EVALUATION OF THE PROPOSED FY 1995–96 BUDGET FOR THE DEPARTMENT OF TRANSPORTATION

Adopted by the California Transportation Commission March 30, 1995

Pursuant to

Government Code, Section 14523

CALIFORNIA TRANSPORTATION COMMISSION'S EVALUATION OF THE PROPOSED FY 1995-96 BUDGET FOR THE CALIFORNIA DEPARTMENT OF TRANSPORTATION

Statutory Requirement

Government Code Section 14523 reads:

> **The California Transportation Commission shall prepare an independent evaluation of the department's budget regarding the adequacy of funding levels and the relative needs of program categories as defined in Section 167 of the Streets and Highways Code and submit its recommendations to the Legislature not later than March 1 of each year. The report shall reflect the commission's judgment regarding the overall funding levels for each program category and shall not duplicate the item by item analysis conducted by the Legislative Analyst.**
>
> **The evaluation and recommendations of the commission shall include recommended adjustments of the motor vehicle fuel tax rates and commercial vehicle weight fees necessary to fund the state highway programs for the maintenance, reconstruction, and operational improvements of the existing state highway system.**

The following report is submitted pursuant to this requirement.

CALIFORNIA TRANSPORTATION COMMISSION'S EVALUATION OF THE PROPOSED FY 1995-96 BUDGET FOR THE DEPARTMENT OF TRANSPORTATION

SUMMARY OF RECOMMENDATIONS

The State Transportation Improvement Program (STIP) faces a shortfall of at least $4.5 billion over the next four years, a shortfall created primarily by the defeat of three bond measures, the demands of a two-phased seismic retrofit program, the transfer of State transportation funds, and the withholding of Federal funds. As a result, projects are being delayed by up to four years. The State faces a return to the practice of the 1970's and 1980's, when the State transportation program was pegged solely to the level of Federal funds, thus giving up the State-funded investment program envisioned in the 1989 Transportation Blueprint.

The full effect of the shortfall arrives this year, forcing the delay of <u>at least 70%</u> of the $2.8 billion in STIP projects programmed through FY 1995-96. The FY 1995-96 Budget will determine how many projects from the remaining 30% can go to construction this year.

The Commission's evaluation of the proposed budget for the Department of Transportation (Caltrans) includes the following 17 specific recommendations. They include one recommendation concerning the extension of Federal funding authority, six major State budget issues, and ten other State budget issues of particular interest or concern to the Commission.

Extension of Federal Funding Authority

The Commission recommends that the Legislature and Administration pursue the enactment of Federal legislation as soon as possible to extend Federal Advance Construction authority to access funds beyond Federal FY 1996-97, the last year of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). Without the enactment of new Federal legislation in 1995 or 1996, the State transportation program could come to an abrupt halt at the end of 1995-96.

Major State Budget Issues

The Commission has identified six major issues that will directly affect the allocation capacity available to support the STIP in 1995-96. Because the Budget assumes a relatively low level of State cash to leverage a much greater level of Federal funding, a relatively small reduction in the State cash available for Capital Outlay in the adopted Budget could substantially reduce or even eliminate the Commission's ability to allocate funds for STIP projects in 1995-96.

(1) Source of Funding for Toll Bridge Seismic Projects

The Commission supports the timely completion of the toll bridge seismic retrofit program and urges the Legislature and Administration to reach an early resolution of the issue of funding for the entire program.

(2) <u>State-Local Partnership Program</u>

The Commission supports the Budget proposal. The State-Local Partnership Program is the largest of the Transportation Blueprint programs outside of the STIP and the State Highway Operation and Protection Program (SHOPP). The Commission therefore finds it appropriate that the Partnership Program share in meeting the shortfall facing all State transportation programs.

(3) <u>Transfer of funds from the State Highway Account</u>

The Commission has consistently opposed budget transfers of transportation funds to non-transportation purposes. If a General Fund crisis requires a transfer from transportation funds, any such transfer should be made a loan to be repaid as soon as possible. The Commission urges that the recent practice of transferring transportation funds be curtailed and that all funds transferred in the past three years be repaid.

(4) <u>Level of Funding for Caltrans staffing</u>

The Commission fully supports the "Transform Caltrans" effort to reengineer the Department's business processes and to free up resources to be made available for the capital program. The Commission, however, raises the following cautions and concerns regarding the Budget proposals for Caltrans staffing reductions:

- Caltrans needs to identify and explain the efficiencies that would permit staffing reductions while maintaining productivity.
- Caltrans needs to develop satisfactory measures of its efficiency and productivity.
- Caltrans needs to improve its management information system capabilities.
- Long term funding levels for capital outlay should be examined. The Commission has endorsed the timely appointment of a Blue Ribbon Task Force, as proposed in the California Transportation Plan, and completion of its work to identify future options for program funding and delivery.
- Caltrans needs to identify the specific "excessive Federal mandates" for which funding would be eliminated and how the savings would be achieved.

