AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3
RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, APRIL 2, 2014
9:00 A.M. - STATE CAPITOL ROOM 447

ITEMS TO BE HEARD

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2740 DEPARTMENT OF MOTOR VEHICLES

ISSUE 1: IMPLEMENTATION OF AB 60

The Department of Motor Vehicles will present its plan to implement AB 60.

BACKGROUND

The Governor's Budget includes a BCP to outline the DMV's plan to implement AB 60 (Alejo), Chapter 524 of 2013, which permits persons of driving age, who are unable to submit proof of legal presence in the United States and are ineligible for a Social Security Number the privilege of applying for and being issued a driver's license.

In 2015-16 Applications for Driver's Licenses Expected to increase by 86 percent above current levels.

DMV projects 1.4 million additional applications for driver's licenses when AB 60 takes effect on January 1, 2015. The Department projects that about 38 percent of these new applications will take place in the second half of the fiscal year. The additional 1.4 million licenses are projected to be issued over three years.

- 2014-15 = 538,947
- 2015-16 = 709,141
- 2016-17 = 170,194

The numbers above would be the peak one-time demand for driver's licenses that would occur in addition to the reoccurring service levels. In 2012-13, the DMV issued 819,401 driver's licenses

DMV proposes 17 percent additional staffing to implement AB 60

The Governor's budget includes a proposal for 822 positions and $67.4 million to implement AB 60. This proposal represents a roughly 17 percent increase in staffing, all of which would be temporary to accommodate the one-time nature of the work. All of the funding for this proposal is from the Motor Vehicle Account, which is supported by fees charged to individuals applying for the license.

The chart below, provided by the DMV illustrates the how these positions are deployed by task.

Tasks associated with positions for AB 60

Tasks:	**2014/15 Positions**	**2015/16 Positions**	**2016/17 Positions**
Process payroll, personnel, benefit documents in Human Resource Branch.	9.0	9.0	3.0
Answer phone calls in the Telephone Service Center, process papers for document imaging preparation and review of documents.	18.0	23.0	4.0
Process Driver License applications in the field offices.	440.0	485.0	90.0
Written Test: Thumbprint, retrieve photo and do visual match, score test and update record.	200.0	140.0	42.0
Conduct drive tests.	104.0	68.0	55.0
Staffing for Temporary Offices.	47.0	63.0	0.0
Process accident reports and courtesy reminder responses, answering calls from field office lines, public contact calls, visual inspection and blue light inspection of each box of DL/ID cards.	4.0	13.0	4.0
Driver Safety Officers for increase in interviews, reexaminations, driver investigations, phone call, and hearings	-	4.0	4.0
Staff to process cases, review additional records, update databases, and follow-up/administrative functions.	-	6.0	6.0
Total:	**822.0**	**811.0**	**215.0**

LAO RECOMMENDATION

We recommend that the Legislature approve the Governor's proposal to provide DMV with an additional $67.4 million and 822 limited–term positions to implement AB 60 in 2014–15. We also recommend that the Legislature expand the data that DMV must submit every January10—as required under AB 60—to include the number and location of applications and application workload data that would help determine the appropriate level of resources needed to implement AB 60 in an efficient and cost–effective manner. Finally, we recommend that the Legislature reject the proposed budget bill language to provide DOF the authority to augment DMV's budget, as such language is not necessary.

STAFF COMMENTS

Advocates have questioned whether the staffing levels associated with the implementation of AB 60 are sufficient to cover the demand. It is difficult to fully project when and where the demand for new licenses will occur and the overall customer service at DMV could suffer if sufficient resources are not provided.

DMV believes that the proposed staffing levels are sufficient given their proposal to use temporary DMV offices to supplement the current appointment-based system of applying for a license. The DMV intends to accept appointments for driver license applications only at permanent DMV offices. Temporary DMV's will be established to accept walk-in applications and will also accept appointments. The Department reports that there will be five temporary locations across the State: Orange County, Los Angeles, San Jose, Lompoc, and San Diego. Several of these locations will be much larger than a typical DMV, reflecting the anticipated utilization.

The critical assumption made the by the DMV is that only 38 percent of the projected new licenses will be issued in the first six months after the effective date of AB 60. However, given the penalties associated with driving without a license, it could be argued that more motorists will seek a license immediately.

The Budget bill also includes provisional language to allow the administration to add resources to the DMV budget with Joint Legislative Budget Committee notification. The LAO argues this language is not necessary, but staff believes it should be retained to give the administration flexibility to implement this legislation.

It is also important to note that DMV has a good track record of recovering from operations disruptions. In late 2010, a problem with a vendor temporarily stopped driver licenses issuance for several months and DMV was able to eliminate the resulting backlog by the middle of 2011.

Staff Recommendation: Approve as Budgeted

2665 CALIFORNIA HIGH SPEED RAIL AUTHORITY

ISSUE 2: DRAFT 2014 BUSINESS PLAN

The High Speed Rail Authority (HSRA) will provide an overview of the 2014 Draft Business Plan.

BACKGROUND

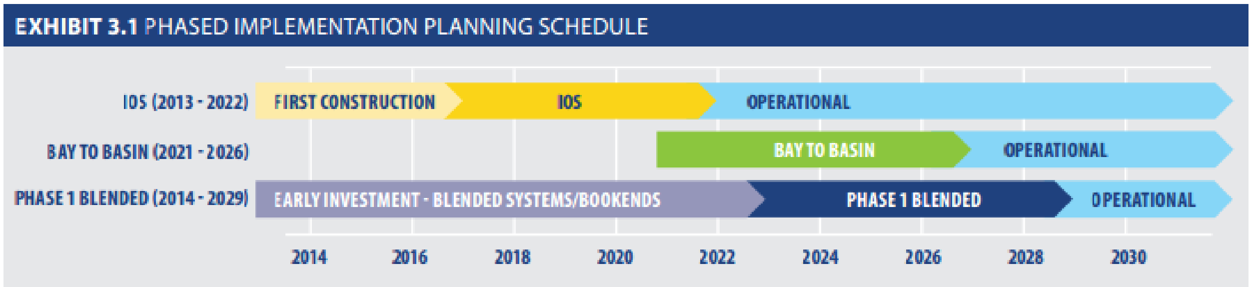
The California High Speed Rail Authority has issued the first draft of the 2014 Business Plan. This document is a statutorily required update to the 2012 Business Plan. The new plan updates the expected timelines, forecasts, costs, and project scope plans to reflect the evolution of the overall project.

Expected Project Budget Lower

The total cost of the project (in year of expenditure dollars) for Phase 1, from Los Angeles to San Francisco, is now projected to be $67.6 billion, slightly lower than the $68.4 billion projected in the Final 2012 Revised Business Plan. However, costs for the Initial Operating Segment and the first Bay to Basin service is unchanged in the new plan.

The map below, prepared by HSRA, illustrates the funding for Initial Operating Segment and Blended early investments, proposed in the budget. The final Phase 1 Blended route would link San Francisco to Los Angeles.

The chart below, prepared by HSRA, provides an overview of the construction timeline:



The Business Plan identifies three phases for the project:

1. **Initial Operating Segment**— 300-mile segment from Merced to the San Fernando Valley. The plan envisions that High-Speed Rail Service begins on this segment in 2022 and that it would include connections with regional/local rail for blended operations, so riders could transfer to other rail systems. This section begins with construction of up to 130 miles of high-speed rail track and structures in the Central Valley.

2. **Bay to Basin**— 410 miles of High-Speed Rail service from the San Jose to the San Fernando Valley, expected to begin in 2026. Shared use of electrified/upgraded Caltrain corridor between San Jose and San Francisco Transbay Terminal.

3. **Phase 1 Blended**— 520-total mile segment that allows a one-seat ride from San Francisco to Los Angeles beginning in 2028. Dedicated high-speed rail infrastructure between San Jose and Los Angeles Union Station. Shared use of electrified/upgraded Caltrain corridor between San Jose and San Francisco Transbay Terminal. While this is the last Phase of the project to be completed, the revised business plan begins making investments in "blended" activities in the near term, as these investments result in immediate benefits for users of existing regional and commuter rail systems.

