

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

**Assemblymember Mike Feuer, Chair**

**WEDNESDAY, APRIL 2, 2008**  
**ROOM 127 – 4:00 PM**

<b>ITEMS TO BE HEARD</b>		
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## ITEMS TO BE HEARD

### **ITEM 2600 CALIFORNIA TRANSPORTATION COMMISSION**

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The California Transportation Commission (CTC) advises and assists the Secretary of the Business, Transportation and Housing Agency and the Legislature in formulating and evaluating state policies, plans, and funding for California's transportation programs. The Governor's proposed budget includes \$28.6 million for the CTC. The only change from the current year is additional funding of \$37,000 for the addition of two commissioners as required by AB 1672 (Nunez), Chapter 717, Statutes of 2007.

#### **ISSUE 1: INFORMATIONAL ITEM: ENVIRONMENTAL STAFFING**

The role of the CTC continues to expand to include more environmental reviews of transportation projects.

The CTC should report at the hearing regarding the extent of the environmental review and compliance work that they do as they approve transportation projects through the various transportation programs.

#### **COMMENTS:**

The CTC does not have any staff specifically assigned for environmental review work. Instead, they contract for these services. In fact, for the extensive air quality review work necessary for the TCIF (discussed below), the CTC has had to contract for this work. Contract positions are generally appropriate when specialized services are necessary and they are only necessary for a limited amount of time.

The CTC believes the contract was necessary as opposed to hiring state staff because there was not a significant availability of potential employees that were both environmental and transportation experts. Therefore, the use of contract positions was necessary to provide this specialized service.

In the future, the environmental work of the CTC will only be increasing. The CTC should report on whether their long term plans include adding permanent environmental staff or continuing to rely on private contracts.

**ITEM 2600 & 2660 CTC & CALTRANS****ISSUE 1: TRADE CORRIDOR IMPROVEMENT FUND**

Proposition 1B established the Trade Corridor Improvement Fund (TCIF) to fund improvements along trade corridors with high volume of freight movement. The bond provides \$2 billion for this purpose.

The CTC envisions the TCIF becoming an ongoing program, rather than just a one-time bond program. And, the CTC intends to approve projects that total \$3 billion, which is \$1 billion more than provided with the Bond. The additional \$1 billion would be met in two ways. First, \$500 million from the State Highway Account (SHA) currently available for SHOPP projects would instead be used for the TCIF. Second, \$500 million from yet to be determined sources - such as federal funds, user fees, and tolls - would be available for the TCIF.

The CTC is set to approve the list of TCIF projects at their April 10, 2008 meeting. The staff recommendations are attached to this agenda (Attachment A).

For the budget year, the Governor's budget proposes \$500 million from Prop 1B for the TCIF. This funding is provided in Caltrans budget, not the CTC.

**COMMENTS:**

The Legislative Analyst's Office (LAO) is concerned about the State Highway Account (SHA) funds that would be redirected from the SHOPP. The SHOPP program funds highway rehabilitation and reconstruction. The LAO points out that the SHOPP already is about \$600 million below projection levels for the next two fiscal years. The LAO believes the additional \$500 million redirection from SHOPP to TCIF will result in further delays of SHOPP projects.

The CTC contends that many of the projects funded in the TCIF would have been funded in the SHOPP. So, while the CTC would take funding away from the SHOPP, the SHOPP is not harmed to the extent of the concern of the LAO since projects would also be moved from the SHOPP to the TCIF.

However, this response to the LAO's concern raises a new and important issue. If a region gets TCIF funding for a project that would have been funded through the SHOPP anyway, then it really is not a new project for the region.

Here is a hypothetical example to illustrate the point.

- ◆ Region X is awarded \$750 million in TCIF funds for various projects. A total of \$300 million of this amount is for projects taken from the SHOPP and are funded with SHA funds redirected from the SHOPP.
- ◆ Region Y is awarded \$750 million in TCIF projects for various projects. The entire amount is funded from Prop 1B funds.
- ◆ In comparing these two regions, Region Y ends up getting \$450 million more in new funds than region X.

This problem is further exacerbated once the \$500 million from "unidentified" sources is considered. Some regions may be awarded funds that may never materialize.

