibilities and the appropriate levels of funding necessary for its successful implementation. The third issue is the implementation of Senate Bill (SB) 375 (Chapter 728, Statutes of 2008) objectives to reduce greenhouse emissions and to coordinate planning decisions and investments in transportation with land use and housing. The Legislature is urged to provide the necessary flexibilities and funding to allow the state's metropolitan planning organizations (MPOs) to successfully achieve the objectives of SB 375. The fourth, as has been for a few years, the continuing pursuit of reliable funding to address the state's transportation system needs. The Legislature and the Administration are urged to enact funding alternatives and programmatic flexibilities to address California's growing transportation needs. The fifth issue is the need to strike a balance between advancing critical projects through long-term financing with the impact of the debt service on future transportation resources. The Legislature is urged to establish a transportation debt service limit to ensure the necessary fiscal discipline for the commitment of future transportation revenues. And finally, the sixth issue is the utilization of lessons learned from recently approved innovative project delivery methods to advance the delivery of transportation projects.

Reliable, sustainable and growing transportation revenue sources are critical to ensure California's economic vitality and global competitive advantage.

1. PRESERVATION OF THE STATE'S TRANSPORTATION SYSTEM

California's transportation system continues to deteriorate while the state's population grows and demand increases, adversely affecting mobility, commerce, quality of life, the environment and the operational efficiency of key transportation assets. This is compounded by continuing state budget challenges, a slow economy with high unemployment, and unreliable transportation funding. The influx of federal stimulus funds in 2009, the passage of Propositions 1A (Transportation Funding Protection) and 1B (Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act) in 2006, and the competitive construction bidding environment provided invaluable but short-term benefits to transportation. However, the lack of reliable, sustainable and growing transportation funding, and the resolution of other long-term issues that the Commission has highlighted in its previous annual reports continue to raise serious concerns:

- Revenue streams are unstable and insufficient to maintain and improve existing transportation assets.
- Costs to maintain and improve an aging system are increasing while traffic demands continue to grow.
- More than 26 percent of the on-system pavement today is in need of rehabilitation, and that number is expected to increase to 60 percent within the next 10 years.
- Annual rehabilitation needs are in excess of $6 billion, with less than $2 billion available.
- An unfunded backlog of local road maintenance and rehabilitation work estimated at $37 billion today and expected to grow to $79 billion in 2033.
- Lack of a stable and consistent source of public transportation operations funding, leads to dramatic statewide reductions in service, resulting in overcrowding, increased fares and a disbursement of riders.
- An aging public transportation fleet has been impacted by inadequate funding for capital projects, maintenance and operations. It is estimated that 70 percent of the bus fleet and 55 percent of the rolling stock will need to be replaced in the next six years.
- Insufficient funding for general aviation capital projects, where the approximately $4 million annual appropriation is less than half of the estimated need.

Revenue streams are unstable and insufficient to maintain and improve existing transportation assets.

2. FEDERAL RE-AUTHORIZATION AND CLIMATE CHANGE

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), the federal act for highway and surface transportation, lapsed on September 30, 2009. Since then, Congress passed several resolutions to continue the lapsed authorization, with the current resolution expiring in December 2010. The re-authorization legislation, expected in 2011, will likely address a myriad of challenging issues such as the

economy and jobs, national security, energy policy, gas prices, environmental stewardship, and climate change. However, the greatest challenge for re-authorization is, without a doubt, the insolvency of the Highway Trust Fund and the inability to effectively plan for future projects that meet growth and demand.

For many years, the gasoline tax provided a stable and growing source of funding for the Highway Trust Fund. Revenues derived from the gas tax, however, have not kept pace with transportation costs related to increases in road use, construction costs, and transportation system needs for a state with a population growing by approximately one-half million every year. The lack of significant growth in gas tax revenues is attributed to many factors, including increased fuel efficiency, alternative fuel vehicles, and most recently, the economic recession. The gas tax is a per-gallon tax that has not increased since 1993. The buying power of the gas tax revenue decreases every year, as more fuel efficient vehicles are able to travel further and consume less fuel, thus creating a funding gap. To mitigate a portion of this ongoing funding gap, Congress has transferred general funds into the Highway Trust Fund. While such actions may provide a short-term fix to the solvency of the Highway Trust Fund, stability of transportation funding in the long-term is needed. Therefore, as part of re-authorization, the Commission urges the Legislature to ensure the solvency and integrity of the Highway Trust Fund and encourage Congress to enact funding alternatives that provide the greatest potential for augmenting or replacing the gas tax. For example, a national Vehicle Miles Traveled (VMT)-based fee system may provide a transition from the gas tax to a revenue mechanism more directly linked to transportation system use and impacts.

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Congress is also in the midst of discussions on how to address the issue of climate change as it relates to transportation policies and how to reduce the United States dependence on foreign oil. The Energy Independence and Security Act (December 2007) directed the U.S. Department of Transportation (USDOT), in coordination with the U.S. Environmental Protection Agency and in consultation with the U.S. Global Change Research Program, to conduct a study of the impacts of the nation's transportation system on climate change and strategies to mitigate the effects of climate change by reducing greenhouse gas (GHG) emissions. In its April 2010 report to Congress entitled "Transportation's Role in Reducing Greenhouse Gas Emissions", the USDOT examines GHG emission levels and trends from the transportation sector and analyzes a full range of strategies available to reduce these emissions. Those strategies included low-carbon fuel, vehicle fuel economy, transportation system efficiency, carbon intensive travel activity reductions, alignment of transportation planning and investments, and carbon pricing strategies. The USDOT suggests ideas for supporting these strategies including, but not limited to:

- Federal transportation planning and investment programs that support integrated transportation and land use planning.
- Technical assistance to improve data collection and modeling techniques.

- Federal transportation funding programs incentivizing GHG emission reductions.
- Aligning federal funding for transportation infrastructure with performance based criteria, and including climate change objectives that reward effective GHG emission reduction plans and programs.

Implementing national and state climate change polices will require funding above and beyond current funding levels. Diverting funding from existing resources will result in further deterioration of an already overburdened and unreliable revenue system. The Commission urges Congress and the State Legislature to ensure that any enacted climate change legislation at the federal or state level is accompanied by the tools, flexibilities and the appropriate levels of funding necessary for its successful implementation.

Implementing national and state climate change policies will require funding above and beyond current funding levels.

3. IMPLEMENTATION OF SB 375

With the passage of Assembly Bill (AB) 32 (Chapter 488, Statutes of 2006), California led the nation in its attempts to create a framework for reducing GHG emissions. As part of this effort, the California Legislature passed SB 375 (Chapter 728, Statutes of 2008), which seeks to integrate land use, housing and transportation planning. Recognizing the short timelines included in SB 375 and the complexity of integrating emissions reductions into existing planning processes, the Commission acted quickly to provide guidance for MPOs to use in developing sustainable communities strategies in regional transportation plans. On April 7, 2010, the Commission adopted revisions to the Regional Transportation Plan Guidelines. The revisions were prepared, in consultation with the California Department of Transportation (Caltrans) and the California Air Resources Board (ARB), through the work of an Advisory Committee representing MPOs, regional transportation planning agencies (RTPAs), federal agencies, state and local governments, organizations knowledgeable in the creation and use of travel demand models, and organizations concerned with the impacts of transportation investments on communities and the environment.

As California moves forward, the implementation of SB 375 becomes even more critical. SB 375 requirements to coordinate planning decisions and investments in transportation with land use and housing, will require key legislation and dedicated funding. The Commission urges the Legislature to provide the necessary flexibilities and funding to allow the state's MPOs to successfully achieve the objectives of SB 375. Key legislation to assist the state in achieving emission reduction requirements includes, but is not limited to, increased flexibility in implementing congestion management strategies; extension of the project level California Environmental Quality Act (CEQA) exemptions to transportation and housing projects included in a programmatic level environmental document; and better aligning the regional housing need allocation process with the regional transportation planning process for certain regions. Examples of the resources necessary for the successful implementation of SB 375, include but are not limited to, funding for the development of sustainable com-

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While there is a growing recognition that California needs to establish a reliable, sustainable and growing transportation funding system, there are no easy solutions.

munities strategies at the regional and local levels; increased and sustained transit funding; incentive funding to influence local planning decisions; and funding for model improvements to provide a consistent platform of modeling capabilities.

4. RELIABLE TRANSPORTATION FUNDING

California's current transportation funding system is based primarily on user fees such as the fuel excise tax, sales tax on diesel fuel, weight fees, bridge tolls and transit fares. For many years, the motor vehicle fuel excise tax was an adequate user fee proxy for a driver's road usage. However, increased automobile fuel efficiency, the emergence of alternate technologies, and fixed taxation rates, have eroded the fuel excise tax's ability to approximate road usage and fund critical improvements and rehabilitation. The recent gas tax swap enacted in 2010 (ABX8 6, Chapter 11, Statutes of 2010 and ABX8 9, Chapter 12, Statutes of 2010), which increased the gasoline excise tax and eliminated the sales tax on gasoline sales, is basically revenue neutral and does not provide additional stability for transportation funding. In addition, the state's repeated diversions of transportation funds, to meet General Fund shortfalls and to pay debt service on general obligation bonds, created even greater funding gaps, uncertainty and chronic instability.

While there is a growing recognition that California needs to establish a reliable, sustainable and growing transportation funding system, there are no easy solutions. However, new revenue sources are needed to address our aging and underfunded transportation infrastructure. Whether these revenue sources are comprised of congestion pricing, implementation of a VMT-based fee system, conversion of High Occupancy Vehicle (HOV) lanes to High Occupancy Toll (HOT) lanes, or a gasoline excise tax increase, to name a few options, each of these approaches comes with potential challenges and opportunities. The Commission urges the Legislature and the Administration to enact funding alternatives to address California's transportation needs.

California must also find new and innovative ways to prioritize the use of its transportation revenues to preserve the existing transportation system and provide enhanced and expanded mobility. It is critical that the transportation community begins to assess investment decisions against performance outcomes, in order to provide the most efficient and effective transportation system at the lowest possible cost. Project sponsors should utilize performance metrics to plan and implement projects, evaluate system performance, identify inefficiencies and take the necessary corrective action. The outcomes should then be used as lessons learned to influence the transportation planning process and target future investments to mobility needs that maximize the efficiency of the system. In order to accomplish such a performance driven approach, state and regional transportation planning agencies should be allowed the necessary programmatic flexibility to invest in mode-neutral solutions that best achieve the desired outcomes. Again, the Commission urges the Legislature to provide the necessary programmatic flexibilities and unconstrained funding,

to allow a performance-driven and a mode-neutral approach to transportation investments that targets our limited resources onto strategies and solutions that can best address the unique needs and challenges of each region.

5. INNOVATIVE FINANCING

Public sources of reliable revenues meant to provide an efficient transportation system have not kept pace with California's growing transportation needs. The lack of adequate funding levels has increased the urgency to "borrow" against future revenues. To fund more projects with limited resources, the state has utilized a number of borrowing approaches including Grant Anticipation Revenue Vehicles (GARVEE) bonds, general obligation bonds, federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loans, and, more recently, state-funded availability payments.

Although these borrowing mechanisms can be used to accelerate priority projects, the transportation community and the Legislature should work together to develop a prudent policy that provides the necessary fiscal discipline for the commitment of future transportation revenues. Borrowing to fund a priority project today must be balanced with the effect the resulting debt service will have on future transportation resources. California should be particularly diligent in addressing potential debt service impacts on future funding for maintenance and rehabilitation of the state's transportation system. For purposes of this discussion, debt service is defined to include costs of all financing mechanisms which commit future transportation revenues for repayment (such as GARVEE bonds, general obligation bonds, availability payments, and TIFIA loans). Currently, the commitment of future transportation revenue and the resultant debt services cost are limited in selected instances by both the state constitution and statutes.

- The state constitution limits to 25 percent the portion of fuel excise tax revenues and commercial vehicle weight fees (fees and taxes imposed upon vehicles or their use or operation) that can be used for debt service on voter-approved bonds. Fuel excise tax revenues and commercial vehicle weight fees primarily fund state highway maintenance, operations, State Highway Operation and Protection Program (SHOPP), and the State Transportation Improvement Program (STIP).
- GARVEE bonds are limited by statute (Government Code Section 14553.4) to 15 percent of the total amount of federal transportation funds deposited in the State Highway Account for any consecutive 12-month period within the preceding 24 months. The federal transportation funds used in this calculation are dedicated primarily to fund the SHOPP program and the local assistance subvention program.

Borrowing to fund a priority project today must be balanced with the effect the resulting debt service will have on future transportation resources.

Although there are no statutory limits on overall state indebtedness, the State Treasurer estimates that debt service costs will be at historically high levels through the coming decade and beyond. The Department of Finance estimates that the ratio of annual debt-service

payments to General Fund revenues and transfers will exceed nine percent at its peak. This level is much higher than it has been in the past (in the 20-year period ending in 2005-06, the debt service ratio never exceeded six percent).

With innovative procurement methods, such as public private partnerships and design-build procurement, recently authorized by SB 4 (SBX2 4, Chapter 2, Statutes of 2009), and the creation of the California Transportation Financing Authority (CTFA) by AB 798 (Chapter 474, Statutes of 2009), debt service impacts becomes even more critical to address. CTFA is allowed to issue bonds to fund transportation projects to be backed, in whole or in part, by various revenue streams from state or local transportation funds and/or toll revenues in order to increase the construction of new capacity or improvements for the state transportation system.

Given the need to balance debt financing for current projects with the impact on future transportation resources, the Commission recommends that the Legislature establish a 15 percent limit on total transportation debt service. The model might be the state GARVEE bond legislation, which provides an upper limit on annual GARVEE bond debt service and provides that GARVEE bond debt service payments will count against the appropriate STIP county share. However, the recommended 15 percent debt service limit should be calculated as a percentage of the total funds forecast to be available for the SHOPP and the STIP, with the debt service applied to each program as appropriate. Based on the resource levels identified in the 2010 Fund Estimate, the 15 percent limit would equate to a total annual transportation debt service limit of approximately $385 million. For illustrative purposes, if one uses the interest rate and term assumptions from the State Treasurer's Analyses of GARVEE Bonding Capacity 2010 (12 years at 2.68 percent), this would equate to a total debt capacity of approximately $3.9 billion.

6. INNOVATIVE PROJECT DELIVERY METHODS

Public agencies around the world have increasingly utilized innovative project delivery procurement methods, such as design-build and public private partnerships (P3), to advance the delivery of critical infrastructure improvements. In California, such procurement methods were developed and placed into law under Chapter 6.5 (commencing with Section 6800) of Part 1 of Division 2 of the Public Contract Code, and Section 143 of the Streets and Highways Code, as amended by SB 4.

Chapter 6.5 established the Design-Build Demonstration Program, which allows Caltrans and local transportation entities, if authorized by the Commission, to use the design-build procurement method to deliver a limited number of projects on a demonstration basis through January 1, 2014. Chapter 6.5 authorizes local transportation entities to deliver up to five projects that may be for local street or road, bridge, tunnel, or public transit projects within the jurisdiction of the entity; and Caltrans to deliver up to ten state highway, bridge, or tunnel projects.

Section 143 authorizes Caltrans and regional transportation agencies, until January 1, 2017, to enter into an unlimited number of comprehensive development lease agreements (P3 agreements) with public or private entities for the development of transportation projects. Section 143 provides that P3 projects and associated lease agreements proposed by Caltrans or a regional transportation agency shall be submitted to the Commission, and that the Commission shall select and approve the projects before Caltrans or regional agency begins a public review process leading to a final lease agreement. Section 143 further provides that the Commission shall certify Caltrans' determination of the useful life of a project in establishing lease agreement terms and that the Commission shall adopt the criteria to be used by the project sponsor(s) to make a final evaluation of project bids based on qualifications and best value.

Authorizing projects for design-build procurement and approving projects for P3 agreements have been a central element of the Commission's agenda for 2010. However, as we look to 2011, the Commission will endeavor to employ lessons learned from its accomplishments in 2010, and further collaboration with others who have carried out successful applications of these procurement options, to guide the Commission in revisiting its policies.