The Draft 2014 Business Plan builds on the statewide rail modernization program established, in part, by the 2012 Business Plan, with high-speed rail at its core, and parallel investments in urban, commuter and intercity rail systems, that together will significantly improve mobility and connectivity throughout the state. This implementation strategy will yield near-term economic and environmental benefits while also helping California meet its 21st century transportation needs.

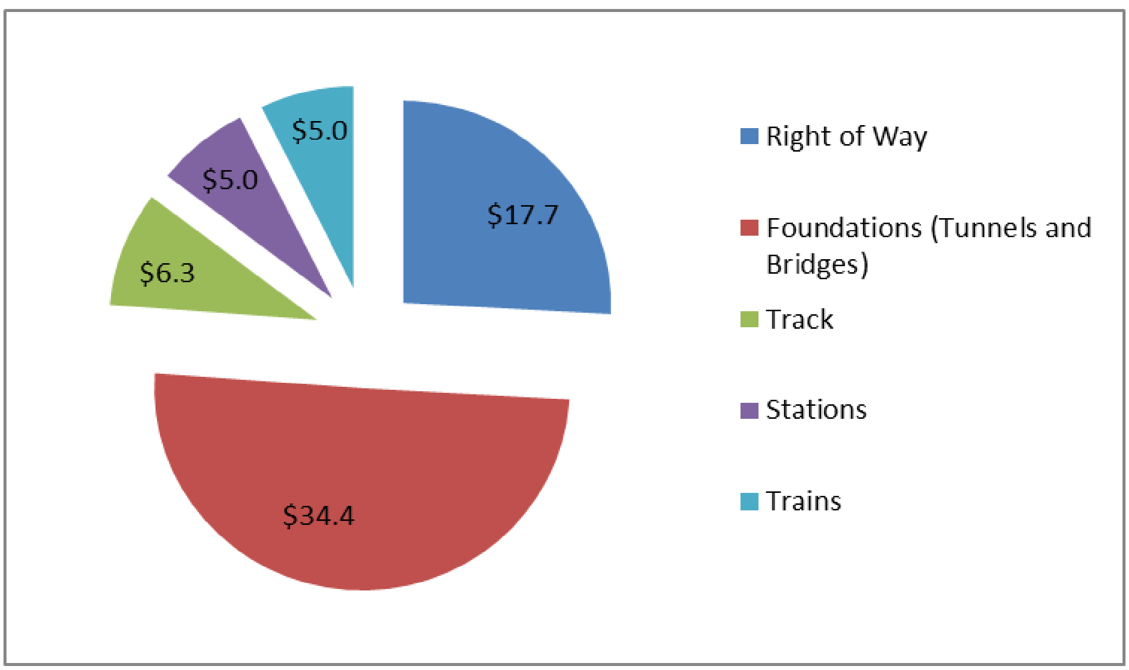
As HSRA reported on March 1, 2014, many of these parallel investments have taken form as the Authority has worked with the California Transportation Commission and regional agencies to advance improvements on existing rail lines, such as the electrification of the Caltrain corridor, and safety systems on Metrolink. With high-speed rail using existing regional and commuter rail lines in urban and metropolitan areas for a blended approach, the project costs are significantly reduced and completion timelines are shortened.

STAFF COMMENTS

Over 75 Percent of the Cost of the Project is Creating 520 Mile-Long Right of Way

In August 2013, Elon Musk, the CEO of Tesla Motors released a position paper that suggested that the State should build a "Hyperloop" System in lieu of a High Speed Rail system. This document compared the costs of the two systems and assumed that it would only cost $1 billion to obtain the necessary land for the system. Within days of release, the Musk paper was refuted by transportation experts because, in fact land acquisition and improvement represents the **most significant project cost.**

In the case of High Speed Rail, there is no viable existing right-of-way infrastructure to use to connect the major population centers of Northern and Southern California by rail. Thus, the bulk of the High Speed Rail projects costs and construction efforts are focused on building this fundamental linkage. In fact, if the State currently owned a suitable right of way infrastructure, the total costs for the High Speed Rail track, stations, and trains would only be $16.3 billion.



It is important to remember that once the State secures the Right of Way, it will retain ownership of this asset forever. In addition to serving as a route to the High Speed Rail, it may be possible to use this right of way for other uses, such as communication lines or power transmission. Ultimately, if Tesla Motors and Space X are able to master the Hyperloop commercially, this Right of Way would be the natural location for this future mode of transportation.

Staff Recommendation: No Recommendation, Informational Item

ISSUE 3: UPDATE ON LEGAL CHALLENGES TO THE HIGH SPEED RAIL PROJECT

The High Speed Rail Authority will update the Subcommittee on pending legal challenges that prevent the Authority from expending Proposition 1A Bond Funds.

BACKGROUND

The High Speed Rail Authority has been unable to expend Proposition 1A bond funding due to a court challenge in two cases: *John Tos; Aaron Fukuda and County of Kings v. California High Speed Rail Authority* and *High-Speed Rail v. All Persons Interested*. The Courts denied the Authority's request to validate Proposition 1A bond funds and have required the High Speed Rail Authority to rescind its 2011financing plan that had been submitted to the Legislature prior to the 2012 appropriation.

A third legal challenge also exists regarding one of the Authority's environmental reviews.

In the Authority's Project Update Report, issued March 1, 2014, the Authority provided an update on all three major court challenges to the project, which are summarized below:

High-Speed Rail v. All Persons Interested Filed in Sacramento Superior Court on March 19, 2013. On January 24, 2014 the Authority filed a Petition for Extraordinary Writ with the California Supreme Court to revise the Superior Court's denial to validate the bond funds. On February 14, 2014, the appellate court announced that it will take up the State request for expedited review. The opposition briefs were due on March 17, 2014 and the Authority reply is due April 1, 2014.

John Tos, Aaron Fukuda, and the County of Kings v. California High Speed Rail Authority. Filed in Sacramento Superior Court on November 14, 2011. On November 23, 2013 the court ordered that the Authority rescind its November 2011 funding plan. In January the Authority, the state Department of Finance, the State Treasurer, and the California State Transportation Agency filed a Supreme Court Extraordinary Writ to overturn the Superior Court Ruling. On February 14, 2014, the appellate court announced that it will take up the State request for expedited review. The opposition briefs was due on March 17, 2014 and the Authority reply is due April 1, 2014.

Town of Atherton v. California High Speed Rail Authority. Appealed to the Third Appellate District, April 13, 2012. In November 2011 the Sacramento County Superior Court ruled the Authority had complied with the environmental review requirements in CEQA for the Bay Area to Central Valley EIR/EIS and that the public was adequately engaged in the environmental review process. The plaintiffs are appealing this ruling. The Authority has since provided notice to the court of the Surface Transportation Board's decision to take over jurisdiction of the Authority's project, which may preempt State laws, including CEQA. The Court of Appeal ordered briefings on the preemption issue. All briefs are submitted. Oral argument is scheduled for May 20, 2014.

STAFF COMMENTS

The Authority will provide the Subcommittee with an update on the status of these three legal challenges.

Staff Recommendation: No Recommendation, Informational Item

ISSUE 4: UPDATE ON STATUS OF INITIAL CONSTRUCTION SEGMENT

The High Speed Rail Authority will provide an update on the forthcoming construction on the Initial Construction Segment

BACKGROUND

Funding provided in the 2012 budget allows the Authority to begin construction on a segment, which has been referred to as the Initial Construction Segment. The Authority is currently contracting to begin construction on up-to-130 mile segment of the project. The construction would build a continuous segment from Avenue 17 in Madera southward to Allen Rd. outside of Bakersfield in Kern County. The construction would be broken into three construction segments, summarized below, to build the track bed. The selected design-build firms will be responsible for delivering final designs for bridges, culverts, trenches and tunnels, utility relocations, aerial structures, grade separations, security and drainage. A fourth construction package is envisioned to lay the track on the bed of this entire segment.

The Authority has already begun contracting for these services, in anticipation of construction starting in next few months.

Construction Package 1 (CP 1): A 29-mile segment from Avenue 17 in Madera to East American Avenue in Fresno. In June 2013, the Authority Board of Directors approved award of the contract for this segment to the California-based Joint Venture, Tutor Perini/Zachary/Parsons for a total bid price of $985.1 million. The contract was finalized and executed in August 2013.

