

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 5
ON TRANSPORTATION AND INFORMATION TECHNOLOGY

Assemblymember Mike Feuer, Chair

WEDNESDAY, APRIL 11, 2007
ROOM 127 – 4:00 PM

CONSENT CALENDAR

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PROPOSED CONSENT

ITEM 2660

CALTRANS FINANCE LETTERS ISSUES 103 AND 108

The Department of Finance has submitted a Spring Finance Letter requesting a reappropriation of \$11.6 million to complete the Project Resourcing and Schedule Management System (Issue 103). The reappropriation is necessary due to delays in the procurement process.

In addition, the Department of Finance has submitted a Spring Finance Letter requesting changes in budget bill language concerning the use of Tribal Gaming funds for SHOPP projects (Issue 108). The request is made to enable better tracking of the use of Tribal Gaming funds.

ITEMS TO BE HEARD

ITEM 2600 CALIFORNIA TRANSPORTATION COMMISSION

The California Transportation Commission (CTC) advises and assists the Administration and the Legislature in formulating and evaluating State policies, plans and funding for California's transportation programs.

The Governor's budget proposes \$5.7 million; an increase of about \$300,000 from revises current year funding.

ISSUE 1: SPRING FINANCE LETTER

The Department of Finance has submitted a Spring Finance Letter requesting an additional \$584,000 and five positions for the administration of Proposition 1B bond programs.

COMMENTS:

The proposal would be funded by the following bond programs: the STIP, SHOPP, Local Transit, Local Streets and Roads, State-Local Partnership, Grade Separations, State Route 99, and Local Seismic Retrofit. In addition, the Director of Finance would be able to adjust the funding amount among the various programs to address the administrative and oversight needs of each program.

The Legislative Analyst's Office should report at the hearing any concerns they may have with the proposed new positions and the flexibility language.

ISSUE 2: TCRP UPDATE

The Traffic Congestion Relief Program (TCRP) was established in 2000 to fund 141 specific projects to provide congestion relief, increased connectivity, and faster goods movement. The TCRP was funded with an initial General Fund investment and annual allocations from Proposition 42, 2007-08 is the last year for Proposition 42 funding for the TCRP.

The General Fund budget problems that soon followed resulted in various funding delays for the TCRP, which has resulted in project delays, local agencies using their own funds to temporarily backfill delayed TCRP funds, and a continued reliance on General Fund repayments.

Seven years after its establishment, several issues surround the TCRP.

- ◆ What is the status of the original 141 projects? Of the projects that are not underway, are they still priorities? Are the funds identified in the TCRP still adequate?
- ◆ Should local agencies be able to replace projects that are no longer priorities or that are no longer adequately funded by the TCRP with alternative projects?
- ◆ Proposition 1A and the updated projection of Tribal Gaming revenues results in about \$1.2 billion being repaid annually through 2016-17. What is the impact of the repayment schedule of General Fund loans on the 141 projects?

COMMENTS:

The CTC should report at the hearing the status of the TCRP.

The Subcommittee should consider adopting Supplemental Report Language directing the CTC to (1) establish completion deadlines for TCRP projects, (2) identify projects that are no longer viable, and (3) draft proposed legislation that can be considered with the 2008-09 budget that provides authority and guidance for redirecting funds from unviable projects to alternative projects.

The following charts from the Legislative Analyst are helpful for understanding the TCRP.

**Estimated Revenues to
Traffic Congestion Relief Program
2007-08 and Future Years**

(In Millions)

Fiscal Year	Loan Repayment			Total
	Proposition 1A ^a	Tribal Revenues ^b	Annual Payment	
2007-08	\$82	—	\$602	\$684
2008-09	82	—	—	82
2009-10	83	\$86	—	169
2010-11	83	100	—	183
2011-12	83	100	—	183
2012-13	83	4	—	87
2013-14	83	—	—	83
2014-15	83	21	—	104
2015-16	83	100	—	183
2016-17	—	71	—	71
Totals	\$745	\$482	\$602	\$1,829

^a Assumes the state repays the Traffic Congestion Relief Fund (TCRF) at the rate of one-ninth the amount owed each year. Actual repayment level may vary in some years.