To address the design-build procurement, the Commission urges the Legislature to consider additional flexibilities to allow local transportation entities to procure design-build contracts for projects they plan to implement on the state highway system. A lesson learned for the Design-Build Demonstration Program is the authorization of State Route (SR) 91 Express Lane Project requested by the Riverside County Transportation Commission (RCTC) and the argument that Section 6.5 limits the authority to enter into a design-build contract on a state highway project to Caltrans. To avoid potential delays, RCTC pursued specific legislation to allow it to implement design-build procurement for SR 91. AB 2098 (Chapter 250, Statutes of 2010), which authorizes the RCTC to utilize this design-build procurement process for the SR 91 project on the state highway system, was approved by the Governor on September 23, 2010.

As for P3 lessons learned, the Commission acknowledges the process constraints it placed on itself with guidelines for approval of P3 project proposals. Particular attention will be directed at whether the Commission should be engaged in the project selection process in addition to project approval, the timelines associated with the Commission's approval process, and the criteria and factors used for the final approval of a P3 project proposal.

Authorizing projects for design-build procurement and approving projects for P3 agreements have been a central element of the Commission's agenda for 2010.

OVERVIEW OF 2010

Adopting the 2010 State Transportation Improvement Program (STIP), administering Proposition 1B (Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006) programs, adopting a program for the Proposition 1A (Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century), authorizing design-build procurements and approving projects for public private partnerships, and allocating state and federal transportation funds, among other activities, dominated the California Transportation Commission's (Commission) agenda for 2010:

- Adopted the 2010 STIP for fiscal years 2009-10 through 2014-15. The adopted program includes $4.324 billion in highway and road projects, $933 million in rail and transit projects and $473 million in transportation enhancement projects.
- Continued with programming of remaining Proposition 1B funds which primarily represent State-Local Partnership Program (SLPP) funds, which are to be programmed over multiple years, and award savings from construction projects in the Corridor Mobility Improvement Account (CMIA).
- Adopted a program of projects for the $950 million of Proposition 1A.
- Approved several projects for procurement utilizing the Design-Build Demonstration Program, and approved one project proposal for a public private partnership agreement.
- Continued to work with statewide transportation stakeholders, allocating over $5 billion in state and federal transportation funding, helping the state to achieve transportation construction activity in excess of $9 billion in state construction contracts alone.

STATE TRANSPORTATION IMPROVEMENT PROGRAM

The STIP is the biennial five-year plan adopted by the Commission for future allocations of certain state transportation funds for state highway improvements, intercity rail, and regional highway and transit improvements. State law requires the Commission to update the STIP biennially, in even-numbered years, with each new STIP adding two new years to prior programming commitments.

STIP funding has come primarily from Proposition 42 Transportation Investment Fund (TIF) transfers (gasoline sales tax), Proposition 1B bond proceeds (Transportation Facilities Account (TFA)), and the Public Transportation Account (PTA). This has recently changed due to the passage of the "gas tax swap" legislation (Assembly Bill (AB) X8 6, Chapter 11, Statutes of 2010 and ABX8 9, Chapter 12, Statutes of 2010). Effective July 1, 2010, the gas tax swap eliminated the sales tax on gasoline sales and increased the gasoline excise tax from 18 cents to 35.3 cents. While intended to be revenue neutral, the gas tax swap has significantly altered STIP funding sources, by eliminating TIF funding, reducing PTA funding, and adding State Highway Account (SHA) funding.

The STIP allocation capacity for 2009-10 was $965 million, including $514 million in Proposition 1B bond funds. This allocation capacity was insufficient to fund remaining 2008-09 projects and 2009-10 projects. To address this funding shortfall, the Commission developed and adopted an allocation plan for 2009-10. Consistent with previous allocation plans, this plan was based on a set of principles, priorities and information received from the California Department of Transportation (Caltrans) and regional transportation agencies, as well as the evaluation of project delivery status and potential alternative funding sources. With the adopted allocation plan in place, the Commission resumed STIP allocations in August 2009.

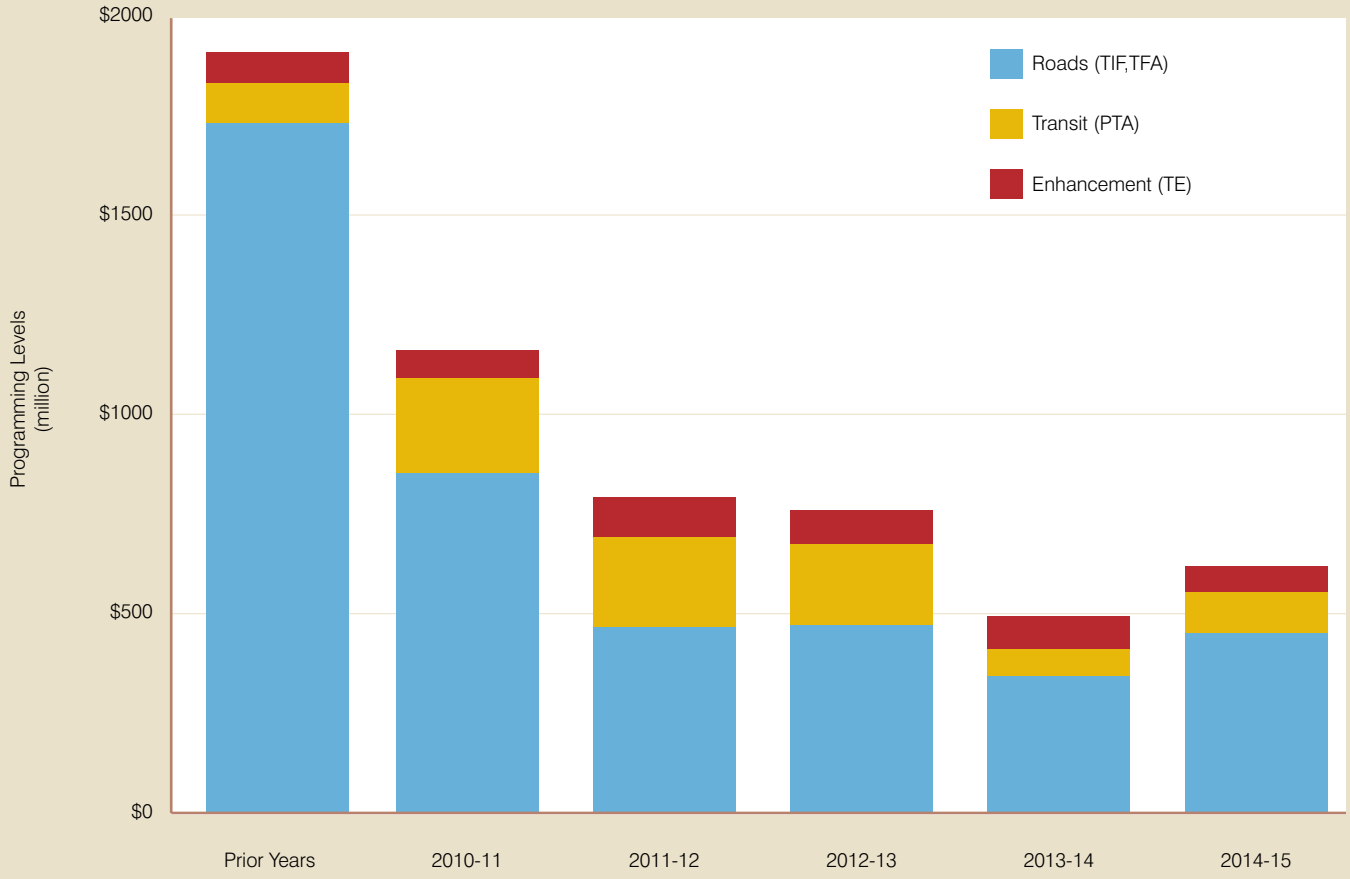
2010 STIP Fund Estimate

The 2010 STIP Fund Estimate (FE) was adopted on October 14, 2009, and covers the five-year period of 2010-11 through 2014-15. The FE forecasts additional funding capacity of $113 million for the five-year period. This new funding capacity reflects an increase in Transportation Enhancement (TE) funds ($195 million), and a decrease in the PTA (-$1 million) and both the flexible TIF and TFA funds (-$81 million). The 2010 STIP FE also includes $3.1 billion in carryover capacity from projects carried over from the 2008 STIP, net decreases in capacity for the earlier years, and approximately $370 million in net new capacity available mainly from the two years added to the STIP (2013-14 and 2014-15). The following table reflects the STIP capacity over the six-year period including 2009-10.

2010 STIP Guidelines

The 2010 STIP guidelines were adopted on October 14, 2009. The revised guidelines included new flexibility to address the delay in the state budget and prior-year projects that were granted allocation extensions beyond the 2010 STIP adoption date. Non-TE projects already programmed in 2009-10, and prior-year projects with allocation extensions, were allowed to be reprogrammed in a later fiscal year if they were on the list of delivered projects or were granted an allocation extension that expired after adoption of the 2010 STIP.

Summary of 2010 STIP Programming (dollars in millions)



	Prior Years	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Enhancement (TE)	$76	$69	$98	$85	$81	$64	$473
Transit (PTA)	$100	$236	$227	$202	$67	$101	$933
Roads (TIF,TFA)	$1,732	$855	$466	$473	$345	$453	$4,324
Total	**$1,908**	**$1,160**	**$791**	**$760**	**$493**	**$618**	**$5,730**

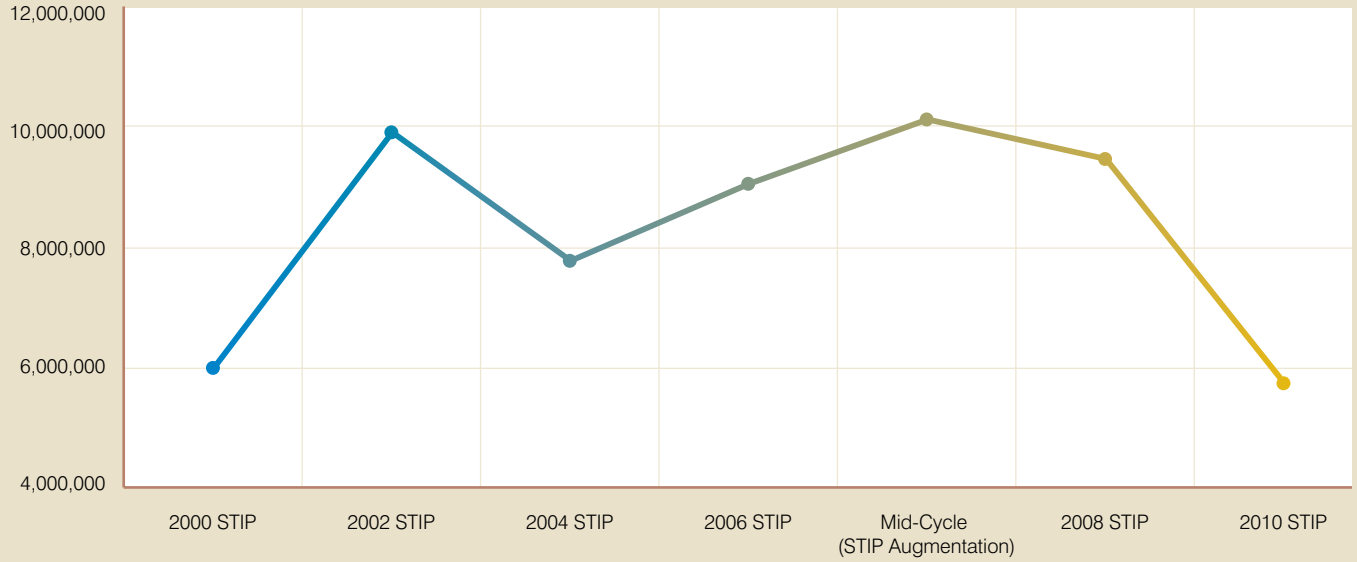
2010 STIP Adoption

The 2010 STIP, adopted on May 20, 2010, assumed that SHA and federal funds will be fungible and will be available at an amount equal to the PTA, TIF and TFA capacity identified in the 2010 STIP FE. The adopted 2010 STIP included the following programming for fiscal years 2009-10 through 2014-15:

- $4.324 billion in highway and road projects
- $933 million in rail and transit projects
- $473 million in TE projects

The 2010 STIP totals $5.73 billion.

Historic STIP Programming Levels (5-Yr STIP Periods including Carryover From Prior Years)



2010 REPORT ON COUNTY AND INTERREGIONAL SHARE BALANCES

Section 188.11 of the Streets and Highways Code mandates that the Commission maintain a record of State STIP county share balances and that it makes the balances through the end of each fiscal year available for review by regional agencies no later than August 15 of each year.

On August 13, 2010, the Commission issued its thirteenth annual Report of STIP Balances, County and Interregional Shares. The report included the 2010 STIP adopted in May 2010, including technical adjustments approved or noticed through August 12, 2010, and allocations and other actions approved through July 1, 2010. The balances in the report were based on the allocation capacity identified through 2014-15 in the 2010 STIP FE, adopted in October 2009. The balances also included all current cash commitments made for AB 3090 (Chapter 1243, Statutes of 1992) reimbursements.

The 2010 STIP Balances, County and Interregional Shares Report can be found at http://www.catc.ca.gov/programs/stip.htm.

2009-10 PROJECT DELIVERY

The Commission tracks delivery for projects programmed and funded from the STIP, the State Highway Operation and Protection Program (SHOPP), the Regional Surface Transportation Program (RSTP), and the Congestion Mitigation and Air Quality (CMAQ) program. For the STIP and 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. Project delivery (ready for STIP construction allocation or federal obligation) was less than 100 percent in 2009-10 for Caltrans and local agencies due to the severe economic conditions and the lack of allocation capacity.

Caltrans achieved a 97 percent project delivery rate by delivering 31 of the 32 originially scheduled projects for 2009-10.

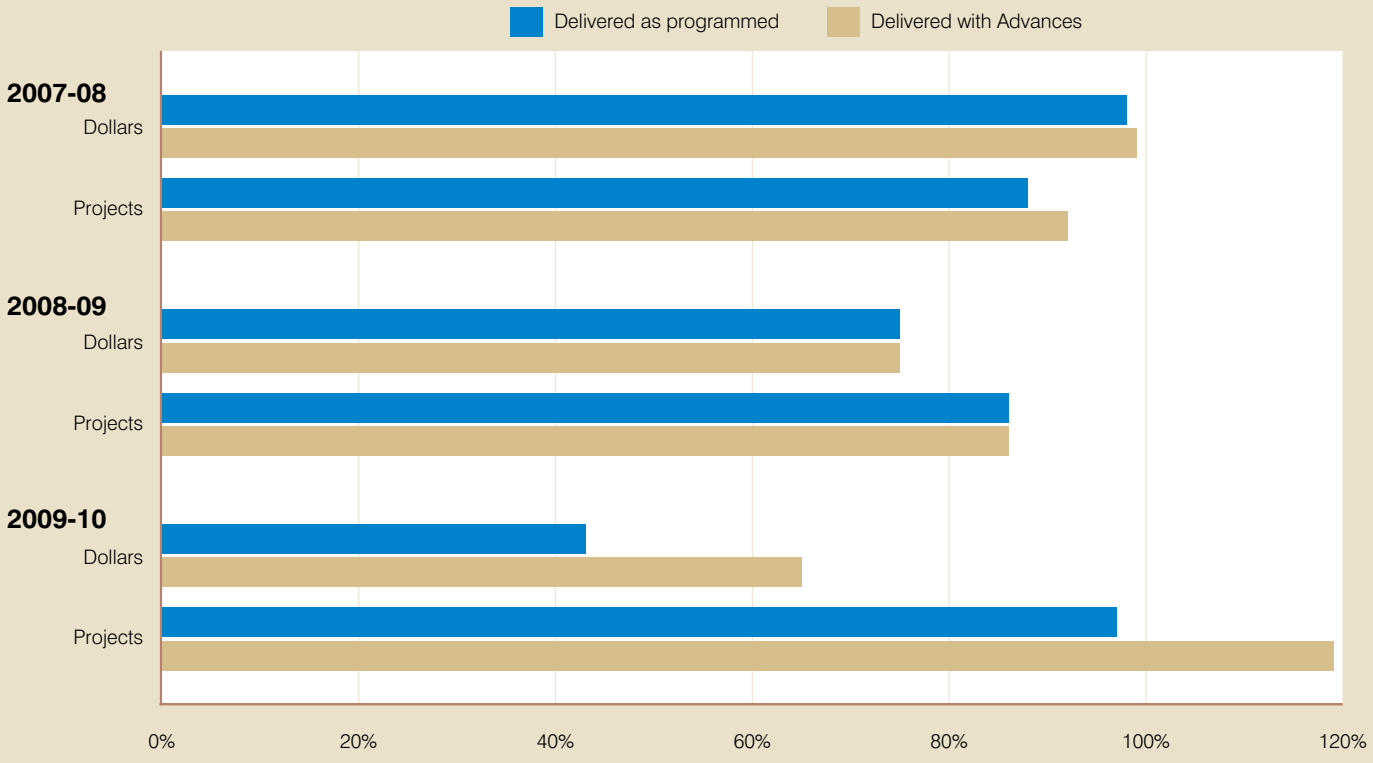
STIP Project Delivery

The Commission tracks project allocations as scheduled in the STIP. For Caltrans projects, the Commission allocates project funding only for construction capital outlay on a per project basis. The Commission also allocates right-of-way capital outlay funds to Caltrans on an annual lump sum basis, for further sub-allocation by Caltrans to specific project activities. The Commission does not allocate funds for Caltrans support activities, which include environmental and design work, right-of-way support, and construction engineering.