In October 2013, the Authority issued a Notice to Proceed to TPZP for the design and construction of the first major design build contract. TPZP has since opened offices in downtown Fresno and has moved employees into the area to continue work on preconstruction activities, including the development of third-party agreements for construction and completion of project design.

As the project approaches final design, TPZP and its subcontractors have begun conducting geotechnical and drilling work in the Fresno area to identify soil types, which will be used to complete design work and prepare for erecting structures, including bridges and overpasses. In addition, TPZP has advanced utility relocation designs to approximately 60%.

The Authority has reported that it is meeting and exceeding the 30% small business participation mandate set forth by its Board of Directors. Since the execution of the design-build contract for this construction package, 30 small or disadvantaged businesses have been utilized and 221 workers have been employed through TPZP and the Authority's PCM contractor, Wong+Harris,.

The Authority continues ROW acquisition, permitting, and archaeological investigations in Fresno in close coordination with TPZP.

Construction Package 2-3 (CP 2 and CP 3): An approximately 60-mile segment from East American Avenue in Fresno to one mile north of the Tulare-King County border. The Authority is in the process of selecting the design-build contractor from five different pre-qualified bidding teams and will make an award soon. This segment is anticipated to cost between $1.5 billion and $2 billion to construct. In its initial planning, the Authority had intended to break this construction into two different packages, but it decided to combine them into one, in September of 2013.

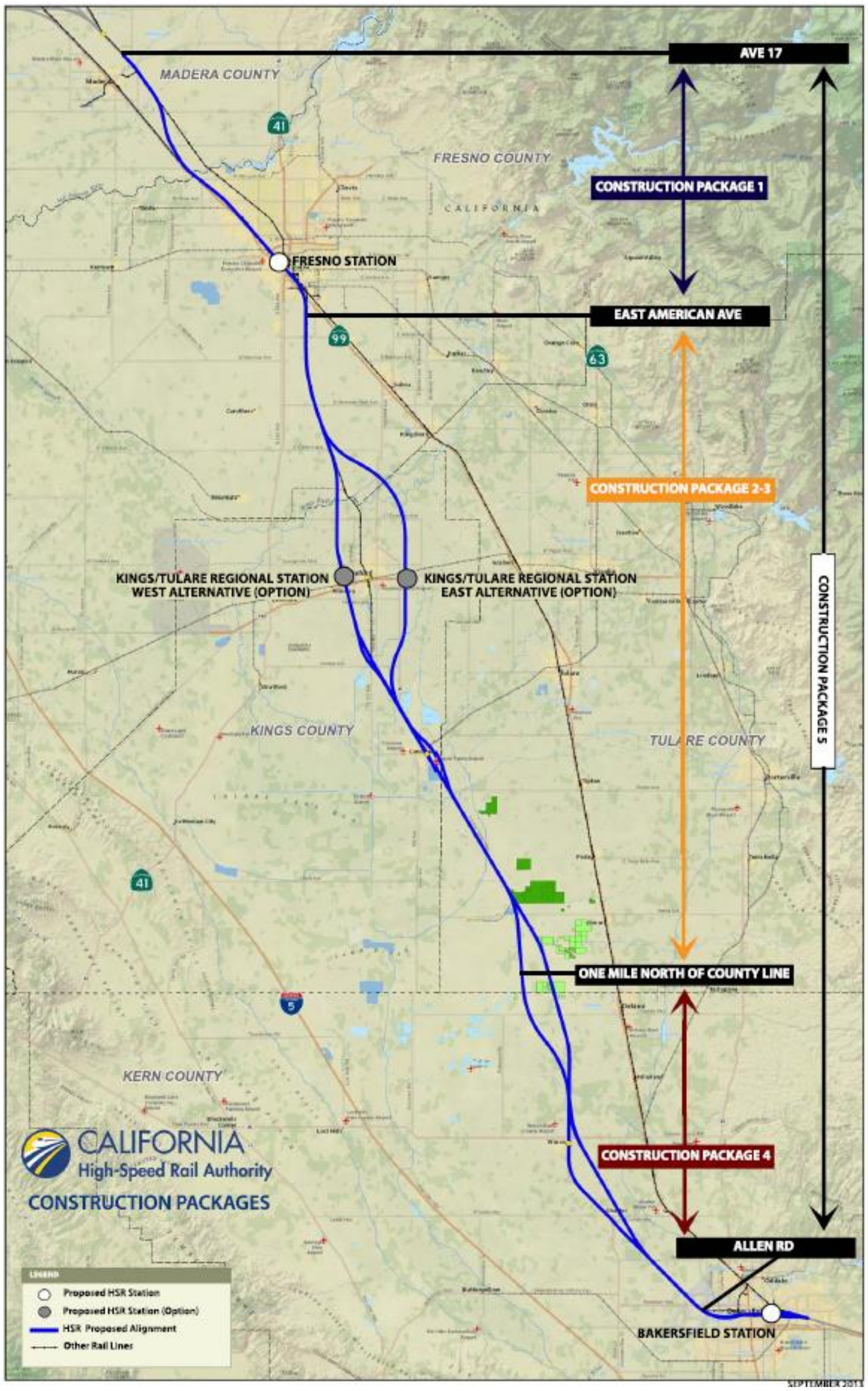
The decision to combine the construction packages was based on industry input from a wide variety of firms and consistent with the criteria enumerated below. Speaking generally, however, combining CP 2 with a significant portion of CP 3 achieved economies of scale. Combining all of CP 3 would have been too large of a package for bonding; the balance of CP 3 is included in CP 4.

Various factors were taken into account in determining the size and scope of each package, including but not limited to:

1. Limiting the number of contract packages to minimize interfaces between contracts, communities, and to reduce the management and administrative load on the Authority.
2. Ensuring each package does not exceed approximately $2 billion as the maximum amount the Industry indicated was reasonable considering bonding, risk, etc.
3. Cautiously using high-cost options for determining approximate package size, given an undetermined alignment.
4. Ensuring that the southern end of each package was capable of meeting the independent utility requirement.
5. Ensuring that the ends of each section were at convenient locations for integration/interface with adjacent contracts, which meant the contract limit needed to be at grade and tangent.

Based on industry input from a wide variety of firms and consistent with the above criteria, it was decided to combine CP 2 with a significant portion of CP 3 to achieve economies of scale. Combining all of CP 3 down to Perkins would have been too large of a package for bonding. The balance of package CP 3 will be included in CP 4. The Authority reports that the combination of these two contracts does not affect its goal of achieving 30% small business participation.

Construction Package 4 (CP 4): This construction package would bridge the remaining miles from CP 2-3 to a point (to be determined) north of Bakersfield. The exact termination point for CP 4 is dependent on several factors, which are still being evaluated. The Authority has not issued a Request for Qualifications (RFQ) for this package at this time. It is expected that the RFQ for this work will be issued in the summer/fall of 2014.



Construction Package 5 (CP 5): Once the track bed has been created, this construction package will lay track on the completed segments. This work is scheduled for 2016-2018.

STAFF COMMENTS

The construction packages detailed in this issue represent the expenditures of the $5.8 billion to begin construction in the Central Valley that was included in SB 1029 Budget Bill in 2012. Of this amount, $3.2 billion of these funds are Federal Funds and $2.6 billion are Proposition 1A bond funding.

According to the Authority, Cap and Trade funds would provide flexibility to consider various options including extending further south or north and additional options for electrification, communications and signals.

Staff Recommendation: Informational Item, No Action Necessary

ISSUE 5: COMPLETING THE INITIAL OPERATING SEGMENT

The High Speed Rail Authority will discuss various options it is considering for the next steps in the construction and the use of Cap and Trade funds.

BACKGROUND

The total construction costs for the High Speed Rail system are projected to be $67.6 billion in year of expenditure funds. Held constant to adjust for inflation, this is the equivalent of $54.9 billion in 2011 dollars.

