

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3 ON RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, APRIL 22, 2015

9:00 A.M. - STATE CAPITOL ROOM 447

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2600 CALIFORNIA TRANSPORTATION COMMISSION

2660 CALTRANS

ISSUE 1: OVERVIEW OF TRANSPORTATION FUNDING

The Subcommittee will consider overall transportation funding.

BACKGROUND

The LAO prepared the following chart to illustrate funding for departments in the Transportation Agency.

Transportation Budget Summary—Selected Funding Sources					
<i>(Dollars in Millions)</i>					
	Actual 2013-14	Estimated 2014-15	Proposed 2015-16	Change From 2014-15	
				Amount	Percent
Department of Transportation					
General Fund	\$83.4	\$83.4	\$84.0	\$0.6	0.7%
Special funds	4,854.5	3,735.4	3,633.6	-101.8	-2.7
Bond funds	1,334.7	559.2	562.4	3.1	0.6
Federal funds	3,771.4	4,759.8	4,627.1	-132.7	-2.8
Local funds	819.3	1,139.4	1,595.3	455.9	40.0
Totals	\$10,863.4	\$10,277.2	\$10,502.3	\$225.1	2.2%
High-Speed Rail Authority					
Bond funds	\$48.4	\$50.2	\$1,354.5	\$1,304.3	2597.5%
Federal funds	1,291.1	616.1	1,224.0	608.3	98.7
Greenhouse Gas Reduction Fund	—	250.0	250.0	—	0.0
Reimbursements	—	1.0	—	—	—
Totals	\$1,339.5	\$917.3	\$2,828.9	\$1,911.6	208.4%
California Highway Patrol					
Motor Vehicle Account	\$1,836.9	\$2,043.9	\$2,174.3	\$130.4	6.4%
Other special funds	164.7	180.1	182.9	2.8	1.5
Federal funds	15.5	19.9	19.8	—	-0.1
Totals	\$2,017.1	\$2,243.9	\$2,377.0	\$133.1	5.9%
Department of Motor Vehicles					
Motor Vehicle Account	\$975.1	1,058.7	\$1,049.8	-\$8.9	-0.8%
Other special funds	46.7	48.1	47.2	-0.9	-1.9
Federal funds	4.1	4.1	2.9	-1.2	-29.7
Totals	\$1,025.9	\$1,110.8	\$1,099.9	-\$11.0	-1.0%
State Transit Assistance					
Public Transportation Account	\$408.1	\$385.9	\$387.8	\$1.9	0.5%
Bond funds	278.4	649.2	150.0	-499.2	-76.9
Greenhouse Gas Reduction Fund	0.0	25.0	50.0	25.0	100.0
Totals	\$686.5	\$1,060.1	\$587.8	-\$472.3	-44.6%

Governor's Budget Discusses Transportation Fund Gap

The Governor's 2015 Budget Summary included the following discussion on transportation funding:

Annual maintenance and repair needs on the state's highway system are significantly more than can be funded within existing resources, with **a current identified gap in the SHOPP of \$6 billion annually**. Efforts at converting California vehicles to sustainable fuel sources have continued to be successful in terms of both reduced greenhouse gas production and increased fuel efficiency. However, one consequence of reduced fuel consumption and an increase in the number of electric vehicles is lower long-term fuel excise tax revenues - the state's primary source of funding for the maintenance and repair of its transportation infrastructure. In considering new funding sources, the state must focus funding on the priorities that are the state's core responsibility—maintaining and operating the state's network of highways and interstates, and improving the highest priority freight corridors. **Additional borrowing through bonds would not be appropriate**, not only because the funding gap is an ongoing one, but also because roughly one out of every two dollars spent on bond-funded infrastructure goes to pay interest costs rather than construction costs, and currently 9 percent of total transportation revenues are spent on debt service.

The Future of Transportation Funding Needs

On October 27, 2011, the California Transportation Commission issued the 2011 Statewide Transportation Needs Assessment. This document paints a picture of State transportation funding needs over the next decade. The report concluded that California would need \$538.1 billion, excluding the development of the High-Speed Rail project, but that existing funding sources would provide \$242.4 billion or 45 percent of the need over the same period.

The chart below illustrates the needs.

Cost: (\$ billions)	Maintenance	System Expansion and Preservation	Total
Highways	\$ 79.7	\$86.3	\$165.9
Local Roads	102.9	26.5	129.3
Public Transit	142.4	32.2	174.5
Inter-City Rail	0.2	6.2	6.4
Freight Rail	0.1	22.3	22.4
Seaports	4.6	7.5	12.1
Airports	10.4	5.5	15.9
Land Ports	1	0	1
Intermodal Facilities	0	5.9	5.9
Bike/Pedestrian	0	4.5	4.5
Total	\$341.1	\$197	\$538.1

STAFF COMMENTS

The gap between transportation funding needs and available funding has been well documented. Various proposals to address that gap have been discussed by advocates. However, in this year's budget the administration offered a more aggressive assessment of the problem in the budget summary.

The Subcommittee may wish to explore options for bridging this gap, and discuss priorities within transportation infrastructure.

Staff Recommendation: Informational Item, No Action Necessary

ISSUE 2: OVERVIEW OF TRANSPORTATION RELATED PROGRAMS FUNDED WITH GREENHOUSE GAS REDUCTION FUNDS

The Subcommittee will receive an update on Cap and Trade funded program administered by the Transportation Agency.

BACKGROUND

Last year's Cap and Trade allocation plan included two provisions that made continuous appropriations for transit related purposes:

- Transit and Intercity Rail Capital Program, administered by Caltrans, provides grants from the Greenhouse Gas Reduction Fund to fund capital improvements and operational investments that will modernize California's transit systems and intercity, commuter, and urban rail systems to reduce emissions of greenhouse gases by reducing vehicle miles traveled throughout California. The goals of the TIRCP are revenue to fund capital improvements and operational investments that will reduce greenhouse gas emissions, modernize California's intercity rail, and bus and rail transit systems to achieve the following objectives:
 - Reduction in greenhouse gas emissions;
 - Expand and improve rail service to increase ridership;
 - Integrate the rail service of the state's various rail operations, including integration with the high-speed rail system; and
 - Improve safety.

