

**California
Transportation
Commission and
Department of
Transportation:**

**The State's Use of Transportation Funds
Generated by the 1989 Transportation
Blueprint Legislation**

February 1997
96014

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February 26, 1997

96014

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

Dear Governor and Legislative Leaders:

Summary

This is the fifth in a series of annual reports that Chapter 16 of the Statutes of 1990 requires us to submit. The 1989 Transportation Blueprint Legislation (Transportation Blueprint) contains provisions increasing transportation taxes, fees, and bond proceeds and outlines a statement of priorities for the use of the increased revenue (blueprint revenue). According to our review for fiscal year 1995-96, although six years of the ten-year Transportation Blueprint period have elapsed, total revenues and expenditures are 47 percent and 40 percent, respectively, of the total amounts anticipated by the legislation. Furthermore, we found that the revenue sources provided by the Transportation Blueprint will not produce the expected total of \$18.5 billion within ten years as anticipated by the legislation. The shortfall includes \$2 billion lost when voters rejected two bond issues. Additionally, if collections for fuel taxes and commercial weight fees continue for the next four years at the same rate as collections for fiscal year 1995-96, the total revenue shortfall will be approximately \$3.2 billion.

We found that the Department of Transportation (department) did not spend or commit to spend (obligate) all the funds it had statutory authority to obligate. Specifically, the department did not obligate approximately \$1.4 billion in legislative appropriations for Transportation Blueprint projects. However, a major portion of these appropriations are for construction projects that usually take more than one year from planning to contracting. The department is authorized to obligate the appropriation balances for such projects over a period of three years and, thus, may obligate these balances in the future.

During the first six years of the Transportation Blueprint, the department allowed \$667 million to expire. This occurred primarily, according to the department, because actual project costs were less than estimated costs, which were used to determine the level of appropriations.

We also determined that blueprint revenue of approximately \$716 million was diverted to seismic retrofit in response to major earthquake damage to the highway system or transferred, pursuant to legislation, to the State's General Fund. In addition, blueprint revenues exceeded obligations and redirections by more than \$637 million. Of this amount, the department stated that the remaining funds which are not needed for contingencies and emergency reserve purposes will be programmed for future transportation projects.

We found that the projects we examined are included in the transportation programs listed in the Transportation Blueprint and adhere to statutory requirements for their respective programs. Moreover, the California Transportation Commission (commission) allocated the blueprint revenue in accordance with applicable program statutes and guidelines. Further, the State spent the blueprint revenue in accordance with statutory requirements and correctly calculated its formula-based disbursements of these funds to cities and counties.

Background

In 1989, the Legislature and the governor approved Chapters 105, 106, and 108 of the Statutes of 1989. These statutes contain provisions for generating an estimated increase of \$18.5 billion in revenue for designated transportation programs over a ten-year period beginning in fiscal year 1990-91. However, the voters turned down two of three \$1 billion bond acts proposed by Chapter 108, one in November 1992 and the other in November 1994, reducing the amount of the estimated increase in blueprint revenue to \$16.5 billion. In June 1990, California voters approved Proposition 111 (the Traffic Congestion Relief and Spending Limitation Act of 1990) and Proposition 108 (the Passenger Rail and Clean Air Bond Act of 1990). These two propositions increased fuel taxes and commercial weight fees and authorized the State to raise \$1 billion in bond proceeds by amending various transportation-related sections of the Government Code, the Revenue and Taxation Code, the Streets and Highways Code, and miscellaneous other codes. The codes, as amended by these two propositions and Chapters 105, 106, and 108 of the Statutes of 1989, as amended, are collectively referred to in this report as the Transportation Blueprint.

The Transportation Blueprint designates the sources that will generate the blueprint revenue for the State to allocate and expend for transportation programs. Table 1 shows the sources of these funds and the estimated amounts expected from each source.

Table 1

***Estimated Total Blueprint Revenue
by Source (in thousands)***

Source of Revenue	Estimated Amount of Revenue
Fuel taxes	\$13,000,000
Sales and use taxes	500,000
Commercial weight fees	2,000,000
Rail bond proceeds	3,000,000
Total	\$18,500,000

Source: The California Transportation Commission's 1996 Annual Report.

In addition to generating revenue for transportation projects, the Transportation Blueprint set forth in Section 164 of the Streets and Highways Code lists programs and expenditure goals based on anticipated revenue. The appendix to this report provides a brief description of these programs.

