California State Auditor

BUREAU OF STATE AUDITS

California Department of Transportation:

Low Cash Balances Threaten the Department's Ability to Promptly Deliver Planned Transportation Projects

July 2003
2002-126

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July 3, 2003 2002-126

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the California Department of Transportation's (department) ability to deliver transportation projects.

This report concludes the department's ability to promptly deliver transportation projects is affected by low cash balances in the State Highway Account (highway account) and Traffic Congestion Relief Fund (TCRF), and consequently, delayed and canceled transportation projects will negatively affect the State's aging transportation system. Several factors caused the low cash balances in the highway account and TCRF. Loans from the highway account and TCRF to the State's General Fund drained cash reserves from these accounts at the same time the department saw highway account revenues from commercial-vehicle weight fees decrease. Further, uncertainties related to the governor's midyear spending proposal and May 2003 budget revision caused the California Transportation Commission (commission) to halt all allocations to the Traffic Congestion Relief Program projects until the budget uncertainties are resolved. Moreover, the department's March 2003 cash forecast update is optimistic, and consequently the department could end fiscal year 2003–04 with a negative balance. Finally, the department and the commission have alternatives to fund projects in the short term. However, most of these alternatives also have the potential to decrease the future flexibility of scheduling projects for the State Transportation Improvement Program and one potential option available to the commission may be perceived as unfair, so the commission needs to carefully consider and set guidelines for their use.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE
State Auditor

CONTENTS

SUMMARY

Audit Highlights . . .

Our review of the California Department of Transportation's (department) delivery of projects in the State Transportation Improvement Program (STIP) and Traffic Congestion Relief Program (TCRP) revealed that:

- ☑ ***A lack of cash in the State Highway Account will result in the California Transportation Commission (commission) allocating almost $3 billion less than it had originally planned for STIP projects scheduled in fiscal years 2002–03 and 2003–04.***
- ☑ ***Funding uncertainties associated with the Traffic Congestion Relief Fund (TCRF) have resulted in the commission halting all TCRP allocations, including those to 15 projects that currently need $147 million to continue work.***

continued . . .

RESULTS IN BRIEF

The California Department of Transportation (department) maintains and repairs more than 15,000 miles of the State's highway system by managing numerous transportation projects ranging from repairing roads to adding freeway lanes. With declining revenues and depleted cash reserves, the department is unable to complete on time many of the transportation projects scheduled through two of the department's main transportation programs, the State Transportation Improvement Program (STIP) and the Traffic Congestion Relief Program (TCRP).[1] Delayed transportation projects will cause Californians to face increased traffic congestion and the accompanying costs of wasted fuel, lost productivity, and unhealthy air.

The California Transportation Commission (commission) oversees and allocates funds for the department's highway projects. In December 2002, at the commission's request, the department prepared an 18-month cash forecast of the department's main transportation funds to provide the commission with a complete picture of the department's financial condition. At that time, the department forecast that the primary transportation funding source for the STIP, the State Highway Account (highway account), would end fiscal year 2002–03 with a negative balance. Further, the department's forecast of a positive cash balance in the main funding source for the TCRP, the Traffic Congestion Relief Fund (TCRF), depended on the department receiving almost $1.2 billion in revenue transfers and loan repayments, both of which the governor's December 2002 midyear spending proposal requested the Legislature to suspend and forgive. Prompted by the department's analysis, the commission temporarily halted allocations to STIP and TCRP projects. Although the department's March 2003 cash forecast revision convinced the commission to resume allocations for STIP projects (but not

[1] The STIP is a long-range program of transportation projects that primarily expand traffic capacity; the TCRP is a onetime program to speed up completion of 141 traffic congestion relief projects.

for TCRP projects), we believe the revised cash forecasts are overly optimistic and could result in the commission making allocations for which the department will lack available funds.

- ☑ *Delayed or cancelled projects will affect the State's aging transportation infrastructure, resulting in deteriorated highways, more traffic congestion, and higher costs for California residents, in terms of wasted fuel and lost productivity.*
- ☑ *Many of the alternatives to provide needed funding for projects on a short-term basis have the drawback of reducing the department's flexibility to fund future projects, and one potential option available for the commission may be perceived as unfair.*

Although the commission has resumed some allocations for STIP projects, these allocations are dramatically lower than those originally scheduled in the 2002 STIP plan. The department's lack of cash will prevent the commission from allocating funds in fiscal year 2002–03 to 194 STIP projects that need $103 million to move them to their next phase of work. For fiscal years 2002–03 and 2003–04, the commission plans to allocate almost $3 billion less to STIP projects than it originally scheduled in the 2002 STIP plan, a five-year schedule of transportation projects and allocations that the commission updates every two years. The commission will include planned STIP projects that do not receive allocations in the new 2004 STIP plan to the extent possible. However, carrying over a large number of ongoing projects will limit the number of new projects in the 2004 STIP plan and could prevent the commission from scheduling some new projects at all. Further, the department's cash shortages also affect TCRP projects—15 TCRP projects have submitted allocation requests totaling $147 million since December 2002; however, the commission has suspended those requests because of the lack of cash in the TCRF. Until the State resolves budget uncertainties associated with the TCRF, the commission has declared that it does not plan to resume allocations to TCRP projects. We interviewed agencies responsible for implementing these TCRP projects and found that the agencies' lack of spending authority had stalled 12 of the 15 projects. The remaining three projects had sufficient funds from other sources to continue work in the short term.

Delayed or cancelled projects will affect the State's aging transportation system, resulting in deteriorated highways, increased traffic congestion, and reduced air quality. A 1999 commission report to the Senate noted funding requirements over a 10-year period of over $100 billion, and a U.S. Department of Transportation assessment for calendar year 2000 found that California's road conditions had deteriorated since 1996. The combination of age and increased vehicle-miles traveled results in a faster rate of pavement deterioration, increased concentrations of accidents in new locations, and increased hours of traffic congestion. Delays in making improvements to congested highways mean that California residents will pay higher direct costs for wasted fuel and lost productivity. Also, consumers will pay increased indirect costs of the delays in the form of higher prices for goods and services, as well as compounded repair costs for fixing later what the department should fix now. Further, a congested highway system, with the increased emissions caused by frequent stops and starts, will negatively affect California's air quality.

Several factors contributed to the department's reduced ability to deliver transportation projects[2]. First, loans that the Legislature authorized from the highway account and the TCRF to the State's General Fund (General Fund) drained approximately $1.5 billion in cash from these two funding sources, leaving the department more vulnerable to the unanticipated decreases in revenues that have occurred recently and resulting in fewer funds for planned projects. Second, the department expects to receive approximately $138 million less in revenue in fiscal year 2002–03 than it had projected from one revenue source, commercial-vehicle weight fees, because a task force headed by another state agency underestimated the amounts to charge under a new weight-fee schedule. Moreover, although the department believes that the commission's decision to halt STIP allocations temporarily has improved the highway account's fund balance, the department's revised estimate of the highway account fund balance remains somewhat optimistic. Our analysis indicates that the department may be continuing to overstate expected revenues from federal sources, the fuel excise tax, and weight fees.

If, as our analysis indicates, federal funds are reduced and the revenues from fuel tax and weight fees remain at their fiscal year 2002–03 levels rather than increasing as the department predicts, the highway account could end fiscal year 2003–04 with a negative balance of approximately $154 million. In addition, the governor's May 2003 revision to the governor's budget threatens TCRF funds, calling for the Legislature to delay $938 million of the transfer of state gasoline sales tax revenues from the General Fund to the Transportation Investment Fund (TIF). Because state law provides for only a set number of annual transfers of specified amounts from the TIF to the TCRF, delays or reductions in amounts transferred to the TIF could result in a permanent annual loss of revenues to the TCRF of up to $678 million.

To address its reduced ability to fund planned projects, the commission and the department have several options to provide needed funding for projects in the short term. However, most of

[2] As we discuss later in the text, "project delivery" refers to the completion of a particular phase of a project.

these options have the drawback of reducing the department's flexibility to fund future projects, and one potential option available to the commission may be perceived as unfair. Grant Anticipation Revenue Vehicle (GARVEE) bonds are tax-exempt financing instruments that can be used to advance projects and use future federal-aid highway funds to retire debt; however, GARVEE bonds limit the amount of federal funding available to implementing agencies in the future. Another option, State Infrastructure Bank (SIB) loans, offers short-term financing to public entities to complete transportation projects; but again, recipients must set aside future revenue streams to meet commitments to repay such debt. Local agencies can also request that the commission approve project replacements or direct reimbursements in the STIP. With a replacement project, the commission allows a local agency to replace a project, that is, to advance a project that it had scheduled for a later year in the STIP to an earlier year using its own funds and replacing the project advanced with an unidentified future replacement project (or placeholder) of equivalent value, allowing the agency to identify the specific replacement project at a later date.

Direct reimbursement allows the local agency to use its own funds for the early delivery of a project that the commission scheduled in the STIP for a future fiscal year and receive a guaranteed direct cash reimbursement from the department in that future fiscal year (up to a prescribed yearly limit). The commission has limited the amount of direct reimbursements because they lock in priorities for future project reimbursement, thus making funding for other projects more inflexible for the region and the commission. Finally, the Department of Finance is considering seeking legislation allowing the commission to rescind TCRP allocations in times of fiscal crisis. Although this would allow the commission to transfer funds from stalled projects to agencies that are ready to begin or continue their projects, the commission will need to set criteria carefully to ensure that it does not unjustly deprive some agencies or regions of funds they need, and give the perception of favoring other agencies' or regions' needs.

RECOMMENDATIONS

The Legislature is currently deliberating on whether to adopt the governor's recommendations to suspend the transfer of gasoline sales tax revenues from the General Fund to the TIF and to forgive the loan repayment to the TCRF. If the transfer to the TIF is reduced or delayed without a commitment to repay the TCRF the reduced or delayed amount in future fiscal years, the department will lose permanently up to one year's worth of TCRP funding from the TIF transfer, further eroding the TCRF balance. Considering the State's fiscal crisis, the Legislature may wish to allow the TIF to transfer the entire $678 million to the TCRF, and then authorize a loan of the money from the TCRF to the General Fund so that those funds would be repaid to the TCRF and therefore still be available in future years.

To meet its short-term needs for project funding, the department should pursue cautiously other funding alternatives (GARVEE bonds, SIB loans, and direct cash reimbursement and replacement projects) to meet short-term project funding needs, but continue to set limits on most of these funding alternatives to avoid making future project scheduling inflexible.

Should the commission be granted the authority to rescind unspent TCRP allocations, it should carefully consider statewide priorities and ensure that all counties are treated fairly before taking such actions.

AGENCY COMMENTS

The Business, Transportation and Housing Agency concurs with our findings and recommendations. It believes the report provides additional guidance to consider as the department explores alternative funding mechanisms over the short term.

The commission chose not to provide a formal response to the report. ■

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INTRODUCTION

BACKGROUND

The California Transportation Commission (commission) oversees California's state highway system, consisting of more than 15,000 miles of roadways. The nine-member commission,[3] an independent state entity that the governor appoints, serves as a forum for public review of the State's transportation goals and projects. Among other tasks, the commission adopts the California Department of Transportation's (department) five-year estimates of available funds for transportation projects and allocates funds for projects in two of the department's main programs, the State Transportation Improvement Program (STIP) and the Traffic Congestion Relief Program (TCRP). The department owns, operates, maintains, and repairs the state highway system, implementing the state transportation program through its Sacramento headquarters and 12 districts, planning and designing all state transportation improvement projects, and selecting interregional projects for the STIP.

The STIP is a program of transportation capital improvements that primarily expand traffic capacity. The STIP plan represents the commission's intent to allocate and spend funds over a five-year period. The department and regional transportation planning agencies (regional agencies) use the STIP to plan and deliver transportation projects cost-effectively. The TCRP is a onetime program of projects designated in the Traffic Congestion Relief Act of 2000. The Legislature intended the TCRP to speed funding and completion of 141 congestion relief projects, selected according to the following three primary criteria:

Glossary of Terms

Allocation: The commission's direction to the department to authorize expenditure of funds for a specified phase of work on a particular project.

Implementing agency: Agency responsible for delivering transportation projects. Usually either a regional transportation planning agency (for regional projects) or the department (for interregional projects).

Project delivery: The completion of a particular phase of the project's life cycle. The department divides each project life cycle into four components or phases* with specific outcomes:

- *Permits and environmental studies:* The project receives official federal, state, and environmental approvals, as well as approval from all the stakeholders and the public.
- *Plans, specifications, and estimates:* The implementing agency creates plans, specifications, and estimates to provide construction companies with the information they need to develop an accurate bid.
- *Right-of-way:* The implementing agency obtains property rights for the construction of the transportation project.
- *Construction:* The project is physically constructed.

Sources: Commission TCRP guidelines and *Department Project Management Handbook*.

* According to the department, not all projects will require all four phases.

[3] The State Senate and Assembly also appoint two nonvoting ex officio members (usually the respective chairs of the transportation policy committee in each house).

Types of STIP Projects

STIP projects typically encompass four main types:

- **Soundwall construction:** Construction of noise barriers that block, prevent, or diminish the transmission of noise.
- **High occupancy vehicle lanes:** Operational improvement projects that add freeway lanes for use by buses, commuter vans, and carpool vehicles in urban areas.
- **New facilities:** New highway or multi-mode (that is, railway and highway) facilities to improve safety and the movement of people and goods on the state transportation system.
- **Other projects:** STIP projects, including capacity-increasing improvements such as state highways, local roads, public transit, intercity rail, and pedestrian and bicycle facilities, among others.

Source: STIP Project Definitions.

- Congestion relief: projects that relieve traffic congestion, primarily in urban areas.
- Transportation connectivity: projects that enhance connections between local streets and state highways, between highways, and between modes of mass transportation.
- Movement of goods: projects that improve the movement of commercial goods along highways and railways.

The funding provided through legislation for TCRP projects represents only a portion (20.8 percent) of the total funding requirements needed to complete these projects. Therefore, many of the 141 projects rely on other funding sources—such as STIP, federal, or local funds—for the majority of their funding needs.

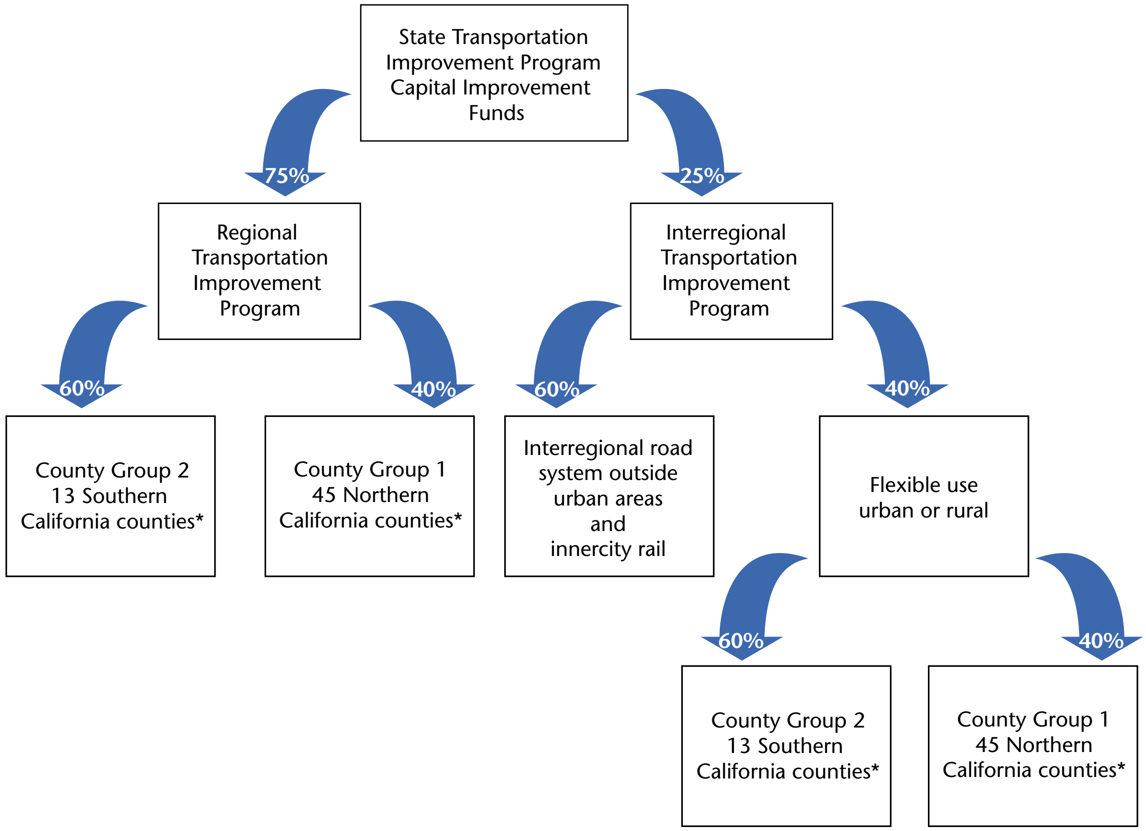
TRANSPORTATION SCHEDULING

Transportation scheduling (which statutes term "programming") is a public decision-making process in which the commission sets priorities and allocates funding for transportation projects for the State's long-range transportation plans. By scheduling projects, the commission can commit anticipated revenues to transportation projects by fiscal year over a multiyear period, projecting the scope and cost of each project and scheduling the funding for each successive phase of a given project as it is needed. The commission schedules most of the State's new transportation projects through the STIP process, which allows regional agencies and the department to participate in the process of prioritizing transportation projects.

As Figure 1 indicates, STIP capital improvement funding goes to two broad programs: 75 percent of the funding goes to a regional program and the remaining 25 percent goes to an interregional program. State law further subdivides the funding for both the regional program and a portion of the interregional program by formula into county shares. Regional agencies then recommend projects for inclusion in the regional program using their county shares. The department recommends projects for the interregional program, with input from regional agencies.