Beginning in 2015-16, 10 percent of Cap and Trade revenues are continuously appropriated for this program. The 2014-15 budget included \$25 million for this program.

- Low Carbon Transit Operations Program was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emission and improve mobility, with a priority on serving disadvantaged communities. Approved projects will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance and other costs to operate those services or facilities, with each project reducing greenhouse gas emissions.

Beginning in 2015-16, 5 percent of Cap and Trade revenues are continuously appropriated for this program. The 2014-15 budget included \$25 million for this program.

In addition to these amounts, 25 percent of ongoing Cap and Trade funds were continuously appropriated for the High Speed Rail project.

STAFF COMMENT

Last week, on April 15th, the Subcommittee heard testimony regarding the use of Cap and Trade funds in Resources Agency, Environmental Protection Agency, and the Strategic Growth Council. This item reflects the expenditure items not covered in that discussion.

Staff Recommendation: Informational Item, No Action Necessary

ISSUE 3: ACTIVE TRANSPORTATION PROGRAM

The Subcommittee will receive an update on the Active Transportation Program.

BACKGROUND

The 2013 budget package created the Active Transportation Program (ATP) in the Department of Transportation. The ATP consolidates existing federal and state transportation programs, including the Transportation Alternatives Program Bicycle Transportation Account, and State Safe Routes to School, into a single program with a focus to make California a national leader in active transportation.

The ATP is administered by the Division of Local Assistance, Office of Active Transportation and Special Programs.

The purpose of ATP is to encourage increased use of active modes of transportation by achieving the following goals:

- Increase the proportion of trips accomplished by biking and walking,
- Increase safety and mobility for non-motorized users,
- Advance the active transportation efforts of regional agencies to achieve greenhouse gas reduction goals,
- Enhance public health,
- Ensure that disadvantaged communities fully share in the benefits of the program, and
- Provide a broad spectrum of projects to benefit many types of active transportation users.

The budget includes approximately \$350 million for these programs, which is \$9 million less than the current year. Last year's budget included one-time \$9 million funds from the repayment of special fund transportation loans that had lent money to the General Fund.

STAFF COMMENT

Now that a full year of funding for the program has been allocated, the Subcommittee can explore how the combination of funds into a single program has impacted the various active transportation stakeholders.

Staff Recommendation: Informational Item, No Action Necessary

ISSUE 4: PROJECT IMPLEMENTATION DOCUMENTS AND CAPITAL OUTLAY SUPPORT STAFFING

The Subcommittee will consider the critical role that Caltrans staff members play in the implementation of projects.

BACKGROUND

Caltrans staff members play a critical role in the ability of the State to implement state transportation projects. This agenda item looks at two areas where the level of Caltrans staff impacts the ability of the State to construct transportation projects.

Project Initiation Documents (PIDs)

Caltrans staff members prepare engineering or technical document that documents scope, cost, and schedule for transportation projects. These documents are necessary to begin programming any large project.

The level of PIDs staffing has created a bottleneck in the implementation of new transportation projects. Staffing for PIDs decreased from 456 positions in 2008-09 to 308 positions in 2012-13, which was the result of some efficiencies in the PID process, but also resulted in PIDs being focused on projects where funding seemed certain. This led to a situation in 2014 where the only projects that had PIDs and could move forward for that year were already funded in the budget. Because there was no "shelf" of projects with approved PIDs, there were no additional "shovel-ready" projects that could be adopted in the budget process.

Last year, the Subcommittee asked Caltrans to provide an estimate of the necessary staff to produce a "shelf" of PIDs so that the state could have "shovel-ready" projects on hand to capitalize on funding opportunities from both State and federal sources. These positions were ultimately not part of the final 2014-15 budget agreement.

The Governor's Budget includes a proposal to add 25 positions to the PIDs unit to develop a shelf of projects to reflect a \$300 million ongoing funding for State Highway Operation and Protection Program (SHOPP). The total staffing in 2015-16 would be 362 positions.

Capital Outlay Support (COS):

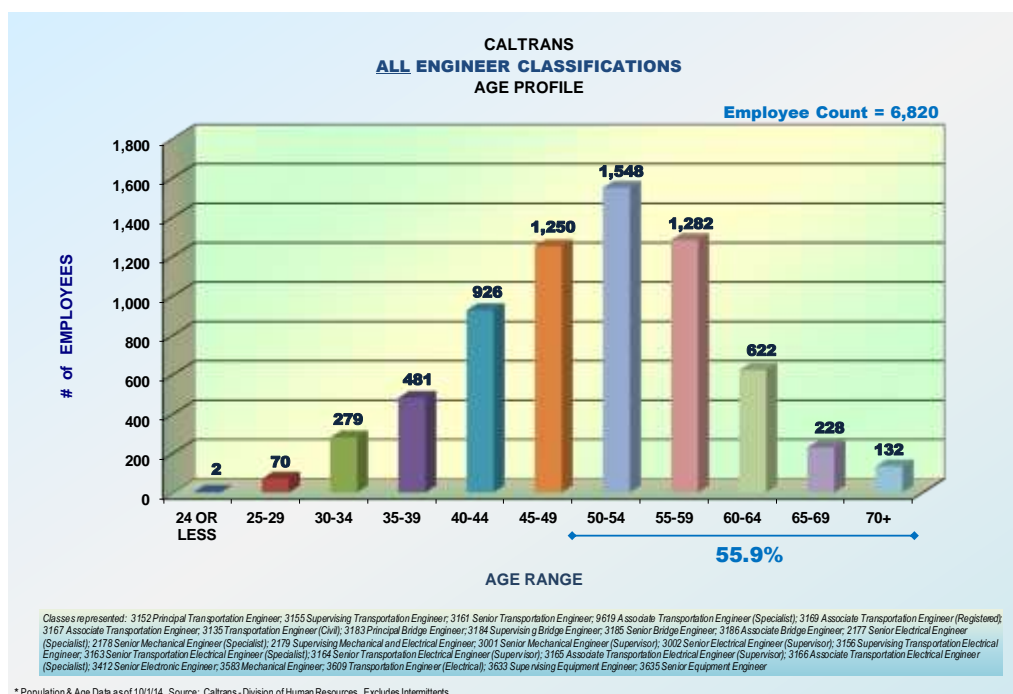
The Capital Outlay Support Program provides the funding and resources necessary to develop and deliver the projects to construction, as well as to administer and oversee the projects once they are under construction. COS functions include engineering, design, environmental studies, right-of-way acquisition, and construction management of state highway projects.