In addition, there is significant concern that the CTC staff has not adequately used the impacts of local air quality when determining which projects should be recommended for funding.

Given the concerns of the LAO, the new concerns raised by the CTC's response to the LAO's concerns, the uncertainty of the "unidentified" funds, and the concerns of the environmental community, it is very difficult for the Legislature to measure the fairness of the CTC's recommended list of TCIF projects. Therefore the Subcommittee may want to withhold approving any funds for the TCIF until there is more certainty on which projects will be funded and from which funding source and until the concerns of the environmental community have been addressed.

**ITEM 2600 & 2660 CTC & CALTRANS****ISSUE 2: STIP FUNDING AND UPDATE**

The STIP is the state's biennial program to fund capacity expansion projects on the highway, rail, and transit systems over a five year period. The primary funding sources for the STIP are Proposition 42 and the PTA. Proposition 1B also provided \$2 billion for the STIP.

The Governor's proposed budget contains \$1.5 billion for 2008-09 for STIP projects. This represents a decrease of \$600 million from the current year.

The CTC should provide a brief overview of the current STIP and provide an update on how they intent to fill the transit project hole. The CTC should also report on key highlights on what to expect from the 2008 STIP.

**COMMENTS:**

The Governor's budget summary states that the reduction in STIP funding for the budget year is the result of unusually high 2007-08 expenditures and the changes in the PTA (as discussed in the PTA item, above), which reduced available PTA revenues for the STIP.

**Impact of PTA changes on STIP Transit Capital:**

According to the LAO, the changes to the PTA will take about \$1 billion of transit capital funds out of the current STIP. The STIP has been able to withstand the impacts of the PTA cuts in the current year because the CTC has advanced Proposition 1B funds to backfill the loss of funds. This essentially has pushed the impact of the PTA cuts off until the budget year. To address the problem in the budget year, the CTC is hoping local transportation agencies will front their own funds to keep projects moving in exchange for future STIP dollars.

The CTC is now in the process of programming the 2008 STIP. To make up for the likely backlog of transit projects in the STIP, the CTC is allowing the use of Proposition 42 STIP funds to be used for transit projects. Prior to the PTA changes, all Proposition 42 STIP funds were expected to be used for highway projects. This result clearly shows that the PTA changes not only have limited transit projects but are also likely to take funds away from highway projects as well.

**ITEM 2660 DEPARTMENT OF TRANSPORTATION (CALTRANS) - ONLY**

The Department of Transportation (Caltrans) is responsible for planning, coordinating, and implementing the development and operation of the state's transportation system. These responsibilities are carried out in five programs. Three programs—Highway Transportation, Mass Transportation, and Aeronautics—concentrate on specific transportation modes. Transportation Planning seeks to improve the planning for all modes and Administration encompasses management of the department.

The Governor's budget proposes total expenditures of about \$14 billion by Caltrans in 2008-09.

**ISSUE 1: INFORMATIONAL ITEM: STATE HIGHWAY ACCOUNT CONDITION**

The State Highway Account (SHA) is the primary state fund for transportation. The SHA is funded primarily from the 18 cent per gallon excise tax (gas tax) on motor fuels and truck weight fees.

The Governor's proposed budget projects a starting balance of \$1.1 billion and revenues of \$3.7 billion for the budget year for a combined total amount of SHA resources of \$4.8 billion.