(5) <u>Short-Term Financing</u>

The Commission fully supports the use of Katz-Killea notes to keep both the seismic retrofit program and the STIP moving to greatest extent possible in the near term. At the same time, the Legislature should recognize that this measure does not create additional funding for the program in the long run. It provides additional cash now at the cost of cash available in the later years of the decade.

(6) <u>STIP Funding From the Transportation Planning and Development (TP&D) Account</u>

The Commission has endorsed the proposal to use $45 million from the TP&D Account for 1994 STIP projects during 1995-96. The Commission agrees with the Department and the regional agencies that it makes far more sense to use these funds to maintain existing commitments than to add another $45 million in new commitments.

Other Budget Issues

The ten remaining issues include four issues that are related to or part of Caltrans' proposals for reductions in staffing and local assistance programs, two issues related to rail transportation funding, and four other budget-related issues of particular concern to the Commission.

Elimination of State Planning Subventions to Regional Transportation Planning Agencies

The Commission questions the wholesale elimination of State planning subvention funds without a corresponding reduction in State planning requirements. The Commission supports continuation of at least $1.1 million in State planning subventions for the 29 rural counties, which are most dependent upon it. If the State planning subventions are eliminated entirely, as proposed by Caltrans, the Legislature should re-examine all State transportation planning requirements.

Environmental Enhancement and Mitigation (EEM) Program

The Commission could support the reduction of the EEM program in 1995-96 from $10 million to $5 million, in keeping with proposed reductions in the STIP and the annual State-Local Partnership Program and in light of the funding shortfall affecting all transportation programs. However, the Commission strongly opposes the transfer of State fuel tax revenues from the EEM program to the Proposition 117 program of the Wildlife Conservation Board. Such a transfer would be another instance of transferring transportation funds to a non-transportation purpose.

Reductions in Caltrans Support for Local Assistance

The Commission supports the Caltrans' efforts to remove itself from unnecessary oversight and review of local agency projects and to reengineer the agreement and billing processes for local programs. At the same time, however, the Commission cautions the Legislature that the level of staff reduction being proposed may lead to reductions in service to local agencies as well as to the intended process efficiencies. The Commission recommmends that the Legislature ascertain from the Department the types and levels of service to local agencies that it can provide with the levels of staffing and funding to be budgeted.

Transportation Demand Management (TDM) Program

Before resolving the appropriate level and nature of State funding for ridesharing programs, the Commission would support a comprehensive evaluation of the need for and effectiveness of State participation in local ridesharing programs throughout the State. The evaluation should consider the varying transportation and air quality needs of individual areas, the need for Caltrans to assume any centralized functions, and the relationship to other existing capital grant programs.

Use of State Highway Account for STIP Rail Projects

The Commission fully supports the Budget proposal to make State Highway Account funds available to fund intercity, and commuter and urban rail projects. This is consistent with the Commission's STIP programming commitments and its 1995 Allocation Plan.

Intercity Rail Services

The Commission finds insufficient information in the Department's California Rail Passenger Program Report, 1993/94-2002/03 to support the Budget proposal for service expansions. The Commission believes that the Legislature should understand the assumptions behind the Budget proposal and that Caltrans should project service demands and operating subsidy beyond the current year. The program faces two major uncertainties in the coming year, the proposed cutbacks in Amtrak service and funding and the expiration of Amtrak's 25-year basic agreement with the private railroads. The Commission has asked Caltrans to develop an annual strategic business plan for its intercity rail services that would project service demand and set performance targets for each route. Without operating measures and targets, it is difficult to determine whether proposed services are cost effective and justified.

Automatic Grade Crossing Maintenance Program

The Commission supports a funding level of $4,000,000 in 1995-96 for the Automatic Grade Crossing Maintenance program, as recommended by the Public Utilities Commission and included in the Caltrans budget proposal.

Potential Federal Transportation Funding Sanction

The Commission urges the Legislature and the Governor to take action as soon as possible to avoid the potential loss of about $100 million in Federal funds in 1995-96, either by removing the sunset provisions of AB 79x (1994) or by taking formal action to reject the concept of a mandatory driver's license suspension for a controlled substance offense conviction. AB 1304 (Bowler), as introduced on February 23, 1995, would accomplish this by deleting the sunset provisions in Sections 13202.3 and 14907 of the Vehicle Code.

Tort Liability Reform

The Commission strongly supports legislation limiting tort liability of State and local governments to their proportional share of fault to protect public transportation funds, to the fullest extent possible, for the purposes to which they are constitutionally dedicated: the operation, maintenance and improvement of California's transportation system.

Insufficient Overweight Truck Penalties

The Commission supports substantial increases in overweight truck penalties as a pavement damage surcharge, allowing for enhanced enforcement, including capital costs for weigh and inspection stations and for roadway repair.

CALIFORNIA TRANSPORTATION COMMISSION

EVALUATION OF THE PROPOSED FY 1995-96 BUDGET FOR THE CALIFORNIA DEPARTMENT OF TRANSPORTATION

Introduction:

Any review and evaluation of the Proposed 1995-96 Budget for the Department of Transportation (Caltrans) must consider the overall status of funding for the State transportation program.[1] California's Transportation Blueprint for the Twenty-First Century, enacted in 1989, today lies abandoned. The $18.5 billion ten-year investment plan it promised has been severely compromised by the fallout from the Loma Prieta and Northridge earthquakes, an economic recession, and a growing intolerance of debt financing by the voters.

