CALIFORNIA TRANSPORTATION COMMISSION

2012

ANNUAL REPORT TO THE CALIFORNIA LEGISLATURE

Chair And Vice Chair Letter

MEMBERS OF THE LEGISLATURE:

We are pleased to submit the California Transportation Commission's (Commission) 2012 annual report to the Legislature. State law mandates that the Commission report to you each year identifying timely and relevant transportation issues facing the state and summarizing the Commission's major policy decisions in the past year.

Overall, in the 2011-12 fiscal year, the Commission allocated over $5.5 billion in state and federal transportation funding, helping the state to achieve transportation construction activity in excess of $9.5 billion in state construction contracts alone, creating over 180,000 private and public sector jobs. This is the seventh consecutive year that the Commission has allocated more than $4 billion to transportation projects.

The Commission continued its role with the delivery of the Proposition 1B Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006. To date, the Commission allocated over $9.5 billion of the $11.625 billion of Proposition 1B funds under its purview, primarily to projects that were ready to commence construction. All of the Proposition 1B programs have been very successful. They have been so successful that the Commission has been able to reprogram hundreds of millions of dollars in project savings to advance additional projects across the State, leveraging additional federal, state and local funds. For an example, the Corridor Mobility Improvement Account started out as a program of 54 projects valued at $9.1 billion and ultimately grew to a program of 96 projects valued at $10.6 billion. The program alone will generate over 190,000 jobs through its lifetime and will provide critical improvements to the state transportation system.

In addition, the Commission adopted the 2012 State Transportation Improvement Program for 2012-13 through 2016-17. The adopted program includes $2.547 billion in highway and road projects, $511 million in rail and transit projects and $418 million in transportation enhancement projects.

As we look towards next year, the Commission recognizes that not much has changed in terms of transportation funding levels or options, or the implementation requirements of Senate Bill (SB) 375. However, given the need to accomplish more with less and to increase assurance that the goals of SB 375 are achieved, the Commission looks forward to collaborating with others over this next year to identify and/or support, as applicable, initiatives that, if implemented, would streamline business practices, reduce regulatory barriers, eliminate threats of unnecessary litigation, and incentivize wise land use and other decisions. Identifying the role of the state with regards to the development and management of the transportation system is a critical factor that would shape these discussions. However, in the short term, we have identified the following issues that we would like to highlight:

- Statewide Transportation System Needs Assessment - In response to a statewide multimodal needs assessment presented to the Commission in 2011, the Commission is focusing on identifying recommendations for revenue solutions and cost savings measures that, if implemented would address the projected funding shortfall. The needs assessment identified a projected $296 billion funding shortfall over the next ten years.

- New Federal Moving Ahead for Progress in the 21st Century Act (MAP-21) – MAP-21 makes significant changes to the federal transportation program and funds surface programs for federal fiscal years 2012-13 and 2013-14. The two years of funding in MAP-21 provide more financial certainty than the series of continuing resolutions passed since the expiration of the prior federal Surface Transportation Act (SAFETEA-LU). The Commission is working with its transportation partners in recommending legislative actions necessary to fully implement MAP-21 in 2013-14.

- Innovative project delivery methods to advance the delivery of transportation projects – The lack of clarity and the uncertainty of the public private partnership (P3) process outlined in Streets and Highways Code Section 143, and how the Administration and the Legislature may respond to future projects may in fact lead to diminished interest by private and public sectors in pursuing additional P3 projects. It is critical that legislation is enacted to provide the necessary clarifications and intent for P3 projects in California.

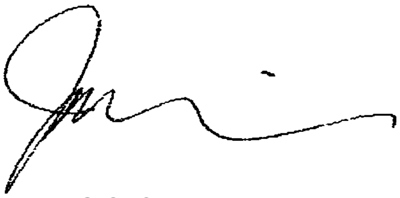
Investing in the state's transportation system will help to improve California's economy.

The Commission urges both the Legislature and the Administration to keep these issues in mind as you begin the next legislative session and deliberate on the difficult choices for the upcoming budget.

The Commission looks forward to working with you and the Administration to reconcile the need for transportation funding with the role that the state would continue to assume in the development and management of the State Transportation System.

Sincerely,

JOSEPH TAVAGLIONE
Chair



JAMES C. GHIELMETTI
Vice Chair

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The Commission In Brief

The California Transportation Commission (Commission) is responsible for programming and allocating transportation funds used in the construction of highway, intercity passenger rail, aeronautics and transit improvements throughout California. The Commission consists of eleven voting members and two non-voting ex-officio members. Of the eleven voting members, nine are appointed by the Governor, one is appointed by the Senate Rules Committee, and one is appointed by the Speaker of the Assembly. The two ex-officio non-voting members are appointed from the State Senate and Assembly, usually the respective chairs of the transportation policy committee in each house. The Commission is a part-time body that holds public meetings typically one or two days per month, at which time it formally reviews, approves and/or adopts state transportation policy. The Commission is primarily responsible for the following activities:

- Advising and assisting the Secretary of the Business, Transportation and Housing Agency and the Legislature in formulating and evaluating state policies and plans for state transportation programs

- Adopting the biennial five-year State Transportation Improvement Program (STIP) and approving the biennial four-year State Highway Operation and Protection Program (SHOPP)

- Adopting the biennial five-year fund estimate of state and federal funds expected to be available for the STIP and SHOPP

- Allocating state funds for capital projects, consistent with the STIP, SHOPP, Traffic Congestion Relief Program, Proposition 116 (Clean Air and Transportation Improvement Act of 1990), Proposition 1A (Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century of 2008), and Proposition 1B (Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006)

- Allocating state funds for capital grants from the Aeronautics Account and the Environmental Enhancement and Mitigation Program Fund

- Adopting guidelines for the development of Commission-administered programs and regional transportation plans

- Approving project proposals for public private partnership agreements and authorizing projects for procurement utilizing the Design-Build Demonstration Program

- Determining eligibility of projects for High Occupancy Toll lane implementation

- Approving right of way matters such as new public road connections, resolutions of necessity, relinquishments, Director's Deeds and airspace leases

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

The Commission is supported by an executive director who oversees a staff of 17 and an annual budget of approximately $4 million. The executive director acts as a liaison between the Commission and the Legislature and its staff, interpreting actions taken by the Commission on areas of concern to the Legislature. The executive director also acts as a liaison with the Secretary of Business, Transportation and Housing Agency, the Director of the California Department of Transportation, and regional transportation agencies' executive directors and their respective staff. Furthermore, the executive director serves as a member of the Toll Bridge Program Oversight Committee and the California Transportation Financing Authority.

Issues for 2013

The California Transportation Commission (Commission) continues its pursuit of reliable funding to address the state's transportation system needs. Reliable, sustainable and growing transportation revenue sources are critical to California's economic vitality and global competitive advantage. Construction in the transportation sector has been one of the very few bright spots in the state's economy, but unfortunately the future does not look as promising. The revenue sources we enjoyed over the last five or so years are coming to an end, and there are no alternatives in sight. With this backdrop, the Commission will focus on the following three issues as we look ahead at 2013.

The first issue is the level of investments in the state's transportation system not keeping pace with the increasing demands for the movement of both people and goods. The useful life of the existing system, which represents decades of major investments, is placed at risk due to the lack of necessary funding to meet basic maintenance, operation and rehabilitation needs. Additionally, as the Metropolitan Planning Organizations (MPOs) move forward with the implementation of Senate Bill (SB) 375 (Chapter 728, Statutes of 2008), the state will be a critical funding and process partner to ensure that the objectives of the bill are achieved in an aggressive but also in an economically viable way for regions to achieve the environmental objectives of Assembly Bill (AB) 32 (Chapter 488, Statutes of 2006) and SB 375. The second issue is the new federal Moving Ahead for Progress in the 21st Century Act (MAP-21) that makes significant changes to the federal transportation program and funds surface programs for federal fiscal years 2012–13 and 2013-14. The two years of funding in MAP-21 provides more financial certainty than the series of continuing resolutions passed since the expiration of the prior federal Surface Transportation Act (SAFETEA-LU). In August 2012 the Administration laid out its proposal to implement MAP-21 that focused on maintaining a status quo funding level for overall funding. Interested parties, including the California Department of Transportation (Caltrans), Commission staff, local agencies, and interest groups met to discuss the implementation of MAP-21. Due to the relatively short duration of MAP-21, most parties advocated for a short-term "status quo", however not all parties agreed on how the status quo is defined. The compromise approved by the Commission will allow projects programmed in 2012–13 to proceed without delay. However, legislation will be needed to fully implement MAP-21 in 2013-14. The third is the lack of clarity and the uncertainty of the Public Private Partnership (P3) process outlined in Streets and Highways Code Section 143, and how the Administration and the Legislature may respond to future projects may in fact lead to diminished interest by private and public sectors in pursuing additional P3 projects. It is critical that legislation is enacted to provide the necessary clarifications and intent for P3 projects in California.

STATEWIDE TRANSPORTATION SYSTEM NEEDS ASSESSMENT

With the state's population at over 37 million and growing, California must preserve and enhance the functionality of its transportation system of roads, highways, bridges, airports, seaports, railways, border crossings and public transit to foster economic growth, attract employers, and ensure the safe, reliable mobility needed to improve the quality of life for all Californians.

The useful life of the existing system, which represents decades of major investments, is placed at risk due to the lack of necessary funding to meet basic maintenance, operation and rehabilitation needs. In addition, congestion in urban areas, safety and unexpected delays in rural areas, and growing challenges of freight

movement are only a few examples of the compelling issues facing California's transportation agencies. Public sources of reliable revenues meant to provide an efficient transportation system have not kept pace with California's growing transportation needs. Our existing transportation system continues to deteriorate while demand increases, adversely affecting mobility, commerce, quality of life, the environment and the operational efficiency of key transportation assets.

In order to better understand how we can best preserve, maintain, and improve the state's transportation system over the next decade, the Commission, in 2010, launched the development of a statewide multi-modal transportation needs assessment report through the collaboration with chief executive officers of MPOs, urban and rural regional transportation planning agencies, Caltrans, along with transit agencies, rail, ports and airports.

The needs assessment, completed at the end of 2011, details the multi-modal needs of our transportation system for the next 10 years. The needs assessment reflects a ten year projection of anticipated federal, state and local revenues and a summary of investment needs for California's transportation system of pedestrian and bike facilities, transit, passenger/commuter rail, highways, local streets and roads, and access to ports, airports and the planned high speed rail system.

The report recognizes the integrated nature of our transportation system and the corresponding importance the system has to the state and national economy, including both goods and people movement and the interdependence between the various modes.

The needs assessment is comprised of the following three elements each of which identify system needs:

- **System Preservation** – System preservation can extend the service life of existing infrastructure assets and can help in providing better, safer, and more reliable service at less overall or life cycle cost.
- **System Management** – System management is aimed at improving the overall performance of the transportation network without resorting to large-scale, expensive capital improvements. System management integrates techniques from across disciplines to increase safety, efficiency and capacity for all modes in the transportation system.
- **System Expansion** – System expansion will provide the desired mobility benefits to the extent that mode-neutral investments are targeted towards performance outcomes that provide the most efficient and effective transportation system.

Needs Assessment Report Findings

- The cost of system preservation (rehabilitation and maintenance) is estimated at $341 billion to bring transportation facilities into a state of good repair within the ten-year period from 2011 to 2020
- The cost of system expansion and system management over the same period is estimated at $197 billion based on fiscally constrained regional transportation plans
- The revenue from all sources from 2011 to 2020 is estimated at $242 billion, which represents about 45 percent of the estimated total need. This leads to a shortfall of about $296 billion
- Assuming historic levels of funding for preservation, nearly $150 billion of all revenues would be allotted for system preservation, leaving less than $95 billion for system expansion and system management projects (less than 50 percent of the projected need)

The Commission's attention is now directed at identifying potential efficiency improvements and revenue scenarios at the local, state and federal level to present to the Governor of California, the California Legislature and the California Congressional Delegation for consideration.

Over the past eight months, the Commission has called upon the previously established Statewide Transportation System Needs Assessment workgroup to discuss and explore revenue sources, and efficiencies and streamlining efforts to address the $296 billion funding gap. Revenue principles, revenue sources, current and proposed operational and streamlining efficiencies, and policy recommendations are currently being developed by the workgroup. The goal is to submit a final report to the Commission for acceptance in early 2013.

Transportation agencies and policy makers will ultimately have to struggle with the prioritization of limited resources and with opportunities to provide additional revenue to address the most critical needs. This report will allow transportation agencies and stakeholder groups to provide a consistent message to decision makers (at the local, state and federal level) and to their immediate constituency in communicating those priorities.

In addition to the funding shortfall identified in the needs assessment, as the MPOs move forward with the implementation of SB 375, the state will be a critical funding and process partner to ensure that the objectives of the bill are achieved in an aggressive but also in an economically viable way for regions to achieve the environmental objectives of AB 32 and SB 375. The Commission continues to urge the Legislature to provide the necessary flexibilities and increased funding levels to

The Commission's attention is now directed at identifying potential efficiency improvements and revenue scenarios at the local, state and federal level.

MAP-21 makes significant changes to the federal transportation program and funds surface programs for federal fiscal years 2012–13 and 2013-14.

allow the state's MPOs to successfully achieve the objectives of SB 375. Key to the implementation of SB 375 is the ability to provide enhanced travel choices and the flexibility of existing revenue sources to allow for their considerations. Another is the flexibility of existing regulatory processes needed by local governments to ultimately create the desired land use changes.

IMPLEMENTATION OF MAP-21

The new federal Surface Transportation Act, MAP-21 (P.L. 112-141), was signed into law on July 6, 2012. MAP-21 makes significant changes to the federal transportation program and funds surface programs for federal fiscal years 2012–13 and 2013-14. The two years of funding in MAP-21 provides more financial certainty than the series of continuing resolutions passed since the expiration of the prior federal SAFETEA-LU. Unfortunately, MAP-21 does not address the issue of the declining balance in the Federal Highway Trust Fund; instead funding the two year program with ten years of "savings" in other federal programs. Some of the key features of MAP-21 include a consolidation of scores of programs into a handful of core programs, and a movement toward performance measures.

Interested parties, including Caltrans, Commission staff, local agencies, and interest groups continue to meet to discuss the implementation of MAP-21. Due to the relatively short duration of MAP-21, most parties are advocating for a short-term "status quo", however not all parties agree on how the status quo is defined.

Most MAP-21 funding distribution proposals that were discussed were based upon either a status quo keeping overall state and local funding levels constant or a status quo that takes a program-by-program view of the percentage of state and local funding.

Both views are a change from the underlying policy the state has used for the distribution of federal surface transportation act funds in the past:

- Where federal law requires funds to be spent in specific areas of the state, the state has apportioned those funds to the local level (county transportation commission or transportation planning agency)
- Where federal law does *not* require funds to be spent in specific area, the state retains the flexibility to determine the location of projects based on statewide priorities and needs. This occurs largely through Commission programming of the State Highway Operation and Protection Program (SHOPP) and State Transportation Improvement Program (STIP).

The programs around which most of the discussion has revolved are the Surface Transportation Program (STP) and the Transportation Alternatives (TA) Program (the TA program can fund most of the projects formerly in the Transportation Enhancement (TE) program).

The STP provides flexible funding for projects to preserve and improve the conditions and performance on any Federal-aid highway, bridge and tunnel projects on any public road, pedestrian and bicycle infrastructure, and transit capital projects. Under SAFETEA-LU, the state was required to spend 62.5 percent of the STP funds in specified areas of the state (based upon population). State law created the Regional Surface Transportation Program (RSTP) and apportioned those funds to the county level. In federal fiscal year 2011–12 the STP program was $721 million, with $451 million apportioned to the county level. Under MAP-21, for federal fiscal year 2012–13 the total funding for STP has increased to $873 million (through program consolidation) but the percentage suballocated to specific areas of that state was decreased to 50 percent. The net results of these STP changes under MAP-21 are that $436 million in RSTP funds would be apportioned to the county level (a decrease to the RSTP of $15 million spread across 58 counties).