FIGURE 1

Statistical Allocation of the State Transportation Improvement Program Capital Improvement Funds



Source: *Streets and Highways Code.*

* Amounts distributed by county share: 75 percent based on county population in relationship to the county group's population; 25 percent based on state highway miles in relation to the county group's state highway miles.

The STIP plan is a constantly evolving plan of the State's transportation needs. Each STIP plan covers a five-year period and is updated every other year, with the commission adding two years to the remaining three years of the prior STIP plan. For example, in the 2002 STIP fund estimate, the department projected revenues and expenditures for the period from July 1, 2002, through June 30, 2007. In the 2004 STIP plan, the commission will carry over projects from the last three years of the 2002 STIP plan (July 1, 2004, to June 30, 2007) and add two more years (July 1, 2007, to June 30, 2009). In creating its fund estimate, the department makes assumptions that the commission then approves to estimate projected increases or decreases in revenues and expenditures, projecting not only expected revenues but also expenditures from prior-year commitments and non-STIP capital improvement projects. As Figure 2 indicates, the two-year funding update cycle for the STIP plan begins July 15 of odd-numbered years, with the department submitting to the commission its proposed fund estimate of all federal and state funds the department reasonably believes will be available in the subsequent STIP period. The prior STIP plan is in effect during this update process, which runs from July 15 of the odd-numbered years until July l of the even-numbered years, when the new STIP period begins.

Each new STIP plan includes projects the department and regional agencies have carried forward from the prior STIP plan, as well as new projects that regional agencies and the department have proposed. Included in the department's fund estimate is a breakdown of new STIP funding capabilities by county share and fiscal year. Regional agencies use the fund estimate to determine how many projects they can include in their regional transportation improvement plans (regional plans), and the department uses the fund estimate to develop its interregional transportation improvement plan (interregional plan). Proposed STIP projects from regional agencies and the department specify the level of funding that each project requires by year and by phase.

By April 1 of each even-numbered year, the commission is responsible for approving and adopting the STIP plan, based on the projects that either the department or the regional agencies recommend and ensuring that the total amount scheduled for each fiscal year of the STIP plan does not exceed the amount specified in the department's fund estimate. According to its STIP guidelines, the commission must schedule all projects that the regional agencies' plan recommends unless one of the following conditions exists:

- The regional plan is inconsistent with the commission's guidelines.
- Insufficient funds exist to implement the regional plan.
- Conflicts exist with other regional plans or the interregional plan.
- The regional plan is not a cost-effective expenditure of state funds.

FIGURE 2

State Transportation Improvement Program Life Cycle

Transportation Scheduling

Odd-numbered years (i.e, **2001, 2003, 2005, etc.**)

July 15

The California Department of Transportation (department) submits the State Transportation Improvement Program (STIP) fund estimate to the California Transportation Commission (commission). In the fund estimate, the department presents anticipated revenues and expenditures and, using the STIP formula (see Figure 1), calculates the amount of funding that will be available for new projects. The department's estimates cover the five-year STIP plan time period. (For example, the 2004 STIP fund estimate covers July 1, 2004, through June 30, 2009.)

August 15

The commission adopts the department's fund estimate, approving the department's fund availability projections and the department then notifies the regional agencies of the total amounts available for projects in the new STIP plan.*

December 15

Implementing agencies submit recommendations for new STIP projects, either through regional plans (regional agencies) or interregional plans (department). The aggregate dollar value of projects submitted cannot exceed amounts approved by the commission in the STIP fund estimate. Implementing agencies also include projects, approved but not yet completed, from the prior STIP and add new projects to the extent that funding is available.

Jan. | Feb. | Mar. | Apr. | May | Jun. | Jul. | Aug. | Sept. | Oct. | Nov. | Dec.

Even-numbered years (i.e, **2002, 2004, 2006, etc.**)

January and February

The commission holds a series of public hearings, including at least one in Southern California and one in Northern California. At the conclusion of the hearings, commission staff prepare recommendations and makes them available to implementing agencies at least 20 days before the commission adopts the STIP.

April 1

The commission adopts the STIP plan and submits it to the governor and the Legislature.

July 1

New STIP period begins.

Transportation Project Delivery

Periodically

The department prepares short-term cash projections to ensure that adequate cash is available to support all current allocations as well as to allow the commission to allocate funds to new projects scheduled in the STIP plan.

Project delivery initiated

Implementing agencies submit requests to the department for allocation. The department reviews the requests, prepares the appropriate agreements with the implementing agencies, and recommends the requests to the commission for action. Generally, implementing agencies may submit allocation requests only for those projects and phases that are scheduled and approved in the current STIP.

Allocation

The commission allocates funding, giving the department the authority to spend funds or to reimburse implementing agencies for a particular project or project phase. The commission uses short-term cash projections prepared by the department to ensure that adequate resources will be available to cover cash expenditures over the allocation period.

Project delivery

Implementing agencies begin work on projects once the commission allocates funds, completing each of the four phases as needed (see textbox, page 7). As the implementing agencies spend funds on projects, they submit invoices to the department for reimbursement.

Source: California Transportation Commission Guidelines for the STIP.

Note: Transportation scheduling occurs simultaneously with transportation project delivery.

* If the commission finds that legislation pending before the Legislature or the United States Congress may have a significant impact on the fund estimate, the commission may postpone the adoption of the fund estimate for up to 90 days.

The same guidelines also require the commission to schedule all projects included in the department's interregional plan unless the commission finds that the plan is inconsistent with the guidelines or is not a cost-effective expenditure of state funds.

To verify that future cash flows will be sufficient, the commission requests that the department prepare and update cash forecasts. Periodically, the department's budget unit prepares these short-term forecasts (one to two years) of available cash to verify that the amounts will match current allocations and to identify any funding capacity available for new allocations.

The commission is responsible for approving allocations to implementing agencies such as the regional agencies or the department, which are responsible for delivering transportation projects. The commission will allocate funds only if they are available and necessary to complete a project phase it scheduled and approved in the STIP plan. Following its guidelines authorized by state law, the commission generally may allocate STIP funds for each project phase only until the end of the fiscal year for which it is scheduled in the STIP plan. For example, in the 2002 STIP plan, the commission scheduled $4 million for fiscal year 2002–03 for the permits and environmental study phase for a highway-widening project on U.S. 101 from Santa Rosa to Windsor, and has thus far allocated $3 million. Generally, the commission allocates funds only for a particular project phase during the fiscal year in which the commission has scheduled the project phase.

Once allocated, project funds are generally available for spending during that fiscal year and the following two fiscal years. Typically, the commission will not allocate funds to projects that it has not included in the STIP plan. However, regional agencies or the department can submit amendments to the STIP plan to change or delete projects in certain circumstances. For example, if it is not ready to begin work on an approved project, the implementing agency can request the commission to amend the STIP plan to change the fiscal year in which the implementing agency will receive funds. Otherwise, implementing agencies deliver projects, using the funding authority that the commission has provided them. The term "project delivery," as we use it in this report, is the completion of any given phase of the project's life cycle.

State law specified TCRP projects, so the commission does not schedule and approve these projects as it does those contained in the STIP plan; however, the law does allow the commission to direct the department to authorize expenditures for TCRP projects. To gain authorization for TCRP project spending, state law requires all applicant agencies to submit project applications to the commission, detailing the project scope, cost, and scheduled commitments by project phase—an action similar to the approval process used for the STIP—before the commission can begin making allocations. By the deadline for submission of the applications (June 13, 2002), the commission had approved an application for all or part of each of the 141 designated congestion relief projects. For the projects approved in TCRP legislation that also will rely on STIP funding, implementing agencies must also recommend the projects and receive approval through the STIP planning process we described earlier.

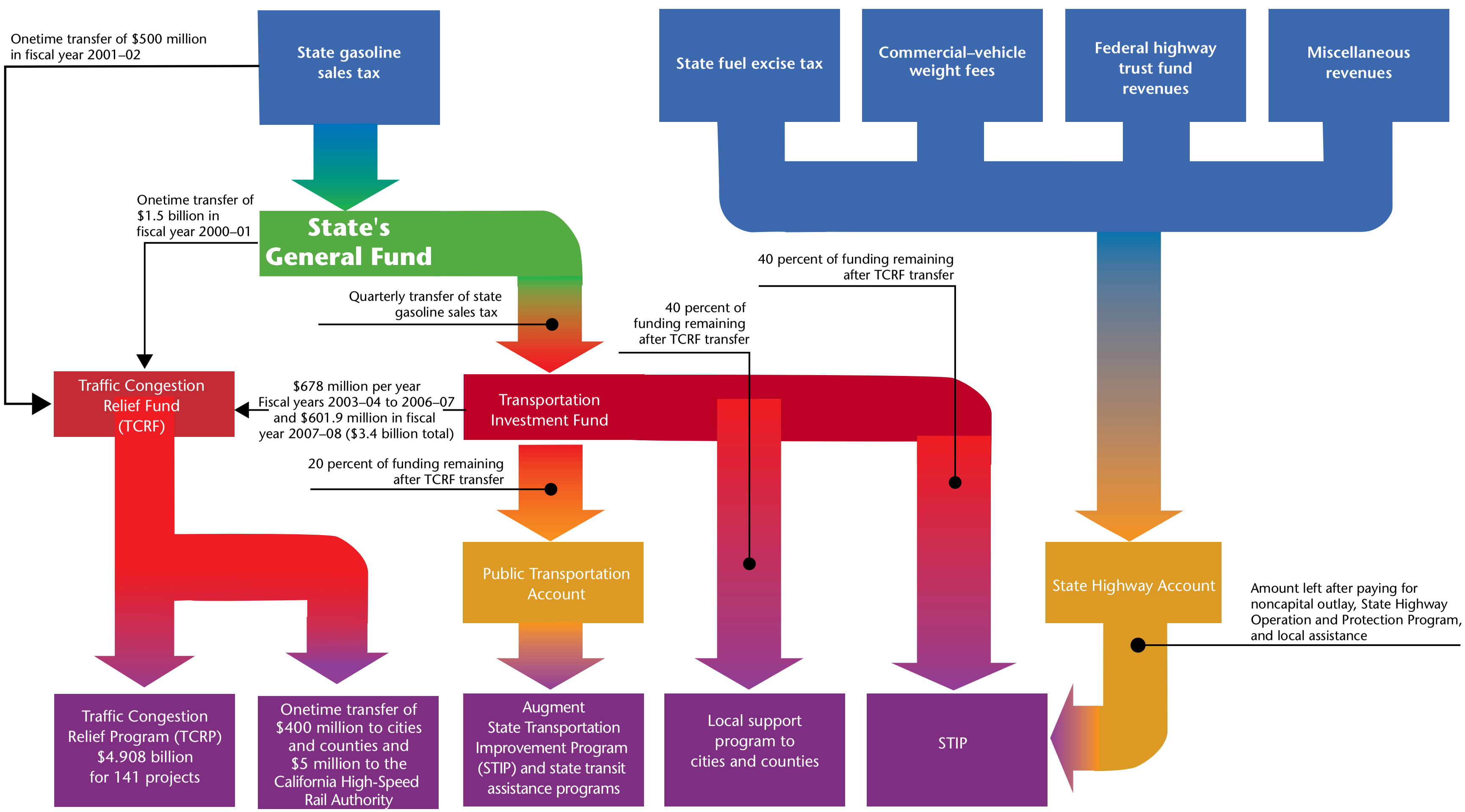
Under limited circumstances, the commission may approve applications for substitute or alternative TCRP projects. This may occur if the implementing agency and the commission agree that the designated TCRP project is significantly delayed by external factors that are not likely to be remedied within a reasonable period. For example, if the TCRP project could not obtain needed environmental permits for an extended period, the commission could allow the implementing agency to replace the TCRP project with a similar project. The commission may also redirect previously allocated TCRP funds to a different project if it finds that the implementing agency is not diligently pursuing work on the scheduled project. For most projects, the statutorily designated TCRP funding represents only a portion of the total project costs; in many instances, the TCRP funding helps fill in funding gaps to assist implementing agencies in meeting matching fund requirements of federal or local revenue sources.

TRANSPORTATION FUNDING

The State finances transportation programs through several transportation funds and accounts. As Figure 3 on the following page indicates, each fund and account interacts with the others in multiple ways.

FIGURE 3

Distribution of Transportation Revenues Benefits Various Transportation Programs



Sources: Government Code, Revenue and Taxation Code, and Streets and Highways Code.

The STIP is funded primarily from the State Highway Account (highway account), whose principal sources of funds are excise taxes on motor-vehicle fuels, commercial-vehicle weight fees, and federal highway trust funds. This account commits major resources for improving the interregional road system, providing highway safety, and ensuring the efficient operation of the state transportation system.

The Traffic Congestion Relief Act of 2000 created the Transportation Investment Fund (TIF) to provide new transportation funding from gasoline sales tax revenues (this is in addition to the state fuel excise tax we mentioned earlier). Voters in the 2002 election passed Proposition 42, adding Article XIX B to the California Constitution and permanently extending the transfer of gasoline sales tax revenues to the TIF. Simultaneously with the creation of the TIF in July 2000, the Legislature created the Traffic Congestion Relief Fund (TCRF) and committed the State's General Fund (General Fund) resources for 141 designated TCRP projects. Funding for the TCRP came from an initial transfer of $1.5 billion from the General Fund and $500 million from state gasoline sales tax revenues, with later yearly transfers coming from the TIF. Collectively, the TCRP projects are to receive about $4.9 billion through fiscal year 2007–08. Because the legislation creating the TCRP does not provide full funding for all of the projects, many will receive funding from multiple sources, including the STIP. After the yearly transfer to the TCRF is made, state law requires the division of the TIF's remaining revenue, with 20 percent going to the Public Transportation Account to augment STIP and state transit assistance programs, 40 percent to the STIP, and 40 percent to cities and counties to support street and highway maintenance.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee asked us to review the department's delivery of projects in the STIP during the past five years and the delivery of projects funded with the TCRF. As part of the audit, we were to provide independently developed and verified information related to the department's administration of the STIP and TCRP and to determine what effect, if any, loans from the transportation funds and accounts to the General Fund had on the department's ability to deliver STIP and TCRP projects.

To understand the department's and the commission's roles in delivering transportation projects, we reviewed and evaluated the laws, rules, and regulations, as well as commission policies and guidelines, associated with the scheduling, approval, and delivery of transportation projects.

To measure the impact on projects of loans from the highway account and TCRF to the General Fund, we obtained and reviewed journal entries and budget language authorizing the loans. Our legal counsel analyzed prior court cases, determining that the legal authority existed for making the loans and transfers. We obtained documentation from the State Controller's Office and the Department of Finance identifying the repayment terms and interest requirements of the loans and transfers, and we verified that the repayment terms agreed with statutory requirements. We also analyzed the governor's midyear spending reduction proposal and his May revision to determine their potential effect on the department's loan repayment schedule and revenue projections.

To analyze the department's ability to deliver transportation projects, we examined the number of construction contracts the department completed for fiscal years 1999–2000, 2000–01, and 2001–02. However, we were unable to reasonably compare either TCRP or STIP planned and actual project deliveries for fiscal years 2001–02 and 2002–03 with a baseline of projects delivered in the previous three fiscal years. Because the TCRP began in July 2000, only seven projects had been completed as of May 2003. Further, in reviewing the department's historical analysis of time frames for delivery of STIP projects, we found that average time frames varied greatly, depending on the type of project and the location. Therefore, we confined our review to examining financial impacts on the department's short-term ability to deliver projects in fiscal years 2002–03 and 2003–04.

To determine whether financial conditions affecting the department's primary transportation funding sources have reduced its ability to deliver projects, we compared the scheduled number and dollar amount of planned projects in the 2002 STIP plan and the TCRP to the commission's revised estimates of amounts it can allocate for fiscal years 2002–03 and 2003–04. Further, we analyzed the department's cash forecasts of expected revenue during fiscal years 2002–03 and 2003–04 to determine whether the department's estimates are reasonable. As part of that analysis, we reviewed historical fuel prices compared to consumption in California and evaluated the causes of a reduction in the department's revenue from commercial-vehicle weight fees. To evaluate whether there has been a discernible reduction in the department's ability to deliver planned projects, we conducted interviews, gathered reports, and reviewed commission surveys of regional agencies to identify the amounts of allocations that these agencies expect to need over the next two fiscal years. We also evaluated the funds available in the various transportation accounts to assess the impact that loans have played and we analyzed the effects of reduced cash on project delivery.

Using the commission's list of projects that have requested allocations since December 2002, we identified those projects in both the STIP and TCRP that have been unable to move forward because of the commission's decision to halt or reduce allocations. Further, we called several local agencies to determine the specific effects of the suspension of TCRF funds. ■

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AUDIT RESULTS

CASH SHORTAGES ARE DELAYING MANY OF THE DEPARTMENT'S PLANNED TRANSPORTATION PROJECTS

Lacking sufficient cash in its major transportation funds and accounts, the California Department of Transportation (department) and regional transportation planning agencies (regional agencies) are unable to deliver many of their planned transportation projects scheduled in the State Transportation Improvement Program (STIP) and the Traffic Congestion Relief Program (TCRP) in fiscal years 2002–03 and 2003–04.[4] Cash shortages have forced the California Transportation Commission (commission) to reduce allocations to the STIP by almost $3 billion for fiscal years 2002–03 and 2003–04. Pending measures caused by the budget crisis could result in a reduction of more than $970 million of state revenue for the Traffic Congestion Relief Fund (TCRF) in fiscal year 2003–04. The suspension of allocations to the TCRP also places $7.8 billion in other funds at risk, including some federal and local matching funds. A total of 194 STIP projects are now short of funding they need in order to advance toward completion. In addition, the funding for at least 106 TCRP projects is in doubt, and work has ceased on at least 12 projects because they lack the spending authority to continue. These substantial reductions in transportation projects will leave the State's aging transportation system congested and in poor condition. Costs to Californians will include spending more time on the road and more money for fuel, as well as higher indirect costs of goods and services.