- Funds originally intended for other specified transportation improvements are being diverted to cover a multibillion dollar seismic retrofit program.
- Proposition 1A, a measure placed on the June 1994 ballot to provide funding for Phase 2 seismic retrofit work, was rejected by voters.
- Two of the three $1 billion general obligation rail bond measures that were part of the Blueprint were also rejected in 1992 and 1994.
- The $1 billion from the initial rail measure that did pass (Proposition 108, 1990) has been in part offset, as successive budgets have transferred transportation resources to the General Fund to cover debt service costs.
- Even Proposition 116 (1990), the successful $2 billion initiative for a broad range of rail and other non-highway transportation programs above and beyond the Blueprint, has been a drain on the State Highway Account resources that were supposed to have supported the Blueprint programs, since transfers have been made from the State Highway Account to the General Fund to cover the debt service on Proposition 116 bonds.
- The recessionary downturn in fuel tax and weight fee receipts brought State Highway Account revenues below forecast levels.

The enactment of the Blueprint in 1989 followed upon two decades of under-investment in California's transportation infrastructure. More drivers with more cars drove more miles each year, but paid considerably less in fuel tax user fees to do so. Between 1970 and 1990, the number of drivers in California increased by 72% to 20 million, the number of automobiles increased by 68% to nearly 17 million, and the number of vehicle miles traveled grew by 129% to 126 billion. By contrast, the State fuel taxes paid per 100 miles of travel dropped 62% from 97 cents to 37 cents in constant 1970 dollars. Congestion steadily worsened as spare highway capacities were consumed and exceeded in urban areas by an increasing population and dispersed commute patterns.

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[1] For a more extensive discussion of longer term funding issues, see the California Transportation Commission's <u>1994 Annual Report to California Legislature</u>, adopted December 1, 1994.

During the 1960's and early 1970's, the California transportation program was driven by State priorities. Even with the Federal Interstate program, the State was investing enough of its own money to develop many projects with State funds only. However, starting in the mid-1970's and throughout the 1980's, this State program disappeared, as inflation and reduced fuel consumption took their toll, leaving only enough State funds to pay for maintenance and operations and to match Federal funds.

The landmark 1989 Transportation Blueprint promised the return of a State-driven program, though its planned level of investment was modest by comparison with that of 20 years earlier. However, because of the recession, the need for seismic safety work, and the rejection of the bond measures, the level and direction of California's transportation investment program are again being set by Federal funding programs. State policy has been preempted by Federal policy as California's program is once again being limited to matching whatever Federal funds are available.

The 1992 State Transportation Improvement Program (STIP), which covers the seven fiscal years from 1992-93 through 1998-99, is the first casualty of the return to a Federally driven program. Adopted in March 1992 when the outlook for State-funded projects was reasonably bright, the 1992 STIP is now facing annual reductions starting in 1995 that will force the delay and stretching out of its programming over at least eleven years, with no additional projects added to the 1994 or 1996 STIP. In short, the STIP is facing a return to the pre-Blueprint practices of the 1970's and 1980's with a downsized Federal-only investment strategy.

Summary of the Proposed Caltrans Budget

The FY 1995-96 Proposed Budget is the first proposed budget since the enactment of the 1989 Blueprint to assume that this reduced level of investment in transportation, limited almost exclusively to Federal funding, will continue into the next decade. Paradoxically, the 1995-96 Budget proposes to increase the State portion of expenditures for Highway Capital Outlay just as the long-term program has become almost entirely dependent on the level of Federal funding. The 1995-96 Budget expenditures for Highway Capital Outlay (excluding toll bridge funds and reimbursements from local agencies) are split 60% Federal and 40% State, as opposed to 75% Federal and 25% State for 1993-94 and 1994-95. This shift is occurring because the State is already using Federal funds to the maximum extent possible, while the size of the total Capital Outlay budget must be increased just to meet current cash needs for projects already under construction and to fund even the most basic level of new safety and rehabilitation work.

The major elements of the Proposed FY 1995-96 Budget are summarized in the table below:

Program	Funding $ Millions	Change From FY 1994-95	Staff (PYs)	Change From FY 1994-95
Aeronautics	$ 13.9	0.5 (+3.8%)	34	0 (0.0%)
State Operations	$ 3.4	0.0 (+0.9%)		
Local Assistance	10.4	0.5 (+4.8%)		
Highway Transportation	$5,764.5	+311.6 (+5.7%)	16,538	-97 (-0.6%)
Capital Outlay Support	$ 716.9	-71.0 (-9.0%)	8,321	-220 (-2.6%)
Local Assist Operations	25.1	+ 0.6 (+2.4%)	273	+3 (+1.1%)
Program Development	63.4	- 0.2 (-0.4%)	295	-17 (-5.4%)
Legal*	51.1	+47.0	225	+225
Operations	135.7	- 0.6 (-0.4%)	1,420	-44 (-3.0%)
Maintenance	716.7	+ 8.6 (+1.2%)	6,004	-44 (-0.8%)
Local Assistance	718.4	-112.4 (-13.5%)		
Capital Outlay	3,332.5	+434.6 (+15.0%)		
[State Cap Outlay]	[902.8]	+581.1 (+180.6%)		
Mass Transportation	$ 420.1	-41.8 (-9.0%)	282	+5 (+1.0%)
State Operations	$ 118.6	+ 8.3 (+7.5%)		
Local Assistance	189.9	+43.6 (+29.8%)		
Capital Outlay	111.6	-93.6 (-45.6%)		
Transportation Planning	$ 56.4	+ 3.6 (+6.8%)	215	0 (0.0%)
State Operations	$ 22.4	+ 0.1 (+0.4%)		
Local Assistance	30.0	- 0.5 (-1.7%)		
Administration* [Distributed]	[$ 129.1]	-65.7 (-33.7%)	1,287	-418 (-24.5%)
Unallocated Reductions	$ -76.4		-716	-716
TOTAL	$6,178.5	+197.4 (+3.3%)	17,640	-1,226 (-6.5%)

* Highway Legal in prior years was included in Administration. Highway Legal does not include Caltrans non-highway legal costs and staffing.

Two key elements appear to be driving this Budget:

(1) The proposal to transfer $77 million from the State Highway Account to the General Fund. According to the Budget Summary, the transfer is intended as a partial offset to payments on general obligation bonds authorized by Propositions 108 and 116, consistent with the 1994-95 two-year budget agreement.

(2) The need to raise the Highway Capital Outlay expenditures, particularly from State revenues, to meet current obligations for projects already under contract and still provide at least a modest level of funding for new projects. The Budget proposes a little over $900 million in State funding for Capital Outlay, nearly triple the $320 million in 1994-95. Of the $900 million, only about $170 million would be used for new STIP and Traffic Systems Management (TSM) Plan construction work in 1995-96. The remaining $730 million is needed just to fund basic safety and rehabilitation work plus <u>current</u> STIP and TSM construction and right-of-way work.

Current year State and Federal revenues are no longer adequate to carry out both Caltrans' transportation activities and capital outlay in the STIP during 1995-96. Consequently, maintaining even the modest level of new project activity anticipated by Caltrans in the Budget will require the use of a series of devices in State and Federal law to advance or leverage other sources of funding. Among these are:

- the use of Federal Advance Construction (by which State funds spent this year on projects can be reimbursed with future Federal funds);
- AB 3090 approvals (by which local funds can be spent this year on projects and be reimbursed with future State and Federal funds); and
- short term Katz-Killea financing authorized by 1991 legislation (by which shorter-term notes will be retired with future State and Federal funds).

Current year State cash is the critical element. While several hundred million dollars of Federal funds from 1997 and beyond can be used to pay for STIP projects undertaken in 1995-96, State cash must be used to pay ongoing construction bills during 1995-96 until the future Federal funds become available. Thus, even the modest level of STIP project activity anticipated by the Caltrans Budget depends on several measures to preserve the needed State cash. Without <u>all</u> of these or comparable measures, new construction would come to an immediate halt in 1995-96. These measures include:

- The funding of all toll bridge seismic retrofit work from toll bridge revenues. This would reverse the actions taken in the last two budgets to provide partial funding of toll bridge seismic work from the State Highway Account.
- The use of short-term financing, as authorized by the Katz-Killea legislation to mitigate the effects of the seismic retrofit program.
- Reductions in local assistance programs, particularly a $100 million reduction in the State-Local Partnership Program.
- Reductions in Caltrans staffing by 1226 PYs. These reductions are attributed to a declining workload, efficiencies in business practices, and eliminating funds for "excessive Federal mandates." The declining workload is attributed to reduced revenues available for the capital outlay program in future years and to a Caltrans policy decision to reduce the reimbursed work done for local agencies.

Included in the Budget as presented in January was an "unallocated reduction" of $77 million and 716 PYs. Additional information on the specific reductions to be proposed was to be developed prior to Legislative consideration of the budget. Although the Commission has not received any formal presentation of these reductions, the Commission understands that they include the elimination of State planning subventions, the elimination and transfer of funding from the Environmental Enhancement and Mitigation program, a 50 percent cut in Caltrans support for the Highway Local Assistance program, and a cut of at least 50 percent in the Transportation Demand Management program. Once these measures are defined, the Commission may offer further commentary.

To provide funding support for the rail projects in the STIP, the Budget proposes that State Highway Account funds continue to be made available for projects previously programmed against the Blueprint's rail bonds. This would be supplemented by $45 million to be made available for 1994 STIP projects from the Transportation Planning and Development (TP&D) Account. The Budget also proposes an additional $9.7 million from the TP&D Account for additional intercity rail services.