Another program that has been the subject of considerable debate is the TA program. This is a new program that provides funding for a variety of alternative transportation projects, most of which were previously eligible activities under separately funded programs including the TE program. Eligible TA projects include several activities that were not eligible under the TE program, including environmental mitigation activities, and the planning, designing, or constructing of roadways within the right of way of former Interstate routes or other divided highways. Under SAFETEA-LU and state statute, the TE program was a part of the STIP. Unlike the TE funds which could be spent in any area of the state under SAFETEA-LU, MAP-21 requires 50 percent of the TA funds ($36 million) to be spent in specific areas of the state. Without a change in statute similar to the state statute implementing the STP/RSTP program, some TA funds would be apportioned to large MPOs and not suballocated to the county level.

At the Commission's August 22, 2012 meeting, the Administration laid out its proposal to implement MAP-21. The Administration's proposal focused on maintaining a status quo funding level for overall funding "ensuring that the State and Local Agencies each receive a total share of funding consistent with total funding received under prior federal acts." Based on Caltrans' analysis, under SAFETEA-LU in 2011–12 approximately 62 percent ($2.185 billion) of federal apportionments funded projects in state programs (primarily the SHOPP, but also the STIP) and approximately 38 percent ($1.359 billion) was suballocated to local agencies (primarily through the Congestion Mitigation and Air Quality and RSTP programs)

At the Commission's September 27, 2012 meeting, Caltrans presented a compromise proposal, also supported by the Regional Transportation Planning Agency

(RTPA) group that was based on a more program-by-program view. At that same meeting, the Commission approved the lump sum allocation of federal funds, consistent with the Caltrans/RTPA compromise, to Caltrans for suballocation to local agencies to implement MAP-21.

Under the Caltrans/RTPA compromise $477 million of the STP funds will be apportioned to counties in 2012–13 based upon population. This increase in RSTP funding would be offset primarily by a reduced local funding for the Highway Safety Improvement Program. Under the Caltrans/RTPA compromise the TA program would be managed through the STIP in 2012–13.

The compromise approved by the Commission will allow projects programmed in 2012–13 to proceed without delay. However, legislation will be needed to fully implement MAP-21 in 2013-14. The Commission believes that such legislation should not be based on formulas maximizing funds under control of the state or regional agencies. Rather, the Commission believes that MAP-21 implementing legislation should remain consistent with the state's current policy for the distribution of federal surface transportation act funds in the past:

- Where federal law requires funds to be spent in specific areas of the state, the state has apportioned those funds to the local level (county transportation commission or transportation planning agency)
- Where federal law does *not* require funds to be spent in specific area, the state retains the flexibility to determine the location of projects based on statewide priorities and needs. This occurs largely through Commission programming of the SHOPP and STIP.

PUBLIC PRIVATE PARTNERSHIPS AND LEGISLATIVE CLARIFICATIONS

In anticipation of future P3 project approval requests, it is critical that legislation is enacted to provide the necessary clarifications and intent for P3 projects in California. As previously stated in the Commission's 2011 Annual Report, the interpretation of Streets and Highways Code Section 143 and the Commission's role in selecting and approving the Presidio Parkway project was met with much scrutiny and political wrangling at the time the Presidio Parkway P3 Project was approved by the Commission. The ambiguity of Section 143 and its provisions, in particular with respect to revenue and financing options, resulted in a lengthy public debate and ultimately a Commission vote to approve the project but not its financial proposal which relied on long-term (30 years) annual payments from the State Highway Account (SHA). The Legislature approved the financial proposal through a project-specific continuous appropriation in the Budget Act of 2010–11.

None of the issues raised during the approval process of the Presidio Parkway project have since been resolved either legislatively or administratively. As a matter of fact, even after the legislative budget action, some legislative bodies continued to question the appropriateness of the Presidio Parkway project as a P3 application. The lack of clarity and the uncertainty of the process outlined in Section 143, and how the Administration and the Legislature may respond to similar future projects may in fact lead to diminished interest by private and public sectors in pursuing additional P3 projects. Among the issues that the Legislature and the Administration should address are:

The Commission continues to urge the Legislature and the Administration to bring clarity and certainty to critical alternatives to conventional project delivery.

- A clear understanding of which projects are appropriate P3s, and which are not. Should P3 projects be limited to those that generate new revenue, either through a toll or some other user fee? Should a project with great benefit for one specific region be funded through that region's share of existing state programs, such as the STIP? Should P3 projects be limited to those that add capacity to the existing system as opposed to replacement and reconstruction projects?
- A clear understanding of how to determine whether a P3 is financially beneficial. The Legislative Analyst's Office (LAO) examined the business case of the Presidio Parkway project and found Caltrans' assumptions to be questionable. Should the LAO establish acceptable ranges for key assumptions before financial analyses are conducted?
- More meaningful oversight. While Section 143 requires the Commission to approve P3 projects, the Commission's approval decision is based on the project proposal and not on the specifics of the final negotiated lease agreement. Should the Commission have a role in the review of the final negotiated lease agreement?

The Commission continues to urge the Legislature and the Administration to bring clarity and certainty to critical alternatives to conventional project delivery. Clear principles and expectations are badly needed for the P3 alternative, so public and private entities can work from the same platform with certainty in pursuing projects that can move expeditiously through a very time and resource sensitive procurement process. In a time of constrained and dwindling resources to address our transportation needs, we must collectively encourage and facilitate innovative project delivery approaches that are based on sound public interest principles.

Fiscal Year 2011–12 Accomplishments

Adopting the 2012 State Transportation Improvement Program (STIP), administering Proposition 1B (Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006) and Proposition 1A (Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century) programs, and allocating state and federal transportation funds, among other activities, dominated the California Transportation Commission's (Commission) agenda for 2011–12.

- Adopted the 2012 STIP for 2012–13 through 2016-17. The adopted program includes $2.547 billion in highway and road projects, $511 million in rail and transit projects and $418 million in transportation enhancement (TE) projects.
- Approved the 2012 State Highway Operation and Protection Program (SHOPP) on March 28, 2012.
- Continued with programming of remaining Proposition 1B funds which primarily represent State-Local Partnership Program (SLPP) funds, which are to be programmed over multiple years, and award savings from construction projects in the Corridor Mobility Improvement Account (CMIA).
- Continued to administer the Proposition 1A program, and revised the program of projects in consultation with the Administration and the High-Speed Rail Authority.
- Continued to work with statewide transportation stakeholders, allocating nearly $5.5 billion in state and federal transportation funding, helping the state to achieve transportation construction activity in excess of $9.5 billion in state construction contracts alone

Project Delivery

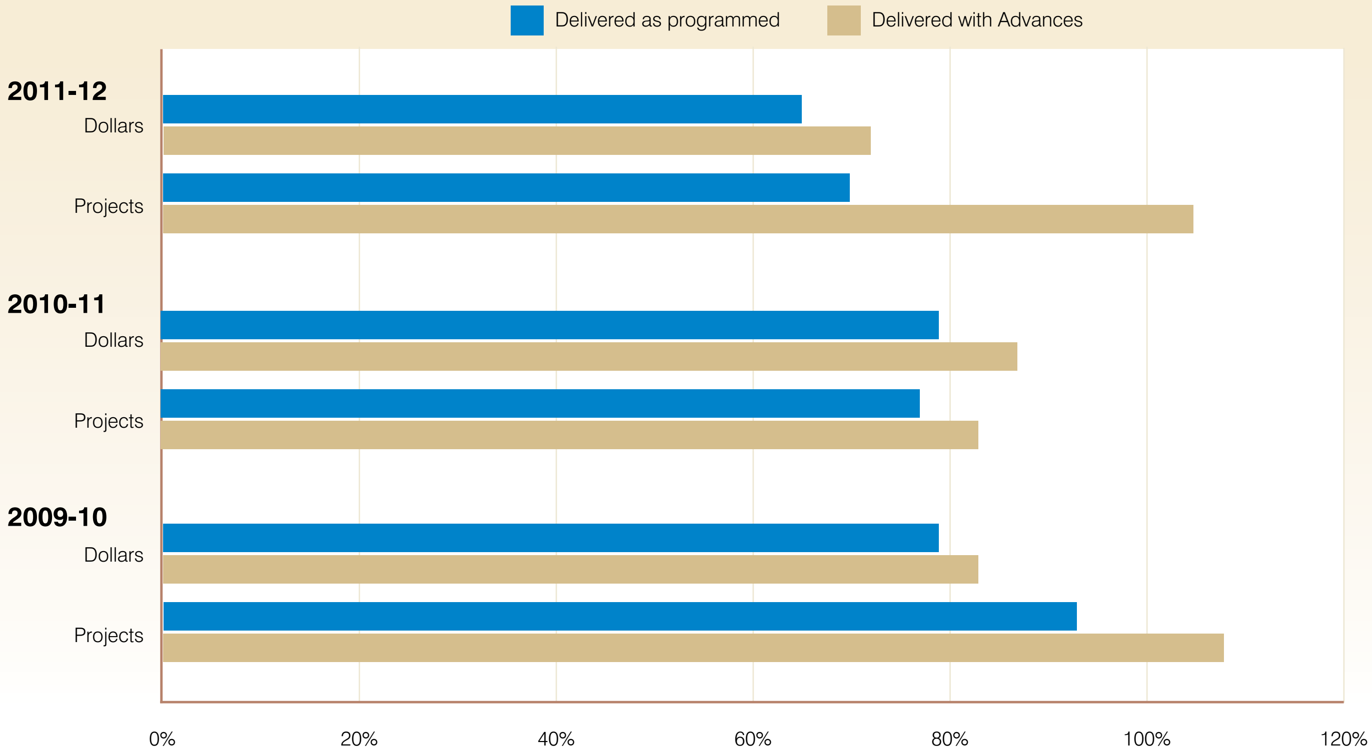
The Commission tracks delivery for projects programmed and funded from the STIP, SHOPP, Regional Surface Transportation Program (RSTP), and Congestion Mitigation and Air Quality (CMAQ) program. For the STIP and SHOPP, the Commission measures delivery in terms of allocations made to projects programmed for each fiscal year. For the RSTP and CMAQ programs, under which federal funds are programmed directly by regional agencies, the measure of delivery is the obligation of the federal funds by a local agency. Project delivery (ready for STIP construction allocation or federal obligation) was less than 100 percent in 2011–12 for the California Department of Transportation (Caltrans) and local agencies due mainly to project delays for Caltrans and both delays and cancellations for local agencies.

STIP Project Delivery

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

Caltrans achieved a 72 percent project delivery rate by delivering 21 of the 29 originally scheduled projects for 2011–12. In 2011–12, the Commission allocated $254.6 million to these STIP projects, including Assembly Bill (AB) 608 (Chapter 815, Statutes of 2001) adjustments to decrease the allocation due to cost savings greater than 20 percent at contract award ($4.643 million). In addition, $17.4 million in supplemental funds were allocated to six previously allocated projects.

Caltrans STIP Delivery



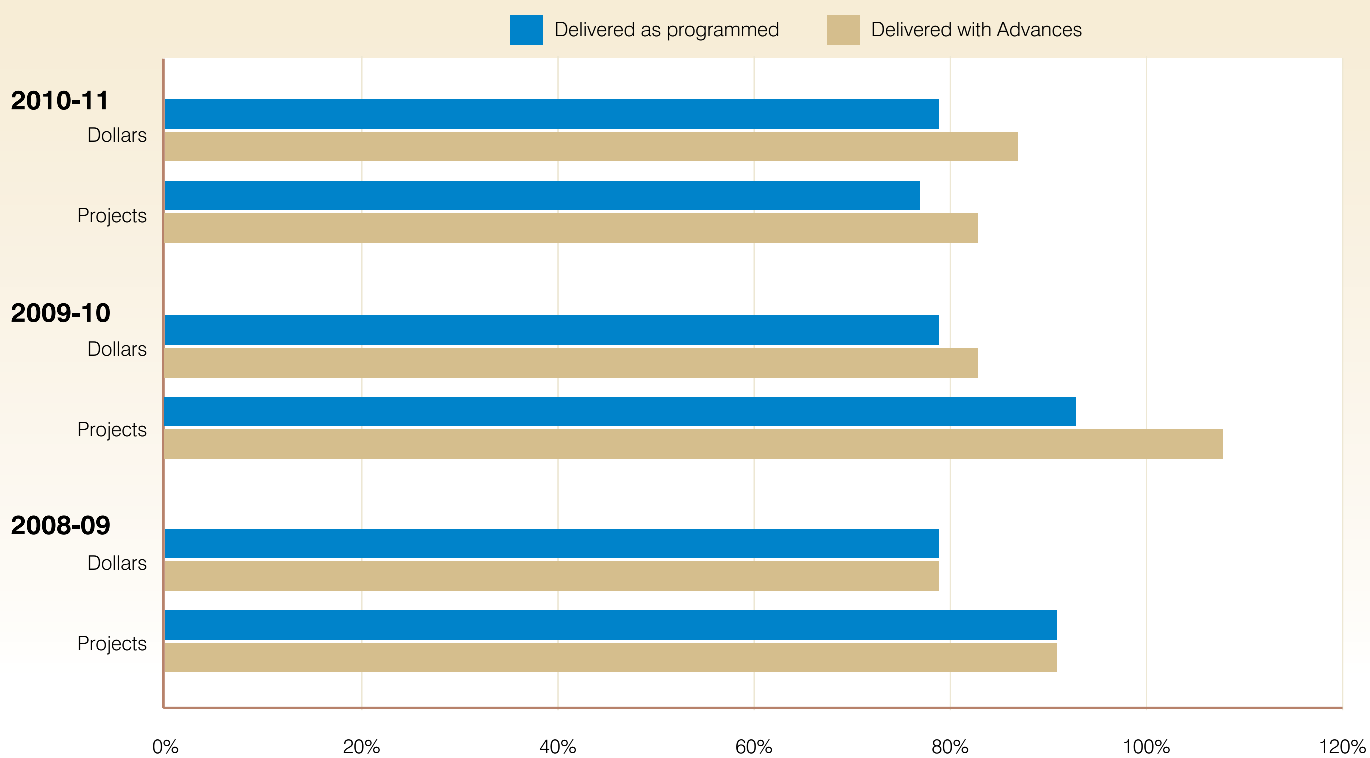
The following compares Caltrans STIP delivery for 2009–10, 2010–11 and 2011–12:

Caltrans STIP Delivery (dollars in millions)

	2009–10		2010–11		2011–12	
	Dollars	**Projects**	**Dollars**	**Projects**	**Dollars**	**Projects**
Programmed	$289.91	32	$298.52	36	$346.79	29
Extensions	($164.20)	-1	($46.94)	-6	($92.07)	-7
Lapsed		0	0	0	($0.08)	-1
Delivered as programmed	$125.71	31	$251.58	30	$254.64	21
Delivered as Programmed	43%	97%	84%	83%	73%	72%
Advanced	$61.51	7	$0.00	0	$32.56	6
Delivered with advances	$187.22	38	$251.58	30	$287.20	27
Delivered with Advances	65%	119%	84%	83%	83%	93%
Prior-year extensions delivered	$21.12	6	$0.00	0	$177.60	6
Total delivered	$212.72	48	$251.58	30	$464.80	33
Funded by allocation	$208.33	44	$215.51	24	$464.80	33
Funded with non-STIP funds (primarily ARRA)	$4.39	4	$0.00	0	$0.00	0
Placed on pending list, not funded	0	0	$36.07	6	$0.00	0

For local agency projects, unlike Caltrans projects, the Commission allocates all programmed STIP funds and tracks each individual programming component (environmental, design, right-of-way, and construction) separately. The local agencies achieved a 65 percent project delivery rate by delivering 116 of the 178 originally scheduled projects for 2011–12. In addition, local agencies delivered 22 projects extended from prior years, and 12 projects in advance of their programmed year. In 2011–12, the Commission allocated $307.616 million to local agency STIP projects. Of the 62 undelivered local projects, the Commission granted delivery deadline extensions for 27 projects valued at $40.049 million. Thirty-five projects valued at $38.149 million were allowed to lapse by local agencies. The lapsed funds reverted to county share balances to be available for programming in the next county share period (in the 2014 STIP).