Current Caltrans has about 8,500 COS staff which perform 90 percent of the COS workload, the state contracts for the remaining 10 percent of the work. Last year the Department of Finance conducted a Zero-Based Budgeting analysis of COS staffing.

The current COS staffing model reflects the current workload associated with existing STIP and SHOPP programing. Last year the LAO released a report suggesting that since much of the funding for these projects were associated with Proposition 1B funding, which is being exhausted, the State should reduce COS staff proportionately. The Administration countered that the impact of reduce funding had not yet filtered into the workload and that it was premature to make such reductions. Both sides also disagreed on the extent to which reduced bond funding would translate into reduced staffing.

The COS staffing level discussion has reflected the current level of state resources rather than the level of need for transportation funding. The Assembly has outlined a \$2 billion annual increase for state and local streets and roads, a funding level of that would maintain or increase funding for transportation projects beyond current levels. If this were to occur, COS staffing levels would likely need to increase to meet the demand.

COS also faces a staff secession challenge. According to Caltrans, the 55.9 percent of COS engineers are currently retirement eligible. Since the last rounds of hiring of engineers in 2005-06, Caltrans has only hired a limited number of strategic backfills for vacancies. As a result Caltrans currently has almost twice as many engineers over age 70 than those under age 30.



APRIL 15 SPRING FISCAL LETTER

The Department of Finance has issued a Spring Fiscal Letter that adjusts the Capital Outlay Support Staffing level to reflect a projected reduction in work associated with the exhaustion of available Proposition 1B funding and American Recover and Reinvestment Act (ARRA) funding. The Spring Fiscal Letter decreases overall COS resources by \$25.2 million and 166 positions.

LAO RECOMMENDATION

Reject Proposed Resources to Develop Shelf of PIDs. In view of the concerns that developing a shelf of PIDs is both unnecessary and would likely increase state costs, we recommend that the Legislature reject the proposed increase in funding and positions to create a shelf of SHOPP PIDs. Specifically, we recommend reducing Caltrans' budget for PIDs by 14 positions and about \$2 million.

STAFF COMMENTS

The appropriate staffing levels for PIDs and COS depend upon the expectation of the future of transportation funding.

The LAO assumes that funding has peaked and will decline as the final Proposition 1B funding is exhausted. Therefore, LAO thinks Caltrans should start ramping down its staff accordingly.

The Administration assumes a status quo funding level at this time, which translates into a relatively flat level of staffing, except for the small increase in PIDs staffing associated with the project shelf and the decrease reflecting the fade out of the one-time ARRA and Prop 1B funds.

Assembly Budget staff assumes funding will need to be increased to match the articulated needs of our state infrastructure. Staff believes the State should begin ramping up staffing at Caltrans to prepare for a funding level that is equivalent to the expected need for transportation funding. This assumption reflects that recent proposal by the Speaker of the Assembly to seek additional ongoing funding for highway maintenance.

Staff recommends approving the Administration's PIDs request and asking Caltrans to begin analyzing the workload impact of additional ongoing funding for highway maintenance.

Staff Recommendation:

- **Approve as budgeted for PIDs proposal**
 - **Adopt April 15 Spring Fiscal Letter**
 - **Ask Caltrans to provide an estimate of the appropriate Capital Outlay Support staffing for an additional \$2 billion in annual maintenance by issuance of the May Revision .**
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ISSUE 5: ROAD USAGE CHARGE

The Governor's Budget includes funding to implement a Road Usage Charge pilot.

BACKGROUND

The Governor's Budget includes \$9.4 million State Highway Account and 5 positions for Caltrans to implement last year's SB 1077 (DeSaulnier), to pilot and evaluate a Road Usage Charge in California. In addition, the California Transportation Commission is requesting \$162,000 State Highway Account for one three-year limited term position for the same purpose - this one position is offset by a reduction of one position and \$122,000 of reimbursements.

The Administration considered several different options for the scope of the pilot project, ranging from a very small pilot of \$1.4 million with 400 participants for three months to a very large pilot of \$13.3 million for 6,000 participants for six months. The proposal chosen for the budget request is one of the larger options considered with 6,000 participants being studied over 12 months. SB 1077 also required an evaluation report, due January 1, 2017.

Per the provisions of SB 1077, the funds appropriated in the budget would subject to the guidance of a 15 member Technical Advisory Committee (TAC) that would determine the structure and governance of the pilot.

LAO RECOMMENDATION

Based on our analysis, we find that the Governor's proposals, combined with recent actions by Caltrans, raise several concerns. Specifically, we find that (1) the budget assumes that Caltrans will administer the pilot program, (2) the budget assumes certain design features of the pilot, (3) Caltrans recently signed a contract to commit some of the funds proposed in the budget, and (4) the administration has not provided a complete plan for the requested contract funds.

STAFF COMMENTS

Prior to the budget's release, there were concerns expressed by supporters of a road usage charge model that the administration would not provide sufficient resources for the pilot or the study to be successful. The Administration appears to have addressed these concerns by proposing a large and well-resourced pilot to allow for a meaningful final evaluation at the conclusion of the pilot.