Caltrans achieved a 97 percent project delivery rate by delivering 31 of the 32 originally scheduled projects for 2009-10. However, Caltrans also delivered six projects originally programmed in 2008-09, and seven projects in advance of their programmed year. With those advanced projects, Caltrans achieved an overall delivery rate of 119 percent. In 2009-10, the Commission allocated $208 million to these STIP projects, allocated $8.6 million in supplemental funds to previously allocated projects, and made AB 608 (Chapter 815,

Statutes of 2001) adjustments to previously allocated projects totaling a minus $47.8 million (these are adjustments to decrease the allocation due to savings at contract award).

Caltrans STIP Delivery



During 2009-10, the Commission allocated $237.7 million, which was fully utilized by Caltrans for right-of-way activities.

The following compares Caltrans STIP delivery for 2007-08, 2008-09 and 2009-10:

Caltrans STIP Delivery (dollars in millions)

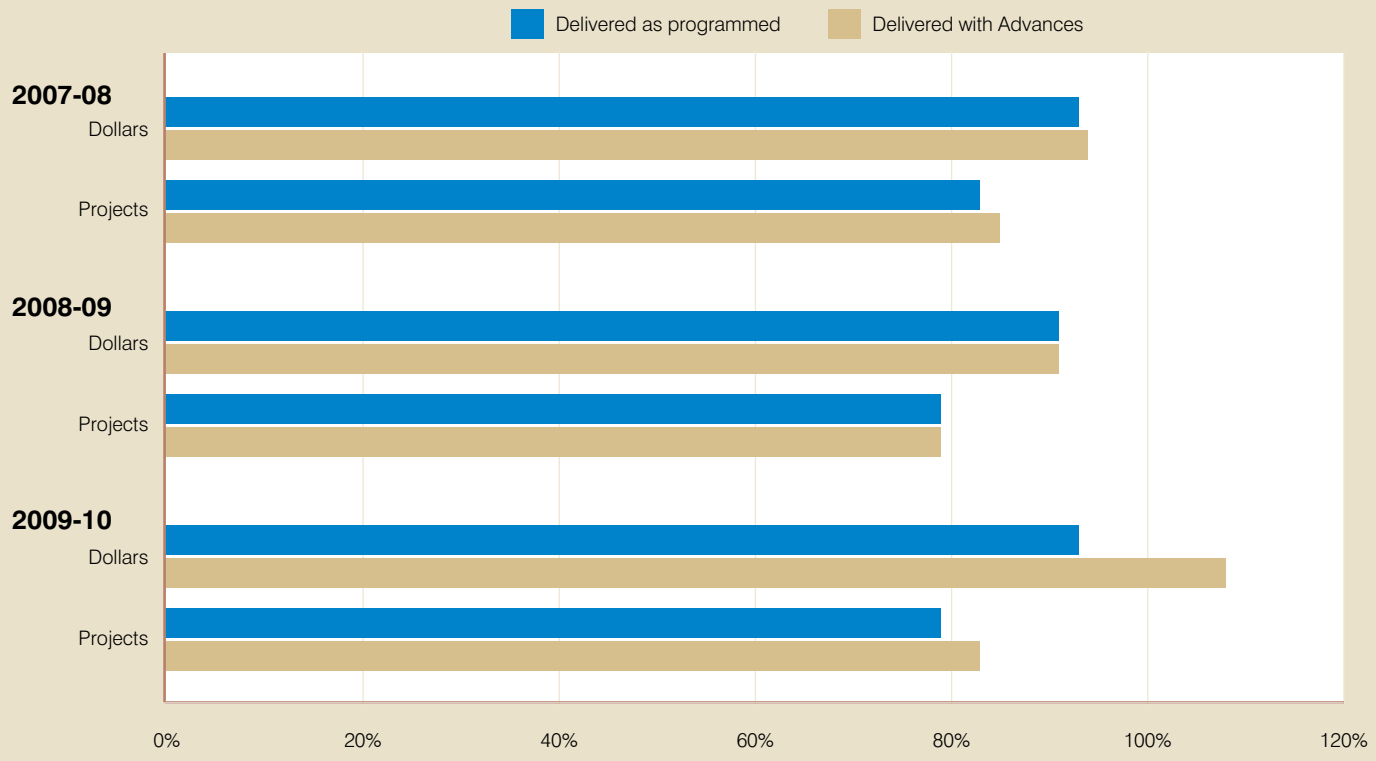
	2007-08		2008-09		2009-10	
	Dollars	**Projects**	**Dollars**	**Projects**	**Dollars**	**Projects**
Programmed	$1,106.21	51	$370.48	42	$289.91	32
Extensions	($16.51)	-3	($91.77)	-4	($164.20)	-1
Lapsed	($4.38)	-3	($1.19)	-2		0
Delivered as programmed	$1,085.32	45	$277.51	36	$125.71	31
Delivered as Programmed	98%	88%	75%	86%	43%	97%
Advanced	$9.68	2	0	0	$61.51	7
Delivered with advances	$1,095.00	47	$277.51	36	$187.22	38
Delivered with Advances	99%	92%	75%	86%	65%	119%
Prior-year extensions delivered	$10.00	4	$3.08	1	$21.12	6
Total delivered	$1,105.00	51	$280.59	37	$212.72	48
Funded by allocation	$1,105.00	51	$232.400	24	$208.33	44
Funded with non-STIP funds (primarily ARRA)	0	0	$6.88	4	$4.39	4
Placed on pending list, not funded	$0	0	$370.48	9	0	0

For local agency projects, unlike Caltrans projects, the Commission allocates all programmed STIP funds and tracks each individual programming component (environmental, design, right-of-way, and construction) as a separate project. The local agencies achieved a 79 percent project delivery rate by delivering 161 of the 203 originally scheduled projects for 2009-10. In addition, local agencies delivered six projects originally requested in 2008-09, and seven projects in advance of their programmed year. In 2009-10, the Commission allocated $307 million to local agency STIP projects. Of the 42 undelivered local projects, the Commission granted delivery deadline extensions for 12 projects valued at $6.3 million. Thirty projects valued at $16 million were allowed to lapse by local agencies. The lapsed funds reverted to county share balances to be available for programming in the next county share period (in the 2012 STIP). Forty of the 42 undelivered projects were TE or TE reserve projects.

It should be noted that the number of projects originally scheduled for delivery in 2009-10 decreased, as many projects were re-programmed to later years with the adoption of the 2010 STIP.

The local agencies achieved a 79 percent project delivery rate by delivering 161 of the 203 originally scheduled projects for 2009-10.

Local STIP Delivery



The following compares local STIP delivery for 2007-08, 2008-09 and 2009-10:

Local STIP Delivery (dollars in millions)

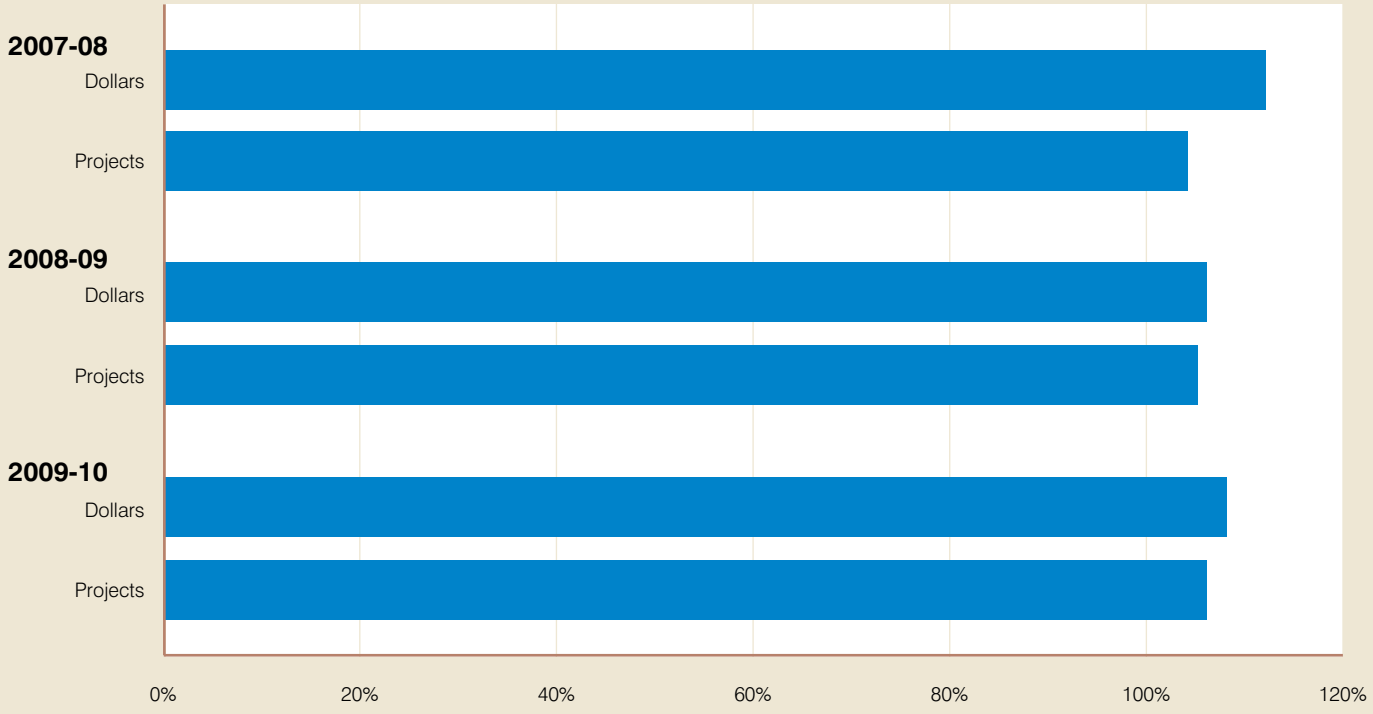
	2007-08		2008-09		2009-10	
	Dollars	**Projects**	**Dollars**	**Projects**	**Dollars**	**Projects**
Programmed	$883.41	396	$543.09	257	$297.23	203
Extensions	($23.77)	-28	($35.41)	-29	($6.34)	-12
Lapsed	($35.90)	-40	($15.37)	-24	($15.70)	-30
Delivered as programmed	$823.74	328	$492.31	204	$275.18	161
Delivered as Programmed	93%	83%	91%	79%	93%	79%
Advanced	$4.77	8	0	0	$47.18	7
Delivered, with advances	$828.51	336	$492.31	204	$322.36	168
Prior-year extensions delivered	$15.23	23	$22.46	21	$28.46	6
Total delivered	$843.74	359	$514.77	225	$350.82	174
Delivered with Advances	94%	85%	91%	79%	108%	83%
Funded by allocation	$843.74	359	$440.72	169	$261.60	164
Funded through AB 3090	0	0	$18.432	1	$45.04	3
Funded with non-STIP funds (ARRA)	0	0	$3.61	5	$38.03	3
Placed on pending list, not funded	0	0	$52.01	50	$6.16	4

SHOPP Project Delivery

Caltrans achieved a 106 percent SHOPP delivery rate, by delivering 263 projects, of which 247 were projects originally scheduled for 2009-10. The variance includes projects that are not typically included in the approved SHOPP. These categories of projects include minor projects, emergency and seismic retrofit projects allocated by Caltrans under Commission delegated authority, and SHOPP administered TE projects. In 2009-10, the Commission allocated $1.6 billion to SHOPP projects, which includes delegated allocations made by Caltrans.

Caltrans achieved a 106 percent SHOPP delivery rate, by delivering 263 projects, of which 247 were projects originally scheduled for 2009-10.

SHOPP Delivery



The following compares SHOPP delivery for 2007-08, 2008-09 and 2009-10:

Caltrans SHOPP Delivery (dollars in millions)

	2007-08		2008-09		2009-10	
	Dollars	**Projects**	**Dollars**	**Projects**	**Dollars**	**Projects**
Programmed	$1,839	256	$1,475	234	$1,483	247
Delivered	2,082	265	1,557	245	$1,609	263
Total Delivered	112%	104%	106%	105%	108%	106%

During 2009-10, the Commission allocated $238 million, which was fully utilized by Caltrans for right-of-way activities.

Caltrans Annual Right-of-Way Allocation

Commission Resolution G-91-01 authorizes Caltrans to sub-allocate 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 right-of-way activities. Caltrans is also authorized to allot funds for acquisition of hardship and protection parcels when circumstances warrant such acquisitions. During 2009-10, the Commission allocated $238 million, which was fully utilized by Caltrans for right-of-way activities.

Environmental Document Delivery

Tracking the completion of environmental documents is particularly important in flagging possible delays of future construction projects. In 2009-10, Caltrans achieved an 87 percent delivery rate for environmental document delivery, completing 26 draft and 133 final environmental documents (these numbers include Categorical Exclusions that do not require Commission action).

The Commission, as a responsible agency under California Environmental Quality Act (CEQA), allocates funds to projects for design, right-of-way or construction after the final environmental document is complete and the Commission has approved the project for consideration of future funding. During 2009-10, the Commission received final environment documents for 117 projects. Of those documents, 65 were completed by Caltrans as the CEQA Lead Agency, and 52 were completed by local agencies as the CEQA Lead Agency. All 117 projects were approved for future consideration of funding. In addition, the Commission provided comments on three Notices of Preparation (NOP) and three Draft Environmental Impact Reports (EIRs) prepared by Caltrans. The Commission also provided comments on six NOPs and two Draft EIRs prepared by local agencies.

Local RSTP and CMAQ Projects

AB 1012 (Chapter 783, Statutes of 1999) was enacted with a goal of improving the delivery of transportation projects. The AB 1012 "use-it-or-lose-it" provision states that regional agency RSTP and CMAQ funds that are not obligated within the first three years of federal eligibility are subject to reprogramming by the Commission in the fourth year.

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. A 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.

Caltrans released its AB 1012 "use-it-or-lose-it" notices for the 2007-08 federal apportionments in September 2010. As of June 30, 2010, the AB 1012 balance report shows no funds are subject to reprogramming (the following table shows the 2007-08 allocation and use only in the first year of availability).