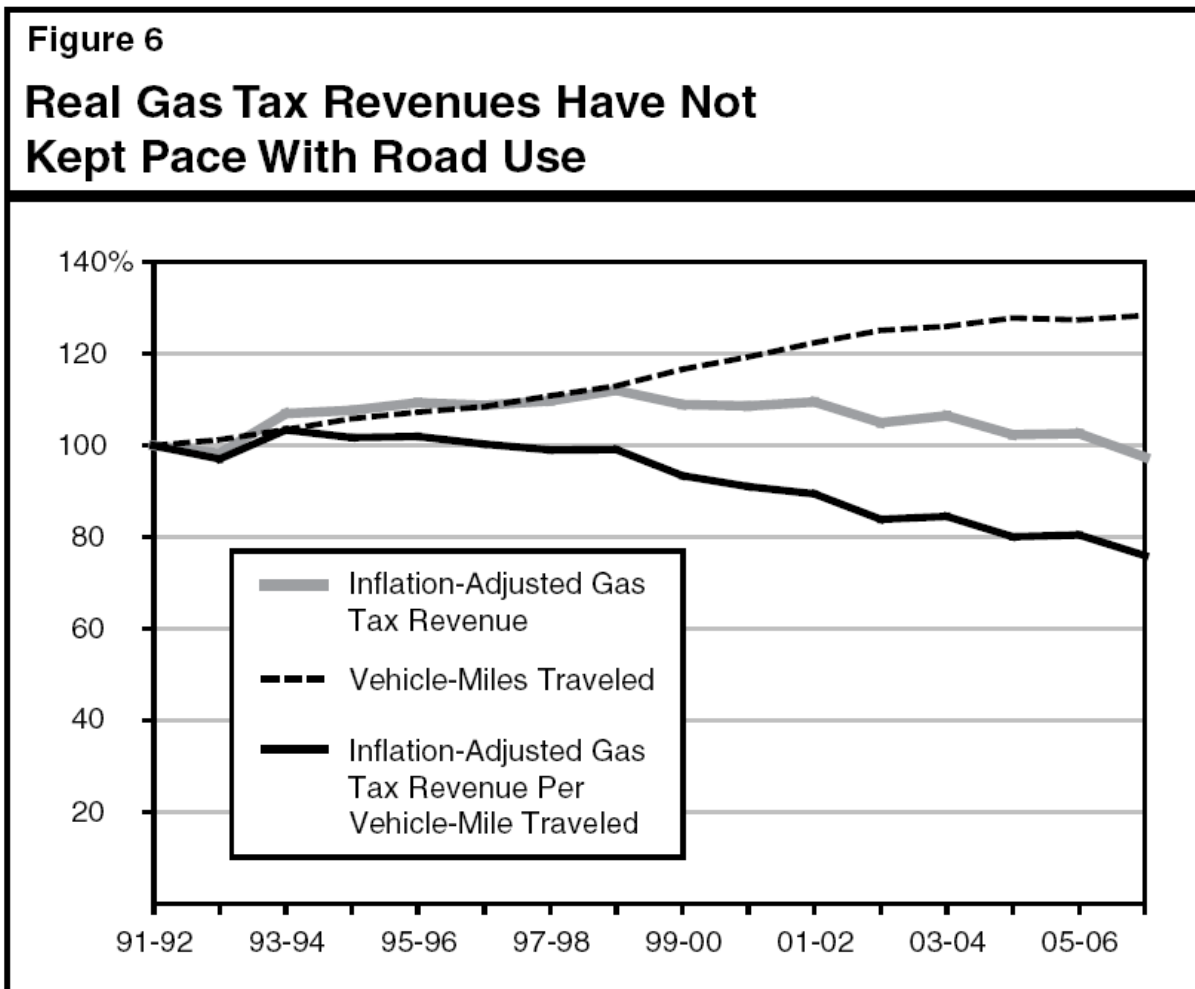
The proposed budget contains SHA expenditures of \$4.2 billion. Once adjusted to account for unfunded encumbrances of \$372 million, the projected final fund balance is \$938 million.

Caltrans and the Department of Finance should report on the condition of the SHA.

**COMMENTS:**

The LAO should also report on the condition of the SHA and on how gas tax revenues are not keeping up with road use.

In their analysis, the LAO provides the following chart that shows how gas tax revenues are not keeping pace with vehicle miles traveled. To address this problem, the LAO recommends the state raise the gas tax and index it for inflation, consider taxing alternative fuels, and explore mileage-based fees and additional road tolls.



In addition to the ideas put forth by the LAO, the Legislature should consider other options as well, such as shifting from taxes to user fees and providing local government's additional authority to raise funds for transportation purposes. These and other ideas are being considered through the policy committee process and perhaps later in the budget process.

**ITEM 2660 CALTRANS - ONLY****ISSUE 2: INFORMATIONAL ITEM: PTA CONDITION**

The Public Transportation Account (PTA) provides funds for local transit agencies, transit capital costs in the STIP, intercity rail, high speed rail, and regional center transportation. The PTA is funded primarily from the sales tax on diesel fuel and a portion of the sales tax on gasoline.