Status of the State Transportation Improvement Program

The Commission estimates that the 1994 STIP is now underfunded by at least $4.5 billion through the first five years of its seven-year period. The shortfall for the full seven-year period is less, about $2.8 billion, since no new projects were added in the 1994 STIP's last two years, 1999-2000 and 2000-01. The only new projects in the 1994 STIP were $103 million in projects for the Federally mandated Transportation Enhancement Activities (TEA) program, added in the STIP's earlier years. In adopting the 1994 STIP, the Commission did not delay the scheduling of projects carried forward from the 1992 STIP, although the Commission did note that this might "require that projects go on the shelf awaiting revenues for various periods of time during the next four years." That "shelf" is now a reality. As of February 1995, there were 35 new construction projects with a total estimated value of $43.8 million sitting "on the shelf" awaiting construction. Since the adoption of the 1994 STIP, the Commission has been using allocation plans to ration the funds currently available for the projects delivered.

At the time of its adoption, the 1994 STIP was thought to be fully funded over its seven-year period, albeit at the cost of not adding any new projects to those remaining from the 1992 STIP. The last year and a half, however, have seen the further hemorrhaging of the funding plan because of:

- The Northridge earthquake of January 1994. In addition to restoration work, the Northridge temblor led to the Phase 2 seismic retrofit program with an estimated capital outlay cost of $1.05 billion. Though the restoration work was covered almost entirely by Federal emergency relief funds, the retrofit work is not. The Governor and Legislature placed Proposition 1A on the June 1994 ballot to provide a supplemental source of funding for this work. However, it failed and the cost of this work is being taken from funds that had been anticipated for STIP work.

- The defeat of Proposition 181 in November 1994. This represented a loss of $1 billion in rail bonds to support the STIP.

- Federal funding shortfalls. Congress has failed to appropriate the annual obligational authority to support the authorizations in the Federal Intermodal Surface Transportation Act of 1991 (ISTEA). This has meant the loss of about $190 million in Federal revenues in 1993-94 and 1994-95.

- Transfers to the General Fund. The 1993-94 and 1994-95 State budgets transferred $422 million in State transportation revenues from transportation programs to the General Fund. This includes $288 million ascribed specifically to debt service on Propositions 108 and 116.

Without new transportation revenues, the Commission anticipates that it will not be able to add any new projects (except up to $65 million in Federally mandated TEA projects) in the 1996 STIP, which extends through 2002-03. All revenues anticipated for the two added fiscal years would be needed to meet existing commitments. In fact, some projects may need to be carried out to the 1998 STIP, which extends to 2004-05. If that happens, the State will have gone five years without adding any major transportation improvement projects to the program.

Meeting the Shortfall with Fuel Taxes or Weight Fees

The statutory mandate for the Commission's evaluation of the Caltrans budget calls for the Commission to include "recommended adjustments of the motor vehicle fuel tax rates and commercial vehicle weight fees necessary to find the state highway programs for the maintenance, rehabilitation, reconstruction, and operational improvements of the existing state highway system."

Because maintenance and rehabilitation of the existing system are given first priority for funding, their funding is not directly at issue. As for system improvements, the existing program shortfall could be erased either by stretching the program and deferring improvements some 4-5 years or by adjusting tax rates or fees to raise revenues. The Commission estimates, for example, that erasing the $4.6 billion shortfall over four years without any delay in the current program and a resumption of new programming would require a revenue increase equivalent to 10-11 cents per gallon in the State fuel tax. An increase of five cents per gallon would cover the shortfall in six years, with a two-year hiatus in new programming. For weight fees, a raise of 20-25 percent is equivalent to about a one-cent increase in fuel taxes.

Allocation Plans

Over the past 15 months, the Commission has used two allocation plans to manage the near term funding shortfall. The first Allocation Plan, for the 1994 calendar year, was adopted in January 1994, when the depletion of funds from Proposition 108 (1990), combined with the defeat of Proposition 156 (1992), made rail project funding the primary short-term issue. With the cooperation of Caltrans, the regional agencies, and rail operators, the Commission developed a comprehensive strategy to stretch the available resources to keep STIP rail and highway projects moving through 1994.

In the wake of the defeat of Proposition 1A in June 1994, and after a temporary hold on project advertising and contract awards by Caltrans, the Commission approved an update to the 1994 Allocation Plan in August. That update placed a general moratorium on project allocations for soundwalls, landscaping, and Caltrans lands and buildings, as well as limitations on allocations for Federal Transportation Enhancement Activities (TEA) projects. At the same time, the Commission directed Caltrans to prepare to use Katz-Killea short-term notes (Chapters 195 and 196, Statutes of 1991) to meet cash flow needs in 1995-96.

Entering the 1995 calendar year, the State faced a continuing shortfall against the current program. For the 18 months from January 1995 through the end of the 1995-96 fiscal year, there were some $2.8 billion in programmed STIP and Traffic Systems Management (TSM) Plan projects (excluding right-of-way costs). Of that total, about $1.4 billion in projects were projected to be deliverable within the period, the principal difference being about $1.3 billion in rail projects delayed by project sponsors.

From the $1.4 billion in deliverable projects, regional agencies and Caltrans identified $950 million in projects of the highest priority for funding through FY 1995-96. The remaining $1.8 billion in programmed projects would be delayed until FY 1996-97 or later.