The State Transportation Improvement Program (STIP) includes all major transportation improvement projects to which the commission intends to allocate funds during a seven-year period. Section 14529 of the Government Code requires the commission to adopt the STIP every two years. Adopting the STIP represents an intent to allocate transportation funds to certain projects. The Transportation Blueprint specifies that the commission may approve allocations of the blueprint revenue according to certain factors, such as geographic areas, designated highways and rail corridors, and types of projects.

After the commission allocates funds to projects in the STIP, the department spends the funds on the adopted transportation projects. The department's expenditures include payments for costs that it has incurred for transportation projects and reimbursements for costs local governments have incurred for transportation projects.

In addition to outlining the department's expenditures, the Transportation Blueprint requires the State Controller's Office to disburse a portion of the blueprint revenue to cities and counties in accordance with formulas prescribed by state law. The State Controller's Office calculates the amounts of these disbursements and distributes them to cities and counties.

Scope and Methodology

The Government Code, Section 14525.6, requires the Office of the Auditor General to perform an annual review of the State's allocation and expenditure of the funds generated by the Transportation Blueprint. According to Section 8546.8 of the Government Code, the Bureau of State Audits is responsible for the activities formerly performed by the Office of the Auditor General.

During our review for fiscal year 1995-96, we evaluated the policies and procedures the commission and the department developed for the allocation and expenditure of revenue generated by the Transportation Blueprint. We found these policies and procedures enable the department to comply with the Transportation Blueprint. We also analyzed allocations for transportation projects to determine whether the commission allocated the blueprint revenues to programs listed by the Transportation Blueprint. In addition, we reviewed the department's expenditures for a sample of transportation projects covered by the Transportation Blueprint to determine whether the projects meet legislated program requirements. We also reviewed how the State Controller's Office distributed blueprint revenues to cities and counties. Further, we determined the total blueprint revenue collected each year since the legislation passed and the annual amount of these revenues that state agencies expended or distributed for each Transportation Blueprint program.

We determined the portion of expenditures that belong to the 1988 STIP and the portion that are a part of subsequent STIPs using expenditure ratios provided by the department. The ratios were used because we could not determine expenditures for five transportation programs directly from the accounting records. The department does not use a unique program code to account for the 1988 STIP expenditures. We arrived at the figure for the Retrofit Soundwalls Program of \$3.5 million for fiscal year 1995-96, for example, by using the department's determination that it spent 16 percent of its total fiscal year 1995-96 expenditures under the Retrofit Soundwalls Program code for 1988 STIP projects.

In addition, we determined the total amount of blueprint spending authority (appropriations), obligations, expired authority to obligate, and available balances by year of appropriation for each of the first six years of the ten-year period of the Transportation Blueprint. We also determined the total amount of revenues for each of the six years and compared the revenues to obligations and amounts the State redirected for seismic retrofit or transferred to the State's General Fund.

Allocations and Expenditures Meet Transportation Guidelines

We reviewed 32 transportation projects to determine if the commission properly allocated and the department properly expended blueprint revenue in fiscal year 1995-96. These projects are part of such Transportation Blueprint programs as Flexible Congestion Relief, Traffic Systems Management, and Intercity Rail. Both the commission and the department complied with the guidelines of the Transportation Blueprint. For example, each of the three projects we reviewed in the Flexible Congestion Relief Program shows potential to reduce or prevent congestion by increasing the capacity of the transportation system. Additionally, of three projects we evaluated in the Traffic Systems Management Program, each involves traffic operations control systems, such as television surveillance, turn lanes, traffic signals, and high-occupancy vehicle lanes, as required by legislation. Further, the nine projects we assessed in the Intercity Rail, Interregional Road System Plan, and Commuter and Urban Rail Transit programs are located on highways and rail corridors specified for these programs.

In addition to reviewing its allocations for specific projects, we verified the commission's calculations of the minimum level of total project funding it must allocate to each county based on "north/south" split legislation. Specifically, this legislation requires the commission to allocate 40 percent of the total estimated program funding to northern California counties and 60 percent to southern California counties. We found the commission correctly calculated the minimum levels for each county based on the county's population and total road miles.

We also determined that the department appropriately provided more than \$57 million of blueprint revenue to local governments for matching federal funds. Chapter 1177, Statutes of 1992, added Section 182.4 to the Streets and Highways Code to establish a priority for spending funds appropriated for Traffic

Systems Management (TSM). This section requires the department to give first priority to matching federal funds available to local governments for the Congestion Mitigation and Air Quality Program and for TSM projects in the Regional Surface Transportation Program.