Regional agencies have dedicated considerable effort toward improving the delivery of RSTP and CMAQ projects. The 2009-10 RSTP and CMAQ appropriations are in their first year of availability and will continue for the next two years. The following table shows how the Commission's 2009-10 RSTP and CMAQ allocations, totaling $1.48 billion, were used by regional agencies in the first year of availability (as of June 30, 2010) and provides a comparison with the usage of prior first year availability:

Use Of Local Assistance Allocations, First Year Of Availability (dollars in thousands)

	2007-08		2008-09		2009-10	
Category	**Allocation**	**Use**	**Allocation**	**Use**	**Allocation**	**Use**
RSTP	$417,450	$113,968	$429,197	$131,261	$416,749	$93,399
RSTP match & exchange	$57,558	$50,747	$57,849	$53,429	$57,849	$51,506
CMAQ	$404,269	$164,374	$407,874	$122,991	$405,266	$49,509
FTA Transfers	$0	$80,118	$0	$170,177	$0	$185,123
Subtotal, RSTP/CMAQ	$879,277	$409,207	$894,920	$477,858	$879,864	$379,537
Br. Inspection & Match	$3,375	$0	$3,375	$467	$3,375	$0
Br. Rehab & Replacement	$116,945					
$180,638	$70,572	$100,175	$199,084	$57,775		
Bridge Seismic Retrofit	$104,000	$30,967	$159,385	$55,740	$30,874	$87,097
RR Grade Crossing						
Protection	$11,195	$246	$11,716	$0	$11,716	$847
Maintenance	$2,000	$2,000	$2,000	$0	$2,000	$2,000
Grade Separations	$15,000	$15,000	$15,000	$9,859	$15,000	$0
Hazard Elimination/Safety	$30,757	$5,295	$47,212	$7,359	$47,212	$11,955
High Risk Rural Roads	$7,098	$2,522	$7,428	$1,615	$7,428	$3,892
Safe Routes to School	$40,797	$6,649	$44,922	$8,431	$44,922	$16,009
Freeway Service Patrol			$25,479	$22,476	$25,479	$22,736
High Priority Projects	$196,605	$111,570	$208,170	$64,970	$208,170	$99,144
Miscellaneous	$2,625	$124,152	$4,700	$30,936	$4,700	$33,070
Total	**$1,409,674**	**$888,246**	**$1,494,879**	**$779,886**	**$1,479,824**	**$714,062**

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 the table and included in the “use of allocation” figures for RSTP and CMAQ.

TRAFFIC CONGESTION RELIEF PROGRAM

The Traffic Congestion Relief Act of 2000 (AB 2928, Chapter 91, Statutes of 2000 and Senate Bill (SB) 1662, Chapter 656, Statutes of 2000) created the Traffic Congestion Relief Program (TCRP) and the Traffic Congestion Relief Fund (TCRF), and committed $4.909 billion to 141 specific projects. The $4.909 billion in revenues for the TCRP were comprised of:

- $1.595 billion to the TCRF in 2000-01 from a General Fund transfer and directly from gasoline sales tax revenues.
- $3.314 billion to the TCRF from TIF transfers over five years ($678 million per year for the first four years, and the remaining balance of $602 million in the fifth year.)

AB 438 (Chapter 113, Statutes of 2001) delayed the five-year schedule for the TIF transfers by two years, from the original 2001-02 through 2005-06, to 2003-04 through 2007-08. AB 438 also authorized a series of loans to the General Fund, including a $482 million loan from the TCRF to be repaid with tribal gaming revenues. The current projection is that 2011-12 is the earliest tribal gaming funds are expected to be available to begin repaying the $482 million TCRF loan balance.

Proposition 42 suspended TIF transfers into the TCRF, with partial suspension in 2003-04 ($389 million) and full suspension in 2004-05 ($678 million), and only allowed enough transfers to reimburse prior TCRP allocations. As a result, a total of $1.1 billion in Proposition 42 transfers were suspended and loaned to the General Fund. After a $323 million repayment in 2006-07 the loan balance was $744 million.

Proposition 1A (Transportation Funding Protection, 2006) addressed the Proposition 42 suspensions occurring on or before July 1, 2007, and required the balance be repaid no later than June 30, 2016, with annual payment not less than one-tenth of the total amount outstanding. The $744 million balance is being repaid in nine equal installments of $82.7

The Commission allocated a total of $91.1 million for TCRP activities in 2009-10.

million per year through 2015-16. An outstanding loan balance of $413.4 million remains. Combined with the $482 million TCRF loan balance, approximately $895.4 million remain available for future TCRP allocations. Repayment of the $895.4 million is scheduled to be completed by FY 2019-20.

In August 2008, the Commission directed staff to work with Caltrans and the regions to develop allocation criteria recommendations for future fiscal years (beyond 2008-09). The TCRP Allocation Plan was adopted at the September 2008 meeting.

The Allocation Plan aligns available annual allocation capacity with priorities by fiscal year. The Allocation Plan consists of two tiers: Tier 1 includes projects that have higher priority for funding and Tier 2 includes all other projects which would be allocated on a first-come, first-served basis only after the annual Tier 1 commitments have been met.

Tier 1 commitments have been limited to the level provided by the annual Proposition 1A loan repayments, the only reliable funds available for future TCRP allocations. Tier 2 projects would receive allocations upon availability of the Tribal Gaming Bond revenues.

The Commission has approved $4.6 billion in applications through June 30, 2010, including at least a partial application for each of the 141 designated projects. Application approval is equivalent to project programming, and it defines the scope, cost, and schedule of a project or project phase, and it generally includes expenditures projected for future years.

The Commission allocated a total of $91.1 million for TCRP activities in 2009-10. As of June 30, 2010, approximately $4 billion has been allocated to TCRP projects, of which about $3.3 billion have been expended for ongoing TCRP projects. Information for TCRP expenditures as of June 30, 2010, can be found at http://www.catc.ca.gov/programs/tcrp/TCRP_Expenditures_063010.pdf

PROPOSITION 1B HIGHWAY SAFETY, TRAFFIC REDUCTION, AIR QUALITY, AND PORT SECURITY BOND ACT OF 2006

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

After the passage of Proposition 1B, Governor Schwarzenegger issued Executive Order S-02-07 that requires the Commission to be accountable for ensuring that bond proceeds are expended in a manner consistent with the provisions of either the applicable bond act and the State General Obligation Bond Law or laws pertaining to state lease revenue bonds and all other applicable bond state and federal laws. The Executive Order also requires that the Commission establish and document a three-part accountability structure for bond proceeds and requires that information to be available to the public in a transparent and timely manner.

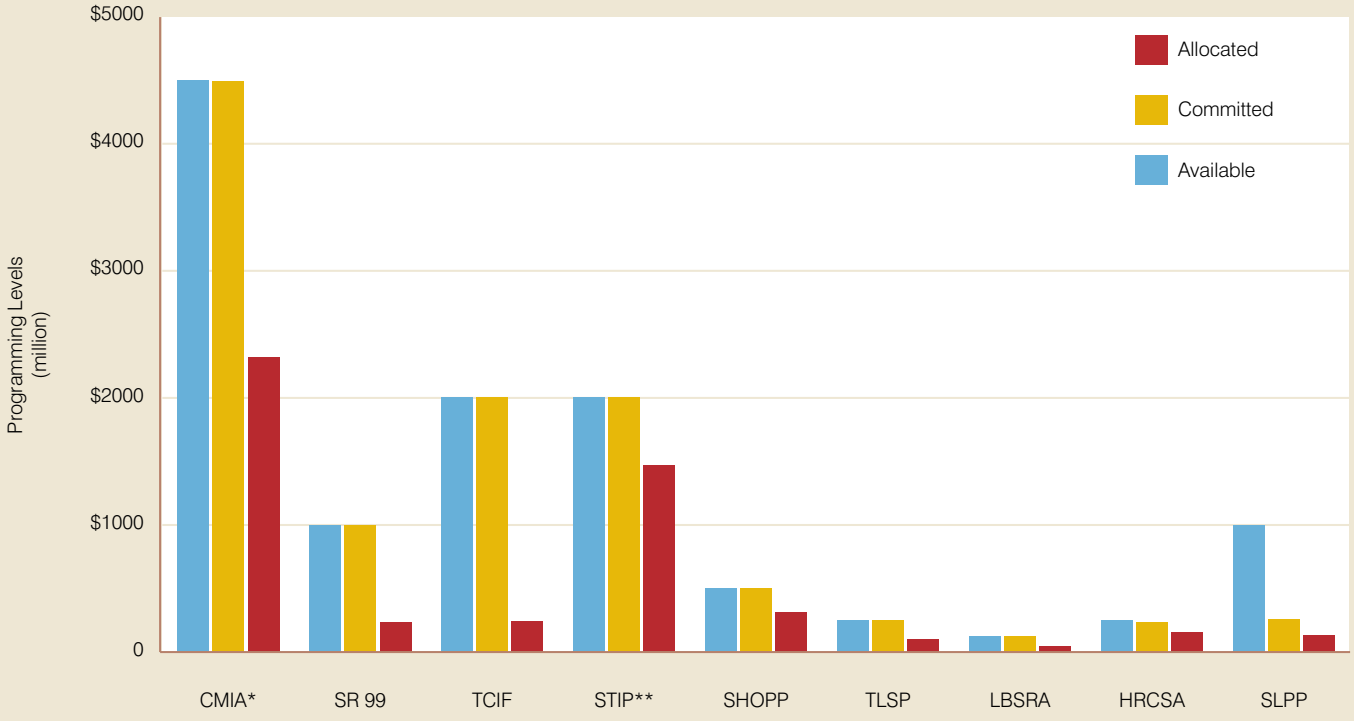
Proposition 1B, approved by the voters in November 2006, authorized the issuance of $19.925 billion in state general obligation bonds

SB 88 (Chapter 181, Statutes of 2007), a trailer bill to the Budget Act of 2007, also includes implementation and accountability requirements for Proposition 1B projects and further defines the role of the Commission as the administrative agency for certain bond programs. SB 88 requires project nominations to include project delivery milestones and identifies reporting requirements as a condition of allocating bond funds. SB 88 also requires the Commission to approve or direct the recipient agency to modify its corrective plan when project costs are anticipated to exceed the approved project budget or the recipient agency is considering a reduction in the project scope to remain within budget.

Consistent with the mandates of Proposition 1B, Executive Order S-02-07 and SB 88, the Commission has developed an accountability implementation plan to communicate the Commission's expectations and its intent to exercise programmatic oversight for the delivery of bond funded projects with regard to scope, cost, schedule and benefits. The accountability implementation plan allows a review of the project's progress on a quarterly basis, and requires the recipient agency to develop a corrective plan to address anticipated deviations or variances from the approved project baseline agreement. Efficiency measures for possible cost increases or schedule delays are addressed on an ongoing basis by the project team and documented through the corrective plans.

A key element of bond accountability is the audit of bond project expenditures and outcomes. The Commission's accountability implementation plan includes provisions for the audit of bond projects. In order to ensure that the Commission is meeting the auditing requirements of an administrative agency, as mandated by Executive Order S-02-07 and SB 88, the Commission entered into a Memorandum of Understanding with the Department of Finance to perform the required audits of Proposition 1B projects, effective July 1, 2009.

To date, the Commission has programmed (committed) $10.9 billion of the $11.7 billion of the Proposition 1B funds within its purview. The remaining $770 million represents primarily SLPP funds, which are to be programmed on a five year period on a formula basis. The Commission has allocated $5 billion of the programmed Proposition 1B funds, primarily to projects that were ready to commence construction.



* CMIA Committed and Allocated amounts reflect bid savings from awarded projects.
** STIP Augmentation allocation total does not include AB 608 adjustments.

The most pressing issue for the Proposition 1B programs has been the state's ongoing financial challenges and limited availability of cash to fund projects.

As with almost any state program during 2009-10, the most pressing issue for the Proposition 1B programs has been the state's ongoing financial challenges and the limited availability of cash to fund projects. In the past, the Commission typically approved allocations to projects when requested by project sponsors. Since January 2009, however, the Commission's ability to allocate to Proposition 1B projects and allow these projects to proceed to construction has been constrained by the State Treasurer's ability to sell bonds and the availability of bond proceeds for transportation projects. During the summer and fall of 2009, more than $400 million of shovel ready projects were stalled until bond sales in late 2009 enabled the Commission to allocate to these projects. However, the protracted delay in the Legislature to close the $19 billion 2010-11 budget deficit made it untenable

The current economic downturn has provided one tangible benefit for the Proposition 1B projects - lower construction cost.

for the State Treasurer's Office to sell bonds for Proposition 1B projects in the fall of 2010 as originally scheduled. As a result, the Commission was forced to defer allocations to delivered projects, negatively impacting project baseline agreement schedules, and reducing the economic stimulus generated through the construction of infrastructure projects. The constraints on future bond sales also threaten Proposition 1B projects under construction as current cash reserves only provide funding through March 2011.

The ongoing economic downturn also threatens local funding for Proposition 1B projects. Nineteen counties in California have adopted local sales tax measures to fund transportation improvements, including local contributions to Proposition 1B projects. As local sales tax revenues have declined in the last two years, project sponsors may have difficulty meeting existing local funding commitments to Proposition 1B projects or funding potential cost increases. In addition, many local agencies issue bonds against future sales tax revenues to raise funds to pay current project costs. However, local agencies may have difficulty issuing bonds because of the tight credit markets.

The current economic downturn has provided one tangible benefit for the Proposition 1B projects - lower construction costs. Through the fourth quarter of 2009-10, Caltrans has received an average of 7.6 bidders per contract advertised, consistent with the average of 7.8 bidders per contract in 2008-09. However, the low bid for contracts was 31.2 percent below the Engineer's Estimate for the same period in each year, versus 24 percent below the Engineer's Estimate for 2008-09.

Corridor Mobility Improvement Account Program

Proposition 1B authorized $4.5 billion in general obligation bond proceeds to be deposited in the CMIA. Funds in the CMIA are available for performance improvements on the state highway system, or major local access routes to the state highway system, that relieve congestion by expanding capacity, enhance operations, or otherwise improve travel times within these high-congestion travel corridors. Under the Bond Act, bond proceeds are available, upon appropriation by the Legislature, for allocation by the Commission for projects included in the CMIA program.

The Commission adopted the CMIA program on February 28, 2007. Consequently, project baseline agreements were executed between the regional transportation planning agencies' executive directors, the Director of Caltrans, and the Commission's executive director. The baseline agreements set forth the agreed upon project scope, schedule, cost and expected benefits. These agreements also include the estimated cost and the start and completion dates for the environmental, right-of-way, design, and construction phases of the project. These baseline agreements were adopted by the Commission on June 7, 2007.

The CMIA program represents a substantial investment in the state's transportation infrastructure. The adopted program utilizes $4.4 billion from the CMIA, which is limited to the cost of construction with a couple of minor exceptions. The CMIA is supplemented with

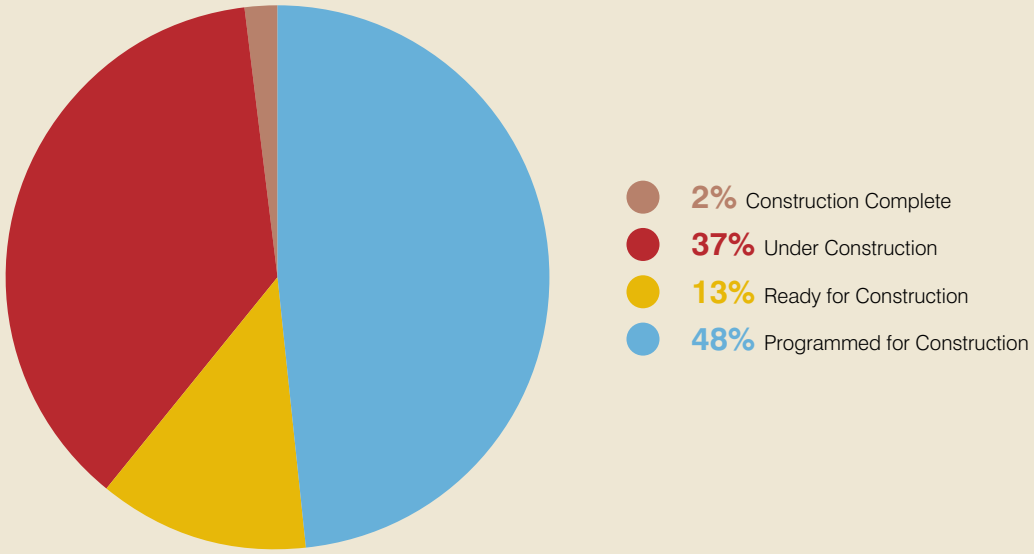
$4.9 billion of state, local and federal funding resulting in a CMIA program of approximately $9.3 billion dedicated to the completion of 54 major transportation projects.