Local STIP Delivery



The following compares local STIP delivery for 2009–10, 2010–11 and 2011–12:

Local STIP Delivery (dollars in millions)

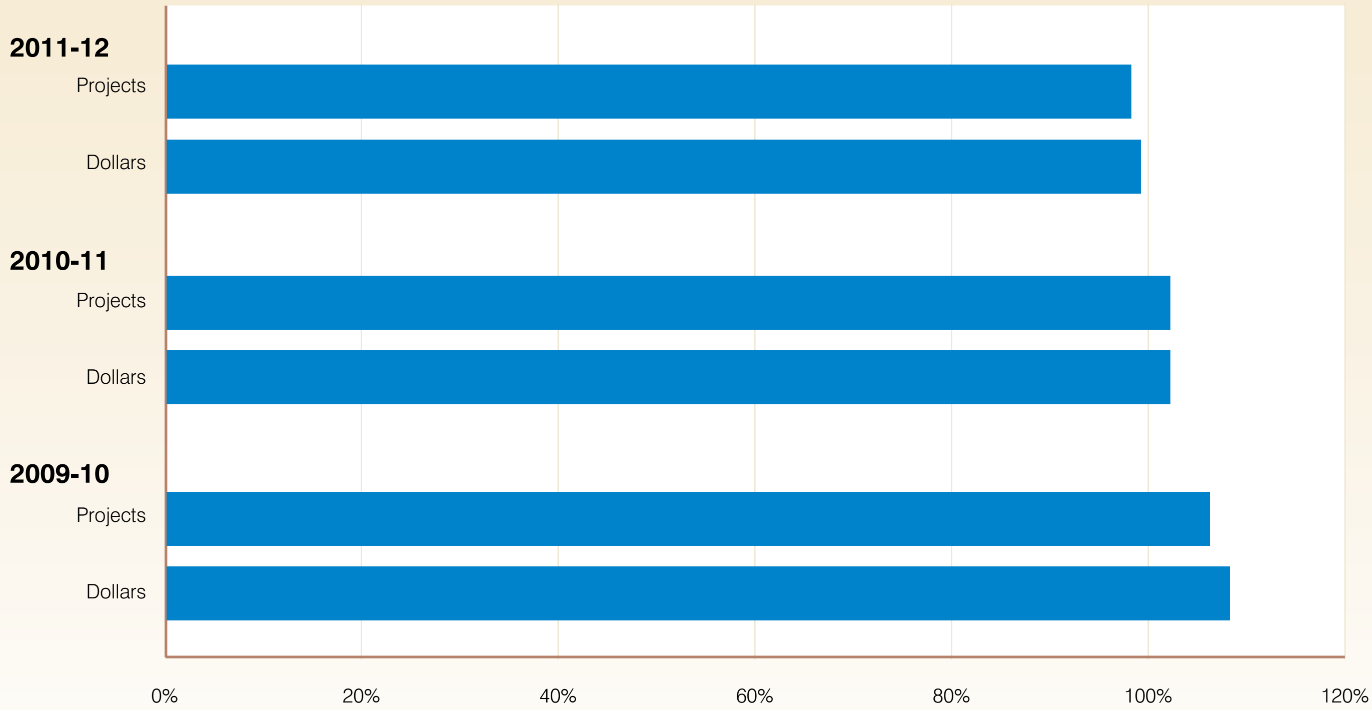
	2009–10		2010–11		2011–12	
	Dollars	Projects	Dollars	Projects	Dollars	Projects
Programmed	$297.23	203	$492.29	406	$258.85	178
Extensions	($6.34)	-12	($90.12)	-26	($40.05)	-27
Lapsed	($15.70)	-30	($25.43)	-38	($38.15)	-35
Delivered as programmed	$275.18	161	$376.75	242	$180.65	116
Delivered as Programmed	93%	79%	77%	79%	70%	65%
Advanced	$47.18	7	$33.12	25	$90.87	12
Delivered, with advances	$322.36	168	$409.87	267	$271.52	128
Prior-year extensions delivered	$28.46	6	$15.52	21	$36.10	22
Total delivered	$350.82	174	$425.39	288	$307.62	150
Delivered with Advances	108%	83%	83%	87%	105%	72%
Funded by allocation	$261.60	164	$357.90	271	$307.62	150
Funded through AB 3090	$45.04	3	$38.47	4	$0.00	0
Funded with non-STIP funds (ARRA)	$38.03	3	$0.00	0	$0.00	0
Placed on pending list, not funded	$6.16	4	$29.02	13	$0.00	0

SHOPP Project Delivery

Caltrans achieved a 98 percent SHOPP delivery rate, by delivering 194 projects of 197 originally scheduled projects for 2011–12. In addition, 269 Emergency, Minor and Maintenance projects not included in the delivery contract were delivered, for $440.4 million. In 2011–12, the Commission allocated approximately $1.6 billion to SHOPP projects, which includes delegated allocations made by Caltrans.

The following compares SHOPP delivery for 2009–10, 2010–11 and 2011–12:

SHOPP Delivery



Caltrans SHOPP Delivery (dollars in millions)

	2009–10		2010–11		2011–12	
	Dollars	**Projects**	**Dollars**	**Projects**	**Dollars**	**Projects**
Programmed	$1,483	247	$2,882	263	$1,204	197
Delivered	$1,609	263	$2,949	269	$1,187	194
Total Delivered	108%	106%	102%	102%	99%	98%

Caltrans Annual Right-of-Way Allocation

During 2011–12, the Commission allocated $217.5 million, which was fully utilized by Caltrans for right-of-way activities.

Commission Resolution G-91-01 authorizes Caltrans to sub-allocate funds from the Commission's yearly allocation for the total right-of-way program to individual projects for the acquisition of right-of-way, relocation of utilities, and other necessary right-of-way activities. Caltrans is also authorized to allot funds for acquisition of hardship and protection parcels when circumstances warrant such acquisitions. During 2011–12, the Commission allocated $217.5 million, which was fully utilized by Caltrans for right-of-way activities.

Environmental Document Delivery

Tracking the completion of environmental documents is particularly important in flagging possible delays of future construction projects. In 2011–12, Caltrans achieved a 93 percent delivery rate for final environmental document delivery and 70 percent for draft environmental document delivery, completing 31 draft and 155 final environmental documents (these numbers include Categorical Exclusions that do not require Commission action).

The Commission, as a responsible agency under CEQA, allocates funds to projects for design, right-of-way or construction after the final environmental document is complete and the Commission has approved the project for consideration of future funding. During 2011–12, the Commission received final environment documents for 87 projects. Of those documents, 45 were completed by Caltrans as the CEQA Lead Agency, and 42 were completed by local agencies as the CEQA Lead Agency. All 87 projects were approved for future consideration of funding. In addition, the Commission provided comments on three Draft Environmental Impact Reports (EIRs) prepared by Caltrans. The Commission also provided comments on seven Notices of Preparation and six Draft EIRs prepared by local agencies.

Local RSTP and CMAQ Projects

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

Caltrans monitors the obligation of funds apportioned to each region, reports the status of those apportionments to the Commission quarterly, and provides written notice to the regional agencies one year in advance of any apportionment reaching its three year limit. A region with an apportionment within one year of the limit is required to develop and implement a plan to obligate its balance before the three year limit is reached.

Caltrans released its AB 1012 "use-it-or-lose-it" notices for the 2009–10 federal apportionments in November 2011. As of June 30, 2012, the AB 1012 balance report shows approximately $14.3 million of RSTP funds in the counties of Fresno and Ventura, and approximately $308,000 of CMAQ funds in Monterey County and rural counties may be subject to reprogramming (the following table shows the 2009–10 allocation and use only in the first year of availability). Those funds are to be fully obligated by the local agencies prior to the end of the federal fiscal year (September 30, 2012).

Regional agencies have dedicated considerable effort toward improving the delivery of RSTP and CMAQ projects. The 2011–12 RSTP and CMAQ appropriations are in their first year of availability and will continue for the next two years. The following table shows how the Commission's 2011–12 RSTP and CMAQ allocations, totaling $935.304 million, were used by regional agencies in the first year of availability (as of June 30, 2012) and provides a comparison with the usage of prior first year availability:

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

	2009–10		2010–11		2011–12	
Category	**Allocation**	**Use**	**Allocation**	**Use**	**Allocation**	**Use**
RSTP	$416,749	$93,399	$414,191	$124,720	$431,486	$179,708
RSTP match & exchange	$57,849	$51,506	$57,849	$49,559	$57,849	$45,639
CMAQ	$405,266	$49,509	$405,266	$219,217	$445,969	$143,079
FTA Transfers	$0	$185,123	$0	$191,667	$0	$148,118
Subtotal, RSTP/CMAQ	$879,864	$379,537	$877,306	$585,163	$935,304	$516,544
Bridge Inspection & Match	$3,375	$0	$3,375	$212	$3,375	$2,439
Bridge Rehabilitation & Replacement	$199,084	$57,775	$197,120	$106,664	$127,878	$164,039
Bridge Seismic Retrofit	$30,874	$87,097	$30,874	$8,941	$169,646	$58,193
RR Grade Crossing						
Protection	$11,716	$847	$11,716	$0	$11,716	$911
Maintenance	$2,000	$2,000	$2,000	$2,000	$2,000	$0
Grade Separations	$15,000	$0	$15,000	$15,000	$15,000	$0
Hazard Elimination/Safety	$47,212	$11,955	$47,212	$11,584	$50,552	$26,546
High Risk Rural Roads	$7,428	$3,892	$7,428	$969	$8,226	$5,823
Safe Routes to School	$44,922	$16,009	$44,922	$12,444	$45,203	$14,051
Freeway Service Patrol	$25,479	$22,736	$25,479	$25,479	$25,479	$25,479
High Priority Projects	$208,170	$99,144	$208,170	$51,687	$208,170	$111,937
Miscellaneous	$4,700	$33,070	$4,700	$48,456	$4,700	$0
Total	**$1,479,824**	**$714,062**	**$1,475,302**	**$868,599**	**$1,607,249**	**$925,962**

For the RSTP and CMAQ programs, allocations applied to transit projects are transferred to the Federal Transit Administration (FTA). Those transfers are displayed separately on the table and included in the "use of allocation" figures for RSTP and CMAQ

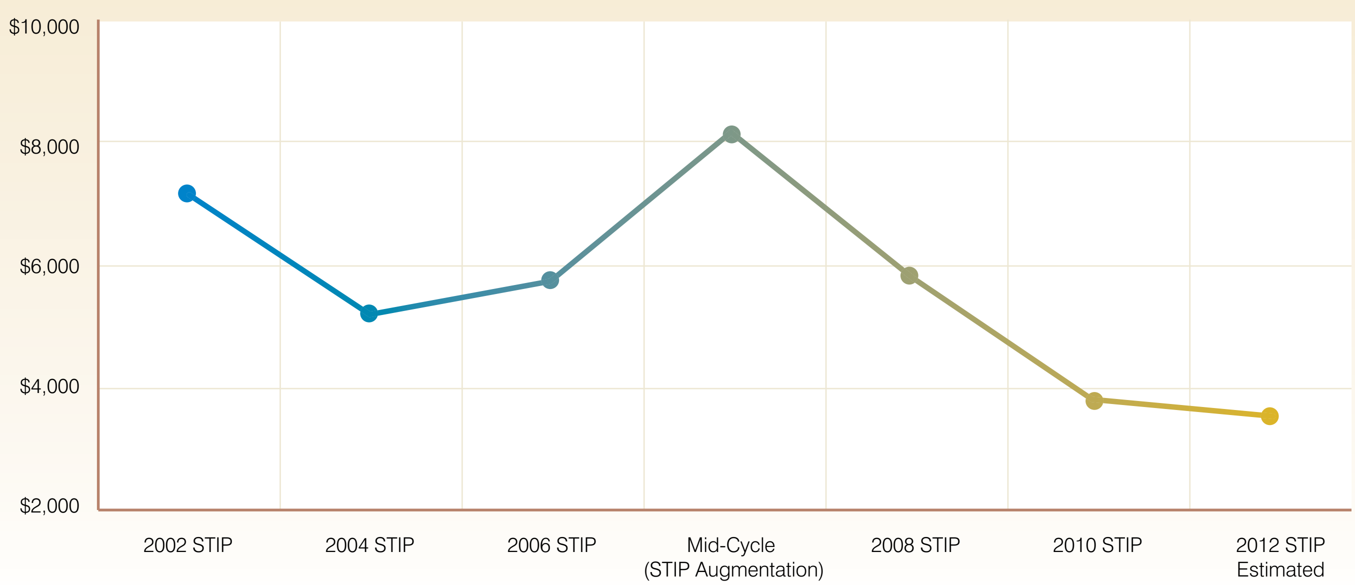
State Transportation Improvement Program

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

STIP funding in previous years came primarily from Proposition 42 (Traffic Congestion Improvement Act of 2002), TIF transfers (gasoline sales tax), Proposition 1B (Highway, Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006) bond proceeds (Transportation Facilities Account (TFA)), and the Public Transportation Account (PTA). This changed in March 2010 (and was reenacted in March 2011) due to the passage of the "gas tax swap" legislation (ABX8 6, Chapter 11, Statutes of 2010 and ABX8 9, Chapter 12, Statutes of 2010). Effective July 1, 2010, the gas tax swap eliminated the sales tax on gasoline sales and increased the gasoline excise tax from 18 cents to 35.3 cents. While intended to be revenue neutral, the gas tax swap has significantly altered STIP funding sources, by eliminating TIF funding, reducing PTA funding (and effectively eliminating it in future years), and adding State Highway Account (SHA) funding.The STIP allocation capacity for 2011–12 was $895 million ($395 million TFA). The Commission allocated $954 million for STIP projects (including projects delivered in 2010–11 that could not be allocated due to lack of funding and projects with allocation extensions expiring in 2011–12). Part of the over-allocation was possible due to G-12 adjustments that returned funds to the allocation "pot", and part was possibly due to some SHOPP allocation capacity remaining unused.

It is estimated that the STIP allocation capacity for 2012–13 will be sufficient for all 2012–13 programmed projects and projects that were delayed into 2012–13.