^b Assumes tribal bonds are not issued and instead the state uses ongoing tribal compact revenues to repay the TCRF in the amounts and order provided in Chapter 56, Statutes of 2006 (SB 1132, Committee on Budget and Fiscal Review).

Status of Traffic Congestion Relief Program Funding As of December 2006	
(In Millions)	
Status of Funding	Amount
Allocated	\$2,594.1
Expended, projects completed ^a	304.0
Expended, projects not yet complete ^b	1,393.6
Allocated, not yet expended	896.5
Not Allocated	2,314.7
Application approved, no allocation or LONPs ^c	1,204.3
Local funding with LONPs	566.5
Application not yet approved	543.9
Total	\$4,908.8
<p>^a Includes \$1 million in reimbursed LONPs.</p> <p>^b Includes \$119 million in reimbursed LONPs.</p> <p>^c Letters of No Prejudice.</p>	

ITEM 2660 CALTRANS

The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive transportation system with more than 50,000 miles of highway and freeway lanes. In addition, Caltrans provides intercity rail passenger services under contract with Amtrak, and assists local governments with the delivery of transportation projects, as well as other transportation-related activities.

The Governor's budget proposes \$12.8 billion, including \$1.6 billion from the General Fund. This reflects an increase of \$1.5 billion from the revised current year budget, due primarily to the implementation of Proposition 1B.

ISSUE 1: INFORMATIONAL ITEM: BAY BRIDGE UPDATE

It is requested that the Director of Caltrans provides an update on the status of the Bay Bridge Seismic Retrofit project, including any changes to cost estimates, completion timeframes, and other information regarding the progress of the project.

COMMENTS:

This is an informational item, no action is necessary.

ISSUE 2: PROPOSITION 1B

In November 2006, the voters approved Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Act of 2006. The bond provides a total of \$19.9 billion for transportation infrastructure investments. The following chart identifies the allocation of the bond.

Unlike parts of the other bonds approved in November that have continuous appropriations, all of the transportation bonds revenues need to be appropriated by the Legislature.

The Governor's proposed budget appropriates a total of \$7.7 billion to be expended over the next three fiscal years. In drafting the Proposition 1B, the Legislature specifically required appropriation of the funds by the Legislature in order to preserve Legislative control and oversight. If approved, the Legislature would give up that control over the subsequent two fiscal years by calling for a three-year appropriation in the 2007-08 budget.

In addition, the Governor proposes \$523 million of Proposition 1B funds for expenditure in the current year. The funds would go primarily for the State Transportation Improvement Program (STIP) (\$262 million), the State Highway Operation and Protection Program (SHOPP) (\$141 million), and Corridor Mobility (\$100). STIP and SHOPP expenditures could be expedited without urgency legislation so long as there are clear assurances the appropriation would ultimately be provided in the Budget Act. Corridor Mobility spending could not occur with urgency legislation in the current year.

COMMENTS:**Prop 1B Charts**

The following charts help understand Proposition 1B and the Governor's budget proposal.

Congestion Reduction, Highway and Local Road Improvements	(in millions)
◆ Corridor Mobility	\$4,500
◆ State Transportation Improvement Program (STIP)	2,000
◆ Local Roads	2,000
◆ Highway 99	1,000
◆ State-Local Partnership	1,000
◆ State Highway Operations and Protection Program (SHOPP)	750
Sub-total	\$11,250
Transit	
◆ Local Transit	\$3,600

◆ Intercity Rail	400
Sub-total	\$4,000
Goods Movement and Air Quality	
◆ Trade Corridors	\$2,000
◆ Air Quality	1,000
◆ School Bus Retrofit	200
Sub-total	\$3,200
Safety and Security	
◆ Transit Security	\$1,000
◆ Grade Separation	250
◆ Local Bridges	125
◆ Port Security	100
Sub-total	\$1,475
Total	\$19,925