Further, with Chapter 1177, the Legislature added Section 182.9 to the Streets and Highways Code. The section requires the commission to allocate additional state funds to counties for matching federal funds. If its allocation exceeds the amount needed for matching, the county may use the excess for any transportation purpose. Moreover, the Legislature added Sections 182.6(g) and (h), which allow certain local governments to exchange an apportionment of federal funds for state funds. During fiscal years 1993-94 through 1995-96, the State spent more than \$110 million of blueprint revenue to provide state funds for these two purposes.

The commission's executive director stated that staff members helped prepare the legislation that resulted in the addition of Sections 182.6(g) and (h) and 182.9 to the Streets and Highways Code. The executive director added that although these sections do not specify that the State use blueprint revenue for these match and exchange purposes, the commission understood the intent of the legislative package to mean the State would use blueprint revenue for all sections of the legislation.

We asked the Office of the Legislative Counsel to determine the appropriateness of expenditures for match and exchange purposes. In summary, Legislative Counsel concluded that, under Section 182.9, the commission may allocate blueprint revenue to counties for the purposes of matching federal funds allocated pursuant to Section 182.6. It also concluded that the commission may allocate the blueprint revenue to counties in exchange for their respective annual apportionment of federal funds received pursuant to Section 182.6(h). In both cases, it concluded that the counties may use such revenues for transportation purposes other than those described in the Streets and Highways Code, Section 164(d), subject to Section 1 of Article XIX of the California Constitution. This section states the appropriate transportation uses of gas tax, diesel tax, commercial weight fees, registration fees, and driver's license fee revenues.

Total Revenues Are Less Than The Transportation Blueprint Estimate

As shown in Table 2, the amount of blueprint revenue generated in the first six years of the Transportation Blueprint ten-year period was approximately \$8.8 billion. This amount is only about 47 percent of the original estimate of \$18.5 billion. However, voter rejection of two of the three \$1 billion rail bond issues proposed in the Transportation Blueprint reduced the original estimate to \$16.5 billion. The \$8.8 billion actually collected in the first six years represents 53 percent of this revised estimate.

If the volume of fuel sold in the remaining four years of the program remains at fiscal year 1995-96 levels, a further revenue shortfall of approximately \$325 million will result. Also, if commercial weight fee revenue remains constant at fiscal year 1995-96 levels for the next four years, blueprint revenue will fall short another \$842 million, resulting in a total shortfall from these two revenue sources of approximately \$1.2 billion. The cumulative effect of the three sources discussed above could be approximately \$3.2 billion less in estimated revenues.

If each revenue source generated constant annual amounts over the ten-year period of the Transportation Blueprint, the blueprint revenue for the six-year period beginning with fiscal year 1990-91 and ending with fiscal year 1995-96 would be about 60 percent of the anticipated collections. However, the annual revenue amounts are not constant. For example, as shown in Table 2, fuel taxes are the major source of blueprint revenue. Between August 1990 and January 1994, the Transportation Blueprint gradually increased fuel taxes by a total of nine cents per gallon. Specifically, the tax increased by five cents per gallon in 1990 and by one cent per gallon in each of the next four years. Therefore, fuel tax revenue was less in the earlier years than in the later years of the Transportation Blueprint. A two-step increase in commercial weight fees also contributed to blueprint revenue being less than anticipated, although not as significantly. The first increase took effect in June 1990 and the second in January 1995.

Table 2**Comparison of Estimated to Actual Revenue Collected Through Fiscal Year 1995-96 Under the Transportation Blueprint (in thousands)**

	Source of Funds ^b				Total Revenue
	Fuel Taxes	Sales and Use Tax	Commercial Weight Fees	Rail Bond Proceeds ^c	
<u>Fiscal Year</u>					
1990-91	\$ 690,277	\$ 31,530	\$ 120,182	\$ 43,800	\$ 885,789
1991-92	957,840	39,735	118,726	465,300	1,581,601
1992-93	1,106,771	46,175	131,997	15,000	1,299,943
1993-94	1,260,054	52,677	134,438	169,000	1,616,169
1994-95	1,358,346	55,937	141,135	121,000	1,676,418
1995-96	1,410,308	57,511	152,283	78,000	1,698,102
Blueprint Revenue Collected	6,783,596	283,565	798,761	892,100	8,758,022
Ten-Year Estimated Revenue Amount ^a	\$13,000,000	\$500,000	\$2,000,000	\$3,000,000	\$18,500,000
Percent Collected	52.18%	56.71%	39.94%	29.74%	47.34%

^a Source: California Transportation Commission's 1996 Annual Report.