The Administration comments that the TAC will still need to decide features of the pilot and the administration of the pilot, but chose to use Caltrans as a fiscal agent to begin this process.

Staff Recommendation: Approve as Budgeted

ISSUE 6: TRANSPORTATION MANAGEMENT SYSTEM

The Governor's Budget includes funding for a transportation management system.

BACKGROUND

The Governor's Budget includes \$6.6 million State Highway Account and 64 positions for state oversight and maintenance of existing Transportation Management Systems and the study of their impact on two corridors. Of this amount,

- \$3.9 million and 44 positions to the Maintenance program to help adequately maintain and preserve the Transportation Management System.
- \$2.7 million and 20 positions to the Traffic Operations program to implement two Transportation Management System pilot projects on two highway corridors - one in Northern California and one in Southern California - to measure changes in traffic mobility and safety outcomes resulting from maintaining a TMS in accordance to federal requirements.

Transportation Management Systems consists of more than 24,000 individual components, including numerous traffic signals, ramp meters, changeable messaging signs, highway advisory radios, closed circuit TV cameras, vehicle detection systems, and weather stations. This is an increase 5,000 components since 2007. Caltrans' Traffic Operations and Maintenance programs are responsible for operating and maintaining the various components of the Transportation Management System.

LAO RECOMMENDATION

- ***Approve Proposed Resources for Transportation Management System Maintenance.*** We recommend the Legislature approve the proposed funding and positions for the Maintenance program. This would allow Caltrans to make needed repairs and replacements to ensure that the components of the Transportation Management System are working as intended and in accordance to federal standards, improving the overall functionality of the system.
- ***Withhold Action on Proposed Pilot Projects Pending Additional Information.*** While the proposed pilot projects would allow Caltrans to better understand the potential benefits and proper operations of the Transportation Management System, the level of resources needed to effectively implement and evaluate the projects is unclear. This is because Caltrans has not provided sufficient detail regarding the pilot projects, including the scope of the pilot projects, the number and specific Transportation Management System components that will be tested, and a timeline for completion. Without such information, it is difficult for the Legislature to evaluate the additional resources proposed for the Traffic Operations program. Thus, we recommend that the

Legislature withhold action on the requested resources until the department provides certain key information regarding the pilot projects.

- **Require Caltrans to Provide Pilot Implementation Plans.** As indicated above, Caltrans does not plan to provide the implementation plans for the pilots until June, which would not provide sufficient time for the Legislature to consider the plans as part of its deliberations on the 2015–16 budget. In order to allow the Legislature to effectively review this request, we recommend that the Legislature require Caltrans to provide the implementation plans by May 1. We also recommend requiring that these implementation plans include: (1) the specific highway corridors selected and the criteria used to select them, (2) the number and type of Transportation Management System components on the selected corridors, (3) the workload and cost associated with each corridor for the duration of the pilot, (4) the specific metrics that will be used to evaluate the effectiveness of the pilot projects, and (5) a timeline for completion. To the extent that Caltrans is not able to provide this information in time for the Legislature to consider this spring, the proposal could be resubmitted as part of the 2016–17 budget.

STAFF COMMENTS

The Administration's proposal signals an interest in reinvesting in transportation management technology to better control traffic congestion within our existing infrastructure. This is a promising and proactive step by the administration.

On January 1, 2014, the State Smart Transportation Initiative released an evaluation of Caltrans. In that report, Caltrans was criticized for not being innovative. In hearings last year by both policy committees and budget Subcommittees, this complaint was reiterated by Members of the Legislature.

This proposal represents an effort by Caltrans to innovate. It is a small request, without fiscal risk beyond the appropriation. However, if the pilot is successful, it opens the door for further investments in systems which could yield improved outcomes for motorists without the expensive capital investment that is typical of transportation projects. Therefore, staff recommends approval of this proposal without modification.

Staff Recommendation: Approve as Budgeted

ISSUE 7: OTHER CALTRANS AND CTC BUDGET REQUESTS

The Governor's Budget includes several budget requests for Caltrans and the California Transportation Commission.

BACKGROUND

The Governor's Budget includes several other budget proposals for Caltrans and the California Transportation Commission. These proposals are:

- \$12 million State Highway Account for fleet greening and ongoing compliance with air quality regulations.
- \$136,000 Public Transit Account and one two-year-limited position for the California Transportation Commission to implement SB 486 (DeSaulnier) which expanded the role of the Commission in the State Highway Operations and Protection Program, the California Transportation Plan, the State Interregional Transportation Strategic Plan, and Interregional Transportation Improvement Program.

In addition to these above requests, the Department of Finance and Caltrans continued the third year of their joint zero-based budget effort of Caltrans. This year, that effort reviewed Legal services and recommended no changes to staffing or resource levels.

APRIL 1 SPRING FISCAL LETTER

On April 1, 2015, the Department of Finance issued a Spring Fiscal Letter requesting the following two changes:

- \$7.6 million to cover additional Amtrak operating costs. Of this amount, \$3.9 million will cover increases in existing operating costs and \$3.7 million will cover costs associated with the expansion of service on the San Joaquin line. Pursuant to the federal Passenger Rail Investment and Improvement Act of 2008, the State must cover all costs associated with inter-state rail operations.
- Trailer Bill Language to abolish the Transportation Investment Fund (TIF) and the Pedestrian Safety Account. Due to changes in the financing of transportation funding and programs, these funds are defunct and are no longer needed.

STAFF COMMENTS

Caltrans is prepared to respond to questions regarding its fleet greening proposal.

Staff Recommendation: Approve as Budgeted, Adopt Spring Fiscal Letter

ISSUE 8: ADMINISTRATION LEGISLATIVE PROPOSALS REGARDING TOLLING AND RELINQUISHMENT

The Subcommittee will consider two trailer bill proposals included in the Governor's budget.

BACKGROUND

The Governor's Budget includes three trailer bill provisions:

1. Increase the Authority for California Transportation Commission to expand tolling on the State highway system.
2. Transfer unpaid tolls and associated fees to the Franchise Tax Board for collection.
3. Expand the role of the California Transportation Commission to allow the Commission to relinquish State highway system to a city or county.