The following chart specifies the Governor's proposal for Proposition 1B funds:

(in millions)	2006-07	2007-08	2008-09	2009-10	Total
Congestion Reduction, Highway and Local Road Improvements					
◆ Corridor Mobility	\$100	\$317	\$712	\$1090	\$2,219
◆ STIP	262	340	287	408	1,297
◆ Local Roads	-	600	300	150	1,050
◆ Highway 99	-	28	44	99	171
◆ State-Local Partnership	-	170	166	166	502
◆ SHOPP	141	403	102	13	659
Transit					
◆ Local Transit	-	600	350	350	1,300
Goods Movement and Air Quality					
◆ Trade Corridors	15	170	255	255	695
◆ Air Quality	-	-	-	-	-
◆ School Bus Retrofit	-	97			97
Safety and Security					
◆ Grade Separation		55	60	59	174
◆ Local Bridges	5	9	13	17	44
Total	\$523	\$2,789	\$2,289	\$2,607	\$8,203

Three-Year Appropriation and Flexibility Language

The Governor's proposals for a three year appropriation of bond funds and the authority to shift appropriated funds among the programs are contrary to the Legislature's intentions at the time the bonds were crafted.

While there may be some legitimate reasons for the Administration wanting the lengthy appropriations and added flexibility, the proposals go significantly further than necessary. The Subcommittee may wish to direct staff, the Administration, and the LAO to work together on more limited proposals that can be included in the Governor's May Revision or considered by the Subcommittee later in the year.

Current Year Appropriation

The proposed \$523 million current year appropriation has not occurred. The LAO has reports that the current year appropriation would not necessarily speed up the projects that would be eligible for the funds.

It is anticipated that the May Revision may propose moving the funds from the current year to the budget year.

In past years, the CTC has moved forward on STIP and SHOPP projects in anticipation of the Legislature including the funding the budget for the next fiscal year, but prior to the actual appropriation actually occurring.

The Subcommittee could facilitate this by clearly indicating that the funds proposed for the current year will be included in the 2007-08 Budget Act.

Bond Funds Helping the General Fund Shortfall

Though not explicit, the Governor's proposed budget uses Proposition 1B funds to help balance the General Fund budget shortfall.

The most significant proposal to close the General Fund shortfall is the proposed shift of \$1.1 billion of Public Transportation Account (PTA) funds to offset General Fund expenditures.

At the March 28 Subcommittee #5 hearing, it was made clear a portion of the PTA funds were made available by delaying PTA STIP projects and that those projects may be made whole by local transit agencies by using their Proposition 1B allocations. But for the availability of the bond funds, this General Fund solution would not be as available for the Governor to propose.

While Proposition 1B was intended to provide additional funds for transportation rather than simply backfilling other lost funds, it is particularly troubling that the Administration has proposed this only for Public Transit bond funds. In addition, it is important to remember that the Administration never proposed bond funds to support public transit – it was the Legislature that added the total of \$4 billion into the bond legislation.

Given this proposal and the Administration's reluctance to include Public Transit in the bond, the Administration should report at the hearing whether they support the bond funding for public transit at the same level of support as the other Proposition 1B programs.

Balancing the General Fund budget is a primary concern of Subcommittee #5 and the entire Assembly Budget Committee. Therefore, should there be a need to use creative budgeting to balance the budget using transportation funds generally, and Proposition 1B funds specifically, the Subcommittee may wish to suggest to the Administration to disperse the impact on transportation among all of transportation, and not just directed at public transit, when the May Revision is proposed.

ISSUE 3: PUBLIC TRANSPORTATION ACCOUNT FUND SHIFTS

The Governor's proposed budget shifts \$1.1 billion from the programs historically funded by the PTA to programs historically funded by the General Fund. This results in General Fund relief of \$1.1 billion.

In addition, the Governor proposes to retain \$85 million on non-Article XIX funds in the SHA rather than be transferred to the PTA, in accordance with current law.