Projected Cash Shortages Caused the Commission to Halt Allocations Temporarily

Cash available in the State Highway Account (highway account) and the TCRF is much less than the department anticipated in its original forecasts. In December 2002, after revised forecasts showed the highway account going into a deficit by June 2003, the commission halted all STIP and TCRP allocations, and work on many transportation projects stopped for lack of funds. After another revision of cash forecasts in March 2003, the commission began allocating funds again to the STIP only, but at

[4] As we discuss in the Introduction, project delivery is the completion of a particular phase of a project.

a greatly reduced funding level. Implementing agencies, such as the department or regional agencies, have used the original STIP fund estimate to plan and commit resources for transportation projects; however, the revised estimates will require the implementing agencies to delay work on many of their planned projects.

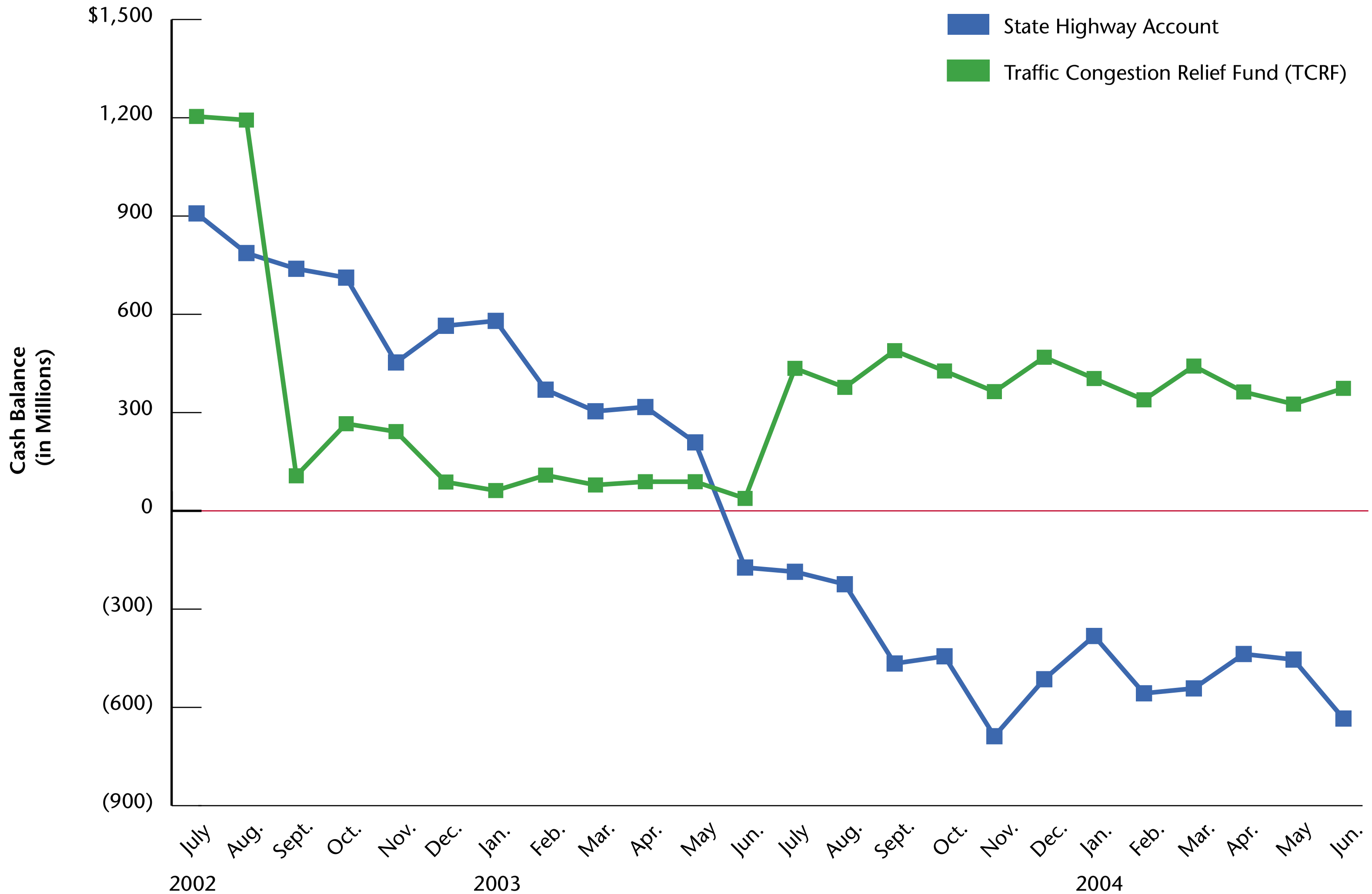
During the 1998 and 2000 STIP plans, many counties elected not to use their full share balances in the STIP, reserving them for future years. As a result, the commission did not schedule large amounts of STIP capacity in these STIPs. Moreover, transportation revenues outpaced project delivery, allowing the balances in the highway account to rise while project delivery was catching up. In those years, the commission allowed the department to present approximations of revenue and expenditures because the large cash reserves in the highway account served as a buffer for any overstatements of revenue or understatements of expenditures. However, according to the Legislative Analyst's Office, beginning in fiscal year 1999–2000, the highway account balance began to decline, partly due to higher spending levels. As the State's fiscal crisis worsened in fiscal years 2001–02 and 2002–03, the Legislature authorized a series of loans from the highway account and the TCRF to the State's General Fund (General Fund) that further reduced the cash balances in this account and fund. In August 2002, concerned with the rapidly declining cash balance in the highway account, the commission requested the department to provide more detailed and current information than in the past on the projected revenue and expenditures for the highway account and TCRF. The commission also requested more information about the payback schedules and interest rates of loans made from the highway account and TCRF to the General Fund.

In December 2002 the commission halted all STIP and TCRP allocations after the department's cash projections indicated that the highway account would experience negative cash balances at the end of fiscal year 2002–03 and during fiscal year 2003–04, and that a positive balance in the TCRF depended on uncertain revenue sources.

The commission ceased all allocations for STIP and TCRP projects in December 2002 after the department's new projections, as Figure 4 shows, indicated the following: (1) the highway account would experience negative cash balances by the end of fiscal year 2002–03 and during fiscal year 2003–04 and (2) a positive balance in the TCRF at the end of fiscal year 2003–04 was contingent on a $678 million transfer from the TIF and a $500 million General Fund loan repayment. Making the contingencies that the department cited much less certain, the governor's December 2002 midyear spending reduction plan proposed suspending the transfer and forgiving the loan repayment.

FIGURE 4

The California Department of Transportation's December 2002 Cash Forecast



Source: The California Department of Transportation's (department) December 11, 2002, Monthly Finance Report—18-Month Cash Forecast Update.

Note: The department's revenue and expenditure data was current through November 15, 2002. The TCRF balance assumed that the department would receive $678 million from the Transportation Investment Fund in fiscal year 2003–04 and a $500 million repayment of a State's General Fund loan.

The commission's decision to halt allocations has resulted in work stopping on projects that lack the funds to continue. For example, the department planned a joint interregional-regional effort to widen Route 99 and Route 4 near Stockton. As the implementing agency, the department informed the commission that it would be ready to list the project for construction bids in June 2003. However, because of the cash shortages, the commission cannot allocate the almost $22 million the department needs to construct this project.

The department's December 2002 cash forecast showing negative cash balances in the highway account assumed the commission would allocate all amounts it approved in the STIP plan. In March 2003 the department again revised its cash forecast to reflect the commission's decision to halt allocations. Based on this revision of cash estimates, the commission resumed STIP allocations in April 2003, although at a much lower level than it had originally approved. However, as we explain later in this report, our analysis shows this revised cash estimate may still be overly optimistic and could cause the commission to make allocations for which the department will lack available funds when implementing agencies later present it with reimbursement requests. Further, lower available cash balances in the highway account give less of a margin for error in forecasting cash balances, so the department needs to be more cautious in its projections during the current economic crisis than in the past.

Sequence of Priorities That State Law Requires for Allocating Funds to State Transportation Projects

1. Operation, maintenance, and rehabilitation of the state highway system.
2. Safety improvements where physical changes, other than adding additional lanes, would reduce fatalities and the number and severity of injuries.
3. Transportation capital improvements that expand capacity, reduce congestion, or do both.
4. Environmental enhancement and mitigation programs.

Source: Section 167 of the Streets and Highways Code.

The Department's Lack of Cash in the Highway Account Is Delaying STIP Projects

The department's lack of cash is delaying planned STIP projects. For example, in March 2003 the department, in consultation with implementing agencies, prepared a list of STIP projects, including 318 that need almost $704 million in allocations by June 30, 2003, in order to award contracts for construction or move to other phases of project completion. As we discussed previously, the commission halted all allocations in December 2002. In February 2003, using state law guidelines, commission staff developed criteria to prioritize the allocation of scarce dollars to the projects already scheduled in the STIP plan. Using these allocation criteria (see textbox) and the department's revised cash forecast, the commission adopted an 18-month incremental allocation plan covering the remainder of fiscal year 2002–03 and all of fiscal year 2003–04. The commission's plan calls for it to allocate $1.8 billion in total from the highway account by June 30, 2004—approximately $600 million to STIP projects by June 30, 2003, and $1.2 billion to the State Highway Operation and Protection Program projects by June 30, 2004. The plan divides the $1.8 billion into three six-month stages, with the plan to be reviewed in light of updated cash forecasts at each stage. At its April 2003 meeting, the commission allocated over $165 million to STIP projects, with plans to allocate over $435 million to projects through the end of fiscal year 2002–03. However, this leaves 194 projects short by $103 million needed to move them forward (see Appendix A, Table A.1, beginning on page 46, for a list of these projects). Moreover, the commission's revised allocation plan is dramatically lower than the amount originally scheduled in the 2002 STIP plan. The commission originally scheduled a total of $3.8 billion in planned allocations for the 2002 STIP projects during fiscal years 2002–03 and 2003–04. However, as Figure 5 indicates, the commission's revised current and planned allocations for fiscal years 2002–03 and 2003–04 now represent almost a $3 billion (78 percent) reduction from the original 2002 STIP plan allocations.

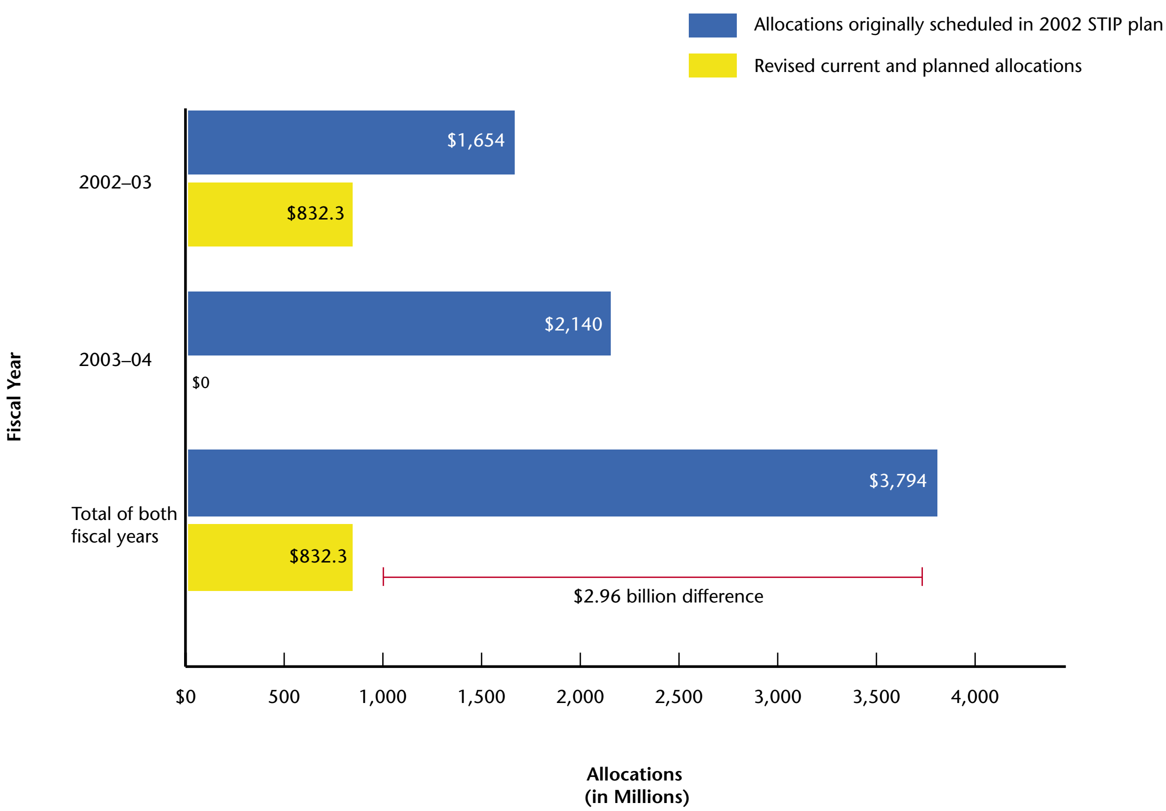
With this huge reduction in the allocations that the 2002 STIP plan initially envisioned, implementing agencies cannot deliver transportation projects as planned. For example, in February 2003 the Santa Barbara County Association of Governments reported that current state and local projects valued at more than $131 million needed allocations of almost $40 million before June 2004 to remain on schedule; additional allocations of more than $28 million would be needed after July 2004 to keep future projects on schedule and to prevent projects from being delayed or canceled. In fact, because the commission cannot allocate 78 percent of the funds it planned to allocate in fiscal years 2002–03 and 2003–04, many projects will be delayed.

The many projects in the 2002 STIP that do not receive allocations will be pushed forward to the next STIP plan, possibly limiting the number of new projects the commission can include in the 2004 STIP, or requiring the commission to delete previously scheduled project commitments.

The commission will have to push these ongoing projects to which it cannot make current allocations into the new 2004 STIP plan, until the funding capacity for the 2004 STIP is exhausted. Carrying over this large number of projects will limit the number of new projects that the commission can include in the 2004 STIP. Further, if the projects carried forward from the prior STIP plan exceed the total 2004 STIP capacity for new projects and no new revenue is provided, the commission may have to cancel scheduled project commitments. In April 2003, the commission voted to postpone the adoption date for the

FIGURE 5

The Commission's Current Revised Allocation Plan for STIP Projects for Fiscal Years 2002–03 and 2003–04 Is Almost $3 Billion Lower Than the Amounts Originally Scheduled in the 2002 STIP Plan



Sources: California Transportation Commission minutes, 2002 STIP fund estimate, and revised current STIP allocations.

2004 STIP fund estimate until October 30, 2003. Once the commission approves the department's fund estimate for the 2004 STIP plan, regional agencies and the department will have four months to submit their regional transportation improvement plans (regional plans) and interregional transportation improvement plans (interregional plans), respectively. Because the commission must ensure that the dollar value of the plans it adopts into the STIP plan does not exceed the department's estimate of the funds available during each fiscal year of the STIP plan, implementing agencies will have to evaluate their transportation priorities in order to determine how best to take advantage of the limited funding available in the next STIP.

Lack of Cash in the TCRF Will Delay TCRP Projects

Besides the delay in STIP projects, minimal cash reserves in the TCRF will affect the department's ability to deliver at least 106 TCRP projects that require a minimum of $3.4 billion more in allocations. Since December 2002, when the commission discontinued allocations for TCRP projects, 15 TCRP projects have submitted requests for allocations totaling $147 million (see Appendix B, Table B.1, beginning on page 60, for a list of these projects). Further, we surveyed the implementing agencies for these projects and found that, due to lack of spending authority, work had ceased on 12 projects, including San Diego County's proposal to acquire low-emission buses and vans for its transit service.[5] Without these buses and vans, the county risks failing to meet federal air quality standards; however, commission staff have stated that the commission will make no further allocations for TCRP projects until the State resolves budget uncertainties associated with the TCRF. Further, implementing agencies will have to find other funding sources or risk losing approximately $7.8 billion in other funds needed to complete their projects, including some federal and local matching funds.

The May 2003 revision to the governor's budget requested the Legislature to suspend $938 million of the more than $1 billion originally slated for transfer to the TIF in fiscal year 2003–04 and proposed that the General Fund be obligated to repay the TIF for the amount suspended. Such an action would result in up to $678 million less for TCRP projects and up to $169 million less for STIP projects than the department had originally projected for that year.

TCRP budget uncertainties began with the governor's December 2002 midyear spending reduction proposal, which calls for withholding two payments due to TCRF in fiscal year 2003–04: (1) the Legislature would forgive the $500 million loan repayment due on the $1.3 billion in loans from the TCRF to the General Fund and (2) the Legislature would suspend the more than $1 billion transfer of state gasoline sales tax revenues from the General Fund to the Transportation Investment Fund (TIF), which is transferred in turn to the TCRF and highway account, among other transportation fund sources (see Figure 3 on page 14). To suspend the transfer of gasoline sales tax revenues to the TIF, the governor must issue a proclamation stating that the TIF transfer will have a significant negative fiscal impact on activities funded by the General Fund. In addition, the Legislature must pass by a two-thirds vote legislation to suspend the transfer of TIF funds for a particular fiscal year. The governor issued the required proclamation in December 2002. In May 2003, a revision to the governor's budget requested the Legislature to suspend $938 million of the more than $1 billion TIF transfer originally called for, and proposes that the General Fund be obligated to repay the TIF for the amount suspended. As of June 15, 2003, the Legislature had not acted on either of the

[5] The remaining three projects had adequate funds from other sources to enable them to continue work in the short term.

governor's proposals. Both the department and the commission believe that the Legislature likely will suspend or reduce the TIF transfer for at least fiscal year 2003–04. Such an action would result in up to $678 million less for TCRP projects and up to $169 million less for STIP projects than the department had originally projected for that year. The suspension of TIF funds also may affect future TCRP projects because the amounts not transferred will be permanently lost, not replaced at a later time. State law appears to provide for only one transfer per year, with no provision requiring the State to make up a suspended transfer for one year in the next year. Therefore, every year that the State suspends or reduces the TIF transfer could result in the permanent loss of up to $678 million for the funding of TCRP projects, unless the Legislature takes action to obligate the General Fund to repay the suspended amounts.