The Governor's proposed budget projects a starting balance of \$26 million and revenues of \$1.34 billion for the budget year for a combined total amount of PTA resources of \$1.37 billion.

The proposed budget contains total PTA expenditures of \$1.34 billion (includes adjustment for unfunded adjustments). This leaves the PTA with a final fund balance of \$29 million.

Caltrans and the Department of Finance should report on the condition of the PTA.

**COMMENTS:**

Under the Governor's proposed budget, the PTA is only balanced due to a \$60 million loan from the Transportation Congestion Relief Fund.

The challenges facing the PTA are primarily due to diversion of virtually all of the "spillover" revenue from the PTA in the current year and 50 percent of the spillover revenues in the budget year. (The 50 percent budget year diversion is consistent with the last year's budget agreement and should not be considered a new cut to the PTA in the budget year.)

To mitigate the loss of funds for local transit agencies resulting from the diversion of "spillover revenues," the Legislature shifted more of the remaining PTA revenues (from both "spillover" and Proposition 42) to local transit agencies. In addition, to assist the General Fund, \$141 million from the PTA is used Regional Center Transportation, which prior to the current year was a General Fund responsibility. The combined result means that the PTA's other primary responsibilities – such as STIP transit capital, intercity rail, and high speed rail – are impacted.



The following chart from the LAO analysis outlines the new allocation of PTA funds beginning in the budget year.

<b>Figure 2</b>		
<b>New Allocation of PTA Funds Beginning 2008-09</b>		
<b>Revenue Source</b>	<b>Prior to 2007-08</b>	<b>Beginning 2008-09</b>
Spillover	50% to STA <sup>a</sup> 50% to Non-STA <sup>a</sup> — <sup>b</sup>	33% to STA 17% to Non-STA 50% to Mass Transportation Fund (for General Fund relief)
Proposition 42 (20% Share)	50% to STA 50% to Non-STA	75% to STA 25% to Non-STA
Diesel Sales Tax	50% to STA 50% to Non-STA	No change No change
Proposition 111 Gas Sales Tax	50% to STA 50% to Non-STA	No change No change
<sup>a</sup> PTA = Public Transportation Account; STA = State Transit Assistance. Non-STA includes transit capital improvements, intercity rail services, and Caltrans Mass Transportation program. <sup>b</sup> Prior to 2007-08, various amounts of spillover had been diverted from year to year to help the General Fund or for other transportation purposes.		

It is also important to note that the PTA is still owed \$289 million that is expected to be repaid with Tribal Gaming revenues. However, it is not anticipated that this will be fully repaid until 2014-15.

**ITEM 2660 CALTRANS - ONLY**

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**ISSUE 3: INFORMATIONAL ITEM: ENVIRONMENTAL PROTECTION EFFORTS**

The importance of environmental concerns continues to grow when it comes to transportation planning and delivering of projects.

Many of the provisions of Proposition 1B call for increased environmental efforts and as the state begins to implement AB 32 even more environmental requirements will be in place.

**COMMENTS:**

Caltrans should report at the hearing their current efforts to comply with environmental requirements as well as their general approach to meeting growing environmental requirements in the future.

**ITEM 2660 CALTRANS - ONLY****ISSUE 4: SALES TAX ON GASOLINE: PROPOSITION 42 AND SPILLOVER**

Proposition 42 requires General Fund sales tax revenues collected at the pump to be spent on transportation. The Governor's proposed budget includes full funding for Proposition 42 and an \$83 million repayment from past Proposition 42 suspensions. Together this provides nearly \$1.568 billion for Proposition 42.

The funds are allocated as follows:

- ◆ \$594 million for the STIP;
- ◆ \$594 million for cities and counties for local streets and road maintenance;
- ◆ \$297 million for the PTA; and
- ◆ \$83 million for the Traffic Congestion Relief Fund (this is from the repayment).

Spillover funds result when gas prices have increased and the revenues from sales taxes on gasoline have grown faster than the revenues from the sales taxes on other goods. For the budget year, spillover revenues are estimated to be \$910 million.