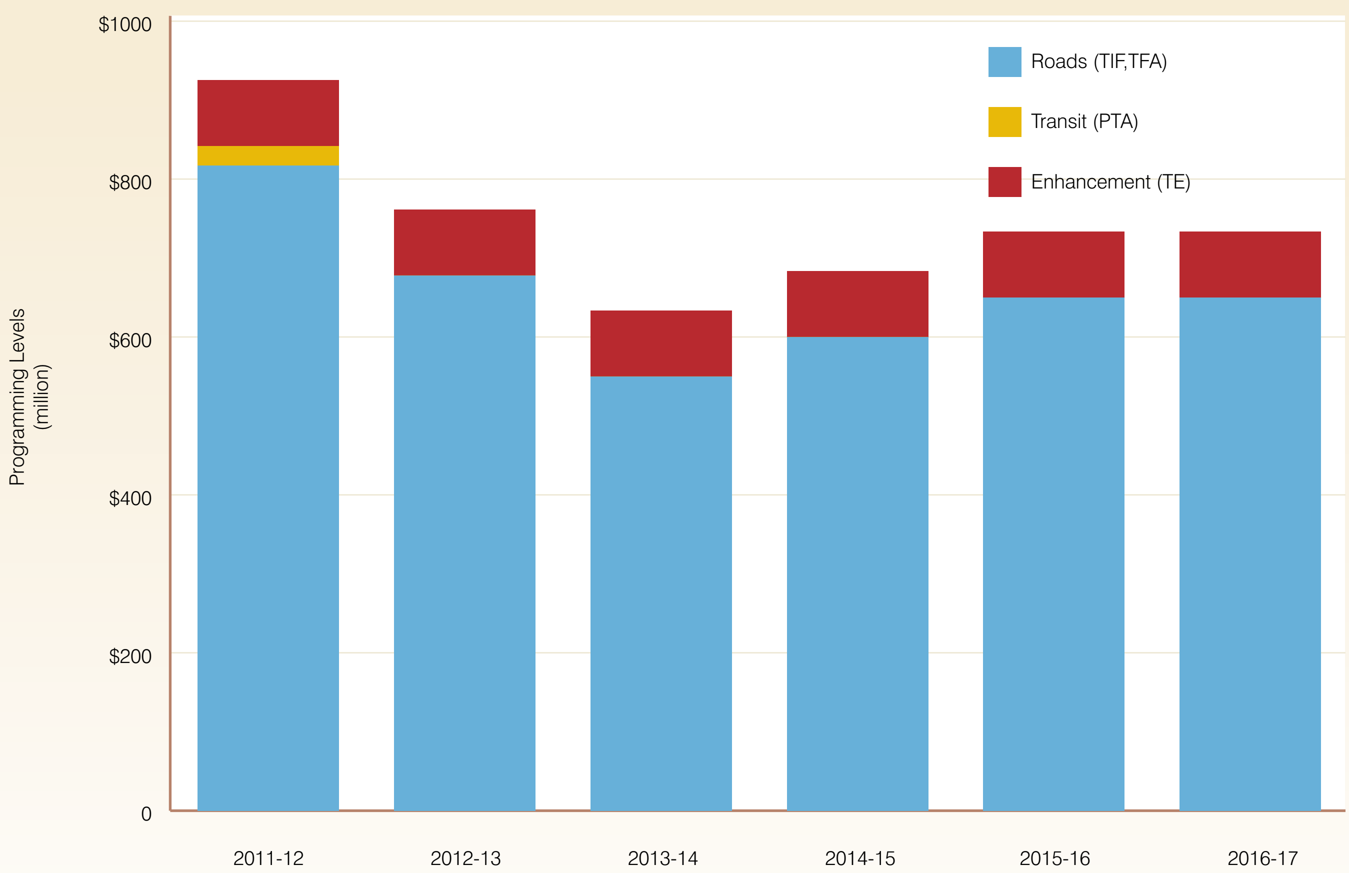
Historic STIP Programming Levels (5-Year STIP Periods Without Carryover From Prior Years)



2012 STIP Fund Estimate

The 2012 STIP Fund Estimate (FE) was adopted on August 10, 2011, and covers the five-year period of 2012–13 through 2016-17. The FE forecasts additional funding capacity of $1.483 billion for the five-year period. The 2012 STIP FE also includes almost $2.99 billion in carryover capacity from projects carried over from the 2010 STIP and net decreases in capacity for transit projects (PTA funded). The approximately $1.483 billion in net new capacity is available mostly in the two years added to the STIP (2015-16 and 2016-17). The following table reflects the STIP capacity over the six-year period including 2011–12.

Summary of 2012 STIP FE — STIP Capacity by Fiscal Year (dollars in millions)



	2011–12	2012–13	2013-14	2014-15	2015-16	2016-17	Total
Enhancement (TE)	$83	$83	$83	$83	$83	$83	$498
Transit (PTA)	$25	$0	$0	$0	$0	$0	$25
Roads (TIF,TFA)	$817	$678	$550	$600	$650	$650	$3,945
Total	**$925**	**$761**	**$633**	**$683**	**$733**	**$733**	**$4,468**

2012 STIP Guidelines

The 2012 STIP guidelines were adopted on August 10, 2011. The revised guidelines included a discussion of the negative program capacity for the PTA (-$542 million.) This negative capacity means that currently programmed transit projects will have to be delivered with other STIP funds (if eligible for SHA or federal funds) or be deprogrammed.

The guidelines also spelled out the schedule for the development and adoption of the 2012 STIP. Regional Transportation Improvement Programs and the Interregional Transportation Improvement Program were due to the Commission by December 15, 2011, the South and North STIP hearings were held on February 1 and February 8, 2011, respectively, Commission staff recommendations were published on March 8, 2011, and the Commission adopted the 2012 STIP on March 29, 2012.

2012 STIP Adoption

The 2012 STIP, adopted on March 29, 2012, included the following programming for 2012–13 through 2016-17:

- $2.547 billion in highway and road projects
- $511 million in transit projects
- $418 million in transportation enhancement (TE) projects

2012 Report on County and Interregional Share Balances

Section 188.11 of the Streets and Highways Code requires the Commission to maintain a record of STIP County and Interregional share balances, and to make the balances through the end of each fiscal year available for review no later than August 15 of each year.

On August 1, 2012, the Commission issued its fifteenth annual Report of STIP Balances, County and Interregional Shares. The report included the 2012 STIP adopted in March 2012, including allocations and other actions approved through June 2012. The balances in the report were based on the capacity identified through 2016-17 in the 2012 STIP FE, adopted in August 2011.

The 2012 STIP Balances, County and Interregional Shares Report can be found at http://www.catc.ca.gov/programs/stip.htm.

State Highway Operation and Protection Program

Caltrans is responsible for maintaining and operating the state highway system. The California state highway system includes nearly 50,000 lane miles of pavement, 12,559 bridges, 205,000 culverts and drainage facilities, 87 roadside rest areas, and 29,183 acres of roadside landscaping. Also included in the transportation infrastructure are the 444 additional support facilities, including maintenance stations, equipment shops, and transportation materials laboratories and testing facilities. Much of this system was built in the 1950s, 1960s, and early 1970s.

As the roadways and bridges on the state highway system age and approach the end of their service lives, the demands of vehicle and truck traffic are accelerating their deterioration. Compounding this deterioration is the deferment, due to lack of funding, of necessary rehabilitation and restoration work to restore the transportation infrastructure to good operating conditions.

The purpose of the SHOPP is to maintain and preserve the investment in the state highway system and its supporting infrastructure. Projects in the SHOPP are limited to capital improvements relative to maintenance, safety, and rehabilitation of state highways and bridges, and capital improvements that do not add new traffic lanes to the system.

Projected funding available for the SHOPP is $2 billion per year, which is 37 percent of the $7.4 billion annual need.

The condition and operational performance of the state highway system is monitored through inspections, traffic studies, and system analysis. Caltrans uses information obtained through these activities to prepare the Ten-Year SHOPP Plan that identifies the rehabilitation and reconstruction needs of all highways and bridges on the state highway system.

Streets and Highways Code Section 164.6 requires Caltrans to prepare a cost estimate of rehabilitation needs to achieve specific milestones and quantifiable accomplishments, such as miles of highways to be repaved and number of bridges to be retrofitted. This goal-constrained cost estimate is reflected in the 2011 SHOPP Plan which identifies a ten-year need of $74 billion, an increase of $11 billion from the 2009 SHOPP Plan. Caltrans also prepares a financially-constrained SHOPP Plan based on the anticipated funding available during the ten-year timeframe.

Additionally, the statutes require Caltrans to submit the plan for review and comment by January 31 before transmittal by the Commission to the Governor and the Legislature by May 1 of each odd-numbered year. The 2011 SHOPP Plan identifies needs for the ten-year period from 2012–13 through 2021-22. Caltrans presented the draft SHOPP Plan at the Commission's January 2011 meeting; incorporated comments from the Commission; and the Commission approved the final 2011 SHOPP Plan at its March 2011 meeting.

Projects to implement the Ten-Year 2011 SHOPP Plan are primarily funded through the SHOPP. Caltrans biennially prepares a SHOPP in accordance with Government Code Section 14526.5, Streets and Highways Code Section 164.6 and the strategies outlined in Caltrans' Policy for Management of the SHOPP. The 2012 SHOPP is a four-year program of projects for 2012–13 through 2015-16. The proposed expenditures are consistent with the annual funding levels in the 2012 FE, adopted by the Commission at its August 2011 meeting. New projects in the 2012 SHOPP are primarily programmed in the last two fiscal years, and are consistent with and guided by the policies and priorities in the 2011 Ten-Year SHOPP Plan. Projected funding available for the SHOPP is $2 billion per year, which is 37 percent of the $7.4 billion annual need.

In the absence of new revenue sources, the condition of the transportation system will continue to deteriorate, impacting the ability to improve mobility across California.

Caltrans biennially prepares a SHOPP for major capital improvements necessary to preserve and protect the state highway system. Caltrans submitted the draft 2012 SHOPP to the Commission on January 30, 2012. At its February 2012 meeting, the Commission reviewed the 2012 SHOPP for its overall adequacy, the level of annual funding needed to implement the program, and the impact of those expenditures on the STIP.

The Commission approved the 2012 SHOPP at its March 28, 2012 and, as required by Government Code Section 14526.5, the Commission transmitted the final document to the Governor and the Legislature by the April 15 deadline. The document can be found at http://www.dot.ca.gov/hq/transprog/shopp.htm.

Garvee Bond Financing

Federal Grant Anticipation Revenue (GARVEE) Bond Financing is used in the STIP and SHOPP to finance large rehabilitation and reconstruction projects that would otherwise not be afforded by the available SHA funding. Although this financing mechanism allows strategic projects to be delivered, the debt service will limit future flexibility.

Government Code Section 14553.9(b) requires the Commission to report on or before April 1 of each year to the Governor and the Legislature regarding the total amount of outstanding GARVEE notes for the preceding calendar year.

The Commission has approved the issuing of GARVEE notes twice, once for STIP projects and once for SHOPP projects. On March 10, 2004, the state issued $614.85 million of GARVEE Bonds (Series 2004A Bonds) for STIP projects. The Series 2004A Bonds are structured with serial maturities from 2005 through 2015. On October 16, 2008, the state issued a second set of GARVEE Bonds (Series 2008A Bonds) for $97.635 million for SHOPP projects. The Series 2008A Bonds are structured with serial maturities from 2009 through 2020.

Government Code Section 14553(b) requires the Commission to prepare, in conjunction with the State Treasurer's Office, an annual analysis of California's bonding capacity for issuing GARVEE bonds. This year's analysis was provided to the Commission at its June 2012 meeting.

The Commission has approved the issuing of GARVEE notes twice, once for STIP projects and once for SHOPP projects.

Government Code Section 14553.4 states that the State Treasurer may not authorize the issuance of additional bonds if annual debt service on all outstanding GARVEE obligations would exceed 15 percent of the total amount of federal transportation funds deposited into the SHA for any consecutive 12-month period within the preceding 24 months. Other factors also affect bonding capacity, such as maturity structures, interest rates, and policy decisions.

Based on a 12-month period with revenues of nearly $3.946 billion, the 15 percent limitation on GARVEE debt is $591,857. After taking into account the current maximum annual debt service of the Series 2004A Bonds and Series 2008A Bonds ($84.296 million in 2012–13), the remaining annual debt service capacity is $507,561. Depending on the final maturity structures and interest rates used for the issuance, the corresponding bonding capacity ranges to a high of approximately $5.4 billion.

These analyses demonstrate that a range of circumstances, including policy, revenues, and market factors, can affect the existing capacity for future state GARVEE financing. The analyses should be used as a tool for understanding the implications of alternative applications and the potential GARVEE bond structures that the Commission may be asked to consider over the coming year.

Traffic Congestion Relief Program

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

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

AB 438 (Chapter 113, Statutes of 2001) delayed the five-year schedule for the TIF transfers by two years, from the original 2001-02 through 2005-06, to 2003-04 through 2007–08. AB 438 also authorized a series of loans to the General Fund, including a $482 million loan from the TCRF to be repaid with tribal gaming revenues. The current projection is that 2020-21 is the earliest tribal gaming funds are expected to be available to begin repaying the $482 million TCRF loan balance.

Proposition 42 (Traffic Congestion Improvement Act of 2002) suspended TIF transfers into the TCRF, with partial suspension in 2003-04 ($389 million) and full suspension in 2004-05 ($678 million), and only allowed enough transfers to reimburse prior TCRP allocations. As a result, a total of $1.1 billion in Proposition 42 transfers were suspended and loaned to the General Fund. After a $323 million repayment in 2006–07 the loan balance was $744 million.

Proposition 1A (Transportation Funding Protection, 2006) required the $744 million to be repaid no later than June 30, 2016. As of June 30, 2012, the outstanding loan balance is $330.7 million, to be repaid in four equal installments of $82.7 million per year through 2015-16. Thus, combined with the $482 million TCRF loan balance, approximately $812.7 million remain available for future TCRP allocations.

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

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

Tier 1 commitments have been limited to the annual $82.7 million Proposition 1A loan repayments, the only reliable funds available for future TCRP allocations. Tier 2 projects would be allocated upon availability of the Tribal Gaming revenues.

The Commission has approved $4.615 billion in applications through June 30, 2012, including at least a partial application for each of the 141 designated projects. Application approval is equivalent to project programming, and it defines the scope, cost, and schedule of a project or project phase, and it generally includes expenditures projected for future years.

The Commission allocated a total of $88.1 million for TCRP activities in 2011–12. As of June 30, 2012, approximately $4.094 billion has been allocated to TCRP projects, of which about $3.798 billion has been expended for ongoing TCRP projects.

Information for TCRP expenditures as of June 30, 2012, can be found at: http://www.ctc.ca.gov/programs/tcrp/TCRP_Expenditures_063012.pdf

Proposition 1B Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006

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

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

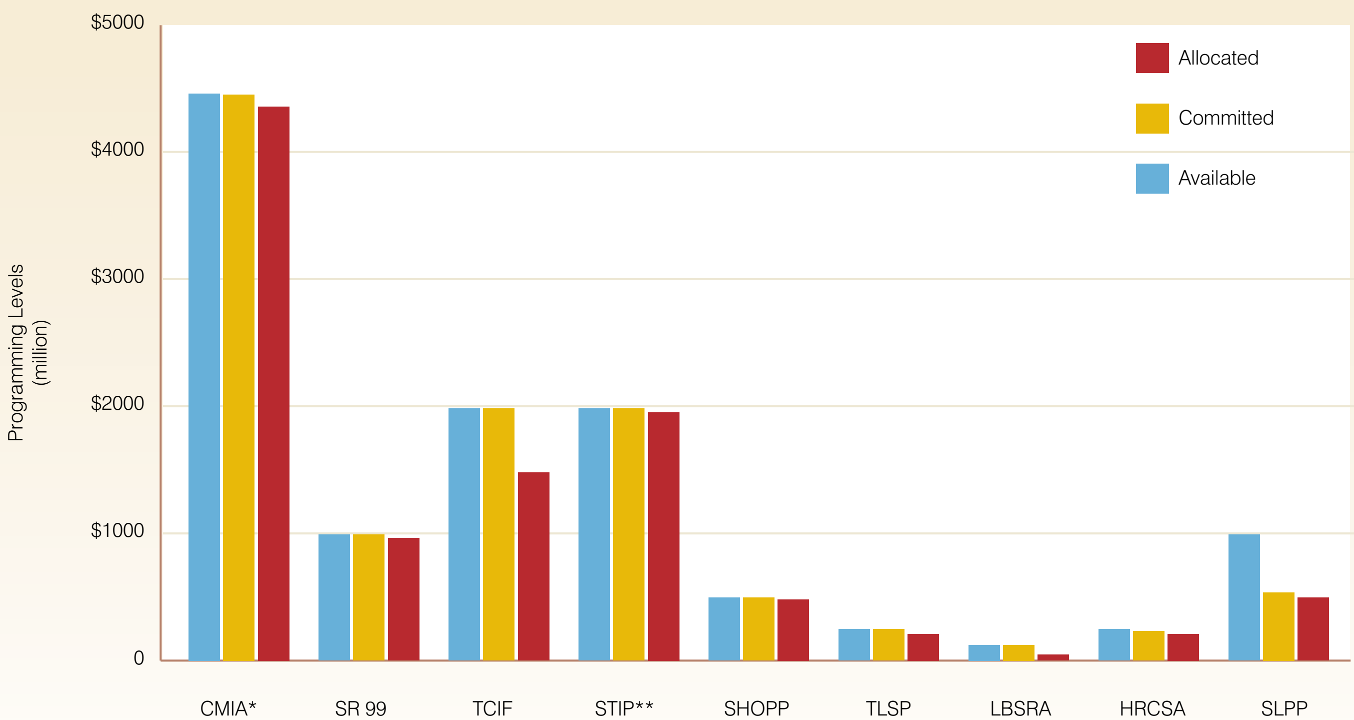
Senate Bill (SB) 88 (Chapter 181, Statutes of 2007), a trailer bill to the Budget Act of 2007, also includes implementation and accountability requirements for Proposition 1B projects and further defines the role of the Commission as the administrative agency for certain bond programs. SB 88 requires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

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

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

To date, the Commission has programmed (committed) $11.1 billion of the $11.6 billion of the Proposition 1B funds within its purview. The remaining $465 million represents primarily SLPP funds, which are to be programmed on a five year period on a formula basis. The Commission has allocated $9.6 billion of the programmed Proposition 1B funds, primarily to projects that were ready to commence construction.