The Commission's adopted 1995 Allocation Plan includes three parts:

(1) The Commission will allocate no more than $200 million for STIP and TSM projects until the FY 1995-96 Budget is enacted.

(2) Pending the enactment of the FY 1995-96 Budget, the Commission declared that it intends to allocate another $550 million in State Highway Account funds for STIP and TSM projects through June 1996, for a total of $750 million.

(3) Because Caltrans had anticipated about $850 million in funds available from the State Highway Account for allocation purposes, a balance of about $100 million would remain unfunded until additional funds become available. These amounts do not include $45 million proposed for funding from the Transportation Planning and Development Account.

The $750 million in State Highway Account allocations will be adjusted upwards or downwards as permitted by the adopted FY 1995-96 Budget. Allocations will be made to the projects identified by regional agencies and Caltrans, as they are delivered and as funds are available, within the $200 million and $750 million limits.

The $750 million Allocation Plan target for STIP and TSM projects is in addition to $250 million for essential right-of-way to keep the program moving, $642 million for the State Highway Operation and Protection Program (SHOPP), and $500 million for the Phase 2 Seismic Retrofit program. The Allocation Plan assumes the continuing deferral of soundwall, landscaping, and Caltrans lands and building projects. The Commission intends to review and update the Plan soon after the completion of the budget process. Depending on the final Budget, the Plan's capacity for funding projects may be increased or decreased, thus causing some projects included in the Plan to be delayed beyond 1995-96. The review of the Allocation Plan will coincide both with the adoption of the final 1995-96 State budget and with the development of the 1996 Fund Estimate, which is scheduled for presentation by Caltrans in July and adoption by the Commission in August, 1995.

The 1995 Allocation Plan is extremely vulnerable. It assumes a relatively low level of State cash outlay through the Budget to leverage a much greater level of Federal funding. Caltrans has projected that about $170 million in budgeted State cash would support about $850 million in project allocations for STIP and TSM projects, or about $1 in budgeted State cash for every $5 in allocation capacity. Reducing the level of State cash proposed for STIP and TSM capital outlay in the 1995-96 Budget by as little as $170 million would entirely eliminate the allocation of State Highway Account funds for STIP and TSM projects in 1995-96. A cut of $100 million would reduce the allocations to less than $400 million.

Despite the continuing uncertainty over the outcome of the budget process, the Commission adopted the 1995 Allocation Plan to insure that State and local transportation resources are used as effectively as possible over the next several months. The purpose of the Plan is to:

- Provide direction to Caltrans so that it will focus its limited delivery resources on the projects of the highest priority to regional agencies. It will also guide the Department's expenditure of right-of-way support and acquisition resources to specified projects.

- Provide guidance to regional and local agencies, reducing project uncertainty and allowing agencies to plan and refocus the allocation of their own resources.

- Provide a comprehensive strategy for maximizing the State's leverage of Federal transportation funds. For rail projects, in particular, the Plan targets STIP funding that can qualify for Federal funds. It also identifies projects that can be funded now with Proposition 116 or other funds, with funding to be backfilled later with other STIP funds.

- Provide the Commission with a reasoned policy context for making the allocation decisions that it must make in any case. The decisions include, for example, the extent to which TSM and TEA projects should be funded; the extent to which funds should be set aside for the road and bridge rehabilitation projects in the SHOPP, as opposed to the improvement projects in the STIP; and the extent to which funds should be allocated for right-of-way to keep future projects on schedule, as opposed to construction for currently delivered projects.

Major Budget Issues Affecting Program Allocation Capacity

The Commission has identified six major budget issues that will directly affect the actual allocation capacity available to support the STIP. As noted in the discussion of the 1995 Allocation Plan above, a relatively small change in the State cash made available through the Budget could substantially reduce or even eliminate the Commission's ability to allocate funds for STIP and TSM projects in 1995-96. The decisions made on these issues will determine the Commission's ability to sustain the 1995 Allocation Plan and will determine the extent to which further project delays may be required. The six major issues are:

(1) The source of funding for toll bridge seismic retrofit projects.
(2) The level of funding for the State-Local Partnership Program.
(3) The transfer of funds from the State Highway Account to non-transportation purposes, principally debt service on rail bonds.
(4) The level of funding for Caltrans staffing.
(5) The availability of short-term financing under the terms of Chapters 195 and 196 of the Statutes of 1991 (Katz/Killea).
(6) The availability of funding from the Transportation Planning and Development (TP&D) Account to fund 1994 STIP rail projects.

The decision made on each of these issues will have a major effect on the State cash in the State Highway Account budgeted for Highway Capital Outlay. Any change in the budgeted amount will have a multiplied effect on the capacity of the Commission to allocate funds to new projects in 1995-96 because of the leveraging of Federal funds and the assumption about relatively low cash flow expenditures for allocations made through 1995-96.

The State uses its own funds to leverage Federal funds in two ways. The first is simply that nearly all capital outlay projects are funded primarily by Federal funds, most at a rate of more than 88% Federal funds, with State funds used only for the required non-Federal match.