^b The sources of the revenue data are the Department of Transportation and the Board of Equalization.

^c The Transportation Blueprint legislation anticipated revenue of \$3 billion to be funded by three \$1 billion rail bond issues subject to voter approval. However, voters approved only one of the three placed on the ballot.

Total Transportation Blueprint Expenditures Are Less Than Expected

Table 3 presents the total amount of blueprint revenue that the Transportation Blueprint estimated the State would spend over the ten-year period on each of the transportation programs. The Transportation Blueprint acknowledged that this estimate was the best available at the time and that periodic reviews and revisions would be necessary. Since passage of the Transportation Blueprint, certain events have changed the revenue basis established by the legislation, and new legislation changed the Transportation Blueprint itself. For example, as previously discussed, revenue and bond proceeds may be \$3.2 billion less than the original Transportation Blueprint estimate. Additionally, as we discussed previously, new

legislation required the department to use funds appropriated for the Traffic Systems Management Program to obtain matching federal funds for certain projects.

Table 3 also shows the department's actual expenditures and its obligations for each Transportation Blueprint program for the first six years of the ten-year period. The department used only about 40 percent of the \$18.5 billion the Transportation Blueprint estimated. The table shows the considerable variance between programs in the rate of expenditures and obligations. However, the legislation does not require proportionate expenditure rates among programs, nor does it require individual programs to use equal amounts each year of the ten-year period.

According to the commission's executive director, these variances are attributable to priorities that the commission establishes for STIP projects. The commission sets a higher priority within the STIP for older projects and allocates funds to projects only when they are ready for construction. Therefore, the projects included in the STIP adopted in 1988 have a higher priority than those added to the STIP for 1990 and later, which the commission adopted after passage of the Transportation Blueprint. The executive director further stated that, before construction begins, the State requires an average of five years to complete environmental studies, engineering work, right-of-way acquisition, and interagency permit agreements. Consequently, few projects started in 1990 or later would have been ready for construction until 1995 or later. The executive director pointed out that expenditures for projects in the 1988 STIP would be greater than those for such programs as Flexible Congestion Relief and the Interregional Road System Plan, which were initially programmed in the 1990 and later STIPs.

Table 3

Actual Six-Year Expenditures and Obligations of Blueprint Revenue Compared to the Transportation Blueprint's Estimated Ten-Year Total Expenditures by Program (in thousands)

Program	Ten-Year Estimated Expenditure Amount ^a	Annual Expenditures and Obligations by Fiscal Year ^c						Total	Percent of Ten-Year Estimated Expenditures Through Fiscal Year 1995-96
		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96		
1988 STIP shortfall ^b	\$ 3,500,000	\$ 393,641	\$ 498,544	\$ 547,565	\$ 502,628	\$ 172,392	\$ 50,267	\$2,165,037	61.86%
Intercity Rail and Commuter and Urban Rail Transit	3,000,000 ^d	43,100	442,592	299,915	158,499	52,849	3,093	1,000,048	33.33
Interregional Road System Plan	1,250,000	0	0	614	2,433	0	6,803	9,850	0.79
Traffic Systems Management	1,000,000	18,829	32,628	53,602	0	13,563	14,859	133,481	13.35
State Match for the Congestion Mitigation and Air Quality and Surface Transportation Programs	N/A	0	0	0	27,200	(5)	30,247	57,442	N/A
Flexible Congestion Relief	3,000,000	0	0	18,613	102,674	138,099	84,529	343,915	11.46
State Controller's Office Formula-Based Payments to Cities and Counties ^e	3,000,000	140,494	213,170	258,258	285,076	298,406	303,673	1,499,077	49.97
State-Local Transportation Partnership	2,000,000	61,429	198,789	126,549	163,950	128,996	138,757	818,470	40.92
Retrofit Soundwalls	150,000	0	0	259	1,499	12,244	3,454	17,456	11.64
Environmental Enhancement and Mitigation Demonstration	100,000	0	9,880	9,880	8,075	9,667	4,950	42,452	42.45
Transit Operations and Capital Improvements	500,000	13,200	8,690	50,491	60,003	19,375	32,644	184,403	36.88
State Highway Operation and Protection	1,000,000	44,087	80,159	137,517	330,225	267,342	162,204	1,021,534	102.15
State Matching and Exchange for Federal Funds ^f	N/A	0	0	0	19,535	74,738	16,554	110,827	N/A
Other	N/A	0	0	0	554	32	493	1,079	N/A
Total	\$18,500,000	\$714,780	\$1,484,452	\$1,503,263	\$1,662,351	\$1,187,698	\$852,527	\$7,405,071	40.03%

^a Column shows estimated expenditures on various transportation programs specified in the Streets and Highways Code, Section 164(d).