STAFF COMMENTS

The proposed trailer bill provisions are similar to discussions underway within the Assembly Transportation Committee. For example, AB 194 (Frazier) also considers the expansion of high occupancy toll lanes to include tolling.

Given that this dialogue is already underway in the policy process, staff recommends that administration use that process to advance their proposals rather than the budget.

Staff Recommendation: Reject, Without Prejudice, the Proposed Trailer Bill, so that the Policy Committee Can Consider These Proposals.

ISSUE 9: STATE TRANSIT ASSISTANCE FUNDING ELIGIBILITY CRITERIA

The Subcommittee will consider extending certain State Transit Assistance Funding Eligibility Criteria.

BACKGROUND

Current law includes a provision (Public Utility Code Section 99314.6) that imposes a restriction of the use of State Transit Assistance funds by local operators if the operator's total operating cost per revenue vehicle hour is more than the previous year's cost, as adjusted by the CPI. If an agency exceeds this threshold, funds provided by the State Transit Assistance program can only be used for capital expenditures and not for operations.

This provision is not currently in effect, but would be back in place in 2015-16. It was suspended from January 2010 until the end of this 2014-15 fiscal year.

Many agencies that receive STA funding anticipate being subject to this restriction because of increases in health care benefits and pension costs.

STAFF COMMENTS

The California Transit Association has requested the Subcommittee consider extending the current exemption for one fiscal year to allow the policy process time to consider options for eliminating or adjusting the eligibility criteria.

A bill, SB 508 (Beall), has been introduced to adjust this criteria, but that bill would not be effective until January 1, 2016. The bill would change the eligibility criteria by making it more of a "sliding-scale" so the restriction of the funding reflects the degree of increase in operation costs.

The following draft trailer bill language is proposed to accomplish the California Transit Association's request:

Public Utilities Codes 99314.6 (a) except as provided in Section 99314.7, the following eligibility standards apply:

(1) Except as provided in paragraph (2), funds shall not be allocated for operating purposes pursuant to Sections 99313 and 99314 to an operator unless the operator meets either of the following efficiency standards:

(A) The operator's total operating cost per revenue vehicle hour in the latest year for which audited data are available does not exceed the sum of the preceding year's total

operating cost per revenue vehicle hour and an amount equal to the product of the percentage change in the Consumer Price Index for the same period multiplied by the preceding year's total operating cost per revenue vehicle hour.

(B) The operator's average total operating cost per revenue vehicle hour in the latest three years for which audited data are available does not exceed the sum of the average of the total operating cost per revenue vehicle hour in the three years preceding the latest year for which audited data are available and an amount equal to the product of the average percentage change in the Consumer Price Index for the same period multiplied by the average total operating cost per revenue vehicle hour in the same three years.

(2) The transportation planning agency, county transportation commission, or the San Diego Metropolitan Transit Development Board, as the case may be, shall adjust the calculation of operating costs and revenue vehicle hours pursuant to paragraph (1) to account for either or both of the following factors:

(A) Exclusion of costs increases beyond the change in the Consumer Price Index for fuel; alternative fuel programs; power, including electricity; insurance premiums and payments in settlement of claims arising out of the operator's liability; or state or federal mandates, including the additional operating costs required to provide comparable complementary paratransit service as required by Section 37.121 of Title 49 of the Code of Federal Regulations, pursuant to the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12101 et seq.), as identified in the operator's paratransit plan pursuant to Section 37.139 of Title 49 of the Code of Federal Regulations.

(B) Exclusion of startup costs for new services for a period of not more than two years.

(3) Funds withheld from allocation to an operator pursuant to paragraph (1) shall be retained by the transportation planning agency, county transportation commission, or the San Diego Metropolitan Transit Development Board, as the case may be, for reallocation to that operator for two years following the year of ineligibility. In a year in which an operator's funds are allocated pursuant to paragraph (1), funds withheld from allocation during a preceding year shall also be allocated. Funds not allocated before the commencement of the third year following the year of ineligibility shall be reallocated to cost effective high priority regional transit activities, as determined by the transportation planning agency, county transportation commission, or the San Diego Metropolitan Transit Development Board, as the case may be. If that agency or commission, or the board, determines that no cost effective high priority regional transit activity exists, the unallocated funds shall revert to the Controller for reallocation.

(b) As used in this section, the following terms have the following meanings:

(1) "Operating cost" means the total operating cost as reported by the operator under the Uniform System of Accounts and Records, pursuant to Section 99243 and subdivision (a) of Section 99247.

(2) "Revenue vehicle hours" has the same meaning as "vehicle service hours," as defined in subdivision (h) of Section 99247.

(3) "Consumer Price Index," as applied to an operator, is the regional Consumer Price Index for that operator's region, as published by the United States Bureau of Labor Statistics. If a regional index is not published, the index for the State of California applies.

(4) "New service" has the same meaning as "extension of public transportation services" as defined in Section 99268.8.

(c) The restrictions in this section do not apply to allocations made for capital purposes.

(d) The exclusion of costs increases described in paragraph (2) of subdivision (a) applies solely for the purpose of calculating an operator's eligibility to claim funds pursuant to this section and does not authorize an operator to report an operating cost per revenue vehicle hour other than as described in this section and in Section 99247, to any of the following entities:

(1) The Controller pursuant to Section 99243.

(2) The entity conducting the fiscal audit pursuant to Section 99245.

(3) The entity conducting the performance audit pursuant to Section 99246.

(e) The restrictions in this section shall not apply to the allocation of funds made pursuant to Sections 99313 and 99314 after January 1, 2010, and through the ~~2014-15~~ **fiscal year. 2015-16 fiscal year**

Staff Recommendation: Adopt Trailer Bill Language to extend the suspension of the State Transit Assistance Funding Eligibility Criteria by one year.