The second way is through the use of Federal Advance Construction Authority. This permits a state, when it has used all its Federal funds for a given year, to build projects funded with future year Federal funds, for future reimbursement. Meanwhile, the state must pay for the project with its own funds and carry the cost until Federal reimbursement becomes available. Using this authority, California has already committed all of its Federal funds through 1995-96. In 1995-96, Caltrans proposes to use all of its Federal funds for 1996-97 and, in addition, nearly all of the remaining amount authorized by current Federal law.

Existing Advance Construction authority applies only to the extent that funds were authorized by the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), essentially part way into 1997-98. Without the enactment of new Federal legislation in 1995 or 1996 to extend this authority, the State transportation program could come to an abrupt halt at the end of 1995-96. The extended authority could come either by way of a new comprehensive Federal transportation bill to replace or extend the authorizations of the ISTEA or by separate legislation to provide a bridging authorization between the ISTEA and the successor Federal transportation act.

The Commission recommends that the Legislature and Administration pursue the enactment of Federal legislation as soon as possible to extend Federal Advance Construction authority beyond the authorization levels of the ISTEA.

The following is a discussion of each of the six major budget issues that the Commission has identified as having a major impact on the availability of State cash to sustain the Allocation Plan and the STIP.

(1) Source of Funding for Toll Bridge Seismic Projects

The Proposed 1995-96 Budget includes expenditures of $65.9 million for toll bridge seismic retrofit work ($23 million in support and $42.9 million in capital outlay), to be funded solely from toll bridge revenues. Caltrans estimates a total cost of $650 million to complete needed seismic retrofit work on seven of the nine State-owned toll bridges. Design work on the San Francisco-Oakland Bay Bridge is currently underway. Approximately $45 million in toll bridge revenues and State Highway Account funds will be expended through the 1994-95 fiscal year on this project. In prior budgets, up to $130 million has been authorized from the State Highway Account.

The source of funding for toll bridge seismic retrofit work has been debated over the past two years on the basis of law, equity, and the availability of funds. On the one hand, it is argued that, under State law, bridge tolls historically have been used to construct, reconstruct, and rehabilitate the toll bridges. On the other hand, it is argued that State law makes seismic safety retrofit work the highest priority for the State Highway Account without making any distinction between toll and non-toll bridges. State Highway Account funds also have been used since 1988 to pay for maintenance costs on the toll bridges.

In terms of equity, some argue that it is not equitable to ask toll bridge users (especially in the San Francisco Bay Area) to pay directly for seismic retrofit work when the seismic retrofitting of non-toll bridges throughout the State has been paid from the State Highway Account. On the other hand, it is argued that a disproportionate amount of the State's needed seismic retrofit work is being done in the San Francisco Bay Area and that funding toll bridge seismic retrofit work from the State Highway Account would mean a subsidy of the Bay Area by the rest of the State. On the following page is a table showing estimated statewide seismic retrofit costs for both toll and non-toll bridges, comparing the distribution of those costs by county to the distribution of population and vehicles miles traveled.

As for fund availability, the bridge tolls in the San Francisco Bay Area were authorized and capped at their current levels by Regional Measure 1, which was placed on the ballot in seven Bay Area