Since the adoption of the initial CMIA program in 2007, many of the projects awarded have accrued substantial project cost savings. In order to address these project cost savings, the Commission adopted Supplement 2 to the CMIA and SR 99 Accountability Implementation Plan in December 2009. The purpose of Supplement 2 was to clarify and expand the Commission's policy regarding project cost savings for CMIA and SR 99 projects and to communicate to project sponsors and implementing agencies how project cost savings will be administered by the Commission. Supplement 2 reflected the Commission's intent to program the project cost savings to eligible projects nominated but not programmed in the initial CMIA program and/or to enhancements to existing CMIA projects.

Project cost savings in the CMIA accrued and available through March 2010 amounted to $234.9 million in the North and $79.8 million in the South. Given the level of accrued savings, the Commission approved amendments to the CMIA program at the May and June 2010 Commission meetings, programming $221.7 million for 10 projects in the North and $79.6 million for three projects in the South. The Commission will continue to assess the level of accrued project cost savings and program additional projects as warranted.

Project cost savings in the CMIA accrued and available through March 2010 amounted to $234.9 million in the North and $79.8 million in the South.

Corridor Mobility Improvement Account



The CMIA program represents a substantial investment in the state's transportation infrastructure.

The status of individual projects in the CMIA program is reported to the Commission on a quarterly basis. The commitment to the scope, schedule and cost as outlined in project baseline agreements has been demonstrated by the responsible agencies. During the year, the project sponsors and implementing agencies took actions necessary to ensure successful project delivery, even in these challenging economic times. Where necessary, the baseline agreements were amended to reflect scope, cost and schedule adjustments.

During fiscal year 2009-10, the Commission allocated a total of $435.9 million in CMIA dollars to projects that were ready to commence construction. In addition, as of October 2010, seven CMIA projects totaling $261.6 million in Proposition 1B funding were ready for construction, subject to the availability of bond funding.

Specific project information for the CMIA projects, including total project cost, CMIA contribution, and the planned construction start date, can be found at http://www.bondaccountability.ca.gov/.

State Route 99 Corridor Program

Proposition 1B authorized $1 billion in general obligation bond proceeds to be deposited in the SR 99 Account. Funds in the SR 99 Account may be used for safety, operational enhancements, rehabilitation, or capacity improvements necessary to improve the SR 99 Corridor, traversing approximately 400 miles of the central valley of the state. Under the Bond Act, bond proceeds are available, upon appropriation by the Legislature, for allocation by the Commission for projects included in the SR 99 program.

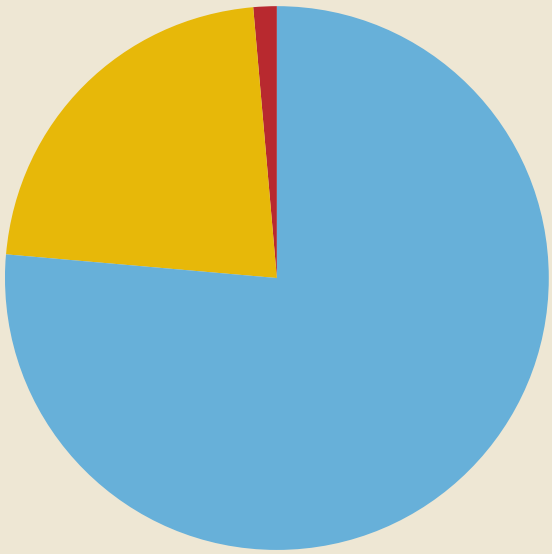
The SR 99 program consists of projects totaling $1.3 billion. This significant investment of SR 99 Account funds leverages additional commitments by the project sponsors of $320 million in state, local and federal funding.

The status of individual projects in the SR 99 Program is reported to the Commission on a quarterly basis. The commitment to the scope, schedule and cost as outlined in project baseline agreements has been demonstrated by the responsible agencies. During the year, the project sponsors and implementing agencies took actions necessary to ensure successful project delivery. Where necessary, the baseline agreements were amended to reflect scope, cost and schedule adjustments.

During 2009-10, the Commission allocated a total of $204.7 million in SR 99 dollars to projects that were ready to commence construction. In addition, as of October 2010, three SR 99 projects totaling $50.2 million in Proposition 1B funding were ready for construction, subject to the availability of bond funding.

Specific project information for the SR 99 projects, including total project cost, SR 99 contribution, and the planned construction start date, can be found at http://www.bondaccountability.ca.gov/.

State Route 99



Trade Corridors Improvement Fund

Proposition 1B authorized $2 billion of state general obligation bonds for the TCIF. Funds in the TCIF are available to the Commission, upon appropriation by the Legislature, for allocation for infrastructure improvements along federally designated "Trade Corridors of National Significance" in the state or along other corridors within the state that have a high volume of freight movement. Proposition 1B provides for highway capacity and operational improvements to more efficiently accommodate the movement of freight, for improvements in the freight rail system's ability to move goods from seaports, land ports of entry and airports to warehousing and distribution centers throughout California; truck corridor improvements, including dedicated truck facilities or truck toll facilities; border access improvements to enhance goods movement between California and Mexico; and surface transportation

improvements to facilitate the flow of goods to and from the state's airports. Proposition 1B requires that the Commission allocate funds for trade infrastructure improvements in a manner that places an emphasis on projects that improve trade corridor mobility while reducing diesel particulate and other pollutant emissions.

In the guidelines adopted in November 2007, the Commission supported a corridor-based programming approach to the TCIF, which recognized and complemented the goods movement planning work already done within the major trade corridors. To promote this corridor-based approach, the Commission developed geographic programming ranges, in consultation with Caltrans and the Corridor Coalitions. The targets reflected the intent of the Commission to establish an ongoing goods movement program for the state, acknowledging that the infrastructure needs far exceed the $2 billion provided under Proposition 1B. The Commission also supported the funding strategy proposed by Caltrans and the Corridor Coalitions to increase TCIF funding by approximately $500 million from the SHA to fund state-level priorities that are critical to goods movement. In addition, the targets reflected the Commission's intent to program approximately 20 percent more than the resulting $2.5 billion available from the TCIF and the SHA. This over programming assumed that new revenue sources would become available and dedicated to funding the adopted program. The geographic programming targets adopted in the guidelines are as follows:

TCIF Corridor Programming Ranges (dollars in millions)

	Low	High
Los Angeles/Inland Empire Corridor	$1,500	$1,700
San Diego/International Border Corridor	$250	$400
San Francisco/Central Valley Corridor	$640	$840
Other Corridors	$60	$80
Administration Fees	$40	$40
Total	**$2,490**	**$3,060**

The Commission adopted the initial TCIF program of 79 projects, valued at $3.1 billion, on April 10, 2008. In the adopting Resolution, TCIF-P-0708-01, the Commission stated its intent to review the programming and delivery status of all 2010 projects and to adopt amendments to the program as necessary to address the availability of funding or changes in project delivery schedules. Given that new revenue sources to fund the over programming are not available due to current economic conditions, the Commission is currently working with the Corridor Coalitions and project sponsors to develop strategies for the TCIF 2010 Program Review.

The adopted TCIF program included the Colton Crossing project in San Bernardino County. This project, nominated by Caltrans, the Union Pacific Railroad (UP), and the Burlington-Northern Santa Fe (BNSF), proposed to construct a railroad grade separation in the City of Colton to eliminate train delays created by conflicting movements where BNSF's north-south mainline crosses UP's east-west mainline at grade. Subsequent to the adoption of the TCIF program in April 2008, the Legislature passed AB 268 (Chapter 756, Statutes of 2008) which required the Colton Crossing project to meet certain delivery timeframes to remain in the TCIF program. Specifically, AB 268 states: "if the Colton Crossing project programmed in the Commission's TCIF Program as of April 10, 2008, does not meet the requirements of delivery schedule contained in its project baseline agreement when reviewed by the Commission no later than March 2010, the project shall be ineligible to receive an allocation from the TCIF. The ninety-seven million dollars associated with the project shall then be available for programming in the Los Angeles/Inland Empire Corridor…".

In accordance with AB 268, the Commission, at its March 25, 2010 meeting, deleted the Colton Crossing project from the TCIF program and directed the Southern California Consensus Group to propose a replacement project or projects for Commission consideration to amend into the Los Angeles/Inland Corridor element of the TCIF program. The Commission also directed the Southern California Consensus Group to consider the Colton Crossing project as a potential replacement project. After extensive negotiations with UP and BNSF, the Southern California Consensus Group subsequently submitted a request to amend the Colton Crossing project into the Los Angeles/Inland Corridor element of the TCIF program and program $91 million in TCIF for the project. The Commission, at its May 19, 2010 meeting, approved this amendment. The project baseline agreement for the Colton Crossing project, including a Memorandum of Understanding between the San Bernardino Associated Governments, UP, and BNSF, was also approved at the May 19, 2010 meeting.

Proposition 1B authorized $2 billion of state general obligation bonds for the TCIF.

AB 268 also requires the Commission to evaluate the potential costs and benefits of the TCIF program on the economy, environment, and public health.

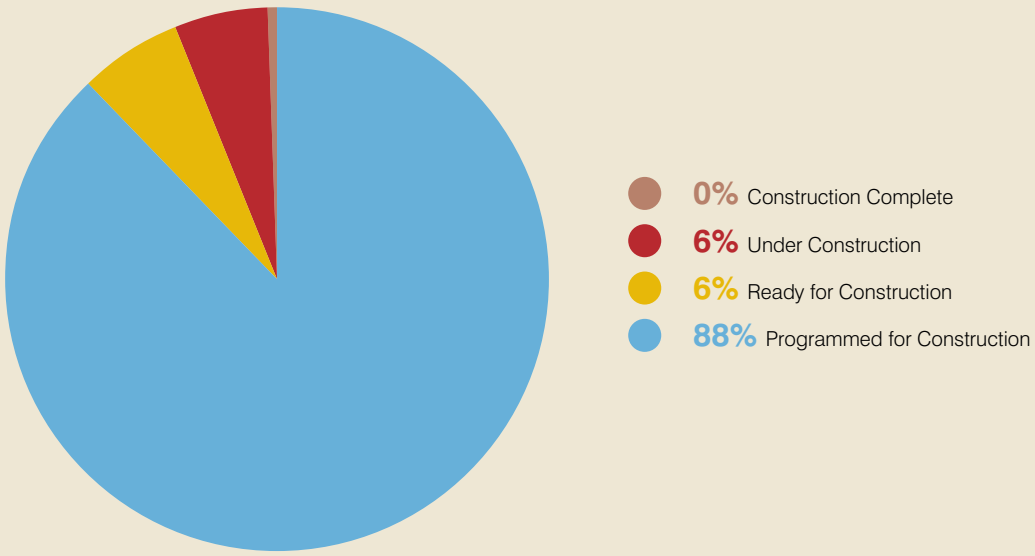
AB 268 also requires the Commission to evaluate the potential costs and benefits of the TCIF program on the economy, environment, and public health. The Commission is currently consulting with the California Air Resources Board to determine the appropriate models, techniques, and methods to develop this evaluation.

The status of individual projects in the TCIF program is reported to the Commission on a quarterly basis. The commitment to the scope, schedule and cost as outlined in project baseline agreements has been demonstrated by the responsible agencies. During the year, the project sponsors and implementing agencies took actions necessary to ensure successful project delivery, even in these challenging economic times. Where necessary, the baseline agreements were amended to reflect scope, cost and schedule adjustments.

During 2009-10, the Commission allocated a total of $73.2 million in TCIF dollars to projects that were ready to commence construction. In addition, as of October 2010, four projects totaling $55.9 million in Proposition 1B funding were ready for construction, subject to the availability of bond funding.

Specific project information for the TCIF projects, including total project cost, TCIF contribution, and the planned construction start date, can be found at http://www.bondaccountability.ca.gov/.

Trade Corridors Improvement Fund



Traffic Light Synchronization Program

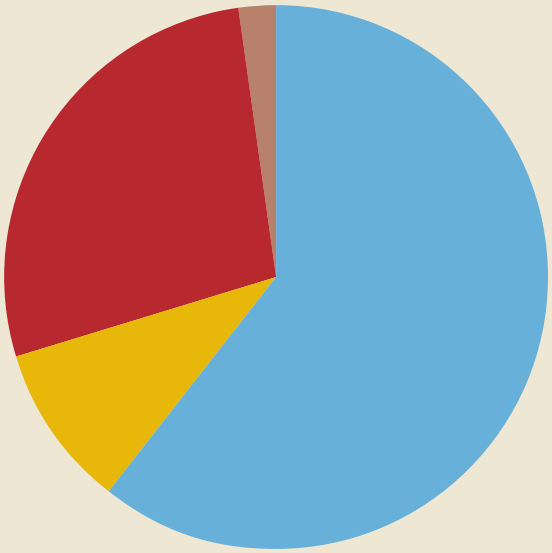
Proposition 1B authorized $250 million for the TLSP for traffic light synchronization projects and other technology-based improvements to improve safety, operations and the effective capacity of local streets and roads. The TLSP funds are available, upon appropriation by the Legislature, to Caltrans, as allocated by the Commission.

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

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

On May 28, 2008, the Commission adopted the TLSP and approved 21 traffic light synchronization projects totaling $147 million for the City of Los Angeles and $98 million for 62 additional traffic light synchronization projects for agencies other than the City of Los Angeles.

Traffic Light Synchronization Program



On September 22, 2010, the Commission adopted the 2010 HRCSA program, programming $47.4 million for four Part 1 projects and $25.8 million for six Part 2 projects.

The status of individual projects in the TLSP Program is reported to the Commission on a quarterly basis. The commitment to the scope, schedule and cost as outlined in project baseline agreements has been demonstrated by the responsible agencies. During the year, the project sponsors and implementing agencies took actions necessary to ensure successful project delivery. Where necessary, the baseline agreements were amended to reflect scope, cost and schedule adjustments.

During 2009-10, the Commission allocated a total of $34.6 million in TLSP dollars to projects that were ready to commence construction. In addition, as of October 2010, six TLSP projects totaling $50.9 million in Proposition 1B funding were ready for construction, subject to the availability of bond funding.

Specific project information for the TLSP projects, including total project cost, TLSP contribution, and the planned construction start date, can be found at http://www.bondaccountability.ca.gov/.

Highway-Railroad Crossing Safety Account

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

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

The Commission, at its April 9, 2008 meeting, adopted the HRCSA guidelines. On August 28, 2008, the Commission adopted the initial HRCSA program for a total of $244.8 million, programming $143.9 million for 12 Part 1 projects and $100.9 million for 11 Part 2 projects. Including $5 million for bond administrative fees, the total adopted program amounted to $249.8 million.

In accordance with the HRCSA guidelines, funds programmed in the initial HRCSA program that are not allocated by June 30, 2010, will be reprogrammed into a 2010 HRCSA Program. At its May 19, 2010 meeting, the Commission approved updated HRCSA guidelines to establish the schedule for the 2010 programming process, with applications due to the Commission on July 1, 2010. As of July 1, 2010, $59.3 million was available for repro-

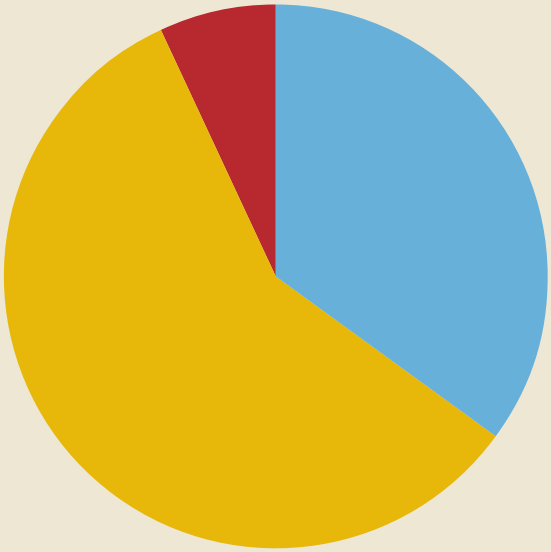
gramming in Part 1 and $33.1 million in Part 2. On September 22, 2010, the Commission adopted the 2010 HRCSA program, programming $47.4 million for four Part 1 projects and $25.8 million for six Part 2 projects.