ISSUE 10: FRESNO COUNTY PROPOSITION 42 MAINTENANCE OF EFFORT

The Subcommittee will consider eliminating an obligation that requires Fresno County make a \$5.5 million Proposition 42 Maintenance of Effort expenditure on streets after 2020.

BACKGROUND

Proposition 42, approved by voters in March of 2002, continued the Traffic Congestion Relief Act which allocated the sales tax on motor vehicle fuel as Traffic Congestion Relief Funds (TCRF) for transportation programs and road maintenance. The measure included a Maintenance of Effort for cities and counties to receive these funds, which was the equivalent of the amount expended by the entity for street purposes during the 1996-97, 1997-98 and 1998-99 fiscal years.

In 2010, the Legislature adopted SB 524, which exempted Fresno County from the MOE requirement for Proposition 42 for 2008-09 and 2009-10.

Last year, this Subcommittee took action to extend the sunset for this exemption to June 20, 2020 at which time Fresno County's General Fund will have to repay its road fund of approximately \$5.5 million. As part of that discussion, the County discussed making an offsetting investment to continue current indigent health services that would have had to be reduced to fund expenditures on streets.

On November 14, 2014, the Fresno County Board of Supervisors adopted a policy to invest \$5.5 million in funding to continue indigent health services and seek forgiveness of the Proposition 42 Maintenance of Effort obligation.

STAFF COMMENTS

The County will incur costs that equal the amount of the original Maintenance of Effort requirement and thus it could be argued that County has satisfied its obligation to the State by continuing existing indigent health care.

Staff Recommendation: Adopt Trailer Bill Language to Permanently Eliminate the Requirement the \$5.5 million Proposition 42 Maintenance of Effort for Fresno County

2665 HIGH SPEED RAIL AUTHORITY

ISSUE 11: UPDATE ON THE HIGH SPEED RAIL PROJECT

The Subcommittee will receive an update on the High Speed Rail Project.

BACKGROUND

With the ground now broken officially, California High Speed Rail project is now the largest infrastructure project underway in North America.

The Route:



The Construction/Service Schedule:

Section	Length (approx)	Endpoints	Service Description	Planning Schedule
Initial Operating Section (IOS)	300 miles	Merced to San Fernando Valley	<ul style="list-style-type: none"> → One-seat ride from Merced to San Fernando Valley. → Closes north-south intercity rail gap, connecting Bakersfield and Palmdale and then into Los Angeles Basin. → Begins with construction of up to 130 miles of high-speed rail track and structures in Central Valley. → Private sector operator. → Ridership and revenues sufficient to attract private capital for expansion. → Connects with enhanced regional/local rail for blended operations with common ticketing. 	2022
Bay to Basin	410 miles	San Jose and Merced to San Fernando Valley	<ul style="list-style-type: none"> → One-seat ride between San Francisco and San Fernando Valley.¹³ → Shared use of electrified/upgraded Caltrain corridor between San Jose and San Francisco Transbay Transit Center. → First high-speed rail service to connect the San Francisco Bay Area with the Los Angeles Basin. 	2026
Phase 1	520 miles	San Francisco to Los Angeles/Anaheim	<ul style="list-style-type: none"> → One-seat ride between San Francisco and Los Angeles.¹³ → 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 Transit Center. → Upgraded Metrolink corridor from LA to Anaheim. 	2028

Section	Receive Record of Decision	Complete Construction
Merced - Fresno	BASELINE REVISED June 2012 COMPLETED	2018 ¹⁴
Fresno - Bakersfield	BASELINE REVISED December 2012 COMPLETED	2018
San Francisco - San Jose ¹⁵	BASELINE REVISED December 2014 2017	2028
San Jose - Merced	BASELINE REVISED December 2013 2017	2026
Bakersfield - Palmdale	BASELINE REVISED February 2014 2017	2021
Palmdale - Burbank ¹⁶	BASELINE REVISED October 2013 2017	2022
Burbank - Los Angeles ¹⁶	BASELINE REVISED October 2013 2017	TBD
Los Angeles - Anaheim	BASELINE REVISED December 2014 2017	TBD
Merced - Sacramento (Phase 2)	BASELINE REVISED TBD TBD	TBD
Los Angeles - San Diego (Phase 2)	BASELINE REVISED TBD TBD	TBD

The Estimated Costs:

TABLE 2: CONSTRUCTION COST BY SECTION			
Baseline Budgets by Section		Cost Alignment Estimates (Constant Dollars*)	Cost Alignment Estimate (YOE)
San Francisco - San Jose	2012 Business Plan	\$5,699	\$8,363
	2014 Business Plan	\$5,813	\$7,960
San Jose - Merced	2012 Business Plan	\$14,042	\$19,757
	2014 Business Plan	\$14,332	\$18,978
Merced - Fresno	2012 Business Plan	\$5,214	\$5,482
	2014 Business Plan	\$5,392	\$5,972
Fresno - Bakersfield	2012 Business Plan	\$6,705	\$7,711
	2014 Business Plan	\$6,927	\$7,813
Bakersfield - Palmdale	2012 Business Plan	\$8,092	\$9,533
	2014 Business Plan	\$8,359	\$9,418
Palmdale - Los Angeles	2012 Business Plan	\$13,100	\$16,704
	2014 Business Plan	\$13,468	\$16,627
Los Angeles - Anaheim	2012 Business Plan	\$591	\$815
	2014 Business Plan	\$603	\$825
TOTAL	2012 Business Plan	\$53,443	\$68,365
	2014 Business Plan	\$54,894	\$67,593

*2011 dollars are used for 2012 Business Plan estimates. 2013 dollars are used for 2014 Business Plan estimates.
(Dollars in millions)

STAFF COMMENTS

For the last five years, the Authority has focused on planning, environmental clearance and right of way acquisitions. Now that construction has begun, the construction management activities are layered on top of these activities as the project moves forward.