The total costs for construction by segment, as updated by the 2014 Draft Business Plan are detailed below:

Segment	Cost Alignment Estimate ($ Millions Year of Expenditure)	Cost Alignment ($ Millions 2011)
San Francisco - San Jose	7,960	5,813
San Jose - Merced	18,978	14,332
Merced - Fresno	5,972	5,392
Fresno - Bakersfield	7,813	6,927
Bakersfield - Palmdale	9,418	8,359
Palmdale - Los Angeles	16,627	13,468
Los Angeles - Anaheim	825	603
Total	**67,593**	**54,894**

As mentioned in the previous issue, the 2012 Budget act contained $5.8 billion to begin construction on the Fresno to Bakersfield segment. Of this amount, $3.2 billion of these funds are Federal Funds and $2.6 billion are Proposition 1A bond funding. The bill also included $1.1 billion in "bookend" investments, which includes the electrification of Caltrain and the improvements in the Los Angeles Basin.

CAP AND TRADE PROPOSAL

The Governor's budget proposal includes an appropriation of $250 million of Cap and Trade funds for High Speed Rail. In addition to these funds, the Governor proposes Trailer Bill Language to appropriate at least one-third of ongoing Cap and Trade funding for High Speed Rail construction. In addition, the Trailer Bill designates the remaining $400 million loan of Cap and Trade funds to the General Fund would be used for High Speed Rail construction when it is repaid.

While the trailer bill would provide ongoing funding each year, such funding is not ideal for capital projects like the High Speed Rail, which achieve savings through economies-of-scale. Therefore the Authority would likely look for ways to leverage funding through a securitization or to pay debt service to federal loans.

STAFF COMMENT

The Authority is considering options for the next phase of construction packages. The 2014 Draft Business plan continues to identify the Bakersfield to Los Angeles segments as the priority for construction. It is likely that service can begin once construction on these segments has been completed. However, there are several variables, including other rail projects, the possibilities of private financing, and the ability to access federal grant funds that must be weighed in determining the next steps in the construction of the system. Possibilities include continuing the existing of the Initial Construction Segment southwards to Palmdale, beginning work on the expensive Palmdale to Los Angeles alignment, or a combination of both.

The Authority has several possible options for funding for the next round of construction. Possible options include:

1. **Cap and Trade Funds.** As proposed by the Governor, Cap and Trade funds could by use to construct the High Speed Rail System because the system is expected to reduce Greenhouse Gas Emissions in the future (to be discussed later in the agenda).
2. **Proposition 1A Bond Funds.** Currently $4 billion remain unappropriated and can be used for continued construction.
3. **Federal Funds.** Typically, large transportation projects receive federal support, sometimes up to 75 percent of total funding.
4. **Railroad Rehabilitation & Improvement Financing (RRIF) Loans.** The RRIF program was established by the Transportation Equity Act for the 21st Century (TEA-21) and amended by the Safe Accountable, Flexible and Efficient Transportation Equity Act: a Legacy for Users (SAFETEA-LU). Under this program, the FRA Administrator is authorized to provide direct loans and loan guarantees up to $35.0 billion to finance development of railroad infrastructure. Up to $7.0 billion is reserved for projects benefiting freight railroads other than Class I carriers. These loans have a 35-year term at 3.75 interest.
5. **Private Funding.** The business plan anticipates private investment in the system, likely in exchange for the rights to operate the High Speed Rail system. The State is likely going to get more favorable terms for such private participation if it is closer to operational services.
6. **Additional Bond Financing**. The State could issue either General Obligation or Lease Revenue bonds to continue construction efforts. These mechanisms provide the project with the ability to leverage large sums of funding that allow them to achieve economies of scale in construction.
7. **Local Transportation Funding**. It is likely that local transportation agencies will look for ways to leverage High Speed Rail funding and construction to achieve local goals. The work done so far on the "bookends" suggests that local agencies will make improvements to existing "blended" sections as partners, which may help the project achieve better value.

8. **Revenue from Concession Agreements.** The 520-mile right of way will offer utilities, telecommunications, and cable providers opportunities to general revenue by leasing access. Eventually the train stations themselves will also offer retail revenue opportunities.
9. **Public Transportation Account funding**. High Speed Rail is an eligible use for these funds; however, these funds are scarce and already dedicated to public transit. The Administration has used this funding for cash-flow purposes, such as the bridge-loan provided in the current year (and proposed for the budget year) which have no programmatic impact.
10. **General Fund.** It is always possible to use one-time or ongoing General Fund to support the project, or to pay for debt service associated with the system.

The Business Plan offers some ideas for future funding, but also recognizes the uncertainty that could occur before single seat travel from San Francisco to Anaheim, until 2028. With 14 years of construction to finance before service begins, identifying all of the funding pieces with certainty is equivalent to requiring the State to identify funding for the freshman year in college in 2028 for children entering kindergarten this Fall.

As the Subcommittee considers the funding for High Speed Rail, there are several factors to consider.

- The Authority uses the flexibility in project planning and funding to look for opportunities to leverage available resources. Keeping this flexibility seems like it will help the State get the best value for the system.
- The State will get a better deal in private financing the longer it waits, the value of such financing increases as the potential for service gets closer.
- The Authority needs the ability to aggregate funding for large construction packages in order to get the most cost-effective contracts.
- The more certainty and options the Legislature provides the Authority in funding construction, the more leverage the Authority will have to find local funding opportunities, private funding, and even potentially federal funding.

Staff Recommendation: Hold Open

ISSUE 6: CONSTRUCTION OF BAKERSFIELD TO PALMDALE SEGMENT

The High Speed Rail Authority will provide an overview of the Bakersfield-to-Palmdale segment, which has substantial engineering challenges.

BACKGROUND

Currently there is no direct rail service between Bakersfield and the LA Basin - the state's single largest rail gap between Northern and Southern California. This segment poses some of the greatest engineering challenges to the project, as it will require the building of right-of-way through the Tehachapi Mountains. Once this segment is built, it will provide connectivity to allow riders to take various train services between Northern and Southern California, although the system would not be a single-seat high-speed ride until the entire system is built out.

Several options for traversing the Tehachapi Mountains are being evaluated by the Authority to determine the Least Environmentally Damaging Practicable Alternative (the alignment that could be approved by the Federal Railroad Administration for Record of Decision). The alignments evaluated have to meet the design criteria of the system (grade, curve radii etc.) which result in determination of how much tunneling and viaduct construction is necessary.

The Authority states that it is utilizing a state-of-the-art approach to risk management, including extensively detailed calculation of variables to quantify risk and the incorporation of lessons learned by global experts from other programs. Engineering challenges will continue to be identified throughout development of the program with solutions developed by engineers and industry experts involved in the implementation of the system. Mountainous terrain poses unique challenges in establishing a vertical alignment that achieves the high-speed operational requirements without requiring the extensive use of capital-intensive underground structures and support facilities. The Authority has reached out to industry experts to develop criteria for design of tunnels, tunnel configuration, uphill operating speeds and downhill braking speeds, The Authority will continue to reach out to industry, particularly for development of fire, life-safety requirements and ventilation parameters for tunnels as well as evaluating latest technologies and tunneling methods in use today. Later geotechnical investigations will be performed to provide additional information to evaluate potential engineering solutions. The various risks will be assessed, mitigation strategies developed, and allocated to the parties best able to manage them.

STAFF COMMENTS

While construction on this segment is likely years away, the Subcommittee may wish to reflect upon the proper way to provide oversight for this complex engineering task. Given the risks associated with such a complex project and the expertise needed to evaluate best practices, the Subcommittee may wish to consider empaneling an outside group to critique and validate the Authority's approach to construction. Staff recommends that the Subcommittee direct the Legislative Analyst's Office to provide options, based upon best practices and lessons learned from other projects, to the committee so action may be considered in 2015-16.

Staff Recommendation: Direct the Legislative Analyst's Office to provide, during the 2015-16 budget process, the Subcommittee with recommendations on a mechanism to assist the Legislature on project oversight to address project risk.