The status of individual projects in the HRCSA program is reported to the Commission on a quarterly basis. The commitment to the scope, schedule and cost as outlined in project baseline agreements has been demonstrated by the responsible agencies. During the year, the project sponsors and implementing agencies took actions necessary to ensure successful project delivery, even in these challenging economic times. Where necessary, the baseline agreements were amended to reflect scope, cost and schedule adjustments.

During 2009-10, the Commission allocated a total of $146.5 million in HRCSA dollars to projects that were ready to commence construction.

Specific project information for the HRCSA projects, including total project cost, HRCSA contribution, and the planned construction start date, can be found at http://www.bondaccountability.ca.gov/.

Highway-Railroad Crossing Safety Account



The program is split into two sub-programs – a formula program to match local sales tax, property tax and/or bridge tolls (95 percent) and a competitive program to match local uniform developer fees (five percent).

State-Local Partnership Program Account

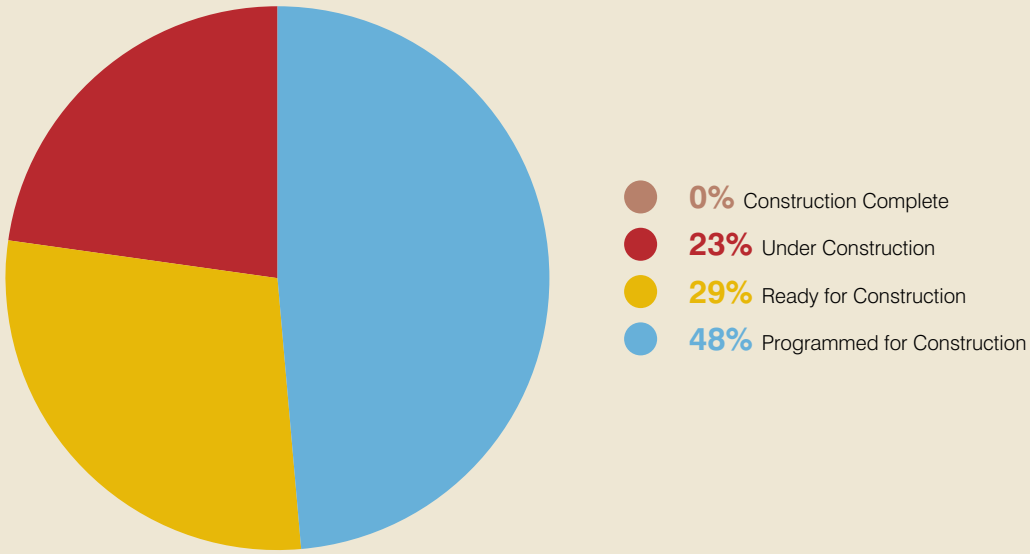
Proposition 1B authorized $1 billion to be deposited in the SLPP Account to be available, upon appropriation by the Legislature, for allocation by the Commission over a five-year period to eligible transportation projects nominated by an applicant transportation agency.

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

The Legislature appropriated $200 million for SLPP in 2008-09, and an additional $200 million in 2009-10. Guidelines for 2008-09 were adopted in December 2008, and the first projects were programmed in April 2009, for a total of $103.8 million. A total of $253.1 million has been programmed through June 2010.

The status of individual projects in the SLPP program is reported to the Commission on a quarterly basis.

State-Local Partnership Program



During 2009-10, the Commission allocated a total of $83.1 million in SLPP dollars to projects that were ready to commence construction. In addition, as of October 2010, 13 SLPP projects totaling $131.9 million in Proposition 1B funding were ready for construction, subject to the availability of bond funding.

Specific project information for the SLPP projects, including total project cost, SLPP contribution, and the planned construction start date, can be found at http://www.bondaccountability.ca.gov/.

Local Bridge Seismic Retrofit Account

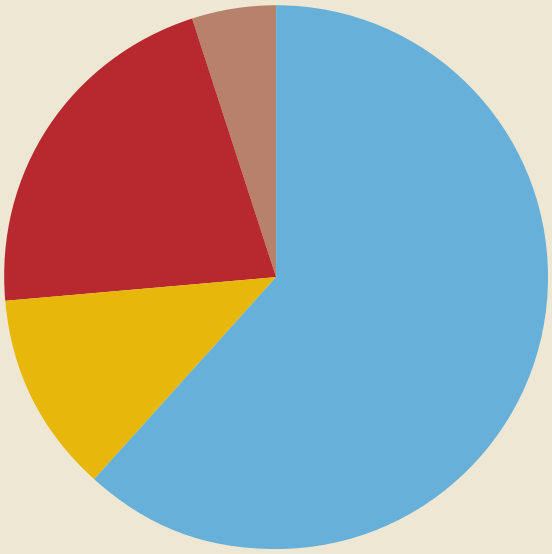
Proposition 1B authorized $125 million of state general obligation bonds for the LBSRA. The funds are available to the Commission, upon appropriation by the Legislature, to provide the 11.5 percent required match for federal Highway Bridge Program (HBP) funds available to the state for seismic retrofit work on local bridges, ramps and overpasses, as identified by Caltrans.

In April 2007, Caltrans identified 479 local bridges deemed eligible to receive LBSRA funds. The 479 local bridges were those remaining from the 1,235 local bridges initially identified as needing seismic retrofit under the Local Bridge Seismic Retrofit Program (LBSRP). The LBSRP was mandated by emergency legislation SB 36X (Chapter 18X, Statutes of 1989) following the October 17, 1989 Loma Prieta earthquake. Progress of LBSRP projects is tracked on the federal fiscal year due to the fact that 88.5 percent of the funds used to retrofit the local bridges come from federal HBP funds. Subsequent actions by Caltrans and responsible local agencies as enumerated in last year's report resulted in a reduction of the total number of bridges eligible to receive LBSRA funds from 479 to 426. Additional actions this past year increased the number of eligible bridges from 426 to 431.

- Three additional bridges owned by the Bay Area Rapid Transit (BART) District were de-federalized. BART will fund the seismic retrofit of these three bridges from other sources and will not seek federal HBP or state LBSRA funds.
- The City of San Francisco Yerba Buena Island (YBI) ramps on I-80 were listed as a single bridge in previous reports and are now identified as nine separate bridges.

Since the adoption of the LBSRA program, the Commission has allocated a total $46.7 million to Caltrans for further sub-allocation. In 2008-09, local agencies were advised by Caltrans not to enter into any new construction contracts that relied on state funds, due to ongoing budget challenges. In response, local agencies reprogrammed most of the 2008-09 seismic retrofit projects into future years. Caltrans sub-allocated $4.4 million from the 2008-09 allocation, and as a result, the remaining balance of $16.6 million reverted back to the LBSRA for re-allocation in future years.

Local Bridge Seismic Retrofit Account



In 2009-10, the Commission allocated $12.2 million of LBSRA funds to Caltrans for further sub-allocation. Though June 30, 2010, Caltrans sub-allocated $10.8 million and expects to sub-allocate the remaining $1.8 million by the end of the federal fiscal year. To date, Caltrans has not requested a 2010-11 Commission allocation of LBSRA funds. Commission staff expects that an allocation request will be forthcoming at a future Commission meeting.

The status of individual projects in the LBSRA program is reported to the Commission on a quarterly basis.

Specific information on LBSRA eligible projects, including total cost, LBSRA contribution, and planned construction start date, can be found at http://www.bondaccountability.ca.gov/.

Public Transportation Modernization, Improvement, and Service Enhancement Account

Proposition 1B authorized $4 billion dollars of state general obligation bonds for the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). Funds in the account shall be made available, upon appropriation by the Legislature, to Caltrans for intercity rail projects and to commuter or urban rail operators, bus operators, waterborne transit operators, and other transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements, or for rolling stock procurement, rehabilitation, or replacement. Of the $4 billion authorized for the PTMISEA, $3.6 billion is available for allocation by the State Controller in accordance with Public Utilities Code formula distributions: 50 percent allocated to Local Operators using the formula in Section 99314 and 50 percent to Regional Entities using the formula in Section 99313. The remaining $400 million is available for allocation by the Commission to Caltrans for intercity rail improvements. Of that $400 million, $125 million shall be used for the procurement of additional intercity railcars and locomotives.

AB 268 requires Caltrans to report to the Commission annually on the administration and status of the PTMISEA program.

Formula Program

To date, the State Controller has allocated $849 million to 423 projects. However, due to the limited availability of bond funds, the $63 million allocated for Cycle 2 of 2008-09 was not released to project sponsors until June 2010. As of October 2010, there are 246 projects totaling $341 million ready to proceed, subject to the availability of bond funding.

Intercity Rail Program

To date, a total of $99.4 million has been allocated to projects. Five projects have received full allocations, three have received partial allocations and four other projects are planned for future allocations as funds become available from the sale of bonds.

AB 268 (Chapter 756, Statutes of 2008) requires Caltrans to report to the Commission annually on the administration and status of the PTMISEA program. Caltrans' 2009-10 report was submitted to the Commission and is available at http://www.bondaccountability.ca.gov/.

Specific project information for the PTMISEA projects, including total project cost, contribution, and the planned construction start date, can be found at http://www.bondaccountability.ca.gov/.

The Commission approved LONPs for 10 Proposition 1B projects through June 30, 2010, representing $1.1 billion in total project costs and $84.5 million in bond funding.

Letters of No Prejudice

AB 672 (Chapter 463, Statutes of 2009), authorizes approval of a Letter of No Prejudice (LONP) for projects programmed or otherwise approved for funding from Proposition 1B programs. The LONP allows the regional or local agency to expend its own funds (incur reimbursable expenses) for any component of a programmed project prior to actual allocation of Proposition 1B funds. This legislation authorized the Commission to adopt guidelines to establish a process to approve LONPs for projects programmed from the following Proposition 1B programs:

- Corridor Mobility Improvement Account (CMIA)
- State Route 99 Account (SR 99)
- Trade Corridors Improvement Fund (TCIF)
- Local Bridge Seismic Retrofit Account (LBSRA)
- Traffic Light Synchronization Program (TLSP)
- State-Local Partnership Program Account (SLPP)

The HRCSA program was specifically excluded for consideration for LONPs.

Beginning in January 2010, the Commission approved LONPs for agencies with projects funded from Proposition 1B, so that the agencies could begin work with their own funds and be eligible for reimbursement when bond funds are available for allocation. The Commission approved LONPs for 10 Proposition 1B projects through June 30, 2010, representing $1.1 billion in total project costs and $84.5 million in bond funding. Five of these projects subsequently received allocations in April 2010 when bond funds became available.

RECOVERY ACT OF 2009

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act). Among its many provisions, the Recovery Act provided for the apportionment of $2.57 billion in federal stimulus funds to California for "Highway Infrastructure Investment". The Recovery Act specified sub-allocation of 30 percent of these funds through the Surface Transportation Program (STP), but did not require sub-allocation of the remaining 70 percent. AB 20 (Chapter 21, Statutes of 2009) provided that Recovery Act funds would be distributed statewide through the regional STP distribution formula, with $935 million made available to Caltrans for the SHOPP.

The state had 120 days to obligate half of the 70 percent of the stimulus funds not sub-allocated. That equated to approximately $900 million that had to be obligated by June 30, 2009. The remainder of the funds had to be obligated by February 28, 2010. All the Recovery Act funds were obligated by the deadlines; however, many projects were awarded with savings. Those savings have been re-directed to other projects in order to keep the funds fully obligated. As of September 30, 2010, 982 projects have been delivered. All available funds have been fully obligated for highways and local streets and roads in California (amounting to $2.57 billion. However, that total does not include approximately $28 million transferred to FTA for transit projects).

As of September 30, 2010, 982 projects have been delivered. All available funds have been fully obligated for highways and local streets and roads in California (amounting to $2.57 billion).

In addition to the funds available for Highway Infrastructure Investment, approximately $1.1 billion was available for transit purposes, all of which has been obligated. Grant dollars are also available to the states for other purposes including the Transportation Investment Generating Economic Recovery (TIGER) program with $1.5 billion available nationwide, the Aviation program with $1.3 billion available nationwide (California awarded $100.7 million to 19 airports for 24 projects), and the High Speed and Intercity Passenger Rail Program with $8 billion available nationwide. California received four grants totaling $130 million from the TIGER program:

SR 101 Doyle Drive Replacement in San Francisco County	$46.0 million
SR 805/905 Otay Mesa Port of Entry (I/C) in San Diego County	$20.2 million
Alameda Corridor East – Colton Crossing in San Bernardino County	$33.8 million
California Green Trade Corridor Marine Highway	$30.0 million

High Speed and Intercity Rail Program funding totaling $100.2 million was received for projects in the following areas:

San Diego-Los Angeles-San Luis Obispo (Surfliner) corridor

Oakland-Sacramento (Capital) corridor

Statewide upgrade of locomotive emissions controls

HIGH OCCUPANCY TOLL LANES

AB 1467 (Chapter 32, Statutes of 2006), authorizes that, until January 1, 2012, regional transportation agencies, in cooperation with Caltrans, may apply to the Commission to develop and operate high-occupancy toll (HOT) lanes, including the administration and operation of a value pricing program and exclusive or preferential lane facilities for public transit, as specified. The number of projects that may be approved is limited to four, two in Northern California and two in Southern California.

The Commission's role in implementing this legislation includes establishing eligibility criteria, determining whether each HOT lanes application is eligible, and holding public hearings in both Northern and Southern California for each eligible application. Under AB 1467, the Commission only determined the eligibility of the HOT lanes application. Actual approval of an eligible application was the purview of the Legislature, through enactment of a statute. However, AB 798, (Chapter 474, Statutes of 2009), eliminated the need for the Legislature to approve the HOT lanes applications.

In order for the Commission to determine whether a HOT lanes project is eligible under AB 1467, a nominating agency must submit an application in accordance with the guidelines and provide evidence that the project is consistent with the Streets & Highways Code Sections 149-149.7; that there is cooperation with Caltrans and consistency with state highway system requirements; that the project is technically and financially feasible; that the project is consistent with the Regional Transportation Plan; and that there are performance measures established for project monitoring and tracking.

To date, the Commission has found two HOT lanes projects, both from Southern California to be eligible.

To date, the Commission has found two HOT lanes projects, both from Southern California, to be eligible under this program:

- Public Partnership Application for HOT Lanes for the Interstate 15 Corridor and HOT Lane Project in Riverside County, submitted by the Riverside County Transportation Commission (RCTC) - The Commission found this project to be eligible in April 2008.
- Los Angeles Region ExpressLanes Project, submitted by the Los Angeles Metropolitan Transportation Authority (LA Metro) – The Commission found this project to be eligible in July 2008.

The RCTC project proposes to add two Tolled Express Lanes and one General Purpose Lane in each direction from SR 60 to SR 74. The project also proposes to add one High Occupancy Vehicle (HOV) Lane in each direction from SR 74 to the I-15/I-215 Interchange. Currently in the environmental phase, the project is scheduled to complete this phase in 2012 and start construction in 2016. As the project covers a corridor length of approximately 44 miles, construction will be segmented into several contracts, with completion of the final contract scheduled for 2019.

In July 2009, RCTC entered into an agreement with the Federal Highway Administration making the I-15 Corridor Improvement Project part of the Value Pricing Pilot Program. This agreement provided the federal authority to operate two HOT lanes in each direction within the I-15 Corridor. Due to the current economic downturn and the constrained project funding environment, RCTC is currently updating its I-15 toll feasibility assessment. Scheduled for completion in the fall of 2010, this update will provide additional information to guide future project development work.

The LA Metro project proposes to convert existing HOV lanes on I-110, I-10 and I-210 to HOT lanes that facilitate greater throughput of rapid buses, vanpools, and HOVs with three or more passengers. Subsequent to the Commission's finding of eligibility, LA Metro obtained legislative approval of the project under SB 1422 (Chapter 547, Statutes of 2008). SB 1422 imposed additional requirements on the ExpressLanes Project, including the development of a public outreach and communications plan; an assessment of the impact to low income commuters; and a performance monitoring report from Caltrans and LA Metro at the completion of the demonstration period.