The Governor's proposed budget is consistent with the budget agreement from the current year and allocates the spillover revenues as follows:

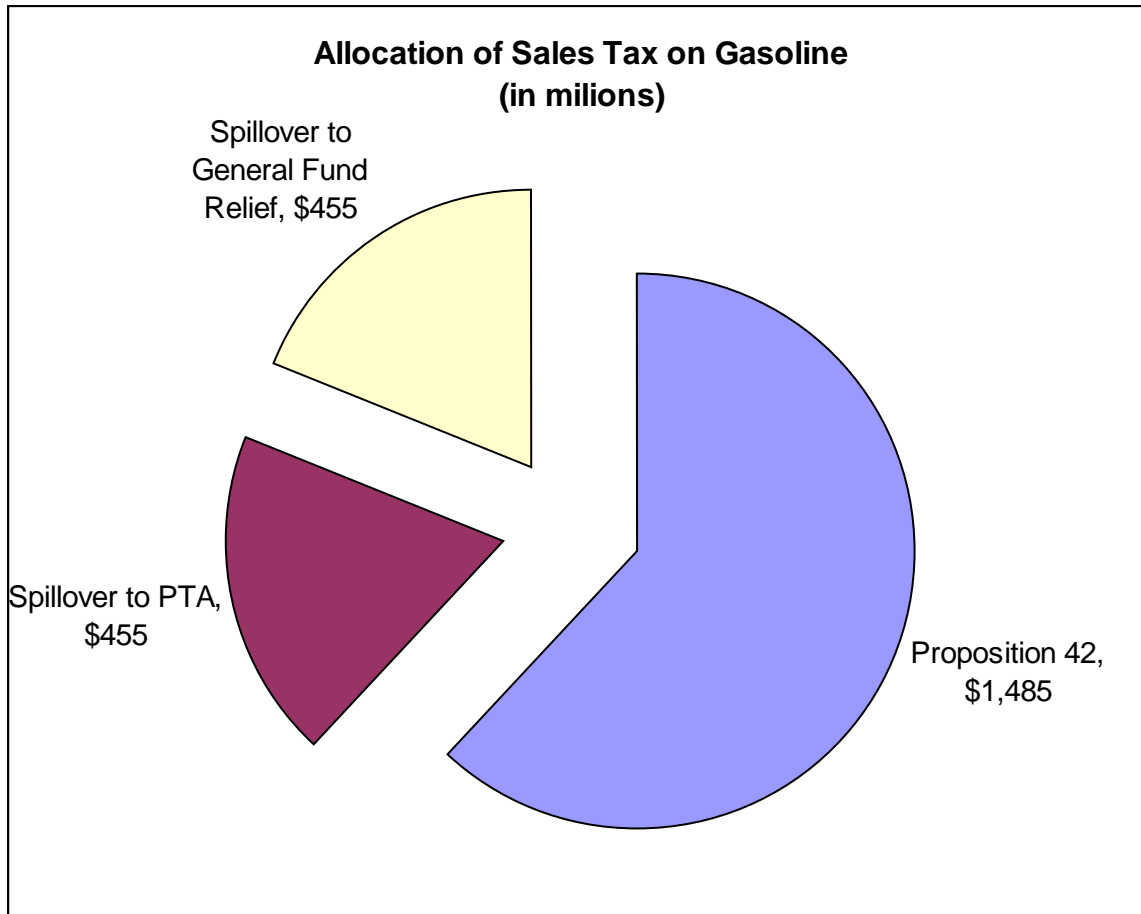
- ◆ Fifty percent (\$455 million) for General Fund relief, including \$83 million to make the Prop 42 repayment and \$373 million to pay General Obligation debt payments;
- ◆ Thirty-three percent (\$300 million) to local transit agencies; and
- ◆ Seventeen percent (\$155 million) for the PTA.

**COMMENTS:**

The full funding of Proposition 42 is one of the few General Fund areas of the budget that escaped the Governor's list of proposed cuts.

At the time of the passage of Proposition 42, the general intent was to ensure that all sales taxes paid on gasoline are dedicated to transportation. However, with the skyrocketing gas prices over the past couple of years, \$910 million (39 percent) of the sales taxes on gasoline actually goes to spillover and not to Proposition 42. And with 50 percent of spillover funds going to General Fund relief, nearly 20 percent of the sales tax on gasoline is going to General fund relief and is not dedicated to transportation.