ISSUE 7: RIDERSHIP PROJECTIONS

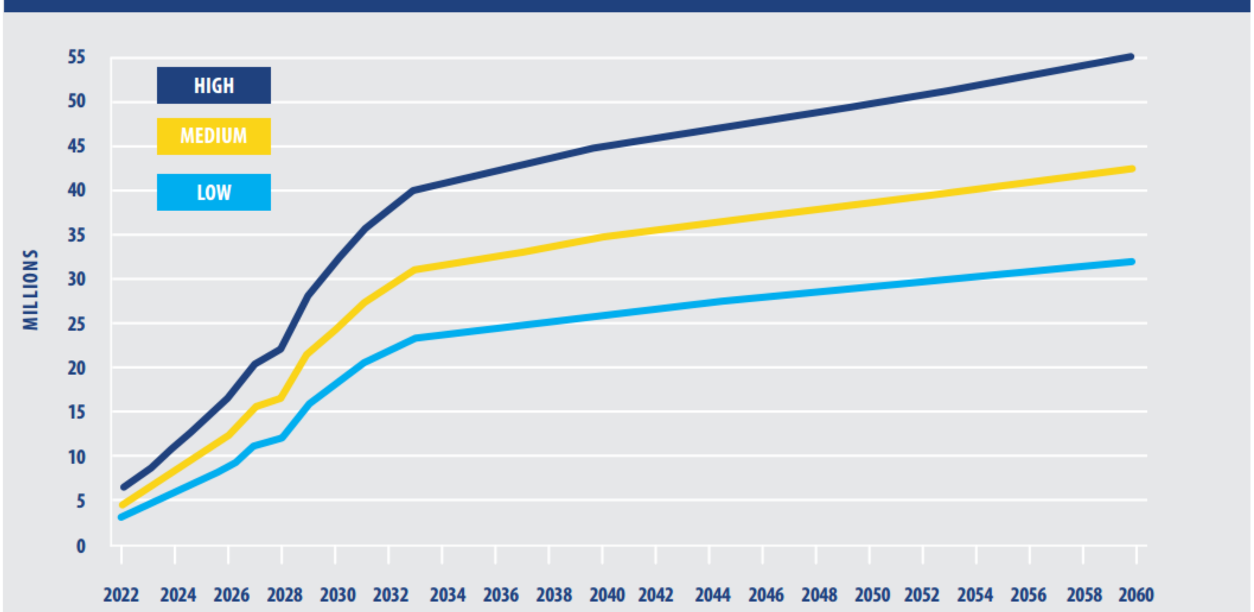
The High Speed Rail Authority will provide an update on overall ridership projections.

BACKGROUND

One of the key elements of Proposition 1A is that the High Speed Rail System must operate without an operating subsidy. The Authority has asserted that given the experience of other systems that it is confident in meeting this goal. The Authority has prepared ridership projections to accompany this assertion, which show that even during the initial operating phase the system will be subsidy free. These projections were subject to a review process by a review group composed of outside experts.

The Authority's ridership projections contain a low, medium, and high scenario and begin with the initial operating segment in 2022 and continues to rise as service expands.

EXHIBIT 4.2 YEAR HIGH, MEDIUM AND LOW RIDERSHIP PROJECTIONS, IOS THROUGH PHASE 1 (IN MILLIONS OF RIDERS)



Likewise, the Authority has projected the net operating surplus from operations, again with three different ridership projections:

EXHIBIT 6.1 SUMMARY OF NET CASH FLOW FROM OPERATIONS FOR IOS DURING RAMP-UP PERIOD
High Scenario

YOE $ IN MILLIONS	2022	2023	2024	2025	2026
Revenue	$437	$640	$860	$1,102	$1,370
Less: O&M	($340)	($378)	($471)	($558)	($605)
Net Cash Flow from Operations	**$97**	**$262**	**$389**	**$544**	**$765**

EXHIBIT 6.2 SUMMARY OF NET CASH FLOW FROM OPERATIONS FOR IOS DURING RAMP-UP PERIOD
Medium Scenario

YOE $ IN MILLIONS	2022	2023	2024	2025	2026
Revenue	$324	$475	$639	$819	$1,019
Less: O&M	($300)	($334)	($418)	($496)	($538)
Net Cash Flow from Operations	**$24**	**$141**	**$221**	**$323**	**$481**

EXHIBIT 6.3 SUMMARY OF NET CASH FLOW FROM OPERATIONS FOR IOS DURING RAMP-UP PERIOD
Low Scenario

YOE $ IN MILLIONS	2022	2023	2024	2025	2026
Revenue	$234	$338	$456	$585	$729
Less: O&M	($284)	($312)	($377)	($438)	($473)
Net Cash Flow from Operations	**($50)**	**$27**	**$79**	**$147**	**$256**

STAFF COMMENTS

With planned service eight years away, the discussion of ridership seems almost academic. However, these projections interplay with the construction schedule discussed in the previous issue and drive the Greenhouse Gas reductions discussed in the next issue.

While the ridership model has been refined for 2014, the overall ridership picture is similar to 2012. It is likely that many assumptions in this model cannot be tested until actual service begins.

Staff Recommendation: Informational Item

ISSUE 8: HIGH SPEED RAIL IMPACT ON GREENHOUSE GASES

The Subcommittee will discuss the Authority's Greenhouse Gas Reduction Plan.

BACKGROUND

SB 1029, the Budget Act of 2012, required the Authority to submit a report on the "net impact of the high-speed rail program on the state's greenhouse gas emissions." This report was submitted to the Legislature on July 1, 2013. According to the report, which was reviewed and approved by the ARB, the high-speed rail system would reduce GHG emissions by 160,000 to 330,000 metric tons of CO2 equivalent in the first year of operations in 2022. The Authority compares this amount to the equivalent of eliminating a coal-fired power plant from the electrical grid, removing 31,000 cars from the road, or equivalent to the electrical use of 22,400 households. By 2030, the Authority projects that the system will have reduced GHG emissions by 4.5-to-8.4 million metric tons of CO2 equivalent. The Authority projects at least a million tons of CO2 reduction for each year after 2030.

In the very near term, the Authority believes it will provide significant GHG emission reductions by making investments in regional connectivity and "bookend" projects. At the forefront of these investments is the Caltrain Electrification Program, which will reduce an estimated 18,000 tons of CO2 annually, beginning in 2019. Other projects made possible in part by the high-speed rail program include: the Central Subway in San Francisco, which is estimated to reduce CO2 emissions by 604 tons per year (53,000 pounds of CO2 per year attributable to Prop 1A); and the LA Metro Regional Connector, which will help reduced an estimated 63,400 tons of CO2 per year (5,000 tons of CO2 per year attributable to Prop 1A).

The ARB and the Authority believe that in addition to the emission reductions resulting from travelers shifting from automobile and plane to train travel, reductions of GHG emissions will occur because, as a system, the high-speed rail project encourages transit-oriented design and reinforces the goal of SB 375 (Chapter 728, Statutes of 2008) to use local land use to reduce the overall carbon use of California's communities.

Furthermore, the Authority has committed to run the system on renewable energy sources. The report analysis used an assumption of a renewable power mix of 20 percent solar, 40 percent wind, 35 percent geothermal, and 5 percent biogas converted to electricity.

The Authority also cites initiatives it has begun to offset the GHG impact of the project. These include a tree planting initiative, an agreement to acquire and preserve agriculture and wildlife land, and a partnership agreement with the San Joaquin Air Pollution Control District to improve air quality during construction, for certain criteria air pollutants by funding projects like pump and engine retrofits to reduce emissions.

Finally, the Authority has committed to make the construction activities GHG-neutral. The Authority has required contractors to meet the following conditions to achieve this goal:

- Reduce energy use on site;
- Increase energy and fuel efficiency through energy efficient on- and off-road equipment;
- Recycle 100 percent of concrete and steel from construction and demolition activities;
- Use of recycled materials;
- Minimizing water use; and
- Consider cost-effective renewable energy

STAFF COMMENTS

At the March 19th Assembly Budget Subcommittee hearing, the Subcommittee asked departments with a proposal to expend Cap and Trade funds to respond to the following questions:

1. Can you quantify the estimated annual GHG emission reductions benefit for some of the activities being proposed and describe the metrics used to conduct this work? While this hearing is not the forum to delve into each proposal, can you provide us with some highlights?
2. Can you discuss the near-term and/or the long-term GHG reduction benefits of some of the proposed activities? Again, we can delve into specifics at future hearings on these proposals, but a few highlights would be helpful.
3. Under the Governor's proposal, each department receiving funding is responsible for developing its own criteria to determine how to spend its cap and trade allocation. Do all departments have in-house staff with experience evaluating GHG emissions reduction programs?
4. What front-end metrics will department's use to guide their investment decision-making?
5. How soon do you anticipate departments' getting funding out-the-door?
6. Has the Administration established GHG reduction goals for any of the activities being proposed?
7. If not, how will Departments evaluate the effectiveness of these programs in reducing GHG emissions?
8. What activities being funded contribute to the goals of SB 535 (i.e., investments in disadvantaged communities)?
9. How are these investments being calculated?