The next major decisions points for the Authority include:

- Awarding Construction Package 4, which would construct 30 miles of track south from CP 2-3 and will extend the track bed to a location just north of Bakersfield. The Authority recently announced a list of bidders for this contract.
- Finalizing the alignments and station locations in Bakersfield
- Awarding a contract for trainset and maintenance facilities. The Authority anticipates ordering 16 trainsets in the initial order.
- Choosing between two different alignments between Palmdale and Burbank—one that follows State Highway Route 14 through Santa Clarita or another that will travel under the San Gabriel Mountains.

Staff Recommendation: Informational Item—No Action Necessary

ISSUE 12: RISK MANAGEMENT

The Subcommittee will consider project risks identified by the authority and the authority's strategies to reduce these risks.

BACKGROUND

The March 1 High Speed Rail report included a section which discussed project risks identified by the authority and the projects approach to managing these risks.

The report discussed the following risk categories:

- Environmental Approvals
- Financing and Funding
- Legal Challenges
- Operational and Maintenance Costs
- Railroad Agreements
- Ridership and Farebox Revenue
- Right-of-Way
- Staffing and Organizational Structure
- Stakeholder Support
- Technical
- Third-Party Agreements

STAFF COMMENTS

The risks identified in the report appear very comprehensive, which provides a good framework for oversight discussions by the Subcommittee.

The Authority has been asked to prepare for questions from members regarding its Eminent Domain activities so that it could be discussed at this point on the agenda.

Staff Recommendation: Informational Item—No Action Needed

ISSUE 13: CONSTRUCTION MANAGEMENT

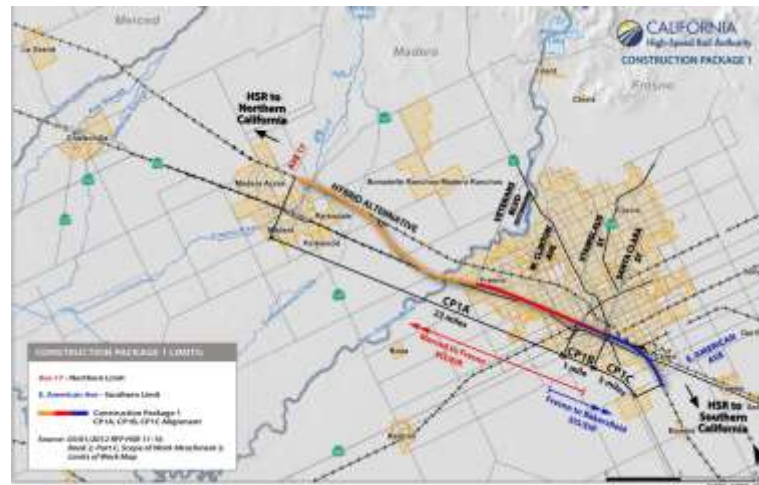
The Subcommittee will consider the authority's model for managing the construction of High Speed Rail.

BACKGROUND

Currently, there are two construction “packages” building two portions of the Initial Construction Segment of the High Speed Rail.

Construction Package 1: 29 miles between Avenue 17 in Madera County and East American Avenue in Fresno County. The State has a \$1 billion contract with Tutor-Perini/Zachary/Parsons for construction. As of March 1, the Authority reports \$109.9 million in expenditures for this contract. In addition, the State has a contract for project and construction management with a joint venture contract of PGH Wong Engineering, Inc., and Harris & Associate (Wong+Harris).

The Construction package is divided into three subsections (CP1A, CP1B, and CP1C) identified in the map below:



Construction Package 2-3: 65 miles between East American Avenue in Fresno and the Tulare-Kern County line. The State has awarded, but not executed a \$1.2 billion contract with Dragados/Flatiron/Shimmick for construction. In addition, the State has a contract with ARCADIS for project and construction management.

With the additional staff provided in the Spring Fiscal Letter, the authority will have a total of 212 positions of State staff, which is augmented by an overall project management contract with Parsons. Of this amount, only 98 staff serves in a construction monitoring capacity, engineering, and contract compliance capacity, which includes the 63 positions contained in the Governor’s Budget and the 35 positions contained in the Spring Fiscal Letter.

High Speed Rail has a “lean” model for project oversight by State staff. The Authority argues that because this project is design-build this level of oversight is appropriate. Each construction segment is overseen by State staff and contracted project management staff.

SPRING FISCAL LETTER

The Department of Finance issued a Spring Fiscal Letter on April 1, 2015 that requests an additional 35 positions for project oversight.

The table below illustrates these new positions and how they increase existing staffing levels:

Program Management Division	January Budget	Spring Fiscal Letter	Total
Program Management Office	2	4	6
Environmental Planning Division	11	1	12
Right of Way Division	11	6	17
Project Management Division	13	8	21
Transportation and Planning	7	3	10
Design and Construction	12	6	18
Contract Compliance Division	6	4	10
Engineering Division	1	3	4
Total Staff	63	35	98

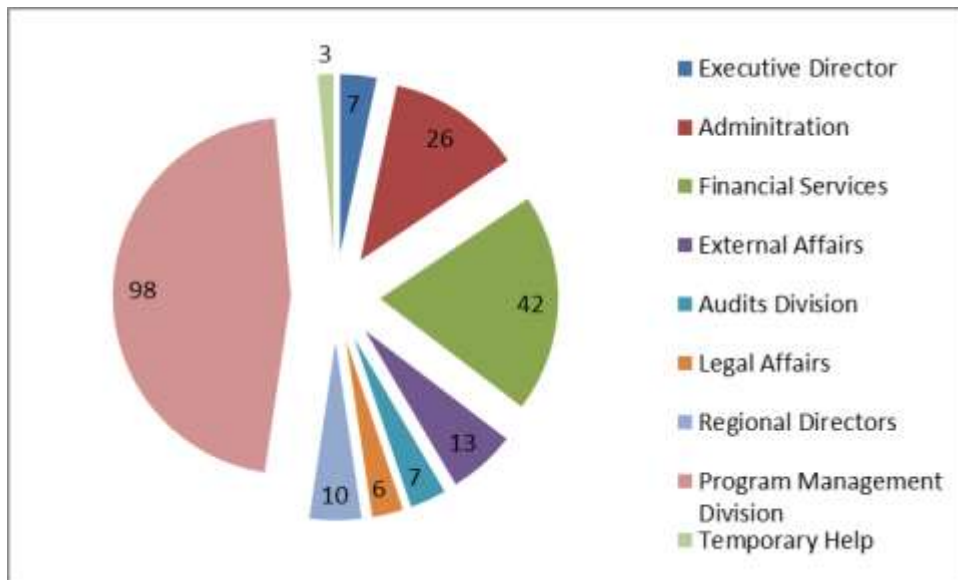
The table above was approximated using the information provided by the Authority and the Department of Finance, both were unresponsive in a request to verify the above information.