As with almost any state program during 2011–12, the most pressing issue for the Proposition 1B programs has been the state's ongoing financial challenges and the limited availability of cash to fund projects. In the past, the Commission typically approved allocations to projects when requested by project sponsors. Since January 2009, however, the Commission's ability to allocate to Proposition 1B projects and allow these projects to proceed to construction has been constrained by the State Treasurer's ability to sell bonds and the availability of bond proceeds for transportation projects. These funding constraints have forced the Commission to defer allocations to delivered projects, negatively impacting project baseline agreement schedules, and reducing the economic stimulus generated through the construction of infrastructure projects. During the summer of 2011, more than $650 million of shovel ready projects were stalled until bond sales in the fall of 2011 enabled the Commission to allocate to these projects in October 2011. At that time, however, based on an analysis of bond cash reserves, forecasted project expenditures, and scheduled project delivery, the State Treasurer determined that there was adequate cash flow



* CMIA Committed and Allocated amounts reflect bid savings from awarded projects.

** STIP Augmentation allocation total does not include AB 608 adjustments.

capacity for the Commission to allocate to all Proposition 1B projects scheduled for delivery in 2011–12. Therefore, during the balance of 2011–12, the Commission allocated to all Proposition 1B projects deemed by Caltrans as Ready to List and eligible for allocation.

Since 2009, the economic downturn provided one tangible benefit for the Proposition 1B projects, that is, lower construction costs. The trend for lower construction costs continued in 2011–12.

The ongoing economic downturn also threatens local funding for Proposition 1B projects. Nineteen counties in California have adopted local sales tax measures to fund transportation improvements, including local contributions to Proposition 1B projects. As local sales tax revenues have declined approximately five percent to 20 percent in the last two years, project sponsors may have difficulty meeting existing local funding commitments to Proposition 1B projects or funding potential cost increases. In addition, many local agencies issue bonds against future sales tax revenues to raise funds to pay current project costs. However, local agencies may have difficulty issuing bonds because of the tight credit markets.

Another challenge for local agencies is the loss of redevelopment funds as a result of AB X1 26 (Chapter 5, Statutes of 2011). Many Proposition 1B projects include redevelopment funds as part of the funding plan and the loss of these funds places these projects at risk for delivery. Local agencies must redirect other funds to bridge the funding gap caused by the loss of redevelopment funds, often to the detriment of other local projects or priorities. At a minimum, the loss of redevelopment funds has caused construction delays of six months to a year on affected projects, while local agencies work to address the funding gap. Where alternative funding is not available, affected Proposition 1B projects will not be delivered.

Since 2009, the economic downturn provided one tangible benefit for the Proposition 1B projects, that is, lower construction costs. The trend for lower construction costs continued in 2011–12. Through the fourth quarter of 2011–12, Caltrans has received an average of 6.1 bidders per contract advertised, a slight increase from the average of 5.8 bidders per contract in 2010–11. The low bid for contracts was 15.5 percent below the Engineer's Estimate for the same period versus 11.3 percent below the Engineer's Estimate for 2010–11.

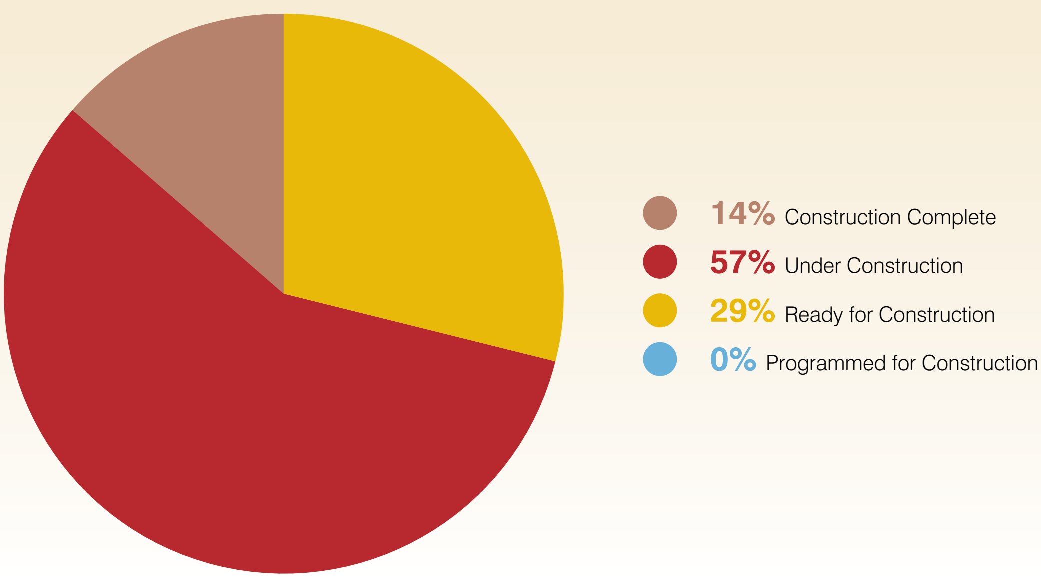
Corridor Mobility Improvement Account Program

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

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

At the time of adoption of the original CMIA program in February 2007, the Commission programmed 54 projects for $4.5 billion, leveraging another $4.6 billion in additional federal, state and local funds. As the Commission focused on assuring the delivery of the CMIA program within the statutory deadline, the Commission also worked with sponsoring agencies to recapture any cost savings at construction contract award. These contract award savings were proportioned among the mix of project funding sources and resulting CMIA dollars were recycled to program additional CMIA projects. Through June 30, 2012, the Commission committed $937 million of CMIA savings to 42 additional projects, leveraging an additional $900 million in other federal, state and local funds. What started as a program of 54 projects valued at $9.1 billion in total project cost grew to a program of 96 projects valued at $10.6 billion in total project cost, generating over 190,000 jobs and providing critical improvements to the state transportation system.

Corridor Mobility Improvement Account



The Commission is working with Caltrans to capture and utilize CMIA project cost savings accrued after June 30, 2012 through the statutory deadline of December 31, 2012 on CMIA eligible SHOPP projects currently in the construction procurement phase.

The Commission believes this approach will allow the maximum utilization of CMIA funds within the statutory deadline and at the same time bring additional benefits to preserving the state highway system by advancing eligible SHOPP projects that would otherwise be subject to SHOPP funding constraints.

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

During 2011–12, the Commission allocated a total of $1.073 billion in CMIA dollars to projects that were ready to commence construction.

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

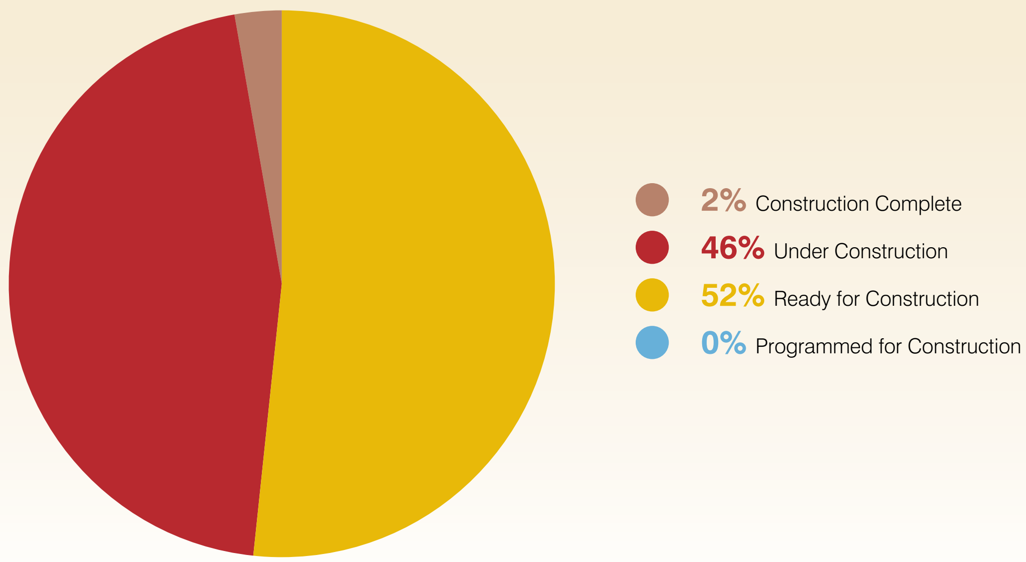
State Route 99 Corridor Program

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

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

During 2011–12, the Commission allocated a total of $778 million in SR 99 dollars to projects that were ready to commence construction.

State Route 99



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

Trade Corridors Improvement Fund

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

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

TCIF Corridor Programming Ranges (dollars in millions)

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

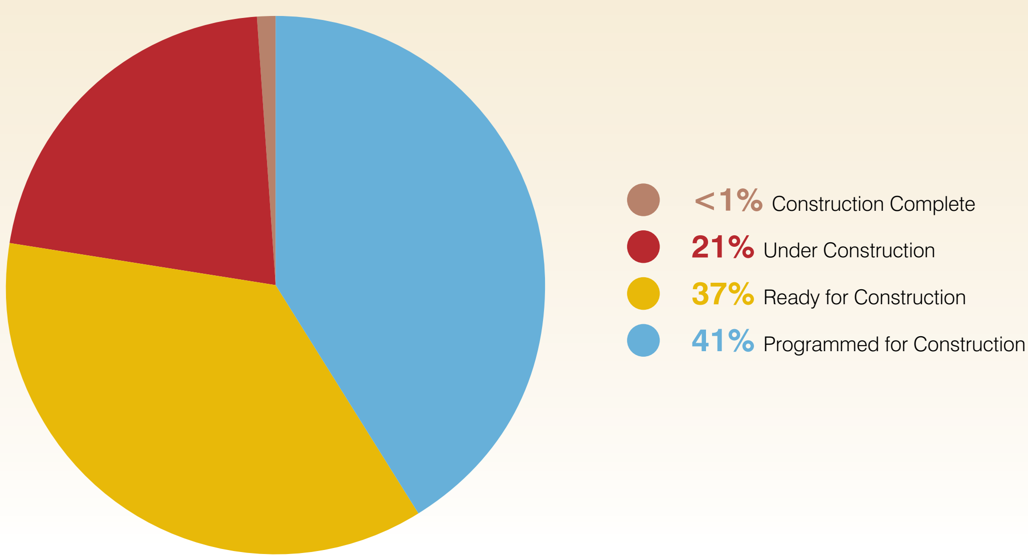
The Commission adopted the initial TCIF program of 79 projects, valued at $3.1 billion, on April 10, 2008. In the adopting Resolution, TCIF-P-0708-01, the Commission stated its intent to review the programming and delivery status of all projects and to adopt amendments to the program as necessary to address the availability of funding or changes in project delivery schedules.

Given that new revenue sources to fund the over programming are not available due to current economic conditions, the Commission worked with the Corridor Coalitions and project sponsors to develop strategies to address the over programming. All three Corridor Coalitions – the Northern California Trade Corridors Coalition, the Southern California Consensus Group, and the San Diego/Border Corridor – will be at or near the statutory programming levels by the end of 2012.

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

During 2011–12, the Commission allocated a total of $771 million in TCIF dollars to projects that were ready to commence construction.

Trade Corridors Improvement Fund



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

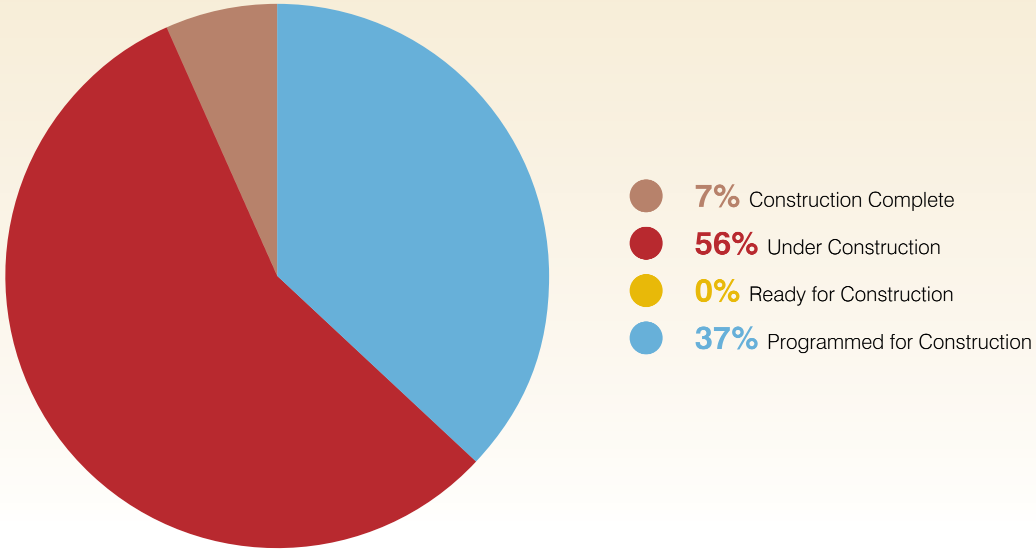
Traffic Light Synchronization Program

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

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

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

Traffic Light Synchronization Program



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

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

During 2011–12, the Commission allocated a total of $55.6 million in TLSP dollars to projects that were ready to commence construction.

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

Highway-Railroad Crossing Safety Account

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

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

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

In accordance with the HRCSA guidelines, funds programmed in the initial HRCSA program that were not allocated by June 30, 2010, were reprogrammed into a 2010

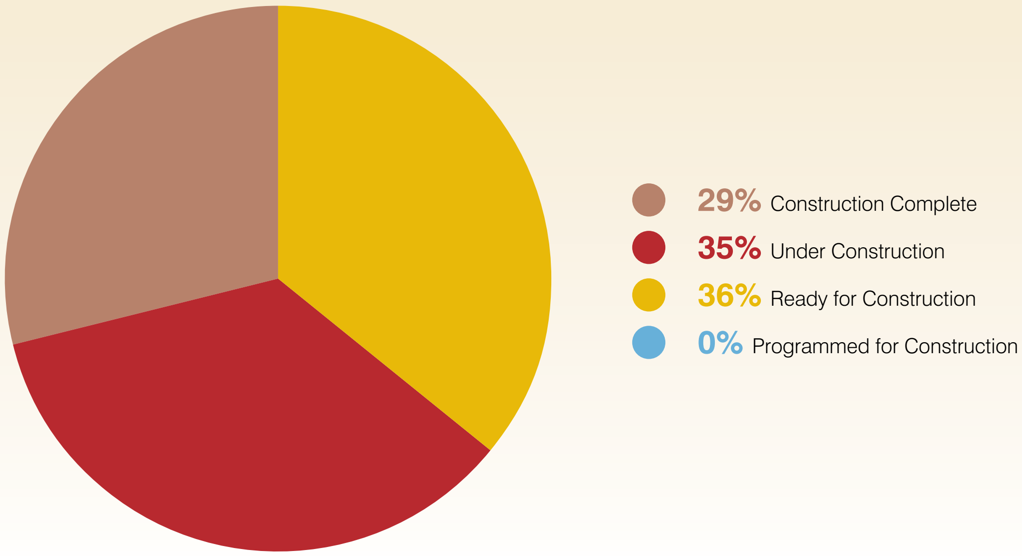
HRCSA Program. At its May 19, 2010 meeting, the Commission approved updated HRCSA guidelines to establish the schedule for the 2010 programming process, with applications due to the Commission on July 1, 2010. As of July 1, 2010, $59.3 million was available for reprogramming in Part 1 and $33.1 million in Part 2. On September 22, 2010, the Commission adopted the 2010 HRCSA program, programming $47.4 million for four Part 1 projects and $25.8 million for six Part 2 projects.