The following chart illustrates the erosion of Proposition 42 as a share of sales tax on gasoline and identifies the General Fund relief from the sales tax on gasoline.



**ITEM 2660 CALTRANS - ONLY****ISSUE 5: GENERAL FUND LOAN BALANCES**

During previous budget shortfalls funds were redirected from transportation to assist the General Fund. Most of the outstanding loan balances are for the Traffic Congestion Relief Program (TCRP), but the SHA and the PTA are also owed funds.

The repayment of the outstanding transportation debts comes from two sources. First, Proposition 1A requires annual payments of \$83 million until 2015-16. Second, a bond backed by tribal gaming revenues was intended to repay the balance of the transportation debts. The tribal gaming bond has been held up in the courts, so instead of financing a bond, the \$100 million the state receives in tribal gaming revenues directly repays the transportation loans. With these \$100 million annual repayments the entire transportation debt will be repaid in 2016-17.

The LAO, as part of their Alternative Budget, recommends that the state not make the \$100 million transportation debt payment in the budget year, and instead keep the tribal gaming revenues in the General Fund.

**COMMENTS:**

The transportation debts are as follows:

- ◆ TCRP - \$1.146 billion, including \$664 from the annual \$83 million Proposition 1A payment and \$482 million from tribal gaming revenues.
- ◆ PTA - \$289 million from tribal gaming revenues to be repaid over the budget years 2012-13 through 2014-15.
- ◆ SHA - \$101 million from tribal gaming revenues (through the TCRP).

The Department of Finance and Caltrans should report on the impact on the SHA should the \$101 million not be repaid in the budget year.

The LAO also points out that the annual repayments of the TCRP will trickle in over the next nine years through 2016-17. As a result many TCRP projects that are ready to go will be delayed until sufficient funds are available.

The following chart is from the LAO analysis and identifies the repayment schedule for the TCRP.

**Figure 5**

**Estimated Loan Repayment to  
Traffic Congestion Relief Program  
2008-09 and Future Years**

*(In Millions)*

Fiscal Year	Loan Repayment		Total
	Proposition 1A <sup>a</sup>	Tribal Revenues <sup>b</sup>	
2008-09	\$83	—	\$83
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
<b>Totals</b>	<b>\$664</b>	<b>\$482</b>	<b>\$1,146</b>

<sup>a</sup> Although Proposition 1A requires the state to repay the Traffic Congestion Relief Fund (TCRF) at the rate of one-tenth the amount owed each year, this figure assumes a rate of one-ninth as proposed by the Governor. Actual repayment level may vary in some years.

<sup>b</sup> Assumes bonds are not issued, and instead the state uses ongoing tribal gambling 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). Chapter 56 specifies the repayment of loans to TCRF from the State Highway Account and the Public Transportation Account (PTA) in prior years. For example, it requires that \$96 million of the \$100 million in anticipated compact revenues in 2012-13 be used first to repay a PTA loan.

**ITEM 2660 CALTRANS - ONLY**

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**ISSUE 6: SHOPP FUNDING AND UPDATE**

The SHOPP includes a range of rehabilitation projects that are intended to reduce hazardous road conditions, preserve bridges and roadways, enhance and protect roadways, and improve and protect roadsides. The SHOPP is primarily funded through the SHA and federal funds. The SHOPP is a four year program.

The Governor's proposed budget includes \$1.6 billion for 2008-09, a reduction of about \$400 million from the current year.

Caltrans should report on the status of the SHOPP and address the concerns of the LAO outlined below.

**COMMENTS:**

The LAO reports that available revenues for 2008-09 and 2009-10 for the SHOPP will be \$600 million lower than assumed when the current SHOPP was adopted in 2006. This will result in \$600 million of SHOPP projects being delayed until future years.

The \$600 million does not include the \$500 million that the CTC wants to move from the SHOPP to the TCIF (as discussed above under the TCIF item).

**ITEM 2660 CALTRANS - ONLY****ISSUE 7: STATE LOCAL PARTNERSHIP**

Proposition 1B provides \$1 billion in State-Local Partnership (SLP) grant funds to match local funds for transportation projects over a five year period.

The Governor's proposed budget provides \$200 million in Proposition 1B funds for the State-Local Partnership program.

The LAO recommends the approval of the funds in the budget be contingent upon the enactment of legislation specifying the programs eligibility guidelines.