COMMENTS:

Subcommittee #5 discussed the Governor's PTA fund shift proposal in detail during the informational hearing on March 28, 2007.

Since the release of the Governor's budget and the March 28th hearing, the Administration has altered a portion of the PTA shift proposal. Rather than the PTA funding for Home-to-School transportation result in a "re-benching" of Proposition 98, the General Fund will continue to support the existing Proposition 98 base requirements, with the PTA then reimbursing the General Fund for its support of Home-to-School transportation.

Given the significant nature of this proposal in balancing the Governor's proposed budget, the Subcommittee should consider holding this issue open until after the May Revision when a clearer sense of the General Fund condition will be known.

The Subcommittee may wish to suggest that the Administration that the May Revision not rely on transportation cuts to balance the General Fund budget, or if not possible, share the impact on transportation cuts across all areas of transportation, and not just public transit.

Additional Background Information on the Proposal

The General Fund savings is achieved by shifting the following to the PTA:

- \$627 million for Home-to-School Transportation.
- \$144 million to the Developmental Services for Regional Center Transportation.
- \$340 million to repay General Obligation Bond Debt Service.

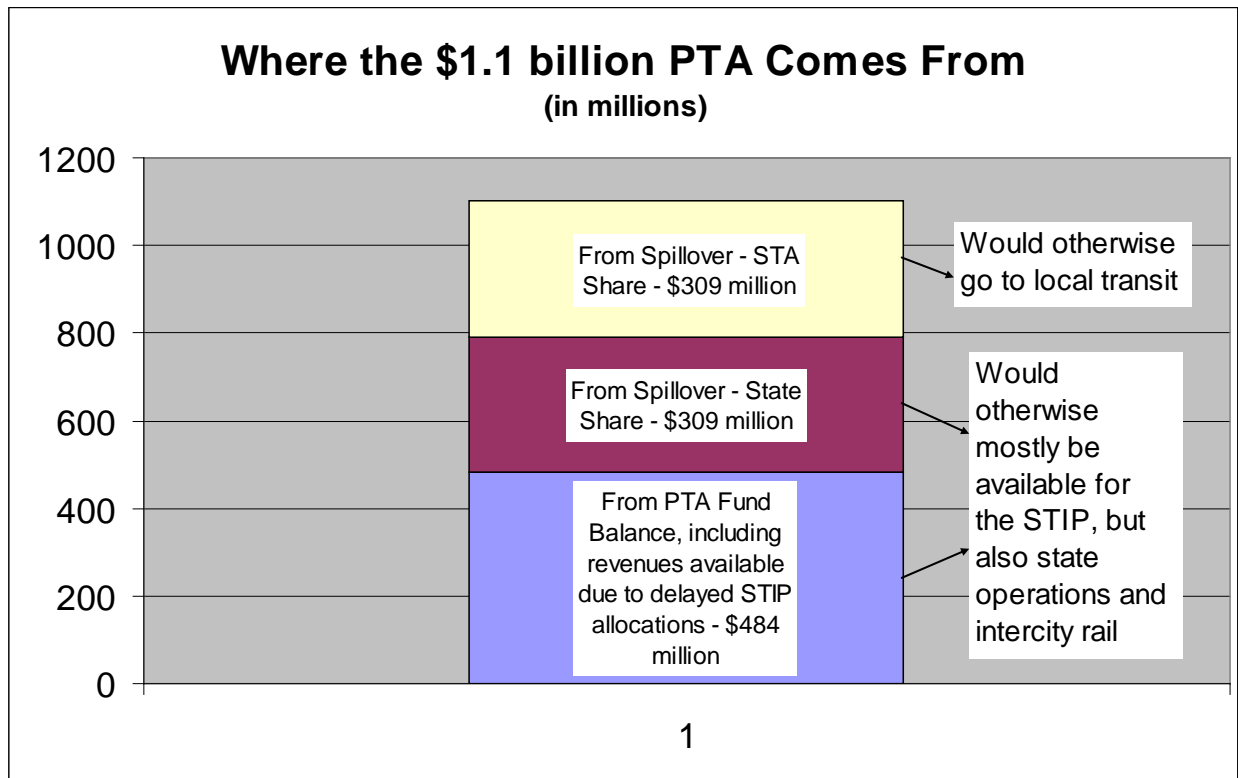
The Governor's official Budget Summary states that both the Home to School Transportation and the Regional Center Transportation would continue to be funded from the PTA in future years, with any shortfall due to PTA revenues not being sufficient to be made up with General Funds. Subsequent documents from the Administration indicate only the Home-to-School Transportation would continue being a PTA funded program in future years.