Since the TCRP's inception in July 2000, the commission has allocated almost $1.5 billion to the program's projects. As originally planned, 106 projects will require future allocations of $3.4 billion to complete the TCRF's portion of funding for the projects. The commission's ability to make these allocations remains uncertain, given the forecast of available cash in the TCRF through the end of June 2004 and the budget decisions that could affect the fund's revenue sources. According to the commission's January 2003 survey of implementing agencies for the 141 TCRP projects, as of December 31, 2002, respondents expected that more than $789 million (80 percent) of the $981 million the commission had in outstanding TCRP allocations would be claimed for reimbursement by the end of fiscal year 2003–04. As of March 2003 the department estimated that if it were to pay all expected project expenditures for TCRP projects, it would end fiscal year 2003–04 with a TCRF negative balance of $210 million. This projection assumes that the TCRF will receive neither the scheduled loan repayment from the General Fund nor the scheduled transfer from the TIF in fiscal year 2003–04.

As of March 2003 the department estimated that if it were to pay all expected project expenditures for TCRP projects, it would end fiscal year 2003–04 with a negative balance of $210 million.

The chief of the department's budget unit stated that when the TCRF's cash runs out, the department will not be able to reimburse implementing agencies unless the Legislature acts to provide additional funds or to terminate projects. Given the State's current economic crisis, it seems doubtful that the Legislature will be able to provide any significant funding from the General Fund in fiscal year 2003–04. Further, any solution involving loans from the highway account to the TCRF would strain the highway account's already minimal reserves, further restricting the commission's ability to fund STIP projects.

Data from a commission survey of implementing agencies revealed that at least $7.8 billion in other funds, including some federal and local matching funds, are in jeopardy if TCRF funds are unavailable.

Decreased state funding for TCRP projects will force implementing agencies to turn to other sources for funding or risk losing matching funds. Data from the commission's survey of implementing agencies revealed that at least $7.8 billion in other funds needed to complete their projects, including some federal and local matching funds, are in jeopardy if TCRF funds are not available. In these cases, implementing agencies will need either to secure alternative funding sources for TCRP projects to receive matching funds or cancel or delay projects until funds are available. To move forward, projects that lose TCRP funding will have to compete for already scarce STIP funding or pursue alternative funding, such as Grant Anticipation Revenue Vehicle (GARVEE) bonds or State Infrastructure Bank (SIB) loans. However, some projects may have difficulty in securing other funds; according to commission staff, nine out of 141 TCRP projects are ineligible for STIP funds.

Recognizing the lack of TCRF funds, implementing agencies are already reprioritizing their transportation projects. For example, the Los Angeles County Metropolitan Transportation Authority (MTA) reported that if it could not replace the TCRF funds, it risked losing $490 million in federal funds for one of its TCRP projects. In April 2003 the MTA requested an amendment to the STIP plan to shift the funding from 14 state and local road and highway projects to three new transit projects in the STIP plan that rely on TCRP funding, including the project that risked losing the $490 million in federal funds, to meet matching requirements and secure these federal funds. However, some TCRP projects may not be the local agencies' first priority, so the agencies may delay or cancel those projects until funds become available rather than give up needed STIP projects.

DELAYED OR CANCELED PROJECTS WILL AFFECT THE STATE'S AGING TRANSPORTATION SYSTEM

Delays or cancellations of STIP and TCRP projects caused by fund shortages will affect California's already aging transportation system, causing roads to deteriorate further and increasing traffic congestion. Canceled or delayed transportation projects cost California commuters lost productivity and wasted fuel from excess traffic congestion. Also, this neglect of our roadways has other possible negative outcomes, such as unhealthy air and higher freight costs from added traffic congestion being passed on to California residents. Finally, failure to complete transportation projects could see the State paying costs associated with canceling construction projects.

In its 2000 assessment report, the U.S. Department of Transportation concluded that California's road conditions had deteriorated, rating only 17 percent of California's roads as "good" or "very good" in 2000, compared with 28 percent in 1996.

Since 1998, state law requires the department to prepare and transmit to the governor and Legislature a 10-year state plan for the rehabilitation and reconstruction of all highways and bridges that the State owns, with the department updating this plan every two years beginning in 2000. In its 2002 update to the plan, the department described a state transportation infrastructure that was aging and in need of significant work. Specifically, the commission, in a 1999 report to the Senate, identified funding needs over a 10-year period of over $100 billion. The U.S. Department of Transportation's Bureau of Transportation Statistics concluded in its 2000 assessment report that California's road conditions had deteriorated between 1996 and 2000: It rated 28 percent of California's roads as "good" or "very good" in 1996, compared with only 17 percent in 2000. Furthermore, travel in California is increasing faster than road capacity. The U.S. Census Bureau projects that from 2000 to 2025, California's population will increase by as much as 52 percent, and the department expects that annual vehicle-miles traveled on the state highway system will increase correspondingly. In its 2002 plan update, the department stated that Californian's annual travel has increased from 139 billion vehicle-miles in 1990 to 162 billion vehicle-miles in 2000; it expects this figure to reach 251 billion vehicle-miles by the year 2020, a 55 percent increase over 2000. The department's plan update also concluded that the combination of roadway age and increased demand (measured by vehicle-miles traveled) results in a faster rate of pavement deterioration, increased concentrations of accidents in new locations, and increased hours of traffic congestion.

California's roads have also suffered because fewer transportation projects have been completed in recent years. Specifically, 717 construction contracts for transportation projects were completed in fiscal year 1999–2000, compared to 660 in fiscal year 2000–01 and only 611 in fiscal year 2001–02. In part, department staff believe the reduction in completed construction projects is a function of more funds being available for the earlier years' STIP plans. However, the reduced number of transportation projects being built, in addition to the limited number (if any) of new projects the commission will be able to authorize in the 2004 STIP plan, could result in much worse traffic congestion on the State's highways and roads, especially given the current condition of California's aging transportation system. Further, regional agencies and the department may have fewer projects ready for construction in future years because of the limited funds available for new projects.

Unfortunately, delayed transportation projects will compound the ultimate cost of improving congested highways. According to the department's 2002 plan update, compensating for these delays will cost more in the future in many ways. Three of the most significant costs to California's residents include the following: (1) direct costs of wasted fuel and lost productivity; (2) indirect costs of these inefficiencies passed through to consumers, who will pay higher prices for goods and services; and (3) compounded repair costs, including material and labor, for fixing later what the department should fix now. According to the U.S. Department of Transportation's Federal Highway Administration, highway delays cost Americans more than $50 billion a year due to lost productivity and wasted fuel. Moreover, high levels of traffic congestion can constrain the State's economy by making it more difficult and expensive to move goods from ports and railheads, as well as manufacturing, distribution and service centers.

The U.S. Department of Transportation estimates that transportation accounts for as much as 77 percent of the various air-polluting emissions in the country; the California Air Resources Board reports that over 90 percent of the State's population breathes unhealthy air during some part of the year.

Further, a congested highway system results in frequent stops and starts, which increase emissions and damage California's environment. According to the U.S. Department of Transportation, transportation accounts for 25 percent to as much as 77 percent of the various air-polluting emissions in the country. The California Air Resources Board reports that 44 out of 58 counties in California are currently not meeting state air quality standards for ozone levels, and over 90 percent of the State's population breathes unhealthy air during some part of the year. In addition, the 2002 Urban Mobility Report issued by the Texas Transportation Institute (the official research agency for the Texas Department of Transportation) found that in 2000 California was home to four of the nation's 10 most congested metropolitan areas.[6]

With increasing road congestion, regional agencies could lose federal air quality funds by failing to meet air quality guidelines that require traffic mitigation efforts. For example, under provisions in the Federal Clean Air Act, the federal government directs funds to transportation projects and programs that contribute to attaining or maintaining National Ambient Air Quality Standards in areas where amounts of ozone, carbon monoxide, or particulate matter either violate those standards or need to be maintained to avoid violating standards. Failure to comply with performance standards could result in the loss of federal matching funds to implementing agencies.

[6] In California, the four metropolitan areas are: Los Angeles, San Francisco–Oakland, San Jose, and San Diego.

Canceling or delaying projects has another negative outcome: Implementing agencies may face additional costs for canceling contracts. Standard language in its contracts requires the department to pay for certain costs associated with terminating construction contracts. In addition to paying for any work necessary to secure the construction project for termination, the department must pay reasonable handling costs for material disposal, return, or sale; a reasonable administrative allowance; and a reasonable allowance for profit, up to 4 percent of the contractor's cost for all work performed under the contract to the point of its termination. In some instances, these closeout costs could be substantial.

SEVERAL FACTORS CAUSED THE CASH SHORTAGE THAT HAS DELAYED TRANSPORTATION PROJECT DELIVERY

Despite the cost of delaying transportation projects, the department's present shortage of revenue requires it to cut back on both STIP and TCRP projects. Several factors have caused the department's inability to deliver these planned projects as scheduled. Although the department did not expect them to affect its ability to deliver projects, substantial loans from the highway account and TCRF to the General Fund have burdened the department's cash balances more than the department originally thought. Also, the State's fiscal crisis may cause proposed budget measures to decrease the department's future revenue further. The department also received less revenue than anticipated for one revenue source, commercial-vehicle weight fees, because a task force headed by the Department of Motor Vehicles (DMV) underestimated the amounts to charge under a revised weight-fee schedule for commercial vehicles.

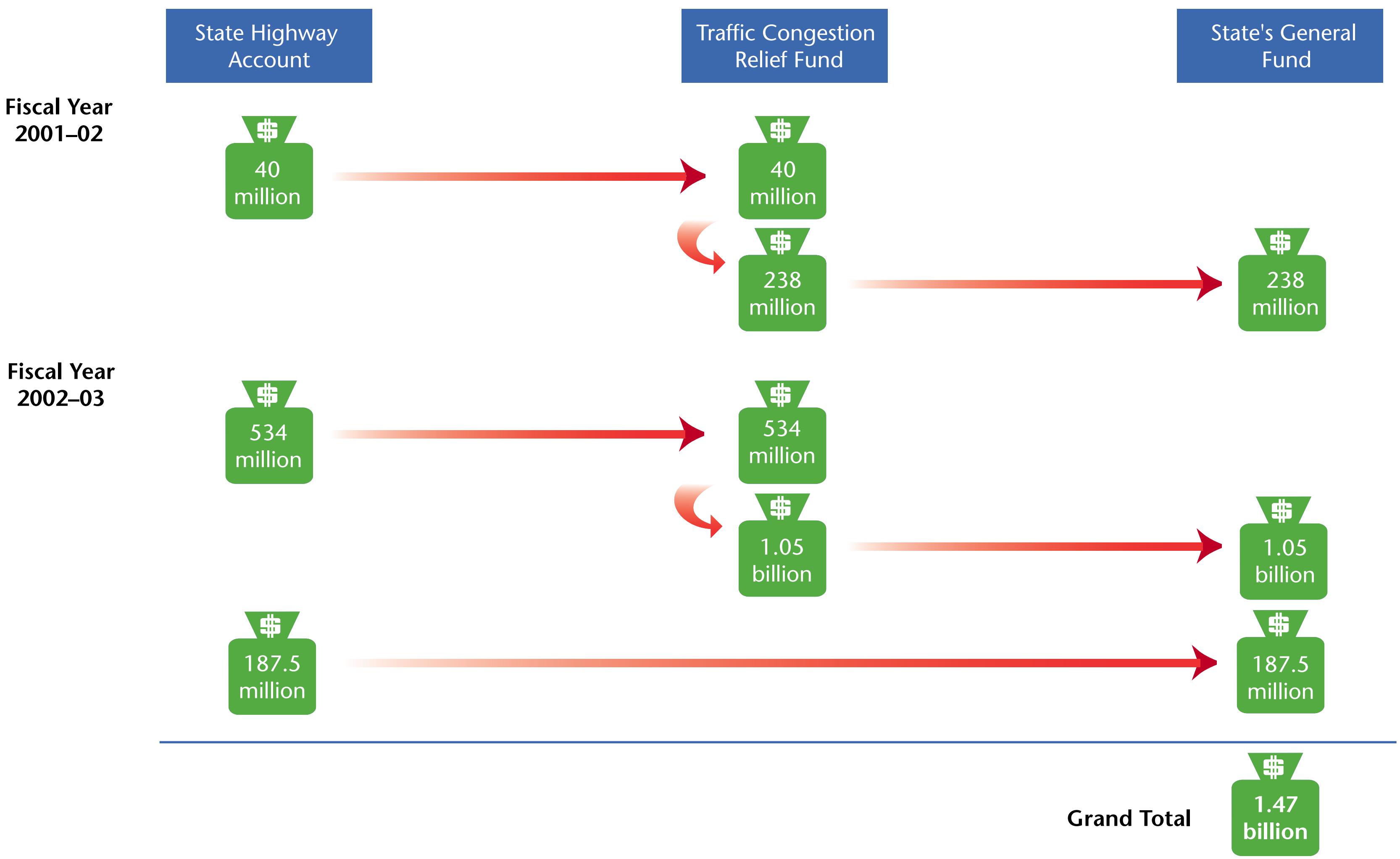
Although state law currently requires that the General Fund repay the $1.5 billion in loans from the TCRF and the highway account by the end of fiscal years 2005–06 and 2006–07, respectively, the department may not receive repayment as scheduled because of the State's continuing fiscal crisis.

Loans and Proposed Budget Changes Affect the Department's Ability to Deliver Transportation Projects

Currently, the highway account and TCRF no longer have sufficient funds to allow the commission to allocate funding as it had originally planned to all projects approved in the 2002 STIP and to fund TCRP projects. As Figure 6 indicates, the State authorized about $1.5 billion in loans from the highway account and the TCRF to the General Fund in fiscal years 2001–02 and 2002–03. Although state law currently requires that the General Fund repay the TCRF loans by the end of fiscal year 2005–06 and the highway account loans by the end of fiscal year 2006–07, the department may not receive repayment as scheduled because

FIGURE 6

The State Has Authorized Almost $1.5 Billion in Loans From the State Highway Account and the Traffic Congestion Relief Fund to the State's General Fund



Sources: State Controller's Office journal entries, Department of Finance executive orders, *Final Budget Summary Fiscal Year 2001–02, and Final Budget Summary Fiscal Year 2002–03.*

of the State's continuing fiscal crisis. Specifically, the governor's midyear spending reduction proposal calls for the Legislature to forgive $500 million of the TCRF loan to the General Fund and suspend the fiscal year 2003–04 transfer of more than $1 billion in gasoline sales tax revenues to the TIF. That transfer would affect both the TCRP and STIP projects. However, the May 2003 revision to the governor's budget requests the Legislature to suspend $938 million of the more than $1 billion of the TIF transfer originally called for, and proposes that the General Fund be obligated to repay the TIF for the amount suspended. Although the Legislature has not yet acted on either proposal, were it to do so, the TCRF's near-term ability to repay the highway account's loans would be in doubt. Consequently, the commission would have far less funding available during fiscal year 2003–04 to allocate to STIP projects than it anticipated, causing delays in the delivery of planned projects by implementing agencies.

When the State authorized the loans, the department believed it had sufficient cash in the highway account and TCRF to meet its outstanding commitments. However, the loans coincided with several anticipated revenue sources failing to materialize at the levels projected. Moreover, the proposal to suspend the $938 million transfer to the TIF would also preclude the TIF from making its full annual transfer to the TCRF of $678 million in gasoline sales tax revenues, further reducing the TCRF's fiscal year 2003–04 revenues. Specifically, as we discussed previously, because state law appears to require only one transfer of gasoline sales tax revenues to the TIF per year, with no contingency for making up a suspended transfer in later years, every year that the Legislature suspends the transfer of gasoline sales tax revenues would result in a permanent loss of up to $678 million to TCRP projects, unless the Legislature takes action to obligate the General Fund to repay the suspended amount.

Incorrect Calculation of Commercial-Vehicle Weight Fees Reduced the Department's Revenue

The department expects to receive $138 million less than anticipated in commercial-vehicle weight fees for fiscal year 2002–03.

The department expects to receive $138 million less than anticipated in commercial-vehicle weight fees for fiscal year 2002–03 because a task force headed by the DMV underestimated the amounts that the State should charge under a new weight-fee schedule. The new fee schedule was necessary for California to avoid sanctions and lost fees and to remain in the International Registration Plan (IRP).

California participates in the IRP in accordance with the federal Intermodal Surface Transportation Efficiency Act of 1991. Participation in the IRP allows California commercial-vehicle operators to operate across jurisdictions, with a simple one-step registration. It also allows California to receive revenues from other jurisdictions (including 48 states and the District of Columbia, as well as 10 Canadian provinces) that collect fees for commercial vehicles based in any of those jurisdictions that also operate in California. The IRP requires a uniform method of registration for commercial vehicles operating in interstate commerce. California joined the IRP in 1985, through an exception that allowed it as well as some other jurisdictions to collect registration fees on trailers. Eventually, California was the only remaining jurisdiction still using a trailer exception. Further, California did not use the IRP's most common methodology for registering commercial vehicles, which encouraged jurisdictions to collect weight fees on gross vehicle weight (the weight of the commercial vehicle and the heaviest load it will carry) or combined gross vehicle weight (the weight of the commercial vehicle and the trailer and the heaviest load it will carry). To retain its IRP membership and avoid sanctions and the possible loss of as much as $110 million a year in fees from other jurisdictions, a task force headed by the DMV conducted a seven-year study for the State, which resulted in elimination of trailer registrations and the creation of a new fee structure, effective December 31, 2001, based on the gross and combined gross operating weight of commercial vehicles. This new methodology combined registration and weight fees, formerly collected on trailers, in the commercial-vehicle weight fees.