During 2009-10, LA Metro adopted a toll policy and established toll rates after receiving public input from six public hearings. The performance measurements required by the United States' Department of Transportation were finalized in January 2010. The Low Income Commuter Assessment was completed in March 2010, and as a result, the LA Metro Board established an ExpressLanes Toll Credit Program. At its April 2010 meeting, the Commission authorized this project for design-build procurement under the Design-Build Demonstration Program. The Final Environmental Impact Report/Finding of No Significant Impact for the I-10 and I-110 ExpressLanes were approved in April 2010. The related California

The number of projects that may be approved is limited to four, two in Northern California and two in Southern California.

Environmental Quality Act documents were approved in June 2010. Preliminary engineering was completed in June 2010 as well.

From a legislative perspective, a technical corrections bill, AB 1381 (Chapter 289, Statutes of 2009) requires that LA Metro implement the ExpressLanes Project in cooperation with the California Highway Patrol and Caltrans. Furthermore, AB 1224 (Chapter 441, Statutes of 2010) extends the authorization for the demonstration program until January 15, 2015 for the ExpressLanes Project. This extension is necessary to allow for the completion of roadway improvements prior to commencing the federal demonstration project and to ensure a fair evaluation of the impacts of congestion pricing.

The ExpressLanes Project is currently in the procurement phase, with the award of the Design-Build-Operate-Maintain contract scheduled for November 2010. The contract award will be based on a best value evaluation method. The project is scheduled to begin construction by March 2011.

PUBLIC PRIVATE PARTNERSHIPS AND DESIGN-BUILD PROCUREMENT FOR TRANSPORTATION PROJECTS

Section 143 of the Streets and Highways Code as amended by SB 4 (SBX2 4, Chapter 2, Statutes of 2009), authorizes Caltrans and regional transportation agencies to enter into comprehensive development lease agreements with public or private entities for transportation projects, commonly known as public private partnership (P3) agreements. Section 143 provides that P3 projects and associated lease agreements proposed by Caltrans or a regional transportation agency shall be submitted to the Commission, and that the Commission shall select and approve the projects before Caltrans or a regional agency begins a public review process leading to a final lease agreement. Section 143 further provides that the Commission shall certify Caltrans' determination of the useful life of a project in establishing lease agreement terms and that the Commission shall adopt the criteria to be used by the project sponsor(s) to make a final evaluation of project bids based on qualifications and best value.

In response to the passage of SB 4, the Commission adopted its Public Private Partnership Policy Guidance in October 2009. This guidance establishes the Commission's policy for carrying out its role in implementing P3 projects. On February 11, 2010, Caltrans and the San Francisco County Transportation Authority (SFCTA) jointly submitted to the Commission the first P3 project proposal under the authority granted by Section 143.

The P3 project proposed by Caltrans and SFCTA is the Phase 2 (Presidio Parkway) portion of the Doyle Drive Replacement Project which involves the reconstruction of the existing substandard six-lane facility south of the Golden Gate Bridge in San Francisco to cur-

rent roadway and seismic standards. Under this P3 proposal, a private developer would be engaged to design, build, finance, operate and maintain the Presidio Parkway project over 33 years. For comparison to the design-bid-build option, the project proposal posits a "business case" under which the developer would be paid a $150 million milestone payment at the end of construction, with availability payments of $1.13 billion over a 30-year period. Users would not be assessed tolls; availability payments would be made from the State Highway Account.

The Commission entered into a consultant contract with System Metrics Group, Inc. in association with Jeffrey A. Parker & Associates, Aldaron, Inc., and Nixon Peabody LLP to perform an independent evaluation of the reasonableness of the Presidio Parkway P3 project proposal, assumptions, financial data and other information. Commission staff also reviewed the project scope and financial plan with reference to the project described in the project proposal report and other referenced documents. Commission staff and the consultants also independently analyzed the proposed project in each of the six areas identified in Section 3 of the Commission's P3 policy guidance.

At its May 2010 meeting, and after consideration of its staff recommendations, the Commission voted to approve the request by Caltrans/SFCTA to enter into a P3 agreement with a private entity for the development of the Presidio Parkway project. In its approving resolution, the Commission resolved that the maximum availability payment in 2014 will not exceed $35 million per annum; the Commission's approval is conditioned upon the

SFCTA's replacement of the $13 million identified in the project financial plan as anticipated STIP funds for the milestone payment; the Commission certified Caltrans' determination of the useful life of the project as sufficient for purposes of establishing the proposed lease agreement terms; and the Commission adopted the criteria proposed by Caltrans for the final evaluation of proposals based on qualifications and best value to select a contracting private entity.

Similarly, the Design-Build Demonstration Program was established and placed into law under Chapter 6.5 (commencing with Section 6800) of Part 1 of Division 2 of the Public Contract Code, as amended by SB 4. The Design-Build Demonstration Program allows Caltrans and local transportation entities, if authorized by the Commission, to use the design-build procurement method to deliver a limited number of projects - up to five projects by local transportation entities and up to 10 projects by Caltrans - on a demonstration basis through January 1, 2014.

The Commission has authorized a total of seven projects for design-build procurement at the request of Caltrans and local transportation entities.

Chapter 6.5 requires that projects authorized by the Commission for the demonstration program shall vary in size, type, and geographical location, and that the Commission shall determine whether a transportation entity may award a design-build contract based on lowest responsible bid or best value, balancing the number awarded according to each method to enable the Commission to determine the costs and benefits of using each method. Further, Chapter 6.5 requires the Commission to develop guidelines for a standard organizational conflict of interest policy for entities entering into design-build contracts authorized under the demonstration program, develop a standard form of payment and performance bond, and to establish a peer review committee to conduct an evaluation of the 15 projects selected for design-build procurement.

In September 2009, the Commission adopted its Design-Build Demonstration Program Policy Guidance to assist and advise those contemplating Commission authorization to use this procurement method. In February 2010, the Commission adopted Conflict of Interest Policy Guidelines and the standard Payment Bond and Performance Bond forms. The Commission will establish the peer review committee at a later time, once project information is available for evaluation.

Since the adoption of its policy guidance, the Commission has authorized a total of seven projects for design-build procurement at the request of Caltrans and local transportation entities:

Caltrans Projects:

Direct Connectors, LA-605 to LA-10, $78.8 million, best value
Pavement Rehabilitation, Mad-99, $37.4 million, low bid
Ramp Meter Installations, SM-101, $12.4 million, best value
ExpressLane Project, LA-10 and LA-110, $69.3 million, best value
Devore Interchange, SBd-15/SBd-215, $365.7 million, best value
Braided Ramps, Fre-180, $69.5 million, low bid

Local Transportation Entity Projects:

SR 91 Corridor Improvement, Riv-91, $1.1 billion, best value

The SR 91 Corridor Improvement project requested by the RCTC brought about public comment that questioned a local transportation entity's authority to enter into a design-build contract on a state highway. Arguments were made that under the Design-Build Demonstration Program, such authority is limited to Caltrans, and consequently, the Commission's authorization to implement the design-build procurement for the SR 91 Corridor Improvement project by RCTC was challenged. To avoid potential delays, RCTC pursued specific legislation to allow it to implement design-build procurement of the SR 91 Corridor Improvement project. AB 2098 (Chapter 250, Statutes of 2010), authorizes RCTC, upon approval by the Commission, to utilize this design-build procurement process for the SR 91 Corridor Improvement project on the state highway system.

SEISMIC SAFETY RETROFIT PROGRAM

California has more than 12,000 bridges on its state highway system and an additional 11,500 bridges on its local streets and roads network. Following the 1989 Loma Prieta earthquake, emergency legislation SB 36X (Chapter 18X, Statutes of 1989) established the Seismic Safety Retrofit Program (SSRP). The SSRP consists of two components, a state highway system component where Caltrans is the seismic retrofit project delivery agent, and a local streets and roads component where local agencies or state agencies other than Caltrans are the seismic retrofit project delivery agent.

The state highway system component is further subdivided into three seismic retrofit subprograms:

- Phase 1 Seismic Program - initiated after the 1989 Loma Prieta earthquake with 1,039 bridges seismically retrofitted.
- Phase 2 Seismic Program - initiated after the 1994 Northridge earthquake with 1,151 bridges seismically retrofitted, three bridges under construction and one bridge, the Schuyler Heim, in the design stage.
- Toll Bridge Seismic Retrofit Program (TBSRP) - initiated after the 1989 Loma Prieta earthquake with seven bridges. Two additional bridges, the Antioch and Dumbarton, were added to the TBSRP by AB 1175 (Chapter 515, Statutes of 2009) bringing the total number of bridges in the program to nine - six bridges seismically retrofitted and three bridges under construction.

The current estimate to seismically retrofit the state highway system bridges is $12.1 billion: $1.1 billion for Phase 1 bridges, $1.9 billion for Phase 2 bridges and $9 billion for the TBSRP

bridges. An additional $2.1 billion is required to seismically retrofit the 1,243 local street and road network bridges identified as needing seismic retrofit following the 1989 Loma Prieta earthquake.

The Seismic Retrofit Bond Act of 1996 (Proposition 192) authorized the issuance of $2 billion in state general obligation bonds to seismically retrofit state highway system bridges. SB 60 (Chapter 327, Statutes of 1997) further directed that $790 million of the Proposition 192 funds be spent on the state-owned toll bridges and $1.2 billion on the Phase 2 bridges. As of June 30, 2010, the amount of Proposition 192 funds allocated to the Phase 2 bridges is $1.2 billion and the amount allocated to the toll bridges remains at $789 million. An additional $140 million in SHA and Multi-District Litigation funds were expended on the Phase 2 bridges prior to the passage of Proposition 192.

Caltrans plans to utilize federal HBP funds available through the SHOPP to complete the Phase 2 seismic retrofit projects, since the total cost to finish the Phase 2 bridges exceeds the remaining Proposition 192 unallocated balance of $26 million. Through June 30, 2010, $286.5 million in SHOPP funds has been allocated to the Phase 2 bridges. Caltrans estimates that an additional $312 million in SHOPP funds will be required to seismically retrofit the Schuyler Heim Bridge.

The funding plan for the TBSRP was originally established by SB 60 and was updated for cost increases, especially on the San Francisco-Oakland Bay Bridge (SFOBB), by AB 1171 (Chapter 907, Statutes of 2001) and AB 144 (Chapter 71, Statutes of 2005)/SB 66 (Chapter 375, Statutes of 2005). AB 144/SB 66 significantly strengthened oversight activities for the TBSRP by creating a Toll Bridge Program Oversight Committee (TBPOC) comprised of the Director of Caltrans, the Executive Director of the Bay Area Toll Authority (BATA), and the Executive Director of the Commission. AB 144 also consolidated financial management of all toll revenue collected on state-owned toll bridges under the jurisdiction of BATA and required the Commission to adopt a schedule for the transfer of remaining dedicated state TBSRP funds to BATA. In addition, BATA received authority from the Legislature to set Bay Area tolls as necessary to cover any cost increases that would exceed the AB 144/SB 66 TBSRP cost estimate of $8.7 billion. With the passage of AB 1175, the seismic retrofit of the Antioch and Dumbarton bridges was added to the TBSRP and placed under TBPOC jurisdiction. BATA raised tolls on the seven state-owned bridges to fund the seismic retrofit of the two bridges added to the TBSRP.

Due to the current bidding environment, the Antioch and Dumbarton bridge seismic retrofit projects were awarded by Caltrans with substantial savings.

Due to the current bidding environment, the Antioch and Dumbarton bridge seismic retrofit projects were awarded by Caltrans with substantial savings. The TBPOC reduced the budget to retrofit the two bridges from $750 million to $368 million, as reflected in the following table:

Estimated Costs to Retrofit Toll Bridges (dollars in millions)

Bridge	Seismic Safety Status	Cost
Benicia-Martinez	Completed	$177.83
Carquinez (eastbound*)	Completed	$114.13
Richmond-San Rafael	Completed	$914.00
San Diego-Coronado	Completed	$103.52
San Mateo-Hayward	Completed	$163.51
Vincent Thomas	Completed	$58.51
San Francisco-Oakland Bay Bridge		
West Span	Completed	$307.90
West Span Approach	Completed	$429.00
East Span Replacement	Construction	$5,516.60
Subtotal		**$7,785.00**
Program Contingency		$900.00
Total AB 144/SB 66 Estimate		**$8,685.00**
Antioch	Construction	$101.00
Dumbarton	Construction	$267.00
Total AB 1175 Estimate		**$368.00**
Grand Total		**$9,053.00**

Significant progress is being made on the SFOBB East Span Project. The first of the five sections of the Self-Anchored Suspension (SAS) Bridge's signature tower were shipped from Shanghai, China and installed. These sections join 16 of 28 steel roadway boxes that have already arrived in the Bay Area and all 16 have been lifted into place. All tower cables have been fabricated and shipped to the job site. While each shipment represents a major step forward for the SAS, challenges remain such as completion of the last four roadway anchorage boxes that have just started fabrication in China.

The TBPOC is exploring all risk mitigation and acceleration options to open the SAS bridge to traffic by the end of 2013. One option being considered is a "seismic safety opening" of the bridge to traffic before non-essential systems are completed, like architectural lighting or removal of no longer needed temporary support structures.

The demolition of the old approach span on the YBI is complete. The contract to construct the future transition structures from the SAS Bridge to the YBI Tunnel was awarded by Caltrans. On the Oakland side the westbound approach from the toll plaza to the Skyway

structure and the portion of the eastbound approach that is not in conflict with the existing bridge structure are constructed. The remaining approach work will be completed under a future contract.

Local Bridge Seismic Retrofit Program

Following the 1989 Loma Prieta earthquake, Caltrans was charged with the responsibility of identifying the seismic retrofit needs of all publicly owned bridges on the local streets and roads network, except for bridges in Los Angeles County and in the unincorporated areas of Santa Clara County. Caltrans, Los Angeles County and Santa Clara County identified 1,235 bridges on the local streets and roads network in need of seismic evaluation. The City of San Francisco YBI ramp project on I-80 listed as a single bridge in prior reports was divided into nine separate bridge projects. Thus, the number of local streets and roads network bridges increased to 1,243. As of June 30, 2010, of the 1,243 local bridges 15 are in the retrofit strategy development stage, 290 are in the design stage, 134 are under construction, and 804 are either completed or were judged not to require seismic retrofitting. The total cost of the local bridge seismic retrofit program is roughly estimated at $2.1 billion. Approximately $932 million has been spent or obligated for the local bridges as of June 30, 2010, leaving an estimated $1.2 billion need to complete the remainder of the local bridge retrofit work. Because 305 of the 1,243 bridges are still in the strategy development or design stage, the $1.2 billion estimate is subject to change. It is the responsibility of each public agency bridge owner to secure funding, environmental approvals, right-of-way clearances, and to administer the construction contract.

With the passage of Proposition 1B on November 7, 2006, a $125 million LBSRA was created. Funds from the LBSRA provide the 11.5 percent local match for the federal HBP funds used to retrofit the local bridges. Additional details on the LBSRA are available under the Proposition 1B discussion of this Annual Report.

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STATE RAIL PROGRAM

State-supported intercity rail passenger service operates 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)**

The Capitol Corridor Joint Powers Authority (CCJPA) plans and administers the Capitol Corridor, while Caltrans plans and administers state funding for the Pacific Surfliner and San Joaquin services. Caltrans is responsible for developing 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.

Intercity rail corridors in the state are some of the of the most heavily traveled intercity rail routes in the county.

Operating subsidies for the intercity rail services have been fairly stable over the last six years. In 2009-10, the subsidy increased from $86.3 million to $90.3 million to accommodate the decline in revenues due to the economic recession. Amtrak continues to provide about $11 million annually from federal funds to operate the 30 percent of Pacific Surfliner service that is not state-supported.