The Authority's Greenhouse Gas plan has answered some of these questions, but the Subcommittee may wish to further discuss the appropriateness of using Cap and Trade funding for High Speed Rail construction.

Staff Recommendation: Hold Open

2660 CALTRANS
2665 CALIFORNIA HIGH SPEED RAIL AUTHORITY

ISSUE 9: HIGH SPEED RAIL BUDGET CHANGE PROPOSALS

The High Speed Rail Authority has requested two budget change proposals and Caltrans has one proposal related to High Speed Rail.

BACKGROUND

The Governor's budget has two budget change proposals for High Speed Rail:

1. **Public Transportation Account Loan** The Governor's Budget proposes a $29.3 million loan of Public Transportation Account Funding to High Speed Rail for State Operations. The intent of this funding is to cover the Authority's operations while Proposition 1A Bond Funds are frozen by the courts. According to the Administration, this loan will not impact the state or local transit agencies and the Public Transportation Account will have a projected remaining balance of $305.2 million after the loan to the Authority.

2. **Southern California Improvements** The Governor's Budget includes $32 million of American Recovery and Reinvestment Act funds for Southern California passenger rail investments that would provide connectivity to high-speed rail service. The proposed funding would generate a local match of an additional $48 million. This proposal is consistent with the Bookend investment contained in the April 2012 Revised High Speed Rail Business Plan.

There is one budget proposal in Caltrans:

1. **High Speed Rail Legal Services.** The budget reflects Caltrans role in providing legal services to the High Speed Rail Authority. The budget requests $3.1 million of State Highway Account funds and eight limited-term positions to continue these legal services.

STAFF COMMENTS

These proposals are consistent with actions taken by the Subcommittee in prior years. The Subcommittee approved a PTA bridge loan in 2013, pending the resolution of the legal challenges to Proposition 1A discussed earlier in the agenda..

Staff Recommendation: Approve as budgeted

2660 CALTRANS

ISSUE 10: RAIL MODERNIZATION

The Administration is proposing $50 million of Cap and Trade funds for rail modernization efforts.

BACKGROUND

As part of the Governor's Cap and Trade proposal, which is contained in the Governor's Budget, Caltrans is requesting $50 million in funding for Rail Modernization projects that reduce Greenhouse gas emissions. The proposed funding would create a new Rail Modernization Grant program, which would fund both traditional capital outlay projects to facilitate additional rail interconnectivity and operational efforts to improve connectivity, such as fair and payment system integration. The budget proposes $419,000 and four positions to administer this new grant program.

This program would clearly interact with the High Speed Rail project, which also requested Cap and Trade funding in the Governor's budget.

In addition to the new proposal, the budget proposes $421,000 and 4 limited-term positions to continue the administration of federal stimulus funds for intercity rail improvement.

The Department will also likely request an adjustment to the budget for intercity rail operations later in the budget process. This request will reflect the anticipated costs for Amtrak services, which the Administration is currently negotiating with the federal government.

STAFF COMMENTS

At the March 19th Assembly Budget Subcommittee hearing, the Subcommittee asked departments with a proposal to expend Cap and Trade funds to respond to the following questions:

1. Can you quantify the estimated annual GHG emission reductions benefit for some of the activities being proposed and describe the metrics used to conduct this work? While this hearing is not the forum to delve into each proposal, can you provide us with some highlights?
2. Can you discuss the near-term and/or the long-term GHG reduction benefits of some of the proposed activities? Again, we can delve into specifics at future hearings on these proposals, but a few highlights would be helpful.
3. Under the Governor's proposal, each department receiving funding is responsible for developing its own criteria to determine how to spend its cap and trade allocation. Do all departments have in-house staff with experience evaluating GHG emissions reduction programs?

4. What front-end metrics will department's use to guide their investment decision-making?
5. How soon do you anticipate departments' getting funding out-the-door?
6. Has the Administration established GHG reduction goals for any of the activities being proposed?
7. If not, how will Departments evaluate the effectiveness of these programs in reducing GHG emissions?
8. What activities being funded contribute to the goals of SB 535 (i.e., investments in disadvantaged communities)?
9. How are these investments being calculated?

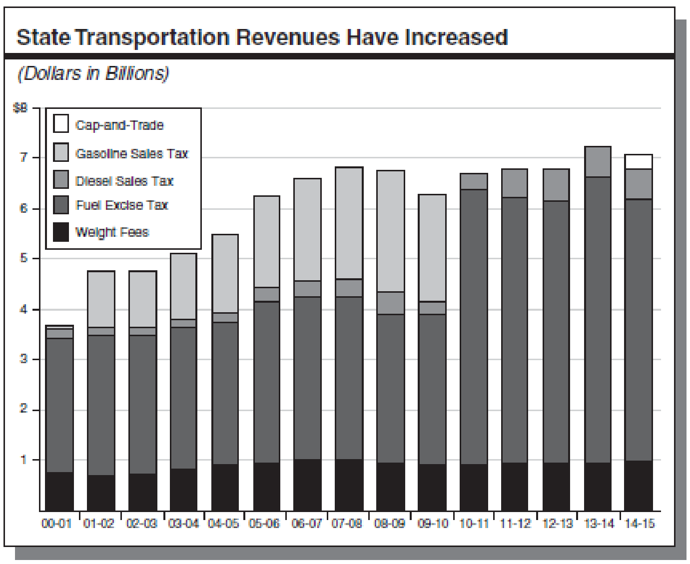
Staff Recommendation: Hold Open

ISSUE 11: UPDATE ON GASOLINE TAX REVENUES

Caltrans will provide an update on Gasoline Tax revenues, one of the largest sources of transportation funding.

BACKGROUND

With the end of the Proposition 1B bond program, there has been renewed interest in looking at the State's ongoing transportation funding streams. The LAO provided the following chart that illustrates the major sources of revenue and how they have changed over time:

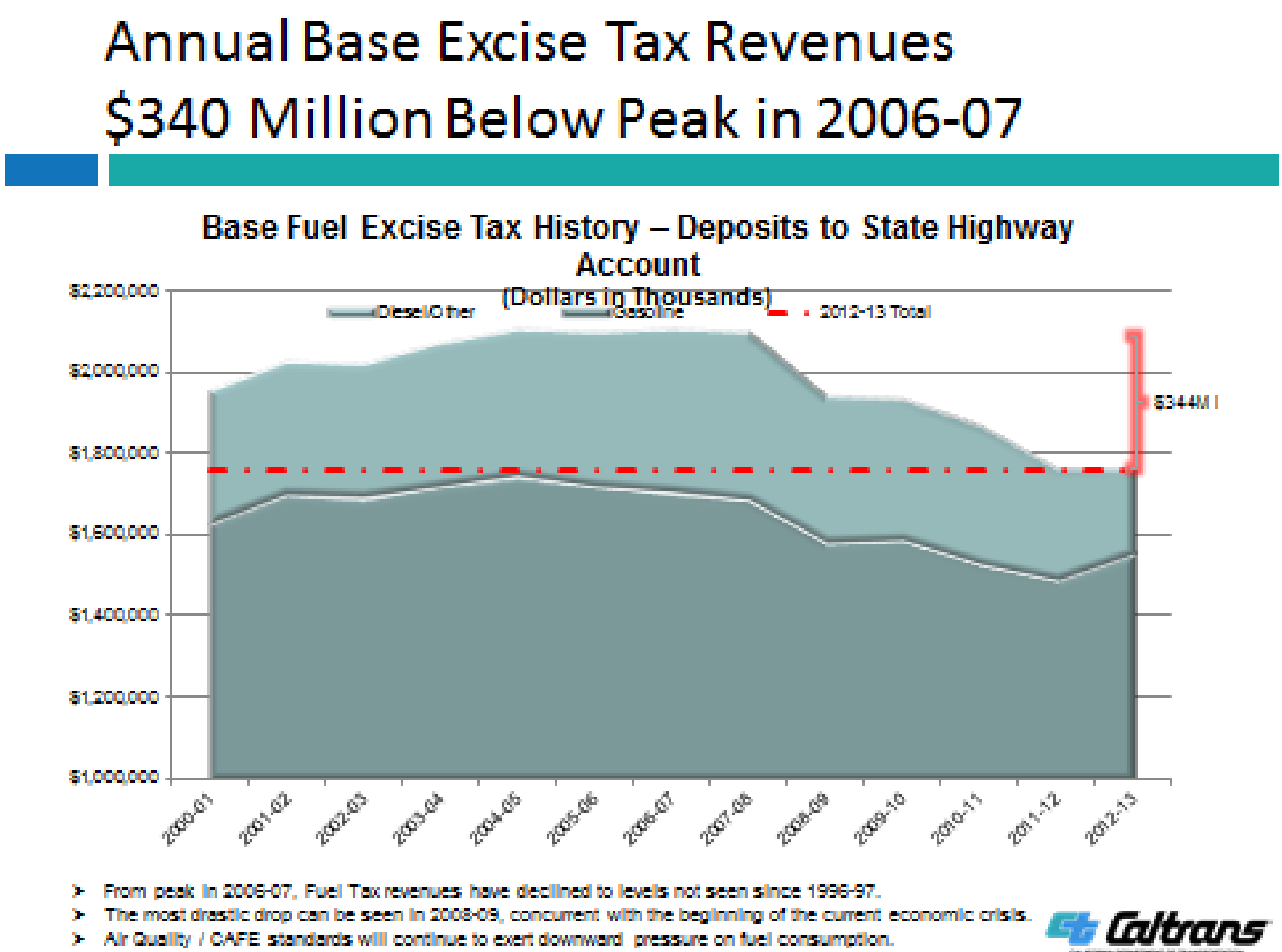


California's highways and roads rely on gasoline taxes as a revenue source for maintenance and construction costs. Currently the total gasoline tax is roughly $.70 per gallon (pending a recent change from the Board of Equalization), including local and federal shares. Portions of the gasoline tax are dedicated for specific purposes. The $.70 breaks down in the following manner:

- $.18 State Base Excise Tax for Highway Maintenance, rehabilitation, and Caltrans operations.
- $.215 State Excise Tax for debt service, local streets and roads, and SHOPP and STIP projects. This tax was converted from a sales tax to an excise tax and has a mechanism to true-up the revenue so that captures the equivalent amount of a sales tax over time.
- $.184 Federal Excise Tax which is distributed to states for state (60%) and local (40%) transportation.
- $.12 Local Sales Tax Equivalent for local general use, including transportation and public safety. This amount varies by county.

BASE EXCISE TAX

The base excise tax is the only part of the current tax structure that can be used for maintenance and operations of the State Highway System. The State's base gas tax revenue has been at the $.18 level since 1994 and has eroded over time. As gasoline consumption has declined the revenue generated by the base amount declined by over $344 million per year since 2007. As motorist purchase more efficient vehicles and the automobile industry begins producing cars that use electricity and other sources of power in lieu of gasoline, this trend will continue.



2010 FUEL SWAP

The 2009-10 budget package included a complicated fuel swap that allowed the State to use taxes on fuels to achieve about a $1 billion annual General Fund savings by paying General Obligation Bond debts with weight fees instead of General Fund. As part of this swap, the State replaced the State sales tax on gasoline with an excise tax that contained a true-up mechanism to mimic the revenue growth of a sales tax over time.

Prior to the fuel tax swap, cities and counties received 40 percent of the Proposition 42 portion of the sales tax on gasoline. In May of 2013, DOF estimated that in 2014-15, Proposition 42 revenues would be $1.57 billion if the state still charged a sales tax on gasoline. Based on DOF's estimate, the cities and counties share of Proposition 42 revenues would be about $628 million in 2014-15, assuming fuel tax law prior to the swap.

Under the swap, the state expects to collect about $2.5 billion in swap excise tax revenues in 2014-15. The first $958 million of these funds will essentially be used to help the General Fund by backfilling weight fees used to pay GO debt service. The remaining roughly $1.5 billion is then divided by formula, with 44 percent of the funds going to cities and counties. For 2014-15, the swap excise tax revenue that replaced the Proposition 42 transfer to cities and counties is projected to be about $680 million, or roughly $50 million more than locals would have received if the swap had not been enacted.

In addition, funding for the STIP has increased by the same amounts (the STIP receives the same percentage share of revenues as locals). Because 75 percent of STIP funding is allocated to counties for select projects, the increase in STIP funding is also essentially a small increase in funding available to locals due to the swap.

STAFF COMMENTS

Counties and Cities argue that actions taken in 2011 have diverted $140 million annually of gas tax revenue to the General Fund that they believe should have been subject to swap formula, with 44 percent of the funding being allocated to local governments. This funding was originally diverted with a sunset, which was removed in 2012. The local governments believe that sunset should be reinstated on these revenues, so that they can again be used for transportation purposes.

Staff Recommendation: Hold Open

ISSUE 12: 2014 INFRASTRUCTURE PACKAGE

The transportation funding is the largest component of the Governor's proposed $815 million Infrastructure package.

BACKGROUND

The Governor's budget references $815 million in new Infrastructure expenditures across several program areas. The largest piece of this package is $337 million in transportation funding. This funding is available due to an early repayment of a $328 million loan of special Highway Users Tax Account funds (plus interest of $9 million) to the General Fund that was part of the 2010 Budget Act.

Caltrans intends to use this funding in the following manner:

- $100 million for City and County projects
- $110 million for SHOPP Capital Payment Projects
- $100 million for SHOPP Traffic Management System
- $27 million for Highway Maintenance.

This proposal also includes a request of $1.7 million and 12 limited-term positions to develop Project Implementation Documents for these new projects.

In addition to the $337 million identified above, the budget also proposes to repay $12.1 million in other special fund loans made to the General Fund from the Bicycle Transportation Account, the Pedestrian Safety Account, and the Environmental Enhancement Program Fund. This repayment will provide an additional $7.7 million in funds for the Active Transportation Program as well as $4.4 million for the Environmental Mitigation Program Fund.

LAO RECOMMENDATION

The LAO believes the infrastructure funding should be used differently than proposed by the Governor. They make the following recommendations:

- ***Require Caltrans to Use PaveM to Identify Projects.*** We recommend that the Legislature require Caltrans to use its PaveM system to determine the types of projects that are deemed the most effective to fund with the $137 million proposed by the Governor for maintenance and SHOPP pavement projects. Specifically, we recommend that the Legislature require Caltrans to report at budget subcommittee hearings this spring on the types of projects identified by the department’s PaveM system as the most cost–effective and allocate the proposed $137 million accordingly.

- ***Require Caltrans to Report on Relative Benefits of Proposed Traffic Management System Improvements.*** We also recommend that the Legislature have Caltrans report at budget subcommittee hearings on the expected benefits that would be achieved from spending $100 million on traffic management systems compared to the benefits of instead allocating these funds to additional pavement repair projects. Depending on the information provided, the Legislature may want to consider allocating some or all of the $100 million proposed for traffic management system improvements to support additional highway pavement repairs instead.

- ***Consider Whether Increased Funding for Local Streets and Roads Should Be Directed to State Highways.*** In reviewing the Governor's proposal, we recommend that the Legislature consider whether some or all of increased funding proposed for the maintenance of Local Street and roads should be directed to performing additional repairs on the state's highway system. As indicated above, cities and counties were held harmless and received their full share of HUTA revenues when funding from the account was loaned to the General Fund.

STAFF COMMENTS

According to the Administration, this proposal exhausts the State's "shovel-ready" projects and it is unlikely that any additional funds authorized for maintenance that could be used in the budget year. Given the Governor's Five Year Infrastructure Plan identifies $25 billion in deferred maintenance in State transportation projects, this severely restricts the options available to the Subcommittee to address this backlog. The Governor's Wall of Debt includes over $100 million of additional loans to HUTA and State Highway Account that could be repaid earlier, if projects were available.