In April 2003 DMV estimated that only 423,000 commercial vehicles would register—a 36 percent reduction from the 656,000 used to set the fee schedule.

The Legislature intended that the new weight-fee methodology would be revenue neutral and that the State would continue to collect the same level of revenue after the change in methodology as before. However, DMV staff stated that the task force had no way of knowing the number of commercial vehicles that would register under the new methodology. Unfortunately in setting the new fee schedule, the DMV's task force overestimated the number of commercial vehicles that would register, and weight-fee revenues dropped significantly as a result. Specifically, the task force estimated that 656,000 intrastate commercial vehicles would be subject to the new methodology. The task force used this figure to project the amount of revenue that the DMV would collect and revised the weight-fee schedule accordingly. However, in April 2003 the DMV estimated that only 423,000 commercial vehicles would register—a 36 percent reduction from the estimate used to set the fee schedule. Because the number of vehicles registering turned out to be much lower than the task force originally anticipated, the amount of actual and expected fee revenue that the DMV received as of April 2003 for fiscal year 2002–03 is about $138 million less than first projected.

The DMV believes that most of the difference in the two estimates of the number of commercial vehicles results from two factors. According to the DMV and the commercial-trucking industry, the number of registered commercial vehicles fell short by 107,000 vehicles mainly because the owners of some of the vehicles moved them to other states, and owners of others registered fewer vehicles because of the downturn in the economy. Another reason the DMV gave for the overestimate was that it included in its estimate 116,000 vehicles under 10,000 pounds, such as delivery vans, that are not subject to the new weight-fee methodology.

THE DEPARTMENT IS OVERLY OPTIMISTIC ABOUT ITS FUTURE REVENUE

If its current revenue assumptions fail to fully materialize, the department could end fiscal year 2003–04 with a negative cash balance in the highway account.

Our analysis indicates that the department's March 2003 revision to its cash forecast remains overly optimistic. For example, the department assumes that two of its main revenue sources for the highway account, revenues from the state fuel excise tax and commercial-vehicle weight fees, will increase in the next fiscal year. However, our analysis indicates that these revenues are equally likely to stay consistent with fiscal year 2002–03 levels or decrease, possibilities that the department needs to consider fully. If its current revenue assumptions fail to fully materialize, the department could end fiscal year 2003–04 with a negative cash balance in the highway account.

We analyzed the department's March 2003 cash forecast of the expected ending cash balance for the highway account in fiscal years 2002–03 and 2003–04, and we believe the department's revenue assumptions to be overly optimistic for these fiscal years. As the Table shows, we believe the department's estimate of fiscal year 2002–03 revenues is incorrect because the department overstated federal revenues by $37 million according to the 2003 distribution of federal spending authority for transportation in California, an annual schedule informing each state of how much federal transportation funding the federal government authorizes states to spend. Further, if state fuel excise tax and weight-fee revenues for fiscal year 2003–04 do not increase

TABLE

Comparison of the California Department of Transportation's and the Auditor's Revenue Projections for the State Highway Account Cash Balance (Dollars in Millions)

	Fiscal Year 2002–03		
	Per Department	Per Auditor Analysis	Difference
Beginning balances	$1,173	$1,173	
Revenues			
Federal revenues	2,594	2,557	$ (37)
State fuel excise tax	2,062	2,062	
Commercial-vehicle weight fees	669	669	
Other revenue	113	113	
Total revenues	**5,438**	**5,401**	**(37)**
Less:			
Total expenditures	(5,924)	(5,924)	
Loans to the Traffic Congestion Relief Fund (TCRF) and the State's General Fund (General Fund)	(647)	(647)	
Ending cash balances	**$ 40**	**$ 3**	**$ (37)**

	Fiscal Year 2003–04		
	Per Department	Per Auditor Analysis	Difference
Beginning balances	$ 40	$ 3	$ (37)
Revenues			
Federal revenues	2,580	2,580	
State fuel excise tax	2,078	2,062	(16)
Commercial-vehicle weight fees	783	669	(114)
Other revenue	109	109	
Total revenues	**5,550**	**5,420**	**(130)**
Less:			
Total expenditures	(5,042)	(5,042)	
Loans to TCRF and General Fund	0	0	
Ending cash balances	**548**	**381**	**(167)**
Less:			
Expected expenditures for State Transportation Improvement Program projects allocated by June 30, 2003	(102)	(102)	
Expected expenditures for State Highway Operation and Protection Program projects allocated by June 30, 2004	(432)	(432)	
Remaining cash	**$ 14**	**$ (153)**	**$(167)**

Sources: California Department of Transportation's March 2003 forecast for the State Highway Account and auditor analysis.

but stay consistent with fiscal year 2002–03 levels, a likely conclusion given our analysis, the department will receive another $130 million less in revenues than it currently expects. The department estimated that it would end fiscal year 2003–04 with a cash balance of $548 million in the highway account so long as the commission did not make any allocations after December 2002. If the commission allocates the full amount of $1.8 billion in fiscal years 2002–03 and 2003–04 (as we discuss on page 23), based on the department's expenditure formulas, implementing agencies will spend and request reimbursements for approximately $534 million of the allocations for STIP and other transportation programs in fiscal year 2003–04 ($102 million for STIP expenditures and $432 million for the State Highway Operation and Protection Program expenditures), leaving the highway account with an ending balance of $14 million. However, if some of the department's revenue assumptions fail to fully materialize, we estimate it could end fiscal year 2003–04 with a negative balance in the highway account of up to $153 million, leaving insufficient funds to meet current commitments.

The Department Cannot Support Its Estimate of Increases in State Fuel Excise Tax Revenues

The department's belief that state fuel excise tax revenue will increase by $16 million in fiscal year 2003–04 lacks a rational basis and seems to conflict with its own research.

The department receives approximately 38 percent of its total revenues from the state fuel excise tax, a tax of 18 cents per gallon of fuel. In calculating its projections of state fuel excise tax revenues, the department used projections from the Department of Finance (Finance), adding two assumptions: (1) state fuel excise tax revenues will increase by approximately 0.5 percent for fiscal year 2003–04 and future years and (2) the conflict in Iraq would not negatively affect the fuel supply or cause higher fuel prices that would lower gasoline consumption. However, the department could not provide us with any analysis or other evidence to support its assumptions. In fact, the only analysis the department could provide declared that the state fuel excise tax revenues would *decrease* if fuel prices continued to increase, predicting up to a 4 percent decline in fuel consumption if the average price per gallon of gasoline rose to $2.50. However, according to its March 2003 cash forecast, the department is assuming no drop in fuel consumption as a reaction to the rise in gasoline prices in its revenue projections because the research in this area is inconclusive. Nevertheless, the department's belief that state fuel excise tax revenues will increase by $16 million or 0.8 percent in fiscal year 2003–04 lacks a rational basis and seems to conflict with the department's own research, analysis showing that the convergence of tension over war with Iraq, the Venezuelan oil workers' strike, and low inventories have driven prices for crude oil and gasoline higher.

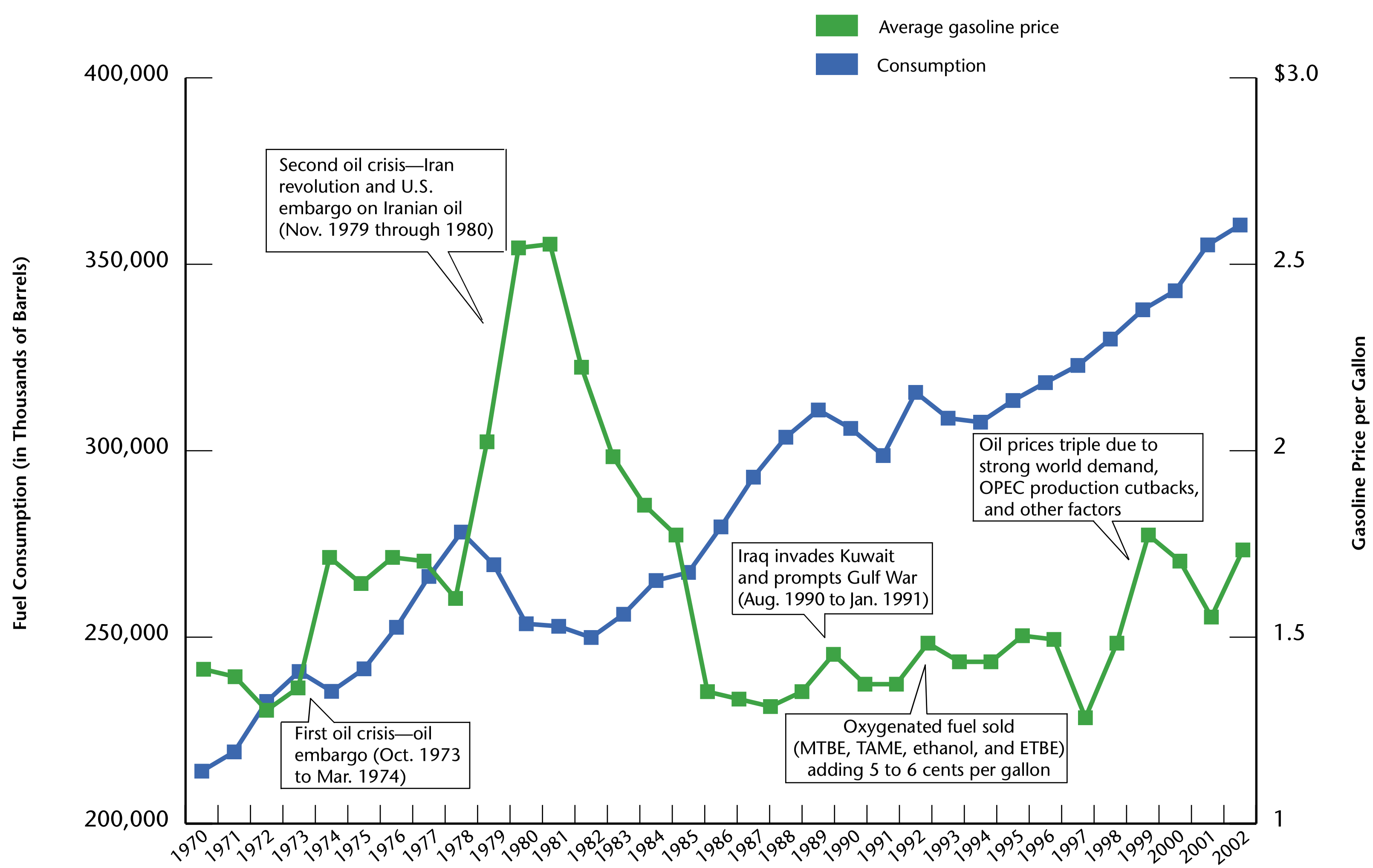
Our analysis of reports from the federal Energy Information Administration (EIA) shows an inverse trend between rising gasoline prices and fuel consumption in California: As prices increase beyond a certain point, consumers purchase less fuel. As Figure 7 on the following page indicates, in four of the five instances when gasoline prices in California have increased significantly (17.9 percent on average) since 1970, gasoline consumption decreased. According to the EIA, gasoline prices can fluctuate because of seasonality; competition between local retail stations; or disruptions in the crude oil supply stemming from world events or domestic problems, such as refinery or pipeline outages. Gasoline prices in California increased substantially in the first few months of 2003, and in the department's April 2003 presentation to the commission, the department reported receiving $17 million less in state fuel excise tax revenues during January and February 2003 than it had projected. However, as of March 2003, the department had not altered its assumptions regarding fuel prices and consumption, continuing to predict an increase in state fuel excise tax revenues for fiscal year 2003–04. For our analysis, we assumed that the department would see no increase in fuel excise tax revenues from fiscal years 2002–03 to 2003–04. Although gasoline prices have decreased from their peak in mid-March 2003, if they increase during the summer of 2003 or do not decrease quickly enough, the department's assumption of an increase in state fuel excise tax revenues for fiscal year 2003–04 could fail to materialize.

Revenues From Commercial-Vehicle Weight Fees May Not Increase as Promptly as the Department Expects

The department also assumes it will receive increased revenues from commercial-vehicle weight fees in fiscal year 2003–04. However, as of April 2003, actual and expected revenues for fiscal year 2002–03 from these fees are down almost $138 million from the weight-fee revenues projected in the 2002 STIP plan. As we explained earlier, the DMV's task force overestimated the number of vehicles that would be subject to the new methodology, and use of that estimate in computing the revised weight-fee schedule caused the shortfall in revenues. The DMV identified the revenue shortfall in April 2003, and Finance has drafted legislation to increase the fee schedule

FIGURE 7

As California's Gasoline Prices Increase, Consumption Generally Decreases (Data From 1970 to 2000)



Sources: Data from the Federal Energy Information Administration and California Energy Commission.

Note: Data on the gasoline prices is based on 2003 dollars, adjusted for inflation.

charged. However, the department is assuming that the Legislature will act to restore the weight-fee revenues through legislation that would take effect during fiscal year 2003–04, which may not be reasonable given the time required for legislation to pass and the trucking association's opposition to the fee revision.

The department assumes it will receive increased revenue from commercial-vehicle weight fees of $114 million in fiscal year 2003–04, which may not be reasonable given the time required to pass legislation to raise the fees and the trucking association's opposition to the fee revision.

The department believes it will receive an increase in weight-fee revenue over the previous fiscal year of $114 million (for a total of $783 million) in fiscal year 2003–04. However, the department's belief is based on the assumption that the Legislature will act by December 2003 to pass a trailer bill proposed by Finance that would increase the current fee schedule by approximately 60 percent. According to representatives of the California Trucking Association (trucking association), the commercial trucking industry may oppose the revision in the commercial-vehicle weight fees, even though the intent of the legislation is to restore the total revenues to their former levels. The trucking association feels that the DMV has not gathered sufficient information on the number of commercial vehicles to accurately revise the weight-fee schedule.

Representatives of the trucking industry stated at an April 2003 meeting that the Legislature should wait to revise the commercial-vehicle weight-fee schedule until the DMV has collected a full year's worth of revenue and has data on the actual number of intrastate commercial vehicles, information the DMV does not expect to have until October or November 2003, and that it proposes to present to the Legislature in a report by January 1, 2004. Therefore, if the Legislature agrees to wait, the bill would not be introduced until January 2004 at the earliest. Additionally, IRP regulations require California to notify member jurisdictions 120 days prior to the effective date of the fee change. Because half of the IRP jurisdictions have staggered registration throughout the year, the timing of the notification could cause further delay in collecting revenues from some jurisdictions before the end of fiscal year 2003–04. Therefore, the department would not begin to see an increase in weight-fee revenues until, at the earliest, January 2004 from California IRP and intrastate vehicles, and June 2004 from IRP member jurisdictions.

THE DEPARTMENT HAS ALTERNATIVES FOR SHORT-TERM PROJECT FUNDING

The department can use a variety of alternative techniques to help fund transportation projects over the short term. GARVEE bonds, SIB loans, and the type of reimbursement and replacement projects authorized by Section 14529.7 of the Government Code are viable funding alternatives that can provide transportation agencies financing to accelerate project delivery. Also, the commission could pursue legislation allowing it to rescind existing allocations on projects that are not using the money and then reallocate those funds to other projects. However, because most of these alternatives could result in decreased funding flexibility and rescinding allocations could cause the perception of unfair treatment, the department and the commission need to carefully consider and limit these alternatives' use.

GARVEE bonds can be used to fund projects in both the TCRP and the STIP programs. GARVEE bonds are tax-exempt debt financing that use future federal-aid highway funds to retire the debt. However, GARVEE bonds do not increase the total amount of federal revenues the State receives. Thus, to the extent that the department uses GARVEE bonds to finance projects, the State will have fewer federal funds available for projects in the future because part of the future federal revenue stream will be committed to repaying the bonds. In fact, state law prohibits the State Treasurer's Office from authorizing the issuance of GARVEE bonds if the annual debt service on all outstanding GARVEE bonds would exceed 30 percent of the total federal funds deposited in the highway account in any period of 12 consecutive months within the previous two years. The department reported that it has not used GARVEE bonds to fund projects in the past, but it plans to use the State's first bond issue to finance San Diego's route I-15 managed lanes project, which will use GARVEE bonds to finance about $171 million of the project's cost. Department staff believes that more implementing agencies will attempt to use these bonds in the near future because of the State's fiscal crisis and the limited availability of transportation funds. The department needs to move cautiously in using these bonds, however, because overuse will limit the amount of federal funding available for projects in future years.

The department plans to use the State's first GARVEE bond issue to finance about $171 million of the cost of San Diego's route I-15 managed lanes project.

Another way to address the funding shortage is for regional agencies to use SIB loans, which provide short-term financing from a mixture of federal and state sources to local public entities and public/private partnerships, such as regional agencies, to accelerate the delivery of transportation projects. California is one of 10 states to participate in an SIB pilot program, and the commission established guidelines in January 2003 for the use of $3 million in SIB funding. Although the commission gave applicants 60 days from January 23, 2003, to submit initial applications for SIB loans, department staff managing the loan program said that they had received no applications as of April 2, 2003. Based on their conversations with staff in regional agencies, commission staff said they thought regional agencies were reluctant to take advantage of these loans because the total amount available to regions under the SIB loan program was limited and the interest rates were high. The department can still accept applications on a first-come-first-served basis whenever loan funds are available. However, use of the SIB loans also requires the regional agencies to commit future revenue streams to the repayment of these loans and hence could reduce the flexibility of scheduling new projects in future years.