Intercity rail corridors in the state are some of the most heavily traveled intercity rail routes in the country. The Pacific Surfliner Corridor is the second most heavily traveled intercity rail corridor in the country, only surpassed by the Washington-Boston Metroliner Corridor. The Capitol Corridor and the San Joaquin Corridor rank number three and six respectively. Similar to other transportation modes, the intercity capital rail program has suffered from unreliable infrastructure funding that now threatens its ability to meet the increased passenger demand generated by higher gasoline prices and a depressed economy. While intercity rail operations can be considered more stable, the same cannot be said for infrastructure

funding. The uncertainty of reliable funding makes it difficult for Caltrans to develop long-range service plans that are dependent upon new equipment and capital projects.

Overall, intercity ridership was relatively flat for 2007-08, 2008-09 and 2009-10. It should be noted that rail ridership nationwide declined due mostly to the global economic recession. Revenues increased on the overall state system from $103.1 million in 2007-08 to $106.2 million in 2009-10. But, the increase between 2008-09 and -2009-10 was only 0.4 percent. The On Time Performance (OTP), a measure of the train's reliability in maintaining its schedule, for the three corridors increased from 79.8 percent to 86.9 percent over the last three fiscal years. Between 2008-09 and 2009-10, however, the OTP increased by only 0.3 percentage points.

For 2009-10, three intercity rail projects totaling $21.4 million were programmed in the STIP for delivery. The Sacramento Intermodal Depot retrofit project and the Coast Daylight/Caltrain track improvement project, totaling $777,000, were reprogrammed to a future year as part of the 2010 STIP process. The remaining project - the Santa Clara capacity improvement project - received an allocation of $20.6 million. The Commission also made a partial allocation of $3.1 million to the San Onofre-Pulgas Track Project, which is funded from the Proposition 1B Intercity Rail Improvement Account (part of the PTMISEA).

IMPLEMENTATION OF THE SAFE, RELIABLE HIGH-SPEED PASSENGER TRAIN BOND ACT OF THE 21st CENTURY

In November 2008, the voters passed The Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (Proposition 1A), a rail bond for $9.95 billion. Proposition 1A, sets aside $9 billion to initiate construction of a $40+ billion, 800-mile high-speed train system under the administration of the California High-Speed Rail Authority (HSRA). The Commission is responsible for programming and allocating the remaining $950 million to eligible recipients for capital improvements to intercity and commuter rail lines and urban rail systems. Eligible recipients can use the funding for capital improvements that:

- Provide or improve connectivity to the high-speed train system and its facilities, or
- Are part of the construction of the high-speed train system, or
- Provide capacity enhancements and safety improvements, or
- Provide for the rehabilitation or modernization of, or safety improvements to, tracks utilized for passenger rail service, signals, structures, facilities, and rolling stock.

The Commission is responsible for programming and allocating the remaining $950 million to eligible recipients for capital improvements to intercity and commuter rail lines and urban rail system.

On May 19, 2010, the Commission adopted a three-year program (2010-11 through 2012-13), totaling about $500 million.

Under Proposition 1A, the Commission is responsible for developing guidelines in consultation with the HSRA to implement the program. In 2009, the Commission deemed it prudent to delay developing the guidelines and adopting a program of projects until the federal Recovery Act grant process was complete and the projects receiving federal grants were known. In addition to consulting with the HSRA, the Commission also sought input from the eligible commuter and urban rail agencies and Caltrans. Starting in January 2010, the Commission convened three conference calls with eligible agencies and held two hearings in order to provide the eligible agencies, as well as the HSRA and Caltrans, an opportunity for comment and help direct the development of the guidelines.

The Commission developed guidelines for submitting programming requests by eligible commuter and urban operators and Caltrans. The Commission included in the guidelines its expectations on eligible projects, program amendments and allocation requests. State administrative costs were limited to two percent by the Commission. The Commission deducted the two percent from the $950 million, prior to establishing the amounts available for programming.

The guidelines list each eligible agency's net share available for programming. Under the provisions of Proposition 1A, specified commuter and urban rail agencies are eligible for 80 percent of the $950 million. Caltrans is the eligible agency for the remaining 20 percent for projects on the Capitol, Pacific Surfliner, and San Joaquin rail corridors. Under Proposition 1A, each intercity rail corridor has one-fourth of revenues available for programming and the remaining one-fourth is available for programming on a competitive basis in all three corridors.

The Commission adopted its Proposition 1A High-Speed Passenger Train Bond guidelines at its February 2010 meeting. Then, on May 19, 2010, the Commission adopted a three-year program (2010-11 through 2012-13), totaling about $500 million, based on priorities identified by eligible agencies. The Commission intends to amend the program in 2011, to allow the programming of the remaining Proposition 1A funds.

The Commission was unable to allocate Proposition 1A funds due to the lack of a state budget and bond proceeds. As a result, a number of eligible agencies sought legislation that would permit them to request LONPs for Proposition 1A projects. With Commission approval, an eligible agency could begin expending its own funds to complete a project and be reimbursed at a later date, when the bond proceeds become available. On September 23, 2010, the Governor signed urgency legislation, SB 1371 (Chapter 292, Statutes of 2010), that allowed the Commission to approve LONPs for Proposition 1A projects.

AERONAUTICS PROGRAM

Under Section 14506.5 of the California Government Code, the Commission appoints a Technical Advisory Committee on Aeronautics (TACA) to give technical advice on the full range of aviation issues considered by the Commission. During 2009-10, the Commission received advice from TACA regarding the overall Aeronautics Program and the matching ratios for specific grant programs, and pending state and federal legislation.

The policy element of the California Aviation System Plan provides guidance in preparing the Aeronautics Program, a fiscally constrained three-year program of projects, which comes from a 10-year unconstrained Capital Improvement Plan (CIP). The Aeronautics Account, which receives revenues from state general aviation fuel and jet fuel taxes, combined with local funds, is used to match Federal Airport Improvement Program (AIP) grants to 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 credit grant program, which provides $10,000 to each publicly owned, public use general aviation airport. Aeronautics Account revenues must first fund Caltrans aeronautics operations and the annual credit grant program. Remaining funds are available for the projects in the Aeronautics Program as adopted by the Commission.

Revenue sources for the Aeronautics Account include an 18-cent per gallon motor vehicle fuel excise tax on general aviation gasoline and a two-cent per gallon excise tax on general aviation jet fuel. Air carrier, military aircraft and aviation manufacturing are exempt from

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the two-cent per gallon excise tax on jet fuel. The annual revenue transferred by the State Controller's Office (SCO) into the Aeronautics Account has steadily declined. From a high of $8.4 million ten years ago, this year the SCO reported a transfer of $5.2 million. With the steady revenue decline from aviation fuel, increasing jet fuel sales could become the major funding source for the Aeronautics Account. General aviation jet fuel sales helped slow the funding decline, but the downward trend continues.

California's general aviation system is deteriorating under current funding conditions. Aviation and related activities represent nine percent of California's gross domestic product. General aviation typically receives about $8 million annually from excise taxes on general aviation gasoline and jet fuel, while the bulk of the approximately $150 million in annual excise taxes goes to the General Fund. Of the $8 million from excise taxes, about $4 million is available for capital projects. The Aeronautics Account does not provide an adequate, reliable and dedicated funding source for important safety, security, capacity, airport land use compatibility, and other related airport projects.

Furthermore, the existing Aeronautics Account must be protected from transfers. For 2009-10, $4 million was transferred to the General Fund. That same budget action also suspended the provisions for funding existing programs until January 1, 2011. This action severely hampers general aviation's activities, its ability to match federal funds, and to provide needed capital improvements and should not be repeated. The Commission has long supported increasing state funding to develop an integrated system of airports that adequately meets the demands of California's economy. California could make significant progress in implementing state priorities for increasing airport capacity and safety, security, enhancing air passenger mobility, improving air cargo efficiency, mitigating the impacts of airport operations on local communities, and mitigating the impacts of land use encroachment on airport operations. The Commission supports redirecting a larger portion of the existing aviation user fee revenues to the underfunded state aviation programs. These tax revenues are a "user fee" paid by the aviation industry. The Commission also supports legislation that protects the Aeronautics Account from transfers of those revenues to the General Fund for non-aviation uses, as well as reimbursement provisions with interest for the $4 million diverted in 2009-10.

Furthermore, the Commission urges the Legislature to address two critical issues related to land use and airport training. The first is to preclude and prevent incompatible land use around airports by updating sections 21670, et seq, of the Public Utilities Code. The sec-

ond is eliminate the oversight by the California Bureau for Private Postsecondary Education of flight training and aircraft maintenance training, which is a duplicative function of the Federal Aviation Administration (FAA) oversight role.

Vision 100, Century of Flight Authorization Act of 2003

Vision 100, which lapsed September 2007, provides funding for the AIP. This year Congress attempted to pass a three-year authorization, but was unable to agree on long-term federal aviation policies and programs. Congress extended current taxes and FAA spending authority through December 2010.

The Commission approved guiding principles for re-authorization as recommended by TACA. These include:

- A multi-year re-authorization of the aeronautics appropriations and programs.
- Increased funding for specific programs and capital improvements such as: funding for Essential Air Service; Small Community Air Service Development; Contract Tower Programs; for non-commercial service airports; the environmental initiative Voluntary Airport Low Emission program; and for runway safety area improvements.
- NexGen Air Transportation System implementation.
- Increased funding through increases to passenger facility charges.
- New fire fighting standards should be vetted by the FAA led Aviation Rulemaking Advisory Committee process.

PROPOSITION 116 PROGRAM

Proposition 116 enacted the Clean Air and Transportation Improvement Act of 1990, designating $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 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 that 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 the process used for STIP funding. 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 to proceed.

2009-10 Commission Activity

In 2009-10, the Commission programmed $6.8 million from the remaining Proposition 116 funds. As of June 30, 2010, approximately $10.5 million remains unprogrammed, including $10.2 million available to Santa Cruz County Regional Transportation Commission (SCCRTC) for its Santa Cruz Branch Line acquisition project. The Commission approved the project subject to certain conditions, which SCCRTC did not meet by June 30, 2010. The following table lists the programming actions approved in 2009-10.

Proposition 116 Approved Appplications In 2010

County	PUC Section	Agency, Project	Programmed Amount
Los Angeles/San Diego	99629(a)	SANDAG, LOSSAN Rail Corridor	$405,281
Monterey	99638(a)	TAMC, Caltrain Extension to Monterey County	$6,247,813
Santa Clara	99641	SCVTA, LRT System Rail Replacement	$137,957
Total			**$6,791,051**

Status of Individual Authorizations

In 2009-10, the Commission allocated approximately $139.4 million from Proposition 116 funds, leaving just over $14 million available for future allocations. The following table reflects remaining balances.

Proposition 116 Authorizations With Unallocated Amounts

County	Agency, Project	PUC Section	Authorization	Balance Unallocated
El Dorado	Lake Tahoe, Intermodal Station	99647	$7,000,000	$9,206
Humboldt/Mendocino	North Coast Railroad Authority	99625/99626	$10,000,000	$72,284
Los Angeles	Caltrans, Alameda Corridor	99624	$80,000,000	$17,437
Los Angeles	Los Angeles County MTA, rail	99630	$229,000,000	$62,083
Nonurban Counties	Counties, transit capital	99628	$73,000,000	$11,785
Sacramento	Sac. Regional Transit, rail	99643	$100,000,000	$4,931
San Diego	MTDB/NCTD, rail	99642	$77,000,000	$60
San Joaquin	SJCOG, Altamont Corridor	99644	$14,000,000	$65,130
San Joaquin	Caltrans, San Joaquin Corridor	99622(a)	$140,000,000	$352
Santa Cruz	SCCRTC, rail	99640	$11,000,000	$10,200,000
State Parks and Recreation	Museum of rail technology	99648	$5,000,000	$3,454,600
Statewide	Competitive, water-borne ferry	99651	$20,000,000	$29,350
Statewide	Caltrans, rail cars, locomotives	99649	$100,000,000	$85,913
Total				**$14,013,131**

After July 1, 2010, under the terms of Proposition 116, the Legislature may re-allocate any unencumbered Proposition 116 funds to another passenger rail project anywhere in the state. Any legislative re-allocation must be passed by a two-thirds vote in each house of the Legislature. In the case of Caltrans, the re-allocation must be to a state-sponsored passenger rail project.

ELDERLY AND DISABLED SPECIALIZED TRANSIT PROGRAM

In 1975, Congress established 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 individuals 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, Caltrans was delegated this authority and has administered this Federal Program since its inception.

In 1996, state legislation (AB 772, Chapter 669) assigned the Commission a role in the program. It mandated that the Commission direct the allocation of program funds, establish an appeals process, and to hold at least one public hearing prior to approving each annual program project list. To implement this mandate, the Commission developed an annual program review and approval process in cooperation with regional transportation planning agencies (RTPAs), state and local social service agencies, the California Association for Coordinated Transportation, and Caltrans.

The process adopted by the Commission calls for each regional agency to establish 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 Caltrans, the departments of Aging, Rehabilitation, and Developmental Services, with Commission staff acting as facilitator. When the State Review Committee has completed its review, 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-level confer-

ence and a public hearing, the Commission adopts the annual program project list. All projects receive 88.53 percent federal funding and require an 11.47 percent local match.

For 2008-09, Caltrans received 86 applications from eligible agencies for 325 projects requesting a total of $16.1 million in FTA Section 5310 Elderly and Disabled Specialized Transit Program funds. The 2009 program cycle funding capacity was $12.1 million, which combined with project savings in the amount of $1 million from previous cycles, provided a total of $13.1 million in federal funding capacity available to fund projects for the 2009 program. Applications were due June 5, 2009 to the RTPAs. All applications were scored locally by the RTPAs using the program procedures adopted by the Commission. The applications, with regional scores, were submitted to Caltrans by September 8, 2009. The State Review Committee subsequently reviewed and, in some cases, modified the regional score for those projects, again, using the Commission adopted procedures. Projects with different regional and State Review Committee scores were discussed with the appropriate RTPA. The 2009 draft project list was presented at the February 24-25, 2010 Commission meeting, and was also submitted to the RTPAs and project applicants for review. The draft list was later revised to reflect a request from a Sonoma County agency (PRIDE Industries in Santa Rosa) to cancel their application and withdraw the six projects approved for the agency from the final list.

The 2009 program cycle funding capacity was $12.1 million, which combined with project savings in the amount of $1 million from pervious cycles, provided a total of $13.1 million in federal funding to fund projects.

On March 10, 2010, Commission staff and the State Review Committee conducted the required staff-level conference to provide all stakeholders an opportunity to discuss the revised project list and to hear any appeals on technical issues that affected the scoring. No written appeals were received and no verbal appeals were heard.

A statewide-priority list was subsequently assembled and was used for a public hearing held during the Commission's April 7-8, 2010 meeting. Following the hearing, the Commission adopted the final 2008-09 Statewide Prioritized Project list.

ENVIRONMENTAL ENHANCEMENT AND MITIGATION PROGRAM

The Environmental Enhancement and Mitigation (EE&M) Program was established by the legislature in 1989 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 EE&M Fund from the SHA. EE&M Program 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 CEQA.

Section 164.56 of the Streets and Highways Code mandates that the Resources Agency evaluate projects submitted for the program and that the 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 accordance with the provisions of Section 187 and 188 of the Streets and Highways Code, an attempt will be made to allocate 40 percent of the total amount recommended to projects in northern counties and 60 percent of the total amount to projects in southern counties.

The Resources Agency evaluated 68 applications and recommended funding 33 projects for the EE&M Program. The Resources Agency recommended funding 15 projects in the north for $4.6 million, and 18 projects in the south for $5.4 million, for a 2009-10 EE&M Program total of $10 million.

In 2009-10, the Commission allocated a total of $10 million to 33 projects, including eight highway landscape and urban forestry projects; 15 resource land projects; and 10 roadside recreation projects.

To date, a total of 686 projects have been programmed and allocated by the Commission at a total cost of $165.2 million. Of those, there have been 232 highway landscape and urban forestry projects; 247 resource land projects; and 207 roadside recreation projects.

The 2010-11 Budget Act includes $10 million for the EE&M Program. It is anticipated that the Resources Agency will submit its recommended project list to the Commission in February 2011 for programming and allocation. The Commission will report on the projects funded through the EE&M Program in 2010-11 in its 2011 Annual Report to the Legislature.

The Resources Agency evaluated 68 applications and recommended funding 33 projects for the EE&M Program.

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