Funds programmed in the 2010 HRCSA Program that were not allocated by June 30, 2012, will be reprogrammed into a 2012 HRCSA Program. At its March 28, 2012 meeting, the Commission approved updated HRCSA guidelines to establish the schedule for the 2012 programming process, with applications due to the Commission on July 1, 2012 and adoption of the 2012 HRCSA Program scheduled for September 2012.

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

During 2011–12, the Commission allocated a total of $73 million in HRCSA dollars to projects that were ready to commence construction.

Highway-Railroad Crossing Safety Account



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

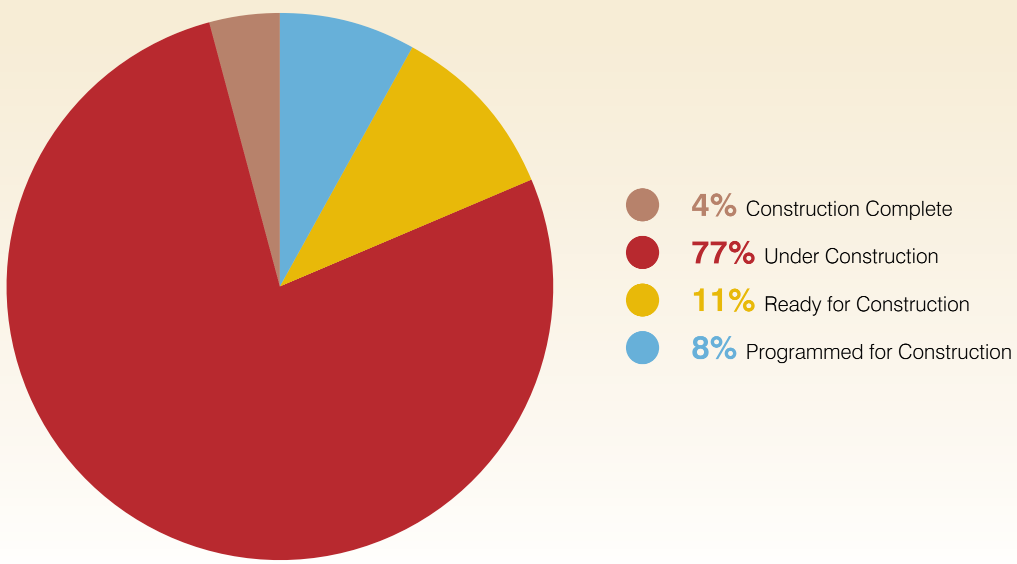
State-Local Partnership Program Account

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

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

The Legislature appropriated $200 million for SLPP in 2008–09, $200 million in 2009–10, $241 million in 2010–11, and $165 million in 2011–12. Guidelines for 2010–11 were adopted in April 2010, with the understanding that they would remain in effect through the end of the program. The first projects were programmed in April 2009,

State-Local Partnership Program



for a total of $103.8 million. A total of $542 million has been programmed through June 2012 for the first four years of the program. Agencies with formula funds have identified an additional $168.5 million in planned programming (as of June 30, 2012) for the last year of the program.

The status of individual projects in the SLPP program is reported to the Commission on a quarterly basis. The most recent report, through June 30, 2012, shows that 29 projects (12 formula and 17 competitive) have completed construction, although not all have done a final close-out.

During 2011–12, the Commission allocated a total of $199.27 million in SLPP dollars to projects that were ready to commence construction, and de-allocated $3.04 million in award savings.

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

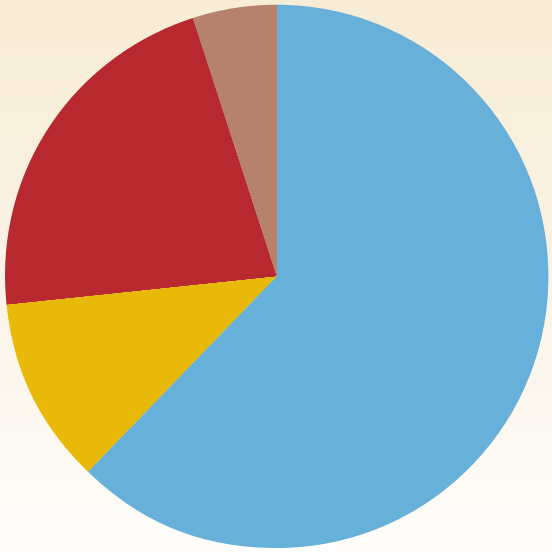
During 2011–12, the Commission allocated a total of $199.27 million in SLPP dollars to projects that were ready to commence construction, and de-allocated $3.04 million in award savings.

Local Bridge Seismic Retrofit Account

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

In April 2007, Caltrans identified 479 local bridges deemed eligible to receive LBSRA funds. The 479 local bridges were those bridges remaining from the local bridges initially identified as needing seismic retrofit under the Local Bridge Seismic Retrofit Program (LBSRP). Progress of LBSRP projects is tracked on the federal fiscal year due to the fact that 88.5 percent of the funds used to retrofit the local bridges come from federal HBP funds. Subsequent actions by Caltrans and responsible local agencies reduced the total number of bridges eligible to receive LBSRA funds to 424.
From the adoption of the LBSRA program through June 30, 2011, the Commission allocated in total $46.7 million to Caltrans for further sub-allocation. Over the same time frame, Caltrans sub-allocated $29.9 million to local bridge projects. The remaining balance of $16.8 million reverted back to the LBSRA for re-allocation in future years.

In 2011–12, the Commission allocated an additional $5.2 million of LBSRA funds to Caltrans for further sub-allocation. Through June 30, 2012, Caltrans sub-allocated $3.6 million of the $5.2 million allocation to local bridge projects. Since the program is run on the federal fiscal year the remaining $1.6 million for Commission allocation could still be sub-allocated by Caltrans before the end of the federal fiscal year. Any



funds not sub-allocated by the end of the federal fiscal year will revert back to the LBSRA for re-allocation in future years.

The status of individual projects in the LBSRA program is reported to the Commission on a quarterly basis. As of June 30, 2012, of the 424 local bridges eligible to receive LBSRA funds three are in the retrofit strategy development stage, 121 are in the design stage, 169 are under construction, and 131 are seismic retrofitted. Specific information on LBSRA eligible projects, including total cost, LBSRA contribution, and planned construction start date, can be found at http://www.bondaccountability.ca.gov/.

Public Transportation Modernization, Improvement, and Service Enhancement Account

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

Formula Program

To date, the State Controller has allocated $1.694 billion to 714 projects. As of August 2012, there are 157 projects totaling $598 million ready to proceed, subject to the availability of bond funding.

Intercity Rail Program

To date, a total of $161.8 million has been allocated to projects. Eight projects have received full allocations and three have received partial allocations.

AB 268 (Chapter 756, Statutes of 2008) requires Caltrans to report to the Commission annually on the administration and status of the PTMISEA program. Caltrans' 2011–12 report was submitted to the Commission and is available at http://www.bondaccountability.ca.gov/.

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

Letters Of No Prejudice

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

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

The HRCSA program was specifically excluded for consideration for a LONP.

Beginning in January 2010, the Commission approved LONPs for agencies with projects funded from Proposition 1B, so that the agencies could begin work with their own funds and be eligible for reimbursement when bond funds are available for allocation.

The Commission has approved LONPs for 43 Proposition 1B projects representing $537.6 million in bond funding. Of these, 11 were approved in 2011–12, representing $191.057 million in bond funding. Most of these have now been allocated (four remain to be allocated).

On September 23, 2010, Governor Schwarzenegger signed urgency legislation, SB 1371 (Chapter 292, Statutes of 2010), that allowed the Commission to approve LONPs for Proposition 1A (High Speed Rail) projects. Two, representing $67.25 million in Proposition 1A funding, have been approved (none in 2011–12). Both have now been allocated.

Public-Private Partnerships

Section 143 of the Streets and Highways Code, as amended by SB 4 (SBX2 4, Chapter 2, Statutes of 2009), authorizes Caltrans and regional transportation agencies to enter into an unlimited number of comprehensive lease agreements with public or private entities to develop transportation projects, commonly known as public private partnership (P3) projects, until January 1, 2017. Section 143 provides that P3 projects and associated lease agreements proposed by Caltrans or a regional transportation agency shall be submitted to the Commission, and that the Commission shall select and approve the projects before Caltrans or a regional agency begins a public review process leading to a final lease agreement.

Since the Commission's adoption of its Public Private Partnership Policy Guidance in October 2009, only one P3 project has been received by the Commission for approval. At its May 2010 meeting, the Commission approved the joint request by Caltrans and the San Francisco County Transportation Authority (SFCTA) for Caltrans to enter into a lease agreement with a private entity to develop the Phase 2 (Presidio Parkway) portion of the Doyle Drive Replacement Project.

Presidio Parkway P3

Key Milestones

On January 3, 2011, Caltrans executed the Presidio Parkway P3 project agreement with the selected bidder, Golden Link Concessionaire, LLC (GLC). The next major milestone for the Presidio Parkway P3 project was a financial agreement, commonly known as a financial close, which was originally scheduled for late summer 2011. Financial close was delayed when the Professional Engineers in California Government (PECG) sought to stop the Presidio Parkway P3 project arguing that the project was not authorized by Section 143. It was not until November 2011, when the California Supreme Court denied PECG's petition that the sponsors were able to start the process toward financial close. This litigation delayed financial close until June 14, 2012 and resulted in increased costs of $17.5 million primarily due to incremental construction cost inflation over the extended delay period. This increase was offset by a reduction in the total cost of availability payments.

Litigation delayed financial close until June 14, 2012 and resulted in increased costs of $17.5 million primarily due to incremental construction cost inflation over the extended delay period.

Financial Plan

At the time of Commission approval, the project financial plan called for a $173.43 million milestone payment at the end of construction, followed by availability payments over 30 years, with a maximum availability payment in 2014, not to exceed $43.53 million. In its approving resolution of the P3 project, the Commission resolved that the maximum availability payment in 2014 would not exceed $35 million per annum.

Pursuant to the executed Presidio Parkway P3 Agreement, Caltrans agreed to make two milestone payments to GLC following substantial completion anticipated in September 2015. The first is a $185.43 million capital payment related to bank loans and the second is a $91 million payment related to a short-term Transportation Infrastructure Finance and Innovation Act (TIFIA) loan. The second milestone payment for the TIFIA results in a more efficient use of funds from local partners that is available to the project. Caltrans also agreed to pay GLC a maximum availability payment not to exceed $22.1 million (a savings of $12.9 million below the Commission's maximum payment limit) after substantial completion is reached.

Private Financing

To finance the project, GLC is utilizing a combination of bank construction loans, TIFIA loans, and private equity. The IPDC adopted in the 2010 procurement provided transparent and competitive debt pricing. This transparency was useful as the financial structure and market conditions evolved from late 2010 to June 2012. As benchmark interest rates improved (lowered), GLC secured $362.2 million of up-front external financing in order to develop the project and move into the operations phase from the following sources:

Financing Sources	$ Millions
Bank Construction Loans	$166.6
Short-Term TIFIA Loan	$89.8
Long-Term TIFIA Loan	$60.2
Private Equity	$45.6
Total	**$362.2**

Bank Construction Loans

GLC's external financing includes a short-term $166.6 million construction loan facility with five commercial banks: Bank of Nova Scotia, Compass Bank (dba BBVA Compass), Bank of Montreal, Bank of Tokyo-Mitsubishi, and Sovereign Bank (Banco Santander). While the bank debt has a variable interest rate based on the three month London Inter Bank Offering Rate (LIBOR) index, GLC used an interest rate swap to fix the bank debt rate (TIFIA requires fixed rate debt). Caltrans retained an independent expert, to review the swap pricing and execution, and to provide a fairness opinion regarding the swap price.

The final effective interest rate for the bank debt was fixed at 2.535 percent at financial close versus an estimated interest rate of 3.100 percent for bond financing at the time the P3 project was proposed.

TIFIA Debt

The TIFIA debt interest rate was set on June 14, 2012. The TIFIA debt structure is composed of an innovative, two-tranche TIFIA structure tailored to the availability of non-federal funds. The TIFIA debt rate dropped from an estimated 4.50 percent at time of the project proposal on October 6, 2010, to 0.46 percent (short-term ≈3.5 years) and 2.71 percent (long-term ≈30 years) at financial close. As a result of the two tranche structure and the decline in interest rates, the total debt service cost of the TIFIA debt was reduced from an estimated $293 million over 30 years to $182 million.

Private Equity

GLC invested $45.6 million of private equity to provide for an 87.5:12.5 debt to equity ratio.

Maintenance and Operations

Phase 1 of the Doyle Drive Replacement Project (Presidio Parkway) was opened on April 27, 2012. Under the Presidio Parkway P3 Agreement, GLC would assume operations and maintenance of Phase 1 beginning August 13, 2012.

Following substantial completion of Phase 2 of the Presidio P3 project, GLC will be responsible for operations and maintenance of both Phases 1 and 2 for a 30-year term. Pursuant to the terms of the Presidio Parkway P3 Agreement, GLC is required to cooperate with Caltrans and local government entities with jurisdiction in all matters relating to operations and maintenance. Caltrans retained the right, but not the obligation, to perform oversight and auditing of GLC's activities related to operations and maintenance of the project.

Performance Standards

Pursuant to the Presidio Parkway P3 Agreement, GLC's obligations extend beyond routine and major highway maintenance to include such actions as timely removal of litter, keeping tunnel intelligent transportation systems (ITS) and communications systems operational, and performing incident clearance within specified time frames. GLC is required to develop and implement a Project Management Plan (PMP). The purpose of the PMP is for GLC to demonstrate that it has an understanding of the project requirements, has in place policies and procedures to ensure compliance with contractual requirements, and has established a clear procedure for timely reporting to Caltrans before proceeding with design, construction, operations and maintenance activities.

The Presidio Parkway P3 Agreement technical requirements set forth certain minimum performance requirements related to operations and maintenance (e.g., pavement quality, incident response, landscaping). Examples of these requirements include assessment of non-compliance points for failure to remove debris in 30 minutes during peak periods and payment deductions for unplanned closure of lanes. GLC's failure to comply with these requirements entitles Caltrans to specified rights and remedies, including the assessment of noncompliance points, liquidated damages, deductions from the Availability Payments otherwise made to GLC, and termination.

Potential Public Private Partnerships in 2013

According to Caltrans, with the exception of the Los Angeles County Transportation Authority (LA Metro), other regional transportation agencies have not formally stated that they wish to implement projects through SB 4.

LA Metro adopted a policy objective to accelerate the development and implementation of highway and transit projects specified in its Long Range Transportation Plan and Measure R expenditure plan. To date, the LA Metro Board has approved only the Highway Goods Movement Package (HGMP) for a P3 procurement process. On July 9, 2012, LA Metro and Caltrans hosted an industry outreach forum in Los Angeles to present the HGMP to interested P3 developers and contractors. Roughly 250 participants attended this event.

The HGMP consists of six highway projects programmed for construction in future years that are cleared environmentally, or are scheduled to be cleared in the near future for P3 project delivery. These six programmatic elements include the following projects:

Project Location	Project Scope	Length (Miles)
I-5 North Capacity Enhancement from SR-14 to Parker Road	Add one HOV/HOT lane and one truck lane in each direction	14.3
I-5 North Pavement Rehabilitation from SR-14 to Parker Road	Repaving general purpose lanes	14.3
SR-71 Gap Closure from I-10 to Mission Boulevard	Add one HOV Lane and one Mixed Flow Lane in each direction	1.7
SR-71 Gap Project from Mission Boulevard to Rio Rancho Road	Add one HOV Lane and one Mixed Flow Lane in each direction	2.6
Soundwall Package 10	Various locations along I-210 in Arcadia and Pasadena	3.8
Soundwall Package 11	On SR-170 between SR-134 and Sherman Way; On I-405 in the vicinity of Stagg Street	5.5

The total estimated construction cost of the HGMP is approximately $700 million. The proposed HGMP P3 costs would be funded primarily with Measure R and Proposition C sales tax funds, state and federal funds, and potentially with additional revenues from tolling. The source of funds LA Metro and Caltrans are considering for operations, maintenance, debt financing and other life cycle costs have not yet been formally communicated.