^b The 1988 STIP shortfall represents the difference between the resources projected to be available to pay for the 1988 STIP projects and the resources projected to be needed to pay for the 1988 STIP projects.

^c The sources of the expenditure and obligation data are Department of Transportation and State Controller's Office financial records.

^d The blueprint legislation anticipated revenue of \$3 billion to be funded by three \$1 billion bond issues subject to voter approval. However, the voters approved only one of the three bond issue propositions.

^e Amounts restated from prior reports to reflect accrual basis of accounting as opposed to cash basis that we reported in the past.

^f Chapter 1177, Statutes of 1992, amended the Streets and Highways Code to require funds appropriated for the Traffic Systems Management Program to be used first for matching federal funds provided for these programs. This statute also authorizes the commission to allocate state funds for matching other federal funds and exchanging federal funds for state funds.

***Total Transportation Blueprint
Appropriations Far Exceed
the Related Obligations***

Table 4 presents an analysis of Proposition 111 spending authority (appropriations), obligations, expired authority to obligate and available balances by year of appropriation for each of the first six years of the ten-year period of the Transportation Blueprint. The table shows that the available appropriation balances totaled approximately \$1.4 billion as of June 30, 1996. A major portion of these appropriations are for construction projects which usually take more than one year from planning to contracting. The department is authorized to obligate the appropriation balances for such projects over a period of three years and, thus, may obligate the balances in the future. At the end of the three-year period, the authority to obligate expires. According to the budget officer, the department did not obligate \$667 million in the years the appropriations were available primarily because of savings between the engineering estimate of project costs and the actual project award. The budget officer further stated that due to competitive bidding pressures, construction projects have been awarded for less than the estimated costs built into the department's budget, and the award savings are programmed in the following fiscal years to new transportation projects.

***Table 4
Analysis of Proposition 111 Appropriations, Obligations
and Expired Authority to Obligate by Appropriation
Year (in thousands)***

Year	Appropriations	Obligations	Expired Authority to Obligate	Balance
1990-91	\$1,472,442	\$1,418,519	\$ 53,923	\$ 0
1991-92	1,563,682	1,314,839	248,843	0
1992-93	1,674,073	1,565,573	108,500	0
1993-94	1,530,511	1,339,216	191,295	0
1994-95	1,291,371	1,116,902	2,322	172,147
1995-96	1,976,029	650,022	61,833	1,264,174
Total	\$9,508,108	\$7,405,071	\$666,716	\$1,436,321

***Some Transportation Blueprint
Revenues Were Redirected to Earthquake
Repair and the General Fund***

As shown in Table 5, after the first six years of the Transportation Blueprint, redirections totaled approximately \$716 million. According to the budget officer, the department used this money primarily for seismic retrofit and transfers to the General Fund. Although the authorizing legislation did not specify that Proposition 111 revenues were to be the source, the budget officer stated that the redirections were from Proposition 111 funds.

Specifically, the budget officer stated that approximately \$182 million was diverted to strengthen the bridges on the state highway system in response to major earthquakes. Some of these funds will be reimbursed from Proposition 192 funds. Proposition 192 is a general obligation bond program passed by the voters in March 1996 that will provide funding for a portion of the seismic retrofit program.

The budget officer also indicated that \$534 million was transferred, pursuant to legislation, to the General Fund (\$389 million) and the Motor Vehicle Account in the State Transportation Fund (\$145 million). Of the amount transferred to the General Fund, more than \$329 million was to partially offset payments for the principal and interest on bonds sold under the Passenger Rail and Clean Air Bond Act of 1990 and the Clean Air and Transportation Improvement Act of 1990.