**COMMENTS:**

The following Budget Bill Language proposed by the LAO would make the \$200 million contingent upon the enactment of legislation establishing the guidelines for the program:

*Items 2660-104-6060 and 2660-304-6060*

*The funds appropriated in this item shall be available for the State-Local Partnership program authorized in the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, contingent upon the enactment of legislation specifying the eligibility guidelines for the program.*

Currently there are two potential bills pending in the Legislature that would create the guidelines for the program. They are currently two bills, one in Senate Appropriations, and one in Assembly Appropriations, which address this issue.



**ITEM 2660 CALTRANS - ONLY****ISSUE 8: PROPOSITION 1B ADMINISTRATIVE COSTS**

The Governor's proposed budget requests 23 new positions and about \$2.1 million to administer various Proposition 1B programs. The requested positions include:

- Ten positions to implement the Highway-Railroad Crossing Safety Account (HRCSA) programs;
- Seven positions to review and approve projects seeking allocations of Local Transit funds; and
- Six positions for accounting, to process invoices to be paid from the bond funds.

The Administration expects to have an updated proposal for the six accounting positions, perhaps in time to be considered at this hearing.

The LAO recommends the remaining 17 positions be denied, which saves \$1.6 million in Proposition 1B funds.

**COMMENTS:**

The 10 proposed positions for the HRCSA are for two separate programs. First, the budget proposes  $\frac{1}{2}$  of a position to implement the bond funds for the state's existing Grade Separation program. This is addition to the three positions added in the current year. The LAO believes the current three positions are sufficient and recommends the additional  $\frac{1}{2}$  position is denied.

Second, the remaining positions requested for the HRCSA are for the new Grade Crossings program that has yet to be developed by the CTC and the High Speed Rail Authority. The LAO believes that there is significant uncertainty regarding the ultimate role of Caltrans with this program and therefore believes this request is premature and recommends the positions are denied.

The seven proposed positions for Local Transit projects are in addition to the four positions provided in the current year. These four positions, in addition to two more redirected positions, have been sufficient to manage the \$600 million of funds provided for this program in the current year. In the budget year, this program is funded at \$350 million, and therefore the LAO believes the existing four positions should continue to be sufficient for this program.

The Administration may update their proposal for the accounting positions in time for this hearing; however, that information is not available at the time of this writing.

**ITEM 2660 CALTRANS - ONLY**

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**ISSUE 9: TRANSPORTATION PERMITS MANAGEMENT SYSTEM**

Caltrans issues special permits to oversized vehicles to allow them to travel the state's highways. The permits specify the routes for the oversized vehicles to ensure the safety on the highway system.

In 2002, in an attempt to improve the safety record of the permits program, the Legislature approved funding for Caltrans to develop an automated permitting system – the Transportation Permits Management System (TPMS).

The project was never completed and Caltrans terminated the existing contract for the TPMS last December.

The LAO recommends Caltrans report at the hearing why the contract was terminated and what are Caltrans current plans for developing the automated system as initially envisioned by the Legislature.

In addition, since there is no contract in place for TPMS, the LAO recommends deleting the \$551,000 for the project from the budget.

**COMMENTS:**

The following graphic from the LAO's Analysis provides a chronology of TPMS:

**Chronology of TPMS**

- 2001** The Department of Finance (DOF) and the Department of Information Technology approve the Feasibility Study Report for the Transportation Permits Management System (TPMS) project, with an expected implementation date of October 2002 and a total cost of about \$13 million.
- 2002** The Department of General Services (DGS) approves a contract between the Department of Transportation (Caltrans) and a private contractor for the development of TPMS.
- 2003** The DOF approves a Special Project Report (SPR) to delay the implementation of TPMS from October 2002 to August 2004.
- 2005** The DOF approves a second SPR to further delay the project from August 2004 to October 2005, as well as increase the total project cost to about \$15 million.
- Caltrans hires a consultant to conduct an independent assessment of the project, which concluded that several changes needed to occur in order for the project to be completed in a timely manner.
- 2006** Caltrans, the private contractor, and DGS made several attempts to reach agreement on amendments to the contract.
- 2007** The contract for the TPMS project between Caltrans and the private contractor is terminated.