California Transportation Financing Authority: Toll Facilities

With the enactment of AB 798 (Chapter 474, Statutes of 2009), creating the California Transportation Financing Authority (CTFA), the Legislature and the Administration provided a new innovative financing mechanism for use in addressing the state's critical infrastructure needs. Specifically, the CTFA was established for purposes of increasing construction of new capacity or improvements for the state transportation system in a manner that is consistent with and will help meet the state's greenhouse gas reduction goals, air quality improvement goals, and natural resource conservation goals, through the issuance of, or the approval of the issuance of, bonds backed, in whole or in part, by specified revenue streams. The CTFA may also authorize a project sponsor, or Caltrans, to impose and collect tolls as one source of revenues to pay debt service and to operate and maintain a project under certain conditions.

The CTFA consists of seven members: the State Treasurer (Chairperson), the Commission's executive director, the Director of the Department of Finance, the State Controller, the Director of Caltrans, a local agency representative appointed by the Senate Committee on Rules, and a local agency representative appointed by the Speaker of the Assembly.

AB 798 provides that a project sponsor, as defined in Government Code 64102(g), may apply to the CTFA for bond financing or refinancing of a transportation project that has been approved by Caltrans and the Commission for construction. The CTFA and the Commission are required to develop an approval process that results in project approval by the Commission and financing approval by the CTFA in a cooperative manner that is not sequential, in order that both approvals may be delivered to a project at approximately the same time.

Beginning June 30, 2011, and annually thereafter, the CTFA is required to provide the Commission a summary of actions taken in the previous calendar year, including the number of project sponsors who sought financing through the CTFA, a description of each project, a summary of the sources of funding used to finance or refinance the project, and any recommendations the CTFA may have to improve the financing of transportation infrastructure. This information is to be included in the Commission's annual report to the Legislature. However, since enactment of this legislation, the CTFA has not received a formal request for financing or refinancing a project. The Commission has and continues to work closely and in partnership with the CTFA to develop guidance for agencies interested in seeking approval through this legislation.

Design Build

The Design-Build Demonstration Program was established by SB 4 (SBX2 4, Chapter 2, Statutes of 2009). Caltrans and local transportation entities, if authorized by the Commission, may use the design-build procurement method to deliver projects on a demonstration basis through January 1, 2014. Caltrans may deliver up to ten design-build projects on the state highway system and local transportation entities may deliver up to five design-build projects on the local streets and roads network or local public transit system within the local entity's jurisdiction. The Riverside County Transportation Commission (RCTC) is authorized to deliver the SR 91 Express Lane Project as a named additional project to the 15 project design-build demonstration program authorized by the Legislature. Since Commission adoption of its Design-Build Demonstration Program Policy Guidance in September 2009, the Commission has authorized a total of nine projects for design-build procurement at the request of Caltrans and local transportation entities:

Caltrans Projects (ten slots maximum):

- Direct Connectors, LA-605 to LA-10, $78.8 million, best value
- Pavement Rehabilitation, Mad-99, $37.4 million, low bid
- Ramp Metering Installations, SM-101, $12.4 million, best value
- ExpressLane Project, LA-10 and LA-110, $69.3 million, best value
- Devore Interchange, SBd-15/SBd-215, $365.7 million, best value
- Braided Ramps, Fre-180, $69.5 million, low bid
- Gerald Desmond Bridge Replacement, LA-710, $950.8 million, best value
- HOV/BRT Lanes, SD-805, $174.9 million, low bid

Legislature Named Additional Project:

- Express Lanes, Riv-91, $1.1 billion, best value

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

Seven of the authorized nine design-build projects have received Commission allocation votes and have been awarded. Four of the awarded projects are under construction: LA-10/110 ExpressLane Project, Mad-99 Pavement Rehabilitation, SM-101 Ramp Metering and Fre-180 Braded Ramps. Three of the awarded projects are in the design stage: LA-605/10 Direct Connectors, SD-805 HOV/BRT Lanes and LA-710 Gerald Desmond Bridge Replacement. The remaining two authorized projects: SBd-15/215 Devore Interchange and Riv-91 Express Lanes remain in the procurement stage. None of the five available local slots have been utilized for the design-build procurement deliver method by local entities.

The Commission is required to establish a peer review committee to conduct an evaluation and comparison of the projects selected to utilize the design-build method of procurement. The Commission is further required to submit by June 30, 2012, a midterm report to the Legislature on its findings related to the peer review committee evaluation. None of the design-build projects authorized by the Commission has completed construction and there is no data for a peer review committee to evaluate and compare. Therefore, the peer review committee has not been established and the Commission informed the Legislature that it has no findings to report, but as soon as enough meaningful data is available a peer review committee will be established and preliminary findings will be reported.

High Occupancy Toll Lanes

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

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

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

Under AB 1467, the Commission has found three HOT lanes projects, one in Northern California and two in Southern California, to be eligible under this program:

- Bay Area Express Lane Network, submitted by the Metropolitan Transportation Commission (MTC) – The Commission found this project to be eligible in October 2011.
- Interstate 15 Corridor and HOT Lane Project in Riverside County, submitted by the Riverside County Transportation Commission (RCTC) - The Commission found this project to be eligible in April 2008.
- Los Angeles Region ExpressLanes Project, submitted by the Los Angeles Metropolitan Transportation Authority (LA Metro) – The Commission found this project to be eligible in July 2008.

Bay Area Express Lane Network

The MTC project is comprised of five freeway routes: I-80 in Alameda, Contra Costa and Solano Counties; I-880 in Alameda County; I-680 in Solano and Contra Costa Counties; State Route 84 in Alameda County; and State Route 92 in Alameda County.

In February 2012, MTC, Caltrans, and partner agencies began environmental work to advance the first phase of the Bay Area Express Lane Network. Current efforts include development of the Project Study Report/Project Report/Environmental Document for the conversion of HOV lanes on I-880 in Alameda County, I-680 in Contra Costa County south of Walnut Creek, SR-92 westbound approaching the San Mateo-Hayward Bridge, SR-84 westbound approaching the Dumbarton Bridge, and the approach to the San Francisco Bay Bridge. MTC, Caltrans, and partner agencies are also working on the Project Report/Environmental Document for the conversion of HOV lanes and widening for new express lanes on I-80 in Solano County.

In the spring of 2012, MTC initiated the system engineering process by beginning work on the express lane toll system concept of operations. Caltrans, the Federal Highway Administration, and the partner agencies are active participants in this process.

Interstate 15 Corridor and HOT Lane Project

The RCTC project proposes to add two Tolled Express Lanes and one General Purpose Lane in each direction from SR 60 to SR 74. The project also proposes to add one High Occupancy Vehicle (HOV) Lane in each direction from SR 74 to the I-15/I-215 Interchange. Currently in the environmental phase, the project is scheduled to complete this phase in 2014 and start construction in 2016. As the project covers a corridor length of approximately 44 miles, construction will be segmented into several contracts, with completion of the final contract scheduled for 2020.

In July 2009, RCTC entered into an agreement with the Federal Highway Administration making the I-15 Corridor Improvement Project part of the Value Pricing Pilot Program. This agreement provided the federal authority to operate two HOT lanes in each direction within the I-15 Corridor.

Due to the continuing economic downturn and the constrained project funding environment, RCTC updated its I-15 toll feasibility assessment from 2006–07. The initial results of this update were completed in the winter of 2010 with mixed results. RCTC is continuing to move forward with environmental studies and preliminary engineering for the entire project, unchanged since this work started in 2008. Due to the more financially challenging economic and funding environment, RCTC is analyzing project phasing opportunities with its engineering, traffic and revenue, and financial advisors to identify the initial project segment for construction. Over the past year, RCTC formed and convened the I-15 Corridor Ad Hoc Committee, with the goal to gain consensus on a viable phasing approach for the project. A recommendation from the I-15 Corridor Ad Hoc Committee is expected in the fall of 2012 and approval of the full Riverside County Transportation Commission planned by the end of 2012.

Los Angeles Region ExpressLanes Project

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

During 2011–12, a formal groundbreaking ceremony was held to mark the construction of the ExpressLanes. LA Metro completed the installation of all sign foundations and tolling equipment for the I-110 ExpressLanes and began the installation of sign foundations.

The ExpressLanes Project is currently in the construction phase for the I-10 and I-110 corridors, with anticipated completion of both corridors in 2013.

Seismic Safety Retrofit Program

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

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

- Phase 1 Seismic Program - initiated after the 1989 Loma Prieta earthquake. Under the Phase 1 Program 1,039 seismically vulnerable bridges were successfully retrofitted at a cost of $1.1 billion.
- Phase 2 Seismic Program - initiated after the 1994 Northridge earthquake. Under the Phase 2 Program 1,151 bridges were identified as needing seismic retrofit. As of June 30, 2012, 1,148 of the bridges were successfully retrofitted. Three bridges remain under construction:

    1. Ala-880 5th Ave Bridge in Oakland
    2. Ala-880 High Street Bridge in Oakland
    3. LA-47 Schuyler Heim Bridge in Los Angeles

  The two Oakland bridges are expected to complete construction in late 2013 or early 2014. The Schuyler Heim Bridge will not be completed until early 2017. A total of $1.35 billion was dedicated for the Phase 2 bridges from the Seismic Retrofit Bond Act of 1996 (Proposition 192). To date, $1.325 billion has been allocated to the Phase 2 bridges leaving an unallocated $25 million Proposition 192 reserve to cover any supplemental fund requests and arbitration settlements on completed bridges. An additional $485.5 million in SHOPP funds was allocated to the Phase 2 bridges, where it was determined that it is more cost effective to replace the bridge than to retrofit it. In total $1.81 billion has been allocated to the Phase 2 bridges through June 30, 2012.

- Toll Bridge Seismic Retrofit Program (TBSRP) - initiated after the 1989 Loma Prieta earthquake with seven bridges. Two additional bridges, the Antioch and Dumbarton, were added to the TBSRP by AB 1175 (Chapter 515, Statutes of 2009) bringing the total number of bridges in the program to nine - seven bridges were successfully seismically retrofitted and two bridges remain under construction.

The current estimate to seismically retrofit the state highway bridges is $12.1 billion: $1.1 billion spent on the Phase 1 bridges, $1.81 billion allocated to the Phase 2 bridges and $9.1 billion required for the TBSRP bridges. An additional $2.1 billion is required to seismically retrofit the 1,242 local street and road bridges identified as needing seismic retrofit following the 1989 Loma Prieta earthquake.

Toll Bridge Seismic Retrofit Program

Significant progress continues to be made on the two remaining under construction TBSRP bridges. On the San Francisco-Oakland Bay Bridge (SFOBB) East Span Project the contractor is in the process of transferring the roadway deck load off its temporary false-work supports and onto the main cable. This phase of work is one of the last remaining structural challenges before opening the bridge to traffic. Work is also proceeding on schedule on the Yerba Buena Island and Oakland sides of the new bridge. The project remains on schedule for a Labor Day 2013 Seismic Safety Opening.

In response to media reports calling into question foundation testing results and the safety of the new eastern span - particularly its signature element, the Self-Anchored Suspension (SAS) main tower - the Toll Bridge Program Oversight Committee commissioned an independent Seismic Safety Peer Review Panel in November 2011 to review records and answer questions regarding the design, quality assurance and safety of the tower foundation. The evaluation, which covered construction methods, equipment and quality testing related to the foundation of the main tower for the SAS portion of the new east span, concluded that no data falsifications occurred at the tower foundations and that the structure is safe. The Federal Highway Administration came to a similar conclusion after analyzing the SAS foundation test data from a previous investigation.

Seismic retrofit work on the Antioch Bridge was completed in April 2012 and is ongoing on the Dumbarton Bridge. The current construction completion forecast for the Dumbarton Bridge is September 2013.

Local Bridge Seismic Retrofit Program

Subsequent to the 1989 Loma Prieta earthquake, 1,242 publicly owned bridges on the local streets and roads network were identified as needing seismic evaluation. As of June 30, 2012, of the 1,242 local bridges three are in the retrofit strategy development stage, 121 are in the design stage, 169 are under construction, and 949 are either completed or were judged not to require seismic retrofitting. The total cost of the local bridge seismic retrofit program is roughly estimated at $2.068 billion. Approximately $976 million has been spent or obligated for the local bridges as of June 30, 2012, leaving an estimated $1.1 billion need to complete the remainder of the local bridge retrofit work. Because 124 of the 1,242 bridges are still in the strategy development or design stage, the $1.1 billion estimate is subject to change. It is the responsibility of each public agency bridge owner to secure funding, environmental approvals, right-of-way clearances, and to administer the construction contract.

With the passage of Proposition 1B (Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006), a $125 million Local Bridge Seismic Retrofit Account (LBSRA) was established. Funds from the LBSRA provide the 11.5 percent local match for the federal HBP funds used to retrofit the local bridges. Additional details on the LBSRA are available under the Proposition 1B discussion of this Annual Report.

State Rail Program

STATE-SUPPORTED INTERCITY PASSENGER RAIL SERVICE

State-supported intercity rail passenger service operates in three corridors:

- Capitol (Auburn-Sacramento-Oakland-San Jose)
- Pacific Surfliner (San Luis Obispo-Los Angeles-San Diego)
- San Joaquin (Bay Area/Sacramento-Fresno-Bakersfield, via bus to Los Angeles)

The Capitol Corridor Joint Powers Authority (CCJPA) plans and administers the Capitol Corridor, while Caltrans plans and administers state funding for the Pacific Surfliner and San Joaquin services. Caltrans is responsible for developing annual state budget requests for all three services. The National Passenger Rail Corporation (Amtrak) operates the services under contract with Caltrans and the CCJPA. Under the Federal 1970 Rail Passenger Service Act (49 USC 24102), only Amtrak has statutory rights to access privately owned railroads at incremental cost for intercity passenger rail service.

Operating subsidies for the intercity rail services had been fairly stable over the last few years but in 2010–11, as revenues declined due to the economic recession and fuel costs jumped, the subsidy increased from $90.3 million to $116.6 million. Amtrak continues to provide about $11 million annually from federal funds to operate the 30 percent of Pacific Surfliner service that is not state-supported. In 2011–12, an increase of $11.5 million in revenues was insufficient to keep pace with a $15.7 million increase in expenses, thus, requiring an increased subsidy of nearly $121 million.

In 2011–12, five intercity rail projects received STIP allocations totaling $17 million.

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

Overall, intercity ridership increased two percent in 2011–12, but the 4th quarter ridership shows a 2.1% decrease when compared to the fourth quarter of 2010–11. Revenues on the overall state system increased from $118.1 million in 2010–11 to $129.7 million in 2011–12, an increase of 9.8 percent. The On Time Performance, a measure of the train's reliability in maintaining its schedule, for the three corridors decreased from 87.9 percent in 2010–11 to 86.1 percent in 2011–12.

In 2011–12, five intercity rail projects received STIP allocations totaling $17 million, including $0.8 million for the Ventura County Sealed Corridor; $1 million for the Oakley to Port Chicago Doubletrack; $4.2 million for the Emeryville Parking Garage; $3 million for Capitalized Maintenance; and $8 million for the Hercules Intercity Station.

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

In November 2008, the voters passed The Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (Proposition 1A), a rail bond for $9.95 billion. Proposition 1A, sets aside $9 billion to initiate construction of a high-speed train system under the administration of the California High-Speed Rail Authority (HSRA). The Commission is responsible for programming and allocating the remaining $950

million to eligible recipients for capital improvements to intercity and commuter rail lines and urban rail systems. Eligible recipients can use the funding for capital improvements that:

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

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

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

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

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

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

On October 8, 2010, Governor Schwarzenegger vetoed most of the funds appropriated for high-speed rail projects: "While I am sustaining $38,500,000 to fund the implementation of positive train control safety projects in various local rail corridors, I am reducing this item by $107,626,000. These funds are available from Proposition 1A bond proceeds for the purpose of enhancing local transit lines as feeder routes to the high-speed rail system. The High-Speed Rail Authority, the Department of Transportation, and local jurisdictions should work together to develop a statewide strategy and an associated list of projects that will best accomplish the goal of moving passengers between destinations around the state in the quickest, most efficient and cost effective way, by utilizing these funds to advance the construction of facilities for joint use where possible and by providing better connectivity to the future high-speed rail system."