***Table 5
Analysis of Transportation Blueprint Revenues,
Obligations, and Redirections by Fiscal Year
(in thousands)***

Year	Revenues	Obligations	Redirections	Balance
1990-91	\$ 885,789	\$ 714,780	\$ 34	\$170,975
1991-92	1,581,601	1,484,452	263	96,886
1992-93	1,299,943	1,503,263	40,379	(243,699)
1993-94	1,616,169	1,662,351	282,874	(329,056)
1994-95	1,676,418	1,187,698	237,183	251,537
1995-96	1,698,102	852,527	155,131	690,444
Total	\$8,758,022	\$7,405,071	\$715,864	\$637,087

Table 5 also shows that revenues exceeded obligations and redirections by more than \$637 million. According to the budget official, the remaining funds which are not needed for contingencies and emergency reserve purposes will be programmed for future transportation projects in the 1998 STIP.

After accounting for the potential revenue shortfall of \$3.2 billion and revenues redirected to seismic retrofit or transferred to the General Fund, the commission now estimates it will take nearly 14 years to complete the program of improvements intended by the Transportation Blueprint. The commission acknowledged this fact in its 1996 Annual Report to the California Legislature.

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

Respectfully submitted,



KURT R. SJOBERG
State Auditor

Staff: Jeffrey A. Winston, CPA
Arn Gittleman

Appendix

Programs for Which the State Uses Transportation Funds Made Available by the 1989 Transportation Blueprint Legislation With References to the Streets and Highways Code (S&HC)

State Transportation Improvement Program, S&HC, Section 164(d)(1)

A seven-year project delivery program updated every two years and limited to flexible congestion relief, interregional road systems, retrofit soundwalls, intercity rail service, and commuter and urban rail capital improvements.

Intercity Rail Program, S&HC, Section 164(d)(2)

A program to provide an efficient system of intercity rail service in the State.

Commuter and Urban Rail Transit Program, S&HC, Section 164(d)(2)

A program to provide rail transportation for services operated in metropolitan and suburban areas.

Interregional Road System Plan Program, S&HC, Section 164(d)(3)

A program to improve state highways outside urban areas with populations of more than 50,000 on eligible routes specified in the S&HC, Sections 164.10 to 164.20. Projects must be limited to meeting the needs of interregional traffic, excluding traffic generated as a result of local growth.

***Traffic Systems Management Program,
S&HC, Section 164(d)(4)***

A program to provide solutions for congestion on state highways in urban areas. The program is designed to increase the number of people who may use the highway system in a peak period without significantly increasing the designed capacity of the highway system when measured by the number of vehicle trips and without increasing the number of through traffic lanes.

***Flexible Congestion Relief Program,
S&HC, Section 164(d)(5)***

A program to reduce or avoid congestion on existing transportation systems by increasing their capacities. Funds may be allocated to projects on city streets, county highways, state highways, intercity rail corridors, and commuter rail and urban rail corridors that are included in the State Transportation Improvement Program.

***State-Local Transportation Partnership Program,
S&HC, Section 164(d)(7)***

A program intended to provide matching funds to local governments for locally funded and constructed transportation projects.

***Retrofit Soundwalls Program,
S&HC, Section 164(d)(8)***

A program to place soundwalls along existing state freeways to reduce noise levels.

***Environmental Enhancement and
Mitigation Demonstration Program,
S&HC, Section 164(d)(9)***

A program to fund projects that enhance the environment or mitigate, directly or indirectly, the environmental impact from either modifying existing transportation facilities or designing, constructing or expanding new transportation facilities.

***Transit Operations and Capital Improvement,
S&HC, Section 164(d)(10)***

An annual program for rail and bus transit improvements.

***State Highway Operation and Protection Program,
S&HC, Section 164(d)(11)***

A program that provides for capital improvements related to the rehabilitation, safety, and maintenance of existing state highways and bridges, but that does not add any new traffic lanes to the system.

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BUSINESS, TRANSPORTATION AND HOUSING AGENCY

DEAN R. DUNPHY
Secretary

February 14, 1997

Kurt R. Sjoberg
State Auditor
Bureau of State Audits
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

This letter is in response to your draft report No. 96014 dated February 1997, on the State's Use of Transportation Funds generated by the 1989 Transportation Blueprint Legislation. We were pleased to see you found that the Department continues to provide accountability in accordance with statutory requirements.

Please extend our thanks to your staff for their professionalism during the performance of the audit.

Sincerely,

A handwritten signature in cursive script that reads "Dean R. Dunphy".

DEAN R. DUNPHY
Secretary

Alcoholic Beverage Control
Department of State Banking
Department of Corporations
California Highway Patrol
California Housing Finance Agency

Department of Housing &
Community Development
Department of Motor Vehicles
Department of Real Estate

Office of Real Estate Appraisers
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