The commission limits direct reimbursements because scheduling and approving a direct reimbursement for a project locks in reimbursement priority for that project, making all other allocations more inflexible for the region and the commission.

The replacement and reimbursement projects authorized by Section 14529.7 of the Government Code are other alternatives the department can use to address its short-term funding needs. The law allows for two types of arrangements: replacement projects and direct reimbursement projects. With replacement projects, the commission allows a local agency to advance a project scheduled for a later year in the STIP to an earlier year, using its own funds and replacing the project with an unidentified future replacement project (or placeholder) of equivalent value to replace the project advanced, with the specific replacement project to be identified at a later date. Direct reimbursement projects allow the local agency to use its own funds for the early delivery of a project scheduled in the STIP plan for a future fiscal year and receive a guaranteed direct cash reimbursement in that future fiscal year (up to a prescribed yearly limit) from the department. The commission encourages local agencies to use local funds to advance the delivery of projects approved in the STIP plan when state funds are not sufficient to make direct project allocations. However, the commission gives preference to replacement projects and limits direct reimbursements because the scheduling and approval of a direct reimbursement for a project locks in reimbursement priority for that project, making all other allocations more inflexible for the region and commission. Any projects with a direct reimbursement guarantee for a particular year will receive first priority for transportation funds, so before any other projects can receive such funds, the department must first reimburse all implementing agencies that used their own money for direct reimbursement projects. Thus, the commission must exercise caution in approving direct reimbursements, because these projects then have first priority in funding allocations in future years.

Recognizing the limitations surrounding direct reimbursements, in April 2003 the commission amended the reimbursement policy guidelines to add a yearly cap on the total amount of direct reimbursements. It set the statewide cap at $200 million annually, with a single agency or county cap of $50 million annually. This cap applies to the total amount the department will repay an implementing agency in a given year. For example, the commission approved the first combination replacement-direct reimbursement request in April 2003 for a major project for the MTA. This project will use almost $142 million in project replacements and $175 million in future-year direct reimbursements to fund its bus and transit projects; however, it will not violate the commission's cap because the department will repay the MTA less than $50 million per year from fiscal years 2005–06 through 2008–09. Replacement and reimbursement arrangements provide a way for local agencies to advance their projects. However, the commission's decision to add a cap to direct reimbursement projects seems reasonable because such projects limit future scheduling flexibility.

The commission set a statewide cap of $200 million annually for direct reimbursements, with a single agency or county cap of $50 million annually.

Finally, Finance is proposing legislation to allow the commission to rescind unspent allocations of previously allocated TCRP funds during times of fiscal crisis. Because of requirements in state law and the commission's TCRP guidelines, neither the department nor the commission can rescind allocations of previously allocated funds until or unless the implementing agencies fail to meet required timelines. If the commission had the ability to rescind allocations for TCRP projects, it could rescind allocations for projects that have been delayed for reasons such as lacking required permits or right-of-way clearances, thus allowing the commission to reallocate the funds to those agencies that are ready to move forward on their projects. However, the commission needs to consider carefully the potential disadvantages of rescinding allocations because by rescinding an allocation for a particular project, the commission is giving priority to one project or region over the project or region from which it is taking the allocation. Thus, the commission will need to consider carefully statewide priorities and the potential unfairness and harm to counties if it obtains the authority to rescind allocations.

RECOMMENDATIONS

The Legislature is currently deliberating on whether to adopt the governor's recommendations to suspend the transfer of gasoline sales tax revenues from the General Fund to the TIF and to forgive the loan repayment to the TCRF. If the transfer to the TIF is reduced or delayed without a commitment to repay the reduced or delayed amount in future fiscal years, the department will lose permanently up to one year's worth of TCRP funding from the TIF transfer, further eroding the TCRF balance. Considering the State's fiscal crisis, the Legislature may wish to allow the TIF to transfer the entire $678 million to the TCRF, and then authorize a loan of the money from the TCRF to the General Fund so that those funds would be repaid to the TCRF and therefore still be available in future years.

To meet its short-term cash needs, the department should do the following:

- Continue its efforts to become more precise in revising its revenue and expenditure estimates and ensure that these revisions are properly supported and presented in cash forecast updates it submits to the commission.

- Continue to pursue cautiously other funding alternatives (GARVEE bonds, SIB loans, and direct cash reimbursement and replacement projects) to meet short-term project funding needs, but continue to set limits on most of these funding alternatives to avoid making future project scheduling inflexible.

Should the commission be granted the authority to rescind unspent TCRP allocations, it should carefully consider statewide priorities and ensure that all counties are treated fairly before taking such actions.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE
State Auditor

Date: July 3, 2003

Staff: Doug Cordiner, Audit Principal
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APPENDIX A

State Transportation Improvement Program Projects Needing Allocations to Proceed

In March 2003, California Transportation Commission (commission) staff, in consultation with the California Department of Transportation (department) and regional agencies, prepared a list of State Transportation Improvement Program (STIP) projects that required allocations by June 2003 in order to award contracts for construction or move forward with other phases of project delivery. Although the commission planned to allocate funds to some of the projects based on the criteria that commission staff developed in accordance with state law, the projects shown in Table A.1 on the following pages will not receive allocations in fiscal year 2002–03.

TABLE A.1

STIP Projects Needing Allocations to Proceed (Dollars in Thousands)

Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
1	Alameda	2198	*Union City*—Alvarado-Niles pavement rehabilitation.	Jun. 03	$ 240
2	Alameda	2009R	*Newark*—On Central Avenue at the Union Pacific Railroad tracks, construct four-lane grade separation.	Jun. 03	145
3	Alameda	2009S	*Newark*—Thornton Avenue between Gateway Boulevard and Hickory Street, widen from two to four lanes.	Jun. 03	120
4	Alameda	2113A	*East Bay*—Bus engine and transmission rehabilitation.	Dec. 02	628
5	Alameda	90C	*Hayward*—Hesperian Boulevard to Santa Clara Street (portions), construct soundwall (both directions).	Jun. 03	670
6	Butte	2415	*In Butte County on State Route 99 at Durham Pentz Road Interchange*—Install signalization on both southbound and northbound off-ramps.	Feb. 03	590
7	Butte	1L43	*Near Chico*—Keefer Road from Hick Lane to Cohasset Road, roadway realignment.	May 03	70
8	Butte	1L47	*Chico*—West Eighth Avenue from Route 32 to the Esplanade, widen roadway.	May 03	22
9	Butte	2L114	*Paradise*—Almond Street from Elliott Road to Fir Street, widening and drainage improvements.	Jun. 03	195
10	Butte	2L119	*Paradise*—Pearson Road from Skyway to Black Olive Drive, roadway rehabilitation.	Feb. 03	522
11	Butte	2L120	*Paradise*—At the intersection of Skyway and Wagstaff Road, rehabilitate intersection.	Feb. 03	66
12	Butte	2L91	*Chico*—Entler Avenue from Midway to Route 99, roadway rehabilitation.	May 03	69
13	Butte	2L93	*Paradise*—Neal Road from 4.7 miles to 5.9 miles east of Route 99, roadway reconstruction.	May 03	610
14	Butte	2L94	*Oroville*—Bangor Road south of Miners Ranch Road, roadway reconstruction.	May 03	85
15	Butte	2L98	*Between Durham and Chico*—Speedway Avenue from Midway to Entler Avenue, extension to Route 99.	Jun. 03	35
16	Contra Costa	2011A	*Antioch*—Hillcrest Avenue/Route 4 off-ramp, improve, widen, add turn lanes, and construct soundwall.	May 03	50
17	Contra Costa	2011D	*Pittsburg–Bay Point Bay Area Rapid Transit (BART) station*—Install, construct, and equip station with fully automatic turnback capability.	May 03	350

Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
18	Contra Costa	2011G	*Richmond BART station*—Construct an additional level on the parking structure.	May 03	$ 200
19	Contra Costa	2011L	*Lafayette*—Reliez Valley Road between Silver Del Road and the Briones Regional Park trailhead, construct regional trail gap closure.	Jan. 03	109
20	Contra Costa	2011M	*Danville*—On Stone Valley Road along the Oak Hill Park frontage between Glenwood Court and Monte Vista High School, widen south side of roadway for class II bicycle lane.	Jun. 03	62
21	Contra Costa	2011P	*Alamo*—Intersection of Stone Valley Road West and the Ironhorse Trail, extend bike and pedestrian trail including other improvements and amenities.	May 03	10
22	Contra Costa	2011Q	*San Pablo*—Adjacent to eastbound San Pablo Dam Road between Amador Street and Morrow Drive, construct pedestrian path.	Jun. 03	115
23	Contra Costa	2011S	*Rodeo–Richmond*—Along I-80, install bicycle-friendly storm grates.	May 03	2
24	Contra Costa	2011W	*Martinez*—From the Nejedly Staging Area to Esobar/Court Street, construct final phase of Bay Trail.	Jun. 03	300
25	El Dorado	3L85	*Tahoe Basin*—Reserve (Congestion Mitigation and Air Quality match).	May 03	173
26	Fresno	6L02	*Fresno*—Reserve (Congestion Mitigation and Air Quality match).	Feb. 03	18
26*	Fresno	6L02	*Fresno*—Reserve (Congestion Mitigation and Air Quality match).	Apr. 03	5
26*	Fresno	6L02	*Fresno*—Reserve (Congestion Mitigation and Air Quality match).	Jun. 03	665
27	Glenn	3L72	*Willows*—Pacific Avenue from Green Street to North City Limits, roadway reconstruction.	Feb. 03	7
28	Humboldt	2074	*Eureka*—Railroad crossings at Del Norte Avenue, F Street, and I Street, rehabilitate railroad crossings.	Jun. 03	100
29	Humboldt	2054P	*Eureka*—Walnut Drive from Cypress Street to Avalon Drive, class II bike lanes.	Dec. 02	551
30	Humboldt	2059P	*Arcata*—K Street from Samoa Boulevard to Alliance Road to Foster Avenue, roadway rehabilitation and pedestrian improvements.	Jun. 03	660
31	Imperial	564	*Imperial County*—At various locations from 0.6 kilometers south of Gillett Road to 0.3 kilometers north of Worthington Road, pavement rehabilitation for relinquishment.	Apr. 03	2,070
32	Inyo	4	*Bishop*—Wye Road, Route 6 to Spruce, reconstruction.	Feb. 03	385
33	Inyo	5	*Bishop*—Home Street, Route 168 to Sierra, reconstruction.	Apr. 03	410

* Duplicated project number, counted once.

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Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
34	Inyo	1006	*Near Lone Pine*—On county roads in the Alabama Hills, resurfacing.	Jun. 03	$ 4
35	Inyo	1008	*Near Tecopa*—On Old Spanish Trail Road from east of Furnace Creek Road to the Nevada border (various locations), roadway resurfacing.	May 03	4
36	Inyo	1503	*Bishop*—Mandich, Sneden, South Third and Warren Streets, pavement overlays and drainage improvements.	Apr. 03	56
36*	Inyo	1503	*Bishop*—Mandich, Sneden, South Third and Warren Streets, pavement overlays and drainage improvements.	May 03	14
37	Inyo	3036	*Shabbell Road*—Overlay.	Jun. 03	105
38	Inyo	4019	*Tuttle Creek Road*—Overlay.	Jun. 03	224
39	Inyo	4021	*Substation Road*—Overlay.	Jun. 03	111
40	Kern	2022	*Ridgecrest*—On West Ridgecrest Boulevard, from Mahan Street to China Lake Boulevard, reconstruct and widen to four lanes.	Jan. 03	1,000
41	Kern	3506	*Bakersfield*—On State Route 99, construct soundwall.	May 03	625
42	Kern	8700	*Shafter*—Seventh Standard Road, State Route 99 to Santa Fe, expressway, environmental and design.	Jun. 03	1,000
43	Kings	8526	*Hanford*—Construct transfer site improvements.	May 03	400
44	Lake	3021P	*Clearlake*—Baylis Avenue, Pearl Avenue, Howard Avenue, Uhl Avenue, overlay.	May 03	360
45	Lassen	2123	*Susanville*—Skyline Road, road extension south and bikeway.	May 03	74
46	Lassen	2261	*Janesville*—Along Main Street from the intersection with State Route 395 to the intersection with State Route 36, construct bike path and overlay Main Street.	May 03	170
47	Lassen	2262	*In Lassen County*—Along County Road A-3 to U.S. 395, roadway rehabilitation.	May 03	185
48	Los Angeles	2232	*Pomona*—Intersection of Mission Boulevard and Route 71, new interchange and related intersection improvements.	Jun. 03	2,329
49	Los Angeles	2318	*Alameda Corridor East*—San Gabriel Valley between Los Angeles and Pomona, grade separations at East End, Valley, Montebello, Rose Hills, Brea Canyon, Reservoir, and Nogales.	Dec. 02	28

* Duplicated project number, counted once.

Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
49*	Los Angeles	2318	*Alameda Corridor East*—San Gabriel Valley between Los Angeles and Pomona, grade separations at East End, Valley, Montebello, Rose Hills, Brea Canyon, Reservoir, and Nogales.	Dec. 02	$ 43
49*	Los Angeles	2318	*Alameda Corridor East*—San Gabriel Valley between Los Angeles and Pomona, grade separations at East End, Valley, Montebello, Rose Hills, Brea Canyon, Reservoir, and Nogales.	Jun. 03	5,511
50	Los Angeles	2369	*Los Angeles/San Fernando Valley*—Northeast corner of the Sepulveda Boulevard/Burbank Boulevard intersection adjacent to Route 405/Burbank Boulevard Interchange, widen roadway.	May 03	1,184
51	Los Angeles	2845	*Long Beach, Lakewood, Hawaiian Gardens*—Carson Street between Long Beach Boulevard and Bloomfield Avenue, signal synchronization.	May 03	1,427
52	Los Angeles	2858	*Northeastern area of Los Angeles*—59 intersections, Automated Traffic Surveillance and Control System (ATSAC).	Feb. 03	2,516
52*	Los Angeles	2858	*Northeastern area of Los Angeles*—59 intersections, ATSAC.	Feb. 03	1,187
52*	Los Angeles	2858	*Northeastern area of Los Angeles*—59 intersections, ATSAC.	Feb. 03	766
53	Los Angeles	2863	*West Los Angeles*—Overland Avenue Bridge over I-10, widen overpass.	May 03	543
54	Los Angeles	2868	*Los Angeles*—Eastern San Fernando Valley on San Fernando Road from First Street to Branford Street, construct class I bike path.	Jan. 03	2,302
55	Los Angeles	2869	*Compton*—Along Compton Creek from Greenleaf Boulevard to Artesia Boulevard, extension of class I bike/pedestrian path.	May 03	388
56	Los Angeles	2870	*Downey*—Lakewood/Rosemead Boulevard, signal interconnect.	Dec. 02	112
56*	Los Angeles	2870	*Downey*—Lakewood/Rosemead Boulevard, signal interconnect.	Dec. 02	1,035
57	Los Angeles	2875	*Agoura Hills*—On three main regional corridors, Kanan Road, Thousand Oaks, and Reyes Adobe Road, signal synchronization.	May 03	325
57*	Los Angeles	2875	*Agoura Hills*—On three main regional corridors, Kanan Road, Thousand Oaks, and Reyes Adobe Road, signal synchronization.	May 03	399
58	Los Angeles	2885	*Santa Clarita*—Route 126 near I-5 at Vanderbilt Way to Newhall Ranch Road at Copper Hill Drive, connector gap closure and design.	Jun. 03	252
59	Los Angeles	2901	*Santa Clarita*—Newhall Metrolink Station, construct 125 additional parking spaces.	Apr. 03	100

continued on next page

* Duplicated project number, counted once.

Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
60	Los Angeles	2912	*Pasadena Blue Line Corridor*—Stations at Del Mar and Fillmore, also crossings of Glenarm, Del Mar, California, pedestrian improvements.	May 03	$ 399
61	Los Angeles	2915	*Los Angeles County, Monterey Park*—North Atlantic Boulevard between Newmark Avenue and Hellman Avenue, widening, channelization.	Dec. 02	148
62	Los Angeles	3090	*Los Angeles*—Tampa Avenue between Kittridge Street and Victory Boulevard, replace and widen Tampa Avenue Bridge, add two lanes and extend bridge for bike path grade separation.	May 03	243
63	Los Angeles	3093	*Los Angeles*—Soto Street Bridge over Mission Road and Huntington Drive, widening and rehabilitation.	May 03	1,341
64	Los Angeles	3094	*Los Angeles*—On Laurel Canyon Road between Wentworth Street and Sheldon Street, widen bridge from four to six lanes and add bike lanes.	May 03	49
65	Los Angeles	3095	*Los Angeles*—Between Mason Avenue and Winnetka Avenue, widen and rehabilitate bridge.	May 03	339
66	Los Angeles	3096	*Downtown Los Angeles*—On Commercial Street between Alameda Street and Central Street, widen Commercial Street.	May 03	280
67	Los Angeles	3104	*Los Angeles*—On First Street Bridge between Vignes and Mission, widen bridge approaches and replace historical railings to meet safety standards.	May 03	1,023
68	Los Angeles	3105	*Los Angeles*—On Riverside Drive between Barclay Street and San Fernando Road, replace and realign Riverside Bridge and approaches and add bike lane.	May 03	1,465
69	Los Angeles	3108	*Los Angeles*—On Winnetka Avenue from 0.1 kilometers south of Archwood Street to 0.1 kilometers north of Gilmore Street, bridge widening and rehabilitation.	May 03	223
70	Los Angeles	3116	*Los Angeles*—Southeast of downtown Civic Center in Little Tokyo, construct pedestrian improvements.	May 03	165
71	Los Angeles	3133	*West of Los Angeles near Calabasas*—In Valley Circle Boulevard from the 101 freeway off-ramp/Long Valley Road to Calabasas, widen roadway.	May 03	301
72	Los Angeles	3201	*Colton*—South of Mill Street, West of Bordwell Avenue at the north end of Miller Drive, first phase of storage yard and maintenance facility for Metrolink's rolling stock.	Apr. 03	2,024
73	Los Angeles	3224	*Covina*—At 580 North Third Avenue and 559 North Citrus Avenue, construct parking structure.	May 03	560
74	Los Angeles	3227	*Los Angeles*—Chinatown, Avenue 26, French Avenue, Avenue 57, and SW Museum stations, construct bicycle parking facilities.	May 03	85
75	Los Angeles	4300	*Atlantic Boulevard at Bandini Boulevard*—Improve intersection.	Jan. 03	2,437

Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
76	Madera	2025	*Madera*—On the west side of Country Club Drive and the south side of the railroad tracks, two-lane access road, parking lot, passenger-loading platform, bus stop, and area lighting.	Apr. 03	$ 130
77	Madera	8821	*Chowchilla*—Ventura Avenue, from 3rd to 4th Street, overlay. From 4th to 9th Street, reconstruct roadway.	May 03	29
78	Madera	8850	*Madera*—Reserve (Congestion Mitigation and Air Quality match).	May 03	67
79	Marin	2163	*Marin*—Reserve (Congestion Mitigation and Air Quality match).	Feb. 03	23
80	Marin	2012R	*Sausalito*—On bridgeway between Princess Street and Johnson Street, rehabilitate and resurface roadway.	Apr. 03	131
81	Marin	320C	*Marin City*—State Route 1/U.S. 101 interchange, expand the Manzanita park-and-ride lot by 80 spaces and operate a shuttle to improve access to the parklands.	Jun. 03	67
81*	Marin	320C	*Marin City*—State Route 1/U.S. 101 interchange, expand the Manzanita park-and-ride lot by 80 spaces and operate a shuttle to improve access to the parklands.	May 03	244
82	Mariposa	2K11	*Near Mariposa*—Darrah Road from Route 49 South to Triangle Road, rehabilitate roadway, minor realignment, and shoulder work.	Feb. 03	415
83	Mariposa	2K12	*Lake Don Pedro*—Various roads in Don Pedro subdivision, roadway rehabilitation.	Feb. 03	10
84	Mendocino	4085P	*Fort Bragg*—At the intersection of Main Street (State Route 1) and Laurel Street, install new signal.	Feb. 03	11
85	Mendocino	4086P	*Fort Bragg*—Various locations, install new concrete for Americans with Disabilities Act (ADA) compliant ramps, curbs, gutter, and sidewalks.	May 03	25
86	Mendocino	4089P	*Ukiah*—Ford Street, Commerce Drive, Airport Road, and Plant Road railroad crossings, remove and replace pavement.	May 03	16
87	Mendocino	4095P	*Ukiah*—North State Street and intersections of Empire Drive and Ford Road, construct ADA ramps at heavily traveled signalized intersections.	May 03	18
88	Mendocino	4101P	*Near Ukiah*—On North State Street (County Road 104), construct a continuous left turn lane, improve intersection by either installing or upgrading signal, provide bicycle lanes, and drainage.	Jun. 03	300
89	Modoc	2041	*Alturas*—Warner/Carlos truck route from Route 395 to Route 299, rehabilitate roadway.	Jun. 03	345
90	Modoc	2176	*Alturas*—Warner Street, between Park Street and Route 299, 8th Street from Warner Street 500 feet east, roadway rehabilitation.	Feb. 03	1,495
91	Mono	2009	*Near Lundy*—Lundy Lake Road from Route 395 to west end at general store, roadway rehabilitation.	Apr. 03	1,310

* Duplicated project number, counted once.

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Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
92	Mono	2512	*Mammoth Lakes*—East Mammoth/Yosemite Airport, between the airport terminal and Benton Crossing Road, construct two-lane road.	May 03	$ 20
93	Monterey	1004	*Monterey County Service Area*—Rehabilitate 12 buses and associated equipment.	May 03	540
94	Monterey	1013	*Greenfield*—El Camino Real gutter lip to gutter lip between Apple and Walnut Avenues, pavement overlay.	Jun. 03	50
95	Monterey	1014	*King City*—Broadway Street to Russ Street through 3rd Street, remove and replace pavement, curb gutter, and sidewalk as required.	Jun. 03	50
96	Monterey	1156	*Monterey*—On Del Monte Avenue, between Sloat and Palo Verde Avenue, reconstruct and construct landscape medians.	May 03	885
97	Monterey	8200	*Near Carmel*—From Carmel River Bridge to Route 1/68 separation, construct operational and capacity increasing improvements.	May 03	1,000
97*	Monterey	8200	*Near Carmel*—From Carmel River Bridge to Route 1/68 separation, construct operational and capacity increasing improvements.	May 03	2,000
98	Monterey	1015A	*Soledad*—West Street from Front Street to Monterey Street, and Front Street from Kidder Street to East Street, overlay with pavement reinforcing fabric.	Feb. 03	61
99	Nevada	3L43	*Truckee*—At the Union Pacific Railroad underpass known as "the Mousehole," widen roadway.	Apr. 03	500
100	Orange	2796	*Irvine*—At junction of I-5 and Culver Drive, widen southbound I-5 off-ramp from one to two lanes.	Dec. 02	57
101	Orange	9654	*Tustin*—Red Hill Avenue crossing of Los Angeles to San Diego line, preliminary engineering for grade separation.	May 03	332
102	Placer	151C	*Rocklin*—At I-80 and Sierra College Boulevard, interchange reconstruction.	Dec. 02	44
102*	Placer	151C	*Rocklin*—At I-80 and Sierra College Boulevard, interchange reconstruction.	Jun. 03	24
103	Plumas	2045	*Near Beckwourth*—Calpine/Beckwourth Road (County Road 109), rehabilitate highway and safety improvements.	Jun. 03	1,417
103*	Plumas	2045	*Near Beckwourth*—Calpine/Beckwourth Road (County Road 109), rehabilitate highway and safety improvements.	Jun. 03	558
104	Plumas	2233	*Quincy*—Quincy Junction Road from the Route 70/89 intersection to Lee Road, roadway rehabilitation.	Feb. 03	280

* Duplicated project number, counted once.

Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
105	Plumas	2244	*Near Portola*—On Lake Davis Road from north of the city limits extending 4.2 miles, rehabilitate roadway.	Feb. 03	$ 415
106	Plumas	2246	*Near Portola*—On County Road A15 from the intersection of State Route 89 extending north 1.45 miles, rehabilitate roadway.	Jun. 03	25
107	Plumas	2247	*Near Portola*—On County Road A15 near the entrance to Gold Mountain subdivision and extending north 1.4 miles, rehabilitate roadway.	Jun. 03	200
108	Plumas	2250	*Near Chester*—On Big Cove Road from Clifford Drive to Peninsula Drive, rehabilitate roadway.	Feb. 03	200
109	Plumas	2251	*Near Chester*—On Clifford Drive from A13 to the Lake Almanor Country Club entrance gate, rehabilitate roadway.	Jun. 03	30
110	Plumas	2253	*Quincy*—On Lee Road from Bell Lane to Quincy Junction Road, rehabilitate roadway.	Feb. 03	290
111	Plumas	2254	*Meadow Valley*—On Bucks Lake Road from Big Creek Road and extending westward 0.9 miles, rehabilitate roadway.	Feb. 03	315
112	Plumas	2255	*Near La Porte*—On Quincy-La Porte Road, rehabilitate roadway.	Jun. 03	125
113	Plumas	2345	*Chester*—On First Avenue over north fork of Feather River (Bridge No. 9C-0137), bridge barrier rail replacement.	Feb. 03	25
114	Riverside	1007	*Palm Springs*—On Indian Drive, from Tramview Road to Pacific Railroad Bridge, widen from two to four lanes.	Feb. 03	87
115	Riverside	1103	*Riverside*—On Van Buren Boulevard, between Washington Street and Orange Terrace Parkway, construct a concrete curb, gutter, raised median, and bus turnouts.	May 03	1,323
116	Riverside	9801	*Riverside*—Regional rideshare program.	May 03	400
117	Riverside	0M	*Indio*—On Indio Boulevard from Jackson Street to Highway 111, rehabilitate roadway.	Apr. 03	325
118	Riverside	75J	*Coachella and Indio on Routes 86 and 111*—Rehabilitate roadway for relinquishment.	Jun. 03	152
119	Sacramento	2L68	*Sacramento*—Watt Avenue from Capital City Freeway to Route 16, street improvements.	Jun. 03	648
120	Sacramento	3L07	*California State University, Sacramento*—Campus bounded by J Street on the north and Folsom Boulevard on the south, construct network of class I, II, and III bike routes around and through campus.	Feb. 03	46
121	Sacramento	3L18	*Sacramento*—From Santa Ana to Ascot along Raley Boulevard, roadway reconstruction.	May 03	90

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Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
122	Sacramento	3L39	*Carmichael*—From Marconi Avenue to Engle Road along Fair Oaks, widen roadway.	Apr. 03	$ 1,000
123	Sacramento	9L02	*Sacramento*—North 3rd Street, Vine Street, Sproule, Park Riviera and Dayton, local road reconstruction.	Feb. 03	1,891
124	San Benito	853	*San Juan Bautista*—Bounded by Prescott/First Street, San Juan Canyon Road/San Juan Creek, Monterey Road/Route 156, Mission Vineyard Road/Route 156, roadside and storm drain improvement.	May 03	133
125	San Benito	938	*San Benito*—Reserve (Congestion Mitigation and Air Quality match).	May 03	30
126	San Bernardino	173O	*Barstow*—On I-15 at Old Highway 58, construct a new interchange, overpass, and connectors.	May 03	90
127	San Bernardino	1E	*Needles*—El Garces intermodal transfer station, restoration of the interior of the building (phase 2).	Feb. 03	75
127*	San Bernardino	1E	*Needles*—El Garces intermodal transfer station, restoration of the interior of the building (phase 2).	Feb. 03	640
128	San Bernardino	244C	*Grand Terrace*—Between Barton Road and Newport Avenue, construct soundwalls.	May 03	1,389
129	San Diego	978	*Transit Services in the North County Transit and Metropolitan Transit Development Board Service Areas of San Diego*—Design, procure, and install fare collection system.	May 03	5,250
130	San Diego	7404	*San Diego*—Regional rideshare program.	Jun. 03	1,644
131	San Diego	9865	*Del Mar at San Dieguito River*—Replace San Dieguito River Bridge and add second track (environmental and preliminary engineering).	Jan. 03	855
132	San Diego	435A	*Chula Vista*—Orange Avenue to Palomar Street, construct soundwalls.	Jun. 03	1,145
133	San Diego	7401B	*San Diego*—Regional Surface Transportation Program/Congestion Mitigation Air Quality/Transportation Equity Act reserve.	Feb. 03	41
133*	San Diego	7401B	*San Diego*—Regional Surface Transportation Program/Congestion Mitigation Air Quality/Transportation Equity Act reserve.	May 03	22
133*	San Diego	7401B	*San Diego*—Regional Surface Transportation Program/Congestion Mitigation Air Quality/Transportation Equity Act reserve.	May 03	241
134	San Francisco	2014R	*San Francisco*—Embarcadero and Montgomery BART stations, conceptual environmental engineering analysis/studies for seismic retrofit.	May 03	500
135	San Joaquin	2K47	*Tracy*—At Sixth Street and Central Avenue adjacent to Southern Pacific Railroad tracks, construct a multimodal station.	Jun. 03	2,945
136	San Joaquin	3K41	*Lathrop*—Between I-5 and State Route 99, construct four-lane overpass over the Union Pacific Railroad tracks, between 7th Street and McKinley Avenue.	Jan. 03	200

* Duplicated project number, counted once.

Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
137	San Luis Obispo	1105	*Morro Bay*—At the intersection of Route 41, Main Street, and Highway 1 on- and off-ramps, construct a single roundabout to replace two existing intersections.	Jun. 03	$ 441
138	San Luis Obispo	370A	*Arroyo Grande*—Between Brisco Road and Grand Avenue, modify interchanges and ramps.	Jun. 03	165
139	San Mateo	1035	*Colma, South San Francisco, San Bruno, Millbrae*—BART San Francisco Airport extension bicycle path.	Jun. 03	1,343
140	Santa Barbara	481	*Near Summerland*—Evans Avenue to Sheffield Drive underpass, construct auxiliary lane (northbound) and bikeway (class I).	Jun. 03	836
141	Santa Barbara	1194	*Santa Barbara*—Various local streets, rehabilitate roadway.	Jun. 03	232
142	Santa Barbara	1197	*Santa Barbara*—Various locations, construct and improve sidewalks and access ramps.	Jun. 03	200
143	Santa Barbara	223E	*Carpinteria*—Carpinteria Avenue and Seventh Street to Via Real and Cravens Lane, improve bike path and widen Santa Ynez Avenue overpass at Highway 101.	Apr. 03	70
144	Santa Barbara	223G	*Summerland*—Ortega Hill Road from Evans Avenue to U.S. 101 on-ramp (northbound), improve intersection, widen road for bike lanes (Class II) and parking.	May 03	310
145	Santa Clara	2168	*Santa Clara*—Reserve (Congestion Mitigation and Air Quality match).	Jun. 03	797
146	Santa Cruz	1182	*Capitola*—Between Stockton Avenue and the Esplenade Park, including San Jose Avenue to Capitola Avenue, sidewalks, bike lanes, parking, and drainage improvements.	May 03	60
147	Santa Cruz	2054	*Amesti Road, near Corralitos Road*—Roadway reconstruction and slope stabilization.	Feb. 03	85
148	Siskiyou	2215	*Yreka*—On Greenhorn Road from Lucas Road to city limits at Greenhorn Park, pavement rehabilitation.	Apr. 03	451
149	Siskiyou	2282	*Dorris*—Main Street, Triangle Street, State Street, and Second Street, rehabilitation and overlay.	Feb. 03	320
150	Siskiyou	2288	*Montague*—From 6th to 9th Street, rehabilitate roadway and drainage improvements.	Feb. 03	350
151	Siskiyou	2290	*Tulelake*—Various streets, rehabilitate streets, concrete overlays, remove or replace curbs and gutters.	May 03	350
152	Siskiyou	2305	*In Siskiyou County*—Old Highway 99 and Easy Street, repair, overlay, and restripe.	May 03	125
153	Siskiyou	2373	*Etna*—On Callahan Street from Callahan Road to city limits at Lovers Lane, rehabilitate roadway.	May 03	19
154	Solano	2260	*Vallejo*—Parking structure for Baylink Ferry and bus facilities.	Jun. 03	125

continued on next page

Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
155	Solano	321E	*Fairfield*—Along Central Way from Ritchie Road to Pittman Road, rehabilitate with an overlay.	Feb. 03	$ 158
156	Solano	6045L	*Solano County*—Along I-80 Corridor, tie replacement, ballasting, track surfacing and alignment, and bridge rehabilitation.	Jun. 03	190
157	Sonoma	2172	*Sonoma*—Reserve (Congestion Mitigation and Air Quality match).	Feb. 03	323
158	Sonoma	782G	*Rohnert Park*—At the Rohnert Park Expressway interchange, park-and-ride lot.	May 03	125
159	Stanislaus	9951	*Stanislaus*—Reserve (Congestion Mitigation and Air Quality match).	Feb. 03	27
159*	Stanislaus	9951	*Stanislaus*—Reserve (Congestion Mitigation and Air Quality match).	Apr. 03	9
159*	Stanislaus	9951	*Stanislaus*—Reserve (Congestion Mitigation and Air Quality match).	May 03	383
159*	Stanislaus	9951	*Stanislaus*—Reserve (Congestion Mitigation and Air Quality match).	May 03	5
160	Sutter	3L44	*Sutter County*—At State Route 99 and Riego Road, construct interchange.	May 03	1,000
161	Tehama	2162	*Near Red Bluff*—McCoy Road north of the North Fork of Dibble Creek, realign roadway (Phase 3).	Feb. 03	30
161*	Tehama	2162	*Near Red Bluff*—McCoy Road north of the North Fork of Dibble Creek, realign roadway (Phase 3).	May 03	22
162	Tehama	2173	*Tehama*—B, D, F, H, Third and Fourth Streets, and Cavalier Drive, pavement rehabilitation.	Feb. 03	157
163	Tehama	2191	*Near Red Bluff*—Highway 99 west at Red Bank Creek, roadway rehabilitation.	May 03	109
164	Tehama	2193	*Near Red Bluff*—Tyler Road at the intersection with Highway 99 west, construct turn lane.	May 03	182
165	Tehama	2194	*Near Red Bluff*—Baker Road from Walnut Street north to Route 36, roadway rehabilitation.	Jun. 03	2
166	Trinity	2138	*In Eastern Weaverville*—From State Route 299 to State Route 3, new two-lane arterial roadway.	Apr. 03	360
167	Trinity	2140	*Near Hayfork*—On Hyampom Road, realign and widen roadway.	Jun. 03	437
168	Trinity	2216	*Near Hayfork*—On Hyampom Road, roadway rehabilitation.	Apr. 03	729
169	Tulare	101	*Visalia to Tulare*—County Road 108 (Demaree Road) from Leland Avenue to Caldwell Avenue, widen from two to four lanes.	Feb. 03	350

* Duplicated project number, counted once.

Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
170	Tulare	103	*Visalia*—Caldwell Avenue from State Route 99 to State Route 63, widen from two lanes to four lanes.	May 03	$ 426
170*	Tulare	103	*Visalia*—Caldwell Avenue from State Route 99 to State Route 63, widen from two lanes to four lanes.	May 03	400
171	Tulare	107	*Dinuba*—Avenue 416 from Fresno County Line to Road 88 (Crawford Avenue), widen from two lanes to four-lane expressway.	Feb. 03	135
172	Tulare	108	*Farmersville*—Visalia Road (Avenue 280) between Stevens Avenue and Brundage Avenue, operational improvements.	Apr. 03	25
173	Tulare	8631	*Tulare*—K Street between Cross Avenue and San Joaquin Avenue, construct intermodal transit center.	May 03	1,904
174	Tulare	8633	*Visalia*—Whitendale Avenue, Woodland Street, Demaree Street, Acequia Avenue, County Center, Conyer Street, Giddings Street, Tulare Avenue, and Pinkham Street, roadway rehabilitation.	May 03	934
175	Tulare	8680	*Porterville*—Henderson Avenue between Jaye Street and San Joaquin Valley railroad crossing west of Main Street, construct curb and gutter and rehabilitate street.	May 03	31
176	Tulare	8683	*Near Visalia*—On Betty Drive and Rigging Road, from State Route 99 to Road 80, widen from two to four lanes and realign.	May 03	484
177	Tulare	8686	*Near Tule River Indian Reservation on Reservation Road*—From State Route 190 to Tule Indian Reservation border, build two eastbound and three westbound turnouts.	Apr. 03	50
178	Tulare	8688	*Visalia*—At 34 intersections, install emergency vehicle preemption system.	May 03	186
179	Tulare	8689	*Visalia*—Along State Route 63 (Mooney Boulevard) from Packwood Creek north to State Route 198, tree planting/landscaping program.	May 03	60
180	Tulare	6L11	*Between Visalia and Dinuba (Road 80 Expressway)*—Goshen to El Monte Way, widen to four lanes.	Feb. 03	400
181	Tuolumne	9890	*Sonora*—Sanguinetti to Old Wards Ferry, grade crossings.	Jan. 03	33
182	Tuolumne	3K94	*Sonora*—On Hospital Road and Solinsky Street, pavement rehabilitation including three railroad crossings.	May 03	210
183	Various	2017	*Various locations statewide to be determined*—Deployment of 750 shared commuter vehicles.	Apr. 03	1,975
184	Ventura	3138	*Oxnard*—Southbound on U.S. 101, between Snow Avenue and Jardin Drive, construct soundwall.	May 03	425
185	Ventura	3140	*Ventura*—Westbound on State Route 126 at East Main Street off-ramp and between Victoria Avenue and South Hill pedestrian overpass, construct soundwalls.	Jun. 03	469
186	Ventura	3141	*Thousand Oaks*—Southbound and northbound U.S. 101 from Lynn to Ventu Park Road, and southbound U.S. 101 from Borchard Road to Wendy Drive, construct soundwalls.	May 03	1,689

* Duplicated project number, counted once.

continued on next page

Item	County	Project Number	Project Description	Expected Allocation Month and Year	STIP Allocation Request
187	Yolo	2L80	*Davis*—Various locations, local road rehabilitation (phase 2).	May 03	$ 600
188	Yolo	3L45	*Between Davis and Woodland*—County Road 99 from County Road 27 to County Road 29 and County Road 29 from County Road 99 to State Route 113, construct bikeway.	Apr. 03	64
189	Yolo	3L47	*Between Davis and Woodland*—County Road 98 from County Road 29 and the City of Woodland, widen roadway.	Apr. 03	168
190	Yolo	3L48	*East of Davis*—County Road 32A from County Road 105 to the City of Davis, widen roadway.	Feb. 03	85
191	Yuba	3L55	*Olivehurst*—From Erle Road to Broadway along Arboga Road, roadway rehabilitation.	May 03	25
192	Yuba	3L56	*Northern Yuba County*—From Marysville Road to Frenchtown Road along Willow Glen Road, roadway rehabilitation.	May 03	40
193	Yuba	3L57	*Marysville*—Huston Street from East 16th Street to Johnson Avenue, East 19th Street from Hall Street to Covillaud Street, East 18th Street from Covillaud Street to Sampson Street, roadway rehabilitation.	May 03	20
194	Yuba	3L58	*Marysville*—Rideout Way from Hall Street to Covillaud Street, roadway rehabilitation.	May 03	16
Total for all projects pending allocations					**$103,142**

APPENDIX B

Traffic Congestion Relief Program Projects Needing Allocations to Proceed

As of April 2003, 15 Traffic Congestion Relief Program (TCRP) projects have submitted requests for allocations in order to continue work. As shown in Table B.1 on the following pages, these projects need a total of $147 million in order to move to the next phase of their life cycle.

TABLE B.1

TCRP Projects Needing Allocations to Proceed (Dollars in Thousands)

TCRP Project Number	County or Region	Description	Total TCRP Amount Available Through State Law	TCRP Allocations as of December 31, 2002	Expenditures and Pending Invoices as of December 31, 2002	Remaining Allocation Needs	Amount of Requested Allocations Needed by June 30, 2003
9	Bay Area – Regional	Capitol Corridor—Improve intercity rail line between Oakland and San Jose, and at Jack London Square and Emeryville stations in Alameda and Santa Clara counties.	$ 25,000	$22,075	$ 768	$ 2,925	$2,925
11	Bay Area – Regional	San Francisco Bay Southern Crossing—Complete feasibility and financial studies for new San Francisco Bay crossing (new bridge, high-occupancy vehicle/transit bridge, terminal connection, or second BART tube) in Alameda and San Francisco or San Mateo counties.	5,000	3,200	3,200	1,800	1,800
27	Alameda/ Contra Costa	Vasco Road—Safety and transit enhancement project in Alameda and Contra Costa counties.	11,000	2,466	823	8,534	2,414
37	Los Angeles	Los Angeles Mid-City Transit Improvements—Build bus rapid transit system or light rail transit in mid-city/westside/exposition corridors in Los Angeles County.	256,000	17,200	1,979	238,800	14,000
54	Los Angeles	Alameda Corridor East—Build grade separations on Burlington Northern-Santa Fe and Union Pacific Railroad lines, downtown Los Angeles to Los Angeles county line in Los Angeles County.	150,000	61,573	3,551	88,427	6,834
74	San Diego	Pacific Surfliner—Double track intercity rail line within San Diego county; add maintenance yard in San Diego County.	47,000	3,448	1,911	43,552	4,736
75	San Diego	San Diego Transit Buses—Acquire about 85 low-emission buses for San Diego transit service in San Diego county.	30,000	22,300	4,519	7,700	7,700
79	San Diego	North County Light Rail—Build new 20-mile light rail line from Oceanside to Escondido in San Diego County.	80,000	—	—	80,000	80,000

TCRP Project Number	County or Region	Description	Total TCRP Amount Available Through State Law	TCRP Allocations as of December 31, 2002	Expenditures and Pending Invoices as of December 31, 2002	Remaining Allocation Needs	Amount of Requested Allocations Needed by June 30, 2003
83	San Diego	Route 15—Add high-tech managed lane on I-15 freeway north of San Diego (Stage 1) from Route 163 to Route 78 in San Diego County.	$ 70,000	$ 40,000	$21,882	$ 30,000	$ 7,800
92	Kings	San Joaquin Corridor—Improve track and signals along San Joaquin intercity rail line near Hanford in Kings County.	10,000	—	—	10,000	10,000
97	Fresno	California State University, Fresno —Operational improvements on Shaw Avenue, Chestnut Avenue, Willow Avenue, and Barstow Avenue near California State University, Fresno in Fresno County.	10,000	4,003	3,423	5,997	35
98	Fresno	Peach Avenue—Widen to four-lane arterial and add pedestrian overcrossings for three schools in Fresno County.	10,000	600	—	9,400	260
99	San Joaquin – Regional	San Joaquin Corridor—Improve track and signals along San Joaquin intercity rail one of seven counties.	15,000	3,000	1,145	12,000	7,000
114	Kern	Route 65—Add four passing lanes, improve intersections, and conduct environmental studies for ultimate widening to four lanes from Route 99 in Bakersfield to Tulare County line in Kern County.	12,000	376	366	11,624	1,298
141	Alameda	Union City—Pedestrian bridge over Union Pacific rail lines.	2,000	120	120	1,880	200
Totals			**$733,000**	**$180,361**	**$43,687**	**$552,639**	**$147,002**

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Agency's comments provided as text only.

Business, Transportation and Housing Agency
980 9th Street, Suite 2450
Sacramento, California 95814-2719

June 23, 2003

Elaine M. Howle*
State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

Attached is the Department of Transportation's (Department) response to your draft report, *Department of Transportation: Low Cash Balances Threaten the Department's Ability to Promptly Deliver Planned Transportation Projects* (#2002-126). I appreciate your understanding of the issues the Department currently faces in its efforts to deliver transportation projects, and that you acknowledged the alternative funding solutions the Department is pursuing. Additionally, I share the concerns that you have raised regarding the adverse effects associated with delays in project delivery.

The Department and the Business, Transportation and Housing Agency (Agency) are committed to doing what is necessary to continue to improve mobility across California. Although your draft report raises the specter of the permanent loss of transportation revenues, it is important to note that, related to the statutorily required transfer of gasoline sales tax revenues from the General Fund to the Transportation Investment Fund (TIF), Governor Gray Davis' current budget proposal seeks to:

1. Suspend only a portion of the transfer in fiscal year 2003-04 while transferring $207 million from the General Fund to the TIF, and then from the TIF to the Transportation Congestion Relief Fund (TCRF).

2. Require the suspended portion to be repaid by the General Fund to the TIF in the future.

Therefore, if the Legislature is "currently deliberating on whether… to forgive the loan repayment to the TCRF," as your draft report suggests, that deliberation is not based on the Governor's current budget proposal. Similarly, while it is technically accurate that, to avoid any permanent loss of the revenues for transportation funding purposes, the Legislature would need to "(take) action to obligate the General Fund to repay the suspended amounts," one such action would be to simply accept the Governor's current proposal.

* California State Auditor's comments begin on page 69.

Elaine M. Howle
June 23, 2003
Page 2

Finally, as its response indicates, the Department is putting substantial effort into ensuring the accuracy of cash forecasts and the alignment of priority transportation projects with available funds. In addition, the Department is preparing to use a variety of financing options, including those suggested in your draft report.

Thank you for the opportunity to provide you with this response addressing your findings and recommendations. If you need additional information, please do not hesitate to contact me or Michael Tritz, Chief of the Agency's Office of Internal Audits, at (916) 324-7517.

Sincerely,

(Signed by: Michael R. Tritz for)

MARIA CONTRERAS-SWEET
Secretary

Attachment

Department of Transportation
Office of the Director
1120 N Street
P. O. Box 942873
Sacramento, CA 94273-0001

June 20, 2003

Maria Contreras-Sweet, Secretary
Business, Transportation and Housing Agency
980 - 9th Street, Suite 2450
Sacramento, CA 95814

Dear Secretary Contreras-Sweet:

I am pleased to provide the California Department of Transportation's (Department) response on implementing the audit recommendation noted in the Bureau of State Audits' (BSA) Report No. 2002-126 entitled, "Department of Transportation: Low Cash Balances Threaten the Department's Ability to Promptly Deliver Planned Transportation Projects." The report identified the following issues:

- Cash Shortages Are Delaying Many of the Department's Planned Transportation Projects
- Delayed or Cancelled Projects Will Affect the State's Aging Transportation System
- Several Factors Caused the Cash Shortage That Has Delayed Transportation Project Delivery
- The Department is Overly Optimistic About Its Future Revenue
- The Department Has Alternatives for Short-Term Project Funding

BSA recommended the following:

To meet its short-term cash needs, the Department should do the following:

- Continue its efforts to become more precise in revising its revenue and expenditure estimates and ensure that these revisions are properly supported and presented in cash forecast updates submitted to the California Transportation Commission (CTC).

- Continue to cautiously pursue other funding alternatives (Grant Anticipation Revenue Vehicle (GARVEE) bonds, State Infrastructure Bank (SIB) loans, direct-cash reimbursement and replacement projects, and rescinding allocations) to meet short-term project funding needs, but continue to set limits on these alternatives to avoid making future project scheduling inflexible or unfair.

Department Response:

The Department has taken actions to reduce commitments against the State Highway Account (SHA) because of the forecasted low account balances due to decreasing federal revenues and State revenues (weight fees), increasing project expenditures and loans made to the General Fund and the TCRF. Two significant steps have been taken in the past six months to ensure the availability of cash in the SHA to cover obligations. As pointed out in the draft audit report, the Department presented a cash forecast to the CTC in December 2002 to apprise that body of the status of the SHA and the level of funds available to vote allocations to projects. As a result of this presentation, the CTC suspended making allocations from the SHA.

As a first step, in March 2003, the Department presented to the CTC an updated forecast of the SHA balance for the end of Fiscal Year 2003-04 reflecting a positive balance of $546 million. This forecast was the result of significant analysis and evaluation of expenditure commitments and cash flow trends of approved projects. The forecast also incorporated input from workshops with the CTC and other State, regional and local transportation partners. The purpose of these workshops was to provide the transportation partners the opportunity to provide input on the cash forecast assumptions and allocation criteria. At the same time, the CTC solicited input on project priorities from the regional and local transportation agencies.

At the end of this process, the CTC adopted a Project Allocation Plan, which is designed to bring the level of project delivery in line with the level of available resources. This allocation plan calls for allocating $1.8 billion of the $4.2 billion in planned projects between March 2003 and July 2004. As part of this allocation plan, the Department will provide the CTC with a quarterly update of the cash forecast for the SHA with recommendations on the amount of available cash that can be utilized for project allocations. The next scheduled update is for the CTC meeting on June 26, 2003.

As a second step, the Department has established a Cash Management Team, composed of staff from the Department's Divisions of Accounting and Budgets, which has been charged with closely monitoring and forecasting the daily cash balances and expenditure activity to ensure the Department is in a position to meet its current obligations while maintaining project delivery.

The Department's Office of Innovative Finance has worked to identify creative financing options to continue the delivery of high priority transportation projects. In fact, the Department, upon enactment of the Fiscal Year 2003-04 budget, is set to implement the Transportation Finance Bank Revolving Program that will offer to public/private partnerships flexible, short-term loans with below-market interest rates for the purpose of improving mobility across California. In addition to the ground breaking loan program, the Department and the CTC are preparing to authorize several GARVEE-financed projects and, during the April 2003 CTC meeting, approved a major transit-oriented project for AB 3090 financing (direct cash reimbursement). The Department will continue to seek every financing option available, all the while maintaining a fiscally prudent position in order to maintain the long-term viability of transportation funding.

Maria Contreras-Sweet
June 20, 2003
Page 3

In closing, the draft audit report mentions that revenue forecasts for the SHA could be improved. It should be noted that for the two major State revenue sources, fuel excise taxes and commercial motor vehicle weight fees, the Department of Finance (DOF) is the State agency charged with the issuance of the official State forecasts for these revenues. The official forecasts for these revenues are issued twice yearly. A forecast is issued with the Governor's Budget in January and then is updated in the May Revise of the Governor's Budget. The Department must rely on these forecasts for inclusion in its cash forecasts. Further, these estimates come from DOF's Demographic Research and Census Data Center. The Department does not have the same level of resources to devote to forecasting State revenues as DOF nor does it duplicate the work of DOF.

If you have any questions, or require further information, please contact Gerald Long, External Audit Liaison, at (916) 323-7122.

Sincerely,

(Signed by: Jeff Morales)

JEFF MORALES
Director

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COMMENTS

California State Auditor's Comments on the Response From the Business, Transportation and Housing Agency

To provide clarity and perspective, we are commenting on the Business, Transportation and Housing Agency's (agency) and the attached California Department of Transportation's (department) response to our audit report. The numbers below correspond to the numbers we have placed in the margin of the agency's and department's response.

While simply accepting the governor's proposal may be sufficient to avoid the permanent loss of revenues for transportation funding, it will not guarantee that funding for the Traffic Congestion Relief Fund (TCRF) projects is restored. As we discuss on pages 25 and 26, the governor's May revision to the governor's budget does call for the Legislature to suspend $938 million of the more than $1 billion transfer to the Transportation Investment Fund (TIF) originally called for, and requests that the Legislature obligate the State's General Fund (General Fund) to repay the TIF in the future. However, the governor's May revision does **not** request the Legislature to require the TIF to repay the TCRF. Because state law specifies the years and the amounts of the annual transfers to be made from the TIF to the TCRF, any amount that is suspended or delayed in the current year is **not** guaranteed to be repaid to the TCRF in future years, unless the Legislature takes action to obligate the General Fund or the TIF to repay the TCRF.

As discussed on page 34, we believe this March 2003 cash forecast is overly optimistic. Specifically, the department over-estimated federal revenues and cannot support its assumptions of increases in state fuel excise tax or commercial-vehicle weight fee revenues. Consequently, the department may end fiscal year 2003–04 with a negative cash balance.

The department's response is misleading. Although the department started with the state fuel excise tax revenue projections from the Department of Finance (Finance), it added two assumptions, which we describe on page 36. Namely, it assumed that state fuel excise tax revenues will increase 0.5 percent in fiscal year 2003–04 and future years and that the conflict in Iraq would not negatively affect the fuel supply or cause higher fuel prices that would lower consumption. However, the department could not provide any analysis or other evidence to support its assumptions. Further, as we state on page 39, the department is projecting that it will receive an increase of $114 million in commercial-vehicle weight fees in fiscal year 2003–04. The department's projection is based on the assumption that the Legislature will act by December 2003 to pass a trailer bill proposed by Finance to increase the current fee schedule by approximately 60 percent, an assumption we believe is not reasonable given the time required to pass legislation and the California Trucking Association's opposition to the fee increase.

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press