According to Caltrans, there is no "shelf" of projects that are ready to start, if additional funding were made available. This is a result of several factors including the accelerated delivery of hundreds of projects for the Proposition 1B and ARRA programs, and continued project savings tied to a weak economic recovery.

Staff also believes this could be a result of reduction to Project Initiative Documents staffing at Caltrans, which mirrors the ramping down of Proposition 1B bond funding.

The lack of a “shelf” also restricts the options for funding available to the Legislature. Therefore, staff recommends that directions be provided to Caltrans to submit a plan to re-establish a “shelf” that would allow the Legislature to consider one-time investments in shovel-ready maintenance, SHOPP, and STIP projects in 2015-16.

Cities and Counties argue, as mentioned previously, that if the allocation of these funds were consistent with the 2009 Fuel Swap percentages, that 44 percent of the HUTA repayment would go to locals, rather than the 29.7 percent proposed by the Administration.

Staff Recommendation:

- **Direct Caltrans to provide, by May 9th, the Subcommittee with a staffing plan to provide the Legislature with a "shelf" of at least $1 billion in total transportation maintenance, STIP, and SHOPP projects for consideration in the 2015-16 budget process.**
- **Hold Open the Infrastructure proposal.**

0521 SECRETARY OF TRANSPORTATION
2660 CALTRANS

ISSUE 13: UPDATE ON SSTI REPORT

The Secretary of Transportation has issued a report by the Smart State Transportation Initiative, which identified operational challenges at Caltrans and has initiated an agency led effort to reform the department.

BACKGROUND

The Secretary of Transportation has issued a copy of 2014 report, which provides an assessment of the performance of the Caltrans and recommendations for improvement. It is the product of a team assembled by the State Smart Transportation Initiative, which interviewed Caltrans staff and stakeholders and reviewed a wide range of materials from and about the department.

The 101-page report identifies three areas for improvement:

1) How the department expresses its mission
2) What resources are available to achieve that mission; and
3) How the department manages those resources to greatest effect.

STAFF COMMENTS

The Transportation Agency will provide an overview of the SSTI report and update the Subcommittee on steps it has taken follow recommendations made in the report.

Staff Recommendation: Hold Open

2660 CALTRANS

ISSUE 14: CAPITAL OUTLAY SUPPORT

The Governor's Budget includes an analysis of Capital Outlay Support staff that will result in a budget adjustment that will arrive later in the process.

BACKGROUND

The Governor's budget includes a reference to zero-based budgeting for the Capital Outlay Support program. The program, the largest at Caltrans, has been at issue for several years after an analysis performed by the Legislative Analyst Office suggested the overall staffing level could not be justified by the workload. Since that time, Capital Outlay Support staffing has been reduced by hundreds of positions.

The Legislature adopted Supplemental Report Language as part of the 2013-14 budget package that directed Caltrans and the Department of Finance to work with the Legislative Analyst's Office on an analysis of the Capital Outlay Support staffing needs. The Administration intends to submit the results of this analysis in a Spring Fiscal Letter later this year. The Governor's January Budget submission includes an evaluation document that will be used as part of this evaluation.

The proposal includes a Trailer Bill provision to conform Caltrans Right of Way procedures to make them consistent with other existing state policies.

STAFF COMMENTS

The Administration will provide an update on the analysis of Capital Outlay Support, which occurred, in part, due to actions taken by the Subcommittee last year.

Staff recommends holding this item open pending the review of the budget proposal that will result from the analysis framed in the Governor's January Budget.

Staff Recommendation: Hold Open

2600 CALIFORNIA TRANSPORTATION COMMISSION
2660 CALTRANS

ISSUE 15: CALIFORNIA TRANSPORTATION COMMISSION OTHER CALTRANS BUDGET PROPOSALS

The Subcommittee will consider other Caltrans budget proposals and one proposal by the California Transportation Commission.

BACKGROUND

The Governor's budget includes several additional budget proposals for Caltrans:

2. **Aeronautics Program.** Caltran's Aeronautics program issues permits for commercial service airports, general aviation airports, and heliports. The program leverages approximately $4 million of state funds to gain $275 million of federal funding. The budget includes a proposal to change Caltrans' Aeronautics program in several ways. For 2014-15, the budget proposes a $4 million one-time transfer of funding from the Local Airport Loan Account to Aeronautics program $1 million for 55 Airport Improvement Grants and $3 million for 18 Acquisition and Development grants for general aviation airports. The budget also proposes trailer bill language to allow the administration to make future transfers from the Local Airport Loan Account to the Aeronautics program, subject to approval by the California Transportation Commission. In addition to this proposal, the Department of Finance evaluated the Aeronautics program with a Zero Based Budgeting methodology. The result of that review validated the existing 26 positions that staff this program.

3. **Proposition 1B Bond Funds.** The 2014-15 budget proposes to appropriate the remaining balances of bond funds from Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. This bond was approved on November 7, 2006, and the transportation component of an infrastructure package of four separate infrastructure bonds that provided funding for roads, schools, housing, and flood control projects. Proposition 1B dedicated $19.925 billion over a ten year period to fund State Transportation Improvement Program (STIP) and State Highway Operation and Protection Programs (SHOPP) projects, corridor improvement projects, congestion relief upgrades, public transit expansion, reduction of air pollution and enhancement of anti-terrorism security at ports. The budget includes $963.5 million of bond appropriation for nine programs. These include the allocation of funding for five programs that have prior year savings that can be utilized and all of the remaining funding for the State Transit Assistance program. In addition, the Governor's budget includes a request for $6.9 million and 45 positions to administer the expected work from the bond funds authorized above. This request contains 12 fewer positions than last year's administrative staffing levels, reflecting a ramp-down of the Proposition 1B funded projects.

4. **Devil's Slide Tunnels staffing.** The Budget proposes $1.6 million and 18 positions to comply with federal and state fire protection regulations for the operation of the Devils Slide Tunnels. To comply with these regulations, Caltrans must provide 24/7 monitoring of these tunnels and coordinate real time emergency response efforts.

5. **I-15 Express Lane Operations.** The Budget proposes an increase of $778,000 and 10 positions to operate the 20-mile Intestate 15 Express Lane. The express lane consists of 16 miles of moveable concrete median barriers to accommodate peak directional traffic demand. The requested staff will perform maintenance on this highway corridor, including repair and replacement needed on the moveable barrier and responding to roadway emergencies.

6. **Americans with Disabilities Act (ADA) Infrastructure Program.** The Budget proposes $507,416 and three positions to implement the 2010 ADA Infrastructure Plan. This plan is the result of a Caltrans settlement with various opposing parties that agreed to allocate $1.1 billion for ADA specific projects over a thirty-year period. In addition, $1 million is requested to continue consulting contracts to respond to grievances and conduct ADA investigations.

7. **Job Access and Reverse Commute/New Freedom Projects.** Caltrans requests $301,000 and three positions to continue to monitor projects that are subject to Federal Transit Administration regulation. Currently the State has 175 projects that were part of federal programs, the Job Access Reverse Commute (JARC) and New Freedom Project. While funding for these programs was consolidated when federal transportation funds were reauthorized, MAP 21 (Moving Ahead for Progress in the 21st Century), the federal requirements for these program continue to remain.

The Governor's budget also includes several additional budget proposals for the California Transportation Commission (CTC):

1. **Staffing for Active Transportation Program.** The CTC is proposing to move two from Proposition 1B activities to the Active Transportation Program.

STAFF COMMENTS

The Legislative Analyst Office recommends that the I-15 Express Lane Operations be amended to allow Caltrans to accept reimbursement from SANDAG for operations.

The CTC has noted that its current adoption of Active Transportation Program projects is planned for December, in part due to feedback from community members and Legislative staff. The CTC therefore has requested a technical change to statute to reflect this new due date for project adoption.

Staff Recommendation: Approve as Budgeted--with LAO recommendation on the I-15 Express Land Operation language change and placeholder Trailer Bill to change to Active Transportation reporting date for CTC.