On June 30, 2011, Governor Brown also vetoed funds for projects other than positive train control (PTC) with similar language.

In April 2012, the HSRA released its Revised Business Plan that incorporated a blended approach to high-speed rail. The Commission, in consultation with the Administration and the HSRA, requested that local agencies and Caltrans re-apply for Proposition 1A funds for projects consistent with the Revised Business Plan. The revised program of projects that resulted from this exercise was presented to the HSRA Board for their review and input, and then was subsequently adopted by the Commission at its June 2012 meeting. Over $800 million was appropriated in the 2012–13 Budget Act for this revised program of projects, and it is expected that allocations for these projects will proceed in 2012–13.

Total allocations for Proposition 1A (PTC) projects through June 2012 amounted to $128.8 million, with $50.61 million allocated in 2011–12.

Aeronautics Program

Under Section 14506.5 of the California Government Code, the Commission appoints a Technical Advisory Committee on Aeronautics (TACA) to give technical advice on the full range of aviation issues considered by the Commission, including issues impacting the State's 246 public use airports. During 2011-2012, the Commission received advice from TACA regarding the overall Division of Aeronautics (Aeronautics) Program, the matching ratios for specific grant programs, and pending State and federal legislation.

The State, through its Aeronautics Account, provides funding to support eligible California general aviation (GA) airports as follows:

1. Matching grants (typically one-half of an airport sponsor's matching requirement) for FAA Airport Improvement Program (AIP) funds
2. Acquisition and Development (A&D) grants for 90% of eligible airports' capital projects
3. Annual grants or "credits" of $10,000 for 149 of the State's public use airports
4. The Local Airport Loan Account, for airport revenue producing projects

Aeronautics Account revenues must first fund Caltrans Division of Aeronautics operations and the annual credit grant program. The remaining funds are available for projects in the Aeronautics Program as adopted by the Commission.

Resources/Revenues

Revenue sources for the Aeronautics Account include an 18-cent per gallon fuel excise tax on general aviation gasoline and a two-cent per gallon excise tax on general aviation jet fuel.

Air carrier, military, and aviation manufacturing aircraft are exempt from the two-cent per gallon excise tax on jet fuel. The majority of these user-generated funds are allocated to the State's General Fund. In addition, the annual revenue transferred by the State Controller's Office (SCO) into the Aeronautics Account has steadily declined. From a high of $8.36 million in Fiscal Year (FY) 1999-00, this year the SCO reported a transfer of only $5.6 million in FY 2011–12. All indications are that the downward trend will continue in the Aeronautics Account until additional aviation user fees are allocated to aviation, or other funding sources are established. Although California has about 10 percent of all public-use airports in the U.S., California's Aeronautics Program receives less than 50 percent of the average amount of $15 million allocated by other states to their Aeronautics programs. The funding shortfall is unsustainable. California's general aviation airport system is deteriorating under current funding conditions. The Aeronautics Account does not provide an adequate, reliable, and dedicated funding source in support of the needs identified in the California Aviation System Capital Improvement Plan.

In addition to annual underfunding of California GA airports' capital needs, to address the reliability issue, the Aeronautics Account must be protected from transfers. For FY 2009–10, $4 million was transferred to the General Fund. That same budget action also suspended the provisions for funding existing programs until January 1, 2011. This action severely hampered the State's general aviation support activities, its ability to match federal funds and to provide needed capital improvements. The

Commission supports legislation that protects the Aeronautics Account from transfers of those revenues to the General Fund for non-aviation purposes.

The Commission has long supported increasing State funding to develop an integrated system of airports that adequately meets the demands of California's economy. With adequate funding, California could make significant progress in implementing State priorities for increasing airport capacity, safety, security, enhancing air passenger mobility, improving air cargo efficiency, mitigating the impacts of airport operations on local communities, and mitigating the impacts of land use encroachment on airport operations.

In support of this capital funding increase, members of the Commission and Commission staff, along with TACA members, provided an informational briefing this year to members of the Assembly Transportation Committee and Senate Transportation and Housing Committee. The briefing focused on the need for an additional $2.4 million annually from existing user fees and the need for reliability of fund availability in order to adequately address the State's funding of aeronautics grant programs. In addition, TACA recommends that the most recent $4.0 million transferred to the General Fund be returned to Aeronautics.

Legislative Issues

In February of 2012, Congress passed and the President signed the FAA Modernization and Reform Act of 2012. The bill provides a four-year, $63 billion authorization package for the FAA. It includes $13.4 billion in AIP funding. With a stable four-year program, airports will be able to program and utilize AIP funding in a more efficient manner than in recent years under repeated continuing resolutions. This federal funding program makes state AIP match funding very important, it ensures that California's general aviation airports can successfully compete for federal AIP grants.

Other Aeronautics Issues

TACA has been, and will continue to review and advise the Commission as appropriate, on the following issues:

1. Measures to protect airports from incompatible land uses
2. FAA/EPA efforts at the federal level to phase-out leaded aviation gasoline, in a manner which is environmentally responsible, economically feasible, and permits the aviation industry to transition into unleaded alternatives within a reasonable timeframe

3. Additional Aeronautics Fund revenue opportunities from current user excise taxes, to help fund California general aviation airports' capital needs as identified in the California Aviation System Capital Improvement Plan. Aviation activity in California generates over $300 million annually into State and local government accounts, however less than 2% of this is invested back into the airport infrastructure through the State Aeronautics Fund. This "reinvestment" amount is among the lowest in the nation, even though aviation activity in California is among the highest in the nation
4. Efforts to enhance environmental quality and airspace capacity/efficiency/safety through efforts such as near-term implementation of NextGen air traffic management technologies
5. Regulatory, technology, and use factor changes and trends in aviation and airspace (e.g. drones/Unmanned Aerial Vehicles), which can impact aviation within the State
6. Division of Aeronautics' programs including aviation system planning and funding components

Proposition 116 Program

Proposition 116 enacted the Clean Air and Transportation Improvement Act of 1990, designating $1.99 billion for specific projects, purposes and geographic jurisdictions, primarily for passenger rail capital projects. Of this amount, Proposition 116 authorized $1.852 billion for the preservation, acquisition, construction, or improvement of rail rights-of-way, rail terminals and stations, rolling stock acquisition, grade separations, rail maintenance facilities and other capital expenditures for rail purposes; $73 million for 28 nonurban counties without rail projects, apportioned on a per capita basis, for the purchase of paratransit vehicles and other capital facilities for public transportation; $20 million for a competitive bicycle program for capital outlay for bicycle improvement projects that improve safety and convenience for bicycle commuters; and $30 million to a water-borne ferry program ($20 million competitive and $10 million to the City of Vallejo) for the construction, improvement, acquisition, and other capital expenditures associated with water-borne ferry operations for the transportation of passengers or vehicles, or both.

The funds authorized under Proposition 116 are made available under a two-step process that is analogous to the process used for STIP funding. First, the Commission programs the funds for projects eligible under the original authorization, which it does by approving project applications that define a project's scope, schedule, and funding. Then the Commission allocates the funds when the project is ready to proceed.

2011–12 Commission Activity

In 2011–12, the Commission approved only one programming action. At its December 2011 meeting, the Commission approved an application amendment from Sonoma-Marin Area Rail Transit (SMART) to reprogram funds from preliminary activities to construction. There was no net change to the amounts programmed. As of June 30, 2012, about $350,000 still remains to be programmed, mainly savings on completed projects.

Status of Individual Authorizations

In 2011–12, the Commission did not allocate any additional funds, thus, over $3.8 million still remains available for future allocations, most of it for the State Museum of Railroad Technology. The following table reflects remaining balances.

Proposition 116 Authorizations with Unallocated Amounts

County	Agency, Project	PUC Section	Authorization	Balance Unallocated
El Dorado	Lake Tahoe, Intermodal Station	99647	$7,000,000	$9,206
Humboldt/Mendocino	North Coast Railroad Authority	99625/26	$10,000,000	$72,285
Los Angeles	Caltrans, Alameda Corridor	99624	$80,000,000	$17,437
Los Angeles	Los Angeles County MTA, rail	99630	$229,000,000	$62,083
Nonurban Counties	Counties, transit capital	99628	$73,000,000	$11,780
Sacramento	Sac. Regional Transit, rail	99643	$100,000,000	$4,931
San Diego	MTDB/NCTD, rail	99642	$77,000,000	$60
San Joaquin	SJCOG, Altamont Corridor	99644	$14,000,000	$65,130
San Joaquin	Caltrans, San Joaquin Corridor	99622(a)	$140,000,000	$352
Sacramento	State Parks, Rail Museum	99648	$5,000,000	$3,454,600
Statewide	Competitive, water-borne ferry	99651	$20,000,000	$29,350
Statewide	Caltrans, rail cars, locomotives	99649	$100,000,000	$85,913
			Total	**$3,813,127**

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

Elderly And Disabled Specialized Transit Program

In 1975, Congress established the Transportation for Elderly Persons and Persons with Disabilities Program (Section 5310) to provide financial assistance for nonprofit organizations to purchase transit capital equipment to meet the specialized needs of elderly and disabled individuals for whom mass transportation services are unavailable, insufficient, or inappropriate. Congress later extended program eligibility to public bodies that certify to the Governor that no nonprofit organizations are readily available in their area to provide the specialized service. The program's implementing legislation designated the Governor of each state as the program administrator. In California, Caltrans was delegated this authority and has administered this federal program since its inception.

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

The adopted process calls for RTPAs to score applications based on objective criteria adopted by the Commission. A State Review Committee then reviews the RTPA scoring using the same criteria. The State Review Committee consists of representatives from Caltrans, the departments of Aging, Rehabilitation, and Developmental Services, with Commission staff acting as facilitator. When the State Review Committee has completed its review and creates a statewide priority list, Commission staff and the committee hold a staff-level conference with project applicants and regional agencies to hear any appeals based on technical issues related to scoring. After the staff-level conference and a public hearing, the Commission adopts the annual program project list. All projects receive 88.53 percent federal funding and require an 11.47 percent local match.

The federal fiscal year 2010–11 FTA Section 5310 Program Statewide Prioritized Project list was adopted by the Commission at its September 2011 meeting.

Environmental Enhancement and Mitigation Program

The Environmental Enhancement and Mitigation (EEM) Program was established by the Legislature in 1989 to fund environmental enhancement and mitigation projects directly or indirectly related to transportation projects, and funding is ordinarily provided by a $10 million annual transfer to the EEM Fund from the SHA. EEM Program projects must fall within any one of three categories: highway landscape and urban forestry; resource lands; and roadside recreation. Projects funded under this program must provide environmental enhancement and mitigation over and above that otherwise called for under the CEQA.

Section 164.56 of the Streets and Highways Code mandates that the Resources Agency evaluate projects submitted for the program and that the Commission award grants to fund projects recommended by the Resources Agency. Any local, state, or federal agency or nonprofit entity may apply for and receive grants. The agency or entity need not be a transportation- or highway-related organization, but it must be able to demonstrate adequate charter or enabling authority to carry out the type of project proposed. Two or more entities may participate in a joint project with one designated as the lead agency. The Resources Agency has adopted specific procedures and project evaluation criteria for assigning quantitative prioritization scores to individual projects. In accordance with the provisions of Section 187 and 188 of the Streets and Highways Code, an attempt will be made to allocate 40 percent of the total amount recommended to projects in northern counties and 60 percent of the total amount to projects in southern counties.

In 2011–12, the Resources Agency evaluated 58 applications and recommended funding 32 projects for the EEM Program. The Resources Agency recommended funding 17 projects in the north for $5.8 million, and 15 projects in the south for $4.1 million, for a 2011–12 EEM Program total of $9.93 million, leaving just over $70,000 available for allocation, from the $10 million appropriated for the 2011–12 EEM Program.

The Commission has allocated $9.93 million to 33 approved projects.

The Commission has allocated $9.93 million to 33 approved projects, including nine highway landscape and urban forestry projects; 11 resource land projects; and 13 roadside recreation projects. The additional project is in Placer County and was amended into the original 2011–12 EEM Program for $245,000 for a highway landscape and urban forestry project.

To date, a total of 754 projects have been programmed and allocated by the Commission at a total cost of $185.1 million. Of those, there have been 254 highway landscape and urban forestry projects; 271 resource land projects; and 229 roadside recreation projects.

The 2012–13 Budget Act includes $10 million for the EEM Program. It is anticipated that the Resources Agency will submit its recommended project list to the Commission in February 2013 for programming and allocation. The Commission will report on the projects funded through the EEM Program in 2012–13 in its 2013 Annual Report to the Legislature.

Glossary of Acronyms

A&D	Acquisition and Development
AB	Assembly Bill
AIP	Airport Improvement Program
Amtrak	National Passenger Rail Corporation
BRT	Bus Rapid Transit
Caltrans	California Department of Transportation
CCJPA	Capitol Corridor Joint Powers Authority
CEQA	California Environmental Quality Act
CMAQ	Congestion Mitigation and Air Quality
CMIA	Corridor Mobility Improvement Account
Commission	California Transportation Commission
CTFA	California Transportation Financing Authority
EEM	Environmental Enhancement and Mitigation
EIR	Environmental Impact Report
FAA	Federal Aviation Administration
FE	Fund Estimate
Fre	Fresno
FTA	Federal Transit Administration
GA	General Aviation
GARVEE	Grant Anticipation Revenue
GLC	Golden Link Concessionaire, LLC
HBP	Highway Bridge Program
HGMP	Highway Goods Movement Package
HOT	High Occupancy Toll
HOV	High Occupancy Vehicle
HRCSA	Highway-Railroad Crossing Safety Account
HSRA	High-Speed Rail Authority
IPDC	Initial Project Debt Competition
ITS	Intelligent Transportation Systems
LA	Los Angeles
LA Metro	Los Angeles County Transportation Authority
LAO	Legislative Analyst's Office
LBSRA	Local Bridge Seismic Retrofit Account
LBSRP	Local Bridge Seismic Retrofit Program
LIBOR	London Inter Bank Offering Rate
LONP	Letter of No Prejudice
Mad	Madera
MAP-21	Moving Ahead for Progress in the 21st Century
MPO	Metropolitan Planning Organization
MTC	Metropolitan Transportation Commission
P3	Public Private Partnership
PECG	Professional Engineers in California Government
PMP	Project Management Plan
PTA	Public Transportation Account
PTC	Possible Train Control
PTMISEA	Public Transportation Modernization, Improvement and Service Enhancement Account
PUC	Public Utilities Commission
RCTC	Riverside County Transportation Commission
Riv	Riverside
RSTP	Regional Surface Transportation Program
RTPA	Regional Transportation Planning Agency
SB	Senate Bill
SANDAG	San Diego Association of Governments
SAS	Self-Anchored Suspension
SBd	San Bernardino
SCO	State Controller's Office
SD	San Diego
SFCTA	San Francisco County Transportation Authority
SFOBB	San Francisco-Oakland Bay Bridge
SHA	State Highway Account
SHOPP	State Highway Operation and Protection Program
SLPP	State-Local Partnership Program
SM	San Mateo
SR	State Route
SSRP	Seismic Safety Retrofit Program
STIP	State Transportation Improvement Program
TACA	Technical Advisory Committee on Aeronautics
TBSRP	Toll Bridge Seismic Retrofit Program
TCIF	Trade Corridors Improvement Fund
TCRF	Traffic Congestion Relief Fund
TCRP	Traffic Congestion Relief Program
TE	Transportation Enhancement
TFA	Transportation Facilities Account
TIF	Transportation Investment Fund
TIFIA	Transportation Infrastructure Finance and Innovation Act
TLSP	Traffic Light Synchronization Program

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