The Governor's proposal will reduce what would otherwise be available for local transit operations by about \$309 million. In addition, the PTA fund balance available to deliver STIP projects would be reduced. While this may not cause cash flow problems in the short term, it ultimately does mean there is less funds available for transit capital projects.

As mentioned above, \$617 million of the \$1.1 billion fund shift come from PTA spillover revenues and the Governor's proposal is to permanently shift the spillover revenues to cover current General Fund obligations. The spillover is the amount of funds that would otherwise go the General Fund (now Proposition 42) but instead are transferred to the PTA when specific conditions are met. Generally, these conditions occurs when the rate of sales taxes collected from the sale of gasoline exceeds the rate collected or the rest of goods sold in the state.

The spillover dates back to the early 1970s when a portion of General Fund sales taxes was shifted to local governments for transportation purposes and gasoline was then added to the sales tax base to backfill the General Fund for the transfer. The spillover mechanism is designed to keep the General Fund from receiving a windfall from the changes when gas prices are higher relative to the rest of goods sold in the state.

While the spillover has been suspended in the past with the funds then flowing to the General Fund, it is generally understood at this point that doing so would not benefit the General Fund's bottom line, instead the funds would become subject to the allocation formula of Proposition 42. As a result, the Governor – beginning with the last May Revision and continuing with this budget proposal – has found alternative ways to shift the spillover revenues that ultimately benefit the bottom line of the General Fund.



ISSUE 4: ENVIRONMENTAL ENHANCEMENT AND MITIGATION PROGRAM

The Environmental Enhancement and Mitigation Program (EEMP) funds grants for projects such as hiking and biking trails, landscaping, and the acquisition of park and wildlife areas.

The Governor's proposed budget provides no funding for the EEMP in 2007-08.

COMMENTS:

The EEMP was initiated by Chapter 106, Statutes of 1989, which provided for annual transfers of \$10 million from the State Highway Account (SHA) to the EEM Fund for a ten-year period. At the expiration of the ten-year period, the Legislature decided to continue funding at the \$10 million level and current statute cites the intent of the Legislature to allocate \$10 million annually to the EEMP. Due to declining State Highway Account (SHA) balances, the EEMP was reduced in 2003-04 and 2004-05 to \$5 million each year, and the program received no funding in 2005-06.

The Legislature augmented the Governor's proposed 2006-07 budget by \$10 million (SHA) for EEM, and the augmentation was sustained. This year, the Administration proposes no funding for EEMP.

The Subcommittee may wish to restore the \$10 million for EEMP from the SHA for 2007-08.

ISSUE 5: PAVEMENT PRESERVATION AND MAINTENANCE (INCLUDING SPRING FINANCE LETTER)

The Governor's proposed budget includes an increase of \$85 million to address the pavement maintenance backlog. In addition, the Department of Finance has submitted a Spring Finance letter redirecting \$5.3 million of the \$85 million from operating expenses to personal services.

COMMENTS:

The proposal is intended to address a pavement maintenance backlog that Caltrans indicates is 40 percent and growing.

The LAO is concerned that the budget does not include any additional funding for maintenance of bridges and culverts. While Caltrans indicates the backlog is for these are only six percent, the LAO reports that keeping up on maintaining bridges and culverts saves more money in the long run.