STAFF COMMENTS

The California High Speed Rail project is the biggest capital project in North America at this time and is currently underway with two construction packages worth over \$1 billion each in progress and over \$60 billion more in expenditures anticipated over the next decade.

The total project, with the Spring Fiscal Letter, will have 212 staff. Of this amount, slightly less than half perform the project oversight, construction contract monitoring, and planning functions.

The chart below illustrates total staff of the High Speed Rail Authority.



The authority has embraced the concept of lean oversight, but it is difficult to see how such a paltry staffing level can possibly handle a project of the size and scope of the High Speed Rail. The overall staffing levels include staff headquartered in Sacramento, which means that the actual state staff on site of the construction will be even lower. The Subcommittee may wish to explore how such a small team can adequately manage such massive construction contracts.

Here are some examples of how small the High Speed Rail staffing is compared to other departments:

- The State's largest IT project, FI\$Cal has TWICE as many staff as the High Speed Rail Program Management Division.
- The State has FOUR TIMES as many staff at the Bureau of Electronic and Appliance Repair and Home Furnishing and Thermal Insulation (44 positions) than for contract compliance for the High Speed Rail project.
- The Assembly Budget Committee has more than TWO AND A HALF TIMES more members of the committee than High Speed Rail Authority has staff for Transportation and Planning of the project.
- The staffing level of the Board of Pilot Commissioners (4 staff) is the same size as the Engineer Division for the High Speed Rail project.

- More state staff are allocated to clean the State Capitol building (9 positions) than to run the Program Management Division which oversees planning, construction, and compliance of the \$67 billion project.
- The Program/Project Management unit for one of Caltran's smallest district (District 1-Eureka) is the same size as the project management division for the entire High Speed Rail Authority. The District 3—Marysville has 31 staff in its Program/Project Management unit, ten more staff than the High Speed Rail Authority.

These examples are unscientific and anecdotal. However, the authority needs to have an analytic rationale for its staffing levels. Therefore, staff recommends the Authority report by next year a rationale for the current level of staffing based upon a demonstrated best practice of project oversight.

**Staff Recommendation: Adopt Spring Fiscal Letter
Adopt Supplemental Reporting Language requiring the High Speed Rail Authority to provide a rationale for state staffing levels based upon best practices for construction oversight by February 1, 2016.**

ISSUE 14: UPDATING REPORTING AND PEER REVIEW GROUP

The Subcommittee will consider whether existing reporting requirements placed upon the High Speed Rail should be updated to reflect the transition of the project to the construction phase.

BACKGROUND

SB 1029, the 2012 Budget Bill provision that authorized expenditures of Proposition 1A Bond Funds, included fourteen required reports to the Legislature. Five of these reports were one-time and are no longer required. However, nine of them continue to be required at various project milestones.

In addition, there is a Peer Review group that provides feedback to the Authority on the High Speed Rail Project. The membership of the group is stipulated by statute. Some of appointing authorities have had difficulty finding a candidate that has the required qualifications for the group and this has left several of the Peer Review group appointments vacant.

STAFF COMMENTS

Many of the reports required by SB 1029 appear redundant and given the very lean staffing model at High Speed Rail Authority, the Assembly should consider reducing these requirements. Staff recommends High Speed Rail provide feedback to refresh the reporting list so that this issue can be discussed again in open issues.

Staff recommends that the Authority provide feedback on possible trailer bill language be adopted to make small modifications to the statutorily required qualifications of the Peer Review Group so that it will be possible to have all of the membership appointed.

Staff Recommendation: Ask the High Speed Rail Authority to propose an updated list of reporting requirements and possible changes to the Peer Review Group by the issuance of May Revision

2660 CALTRANS
2665 HIGH SPEED RAIL AUTHORITY
8660 PUBLIC UTILITIES COMMISSION

ISSUE 15: HIGH SPEED RAIL-RELATED SPRING FISCAL LETTERS

The Department of Finance has submitted three provisions related to High Speed Rail in Spring Fiscal Letters.

BACKGROUND

The Department of Finance has submitted three provisions related to High Speed Rail in Spring Fiscal Letters.

These proposals are:

- \$1.8 million and 16 limited-term positions at Caltrans to assist the Authority with legal services associated land acquisition, eminent domain, and other legal services. The High Speed Rail Authority would reimburse Caltrans for these positions.
- \$3.5 million and 10 positions at High Speed Rail Authority to assist the Authority with legal services associated with the contracting and procurement of Construction Packages 2-3 and 4.
- \$355,000 to support the Public Utility Commission's staff costs and operating expenses. This proposal shifts the funding source for three positions received in 2014-15 as part of CPUC's Electrical Infrastructure Planning and Permitting to support the High Speed Rail Initiative. The new proposed funding source is the Public Utilities Commission Utilities Reimbursement Account; the original attributed funding source was The Public Transportation Account, State Transportation Fund.

STAFF COMMENTS

This Authority typically requests adjustments to inter-department agreements through budget change proposals. Last year the Subcommittee approved an adjustment to legal services for Caltrans on April 2, 2014 and the PUC staffing on May 22, 2014.

Staff Recommendation: Adopt Spring Fiscal Letters