Caltrans indicates that the proposed budget is sufficient to keep the backlog of bridges and culvert maintenance from growing beyond the six percent level.

It should be noted that the \$85 million is from the SHA, which the Administration links to the proposal to shift non-Article XIX funds from the PTA to the SHA (mentioned in Issue 3). Should the Subcommittee approve the \$85 million from the SHA, it should be considered independent of the proposal to shift funds away from the PTA.

ISSUE 6: VIRTUAL TRAFFIC MONITORING

The Governor's proposed budget requests \$1.2 million in 2007-08 and \$1.1 million in 2008-09 to fund a two-year pilot project that will determine the effectiveness of purchasing real-time traffic data from private vendors.

COMMENTS:

Under this proposal, the private vendors would supply traffic speed information from Automatic Vehicle Location technologies, such as cellular signals, and/or other technologies. If this technology is viable, it may result in cost saving and traffic-congestion reduction because freeway loop detectors would no longer need to be installed and maintained.

The Legislative Analyst's Office finds the request reasonable, but suggests the Legislature adopt Supplemental Report Language directing the department to report on its experience.

The Senate approved the proposal, with the addition of the LAO's proposed Supplemental Report Language.

ISSUE 7: FUEL COST INCREASE

The Governor's proposed budget requests a one-time augmentation of \$9.0 million (State Highway Account) to address higher fuel costs. Caltrans indicates its current base is \$26.9 million, which would be sufficient if fuel prices were in the range of \$2.04 per gallon. Caltrans received a one-time increase of \$5.2 million for 2006-07 which was based on a fuel cost assumption of \$2.33 per gallon. This year's request assumes fuel costs will average about \$2.64 per gallon.

COMMENTS:

Caltrans indicates the \$2.64 price assumption ties to a June 2006 Federal Energy Information Agency projection. The Department expects to consume 13.6 million gallons of fuel in 2007-08, which matches 2005-06 usage. Since this is a one-time increase, Caltrans will likely submit a similar request next year for 2008-09 to update funding to the fuel price forecast of that time.

Caltrans provided the Senate Budget staff with updated information from the Federal Energy Information Agency. Caltrans indicates that fuel prices are expected to average about \$3.01 per gallon in March 2007 and then moderate slightly over the next year to an average of \$2.85 per gallon in 2007-08.

Caltrans should report at the hearing on efforts to stabilize the departments' fuel costs, such as entering long-term contracts at lower per gallon prices.

The Senate subcommittee augmented the budget by \$2.856 million to tie to the updated fuel price forecast. Subcommittee #5 may wish to conform to the Senate action, bringing the total one-time funding to \$11.9 million: \$9.0 million from the Governor's budget plus \$2.9 million for the updated forecast.

ITEM 2640 STATE TRANSIT ASSISTANCE

State Transit Assistance (STA) provides the budget for the State Transportation Assistance program, which provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation programs.

The Governor's budget proposes \$784.7 million for STA. This includes \$184.7 million for the traditional STA purposes, a decrease of \$439 million for the current year. The remaining \$600 million is Proposition 1B funds for capital projects

ISSUE 1: CONCERNS WITH PROPOSED BUDGET

As discussed extensively at the Subcommittee #5 hearing on March 28, 2007, the Governor's proposed budget significantly reduces support for STA through the diversion of the spillover and by offsetting the budget year appropriation by the projected over appropriation in the current year.

In addition, as mention under the Proposition 1B discussion under the Caltrans item, the proposed bond funds for STA are impart expected to offset reduced funding for STIP PTA projects.

COMMENTS:

Since STA's budget is tied directly to the PTA fund shift proposal and the Proposition 1B proposal, the Subcommittee may wish to hold the STA budget open until after the May Revision when a clearer sense of the General Fund condition is available.

The Subcommittee may wish to once again suggest that the Administration that the May Revision not rely on transportation cuts to balance the General Fund budget, or if not possible, share the impact on transportation cuts across all areas of transportation, and not just public transit.