SEISMIC RETROFIT COST SUMMARY

County	Percentage Population	Percentage of VMT	Phases 1+2 Seismic ($1,000's)	Percent Phase 1+2 Seismic	Toll Bridge Seismic ($1,000's)	Tota Seismi ($1,000's	Percent Total Seismic
Alameda	4.30%	5.10%	$185,343	10.24%	$152,500	$337,843	13.74%
Alpine	0.00%	0.03%	521	0.03%		521	0.02%
Amador	0.10%	0.17%	0	0.00%		0	0.00%
Butte	0.61%	0.40%	0	0.00%		0	0.00%
Calaveras	0.11%	0.17%	0	0.00%		0	0.00%
Colusa	0.05%	0.27%	1,630	0.09%		1,630	0.07%
Contra Costa	2.70%	2.47%	29,233	1.62%	135,000	164,233	6.68%
Del Norte	0.08%	0.11%	2,771	0.15%		2,771	0.11%
El Dorado	0.42%	0.54%	180	0.01%		180	0.01%
Fresno	2.24%	1.54%	7,473	0.41%		7,473	0.30%
Glenn	0.08%	0.22%	0	0.00%		0	0.00%
Humboldt	0.40%	0.48%	18,370	1.02%		18,370	0.75%
Imperial	0.37%	0.61%	7,461	0.41%		7,461	0.30%
Inyo	0.06%	0.27%	984	0.05%		984	0.04%
Kern	1.83%	2.53%	22,575	1.25%		22,575	0.92%
Kings	0.34%	0.35%	2,038	0.11%		2,038	0.08%
Lake	0.17%	0.20%	2,042	0.11%		2,042	0.08%
Lassen	0.09%	0.21%	537	0.03%		537	0.02%
Los Angeles	29.78%	24.35%	437,894	24.20%	25,000	462,894	18.82%
Madera	0.30%	0.52%	0	0.00%		0	0.00%
Marin	0.77%	1.00%	37,852	2.09%	75,000	112,852	4.59%
Mariposa	0.05%	0.08%	0	0.00%		0	0.00%
Mendocino	0.27%	0.43%	20,681	1.14%		20,681	0.84%
Merced	0.60%	0.95%	176	0.01%		176	0.01%
Modoc	0.03%	0.06%	3,757	0.21%		3,757	0.15%
Mono	0.03%	0.17%	0	0.00%		0	0.00%
Monterey	1.20%	1.24%	23,965	1.32%		23,965	0.97%
Napa	0.37%	0.37%	3,565	0.20%		3,565	0.14%
Nevada	0.26%	0.42%	810	0.04%		810	0.03%
Orange	8.10%	7.78%	59,852	3.31%		59,852	2.43%
Placer	0.58%	0.97%	240	0.01%		240	0.01%
Plumas	0.07%	0.12%	379	0.02%		379	0.02%
Riverside	3.93%	5.00%	35,773	1.98%		35,773	1.45%
Sacramento	3.50%	2.83%	44,405	2.45%		44,405	1.81%
San Benito	0.12%	0.19%	636	0.04%		636	0.03%
San Bernardino	4.77%	6.39%	66,926	3.70%		66,926	2.72%
San Diego	8.39%	8.45%	188,245	10.40%	50,000	238,245	9.69%
San Francisco	2.43%	1.02%	255,457	14.12%	115,000	370,457	15.06%
San Joaquin	1.62%	1.82%	16,862	0.93%		16,862	0.69%
San Luis Obispo	0.73%	1.06%	13,499	0.75%		13,499	0.55%
San Mateo	2.18%	2.97%	44,474	2.46%	37,500	81,974	3.33%
Santa Barbara	1.24%	1.39%	24,349	1.35%		24,349	0.99%
Santa Clara	5.03%	4.32%	56,182	3.11%		56,182	2.28%
Santa Cruz	0.77%	0.66%	5,956	0.33%		5,956	0.24%
Shasta	0.49%	0.76%	5,455	0.30%		5,455	0.22%
Sierra	0.01%	0.04%	0	0.00%		0	0.00%
Siskiyou	0.15%	0.42%	0	0.00%		0	0.00%
Solano	1.14%	1.72%	21,310	1.18%	60,000	81,310	3.31%
Sonoma	1.30%	1.21%	13,083	0.72%		13,083	0.53%
Stanislaus	1.25%	0.92%	202	0.01%		202	0.01%
Sutter	0.22%	0.24%	4,810	0.27%		4,810	0.20%
Tehama	0.17%	0.37%	259	0.01%		259	0.01%
Trinity	0.04%	0.08%	0	0.00%		0	0.00%
Tulare	1.05%	0.89%	0	0.00%		0	0.00%
Tuolumne	0.16%	0.20%	0	0.00%		0	0.00%
Ventura	2.25%	2.03%	31,349	1.73%		31,349	1.27%
Yolo	0.47%	0.73%	34,640	1.91%		34,640	1.41%
Yuba	0.20%	0.17%	0	0.00%		0	0.00%
Subtotal	100.00%	100.00%	$1,734,201	95.85%	$650,000	$2,384,201	96.95%
Contingency for: Ala,Hum,LA & SD			75,000	4.15%		75,000	3.05%
Statewide Total	100.00%	100.00%	$1,809,201	100.00%	$650,000	$2,459,201	100.00%
SF Bay Area Counties (Regional Measure 1)	18.56%	18.58%	$629,851	34.81%	$575,000	$1,204,851	48.99%

counties by legislation enacted in 1988. The approval of that measure by the voters also authorized the use of revenue bonding to construct several major improvements on Bay Area bridges. These included widening of the Benicia-Martinez Bridge (completed), new bridge spans at the Benicia-Martinez and Carquinez Bridges, widening of the San Mateo-Hayward Bridge, and other work to rehabilitate structures and improve bridge approach roadways.

Caltrans asserts that current bridge revenues and bonding capacity are sufficient to support both the needed seismic retrofit work and the Regional Measure 1 projects. The State Highway Account, the Department argues, has a low cash balance and the STIP is severely underfunded. Any diversion of State Highway Account funds to toll bridge seismic work would be another severe setback for STIP funding. At the same time, the toll bridge revenue accounts have a combined fund balance of $420 million, with no major disbursements scheduled in the near future. On the other hand, local and regional authorities in the Bay Area argue that, without the approval of Regional Measure 1 by Bay Area voters, those revenues would not even be available for seismic retrofit. They have also expressed concerns that either or both the toll bridge seismic retrofit and Regional Measure 1 cost estimates may underestimate the scope of the needed work. They argue that seismic retrofit work, if funded from bridge tolls, may displace the improvement projects promised to the voters when Regional Measure 1 was passed.

Another factor is the eligibility of toll bridge seismic projects for Federal funds. At present, projects on the State's toll bridges are not eligible for Federal funding. Thus, the funding of these projects from the State Highway Account would place a great demand on State cash and produce a much greater reduction in current allocation capacity for the STIP. There is a provision in Federal law added by the ISTEA that permits the use of Federal funds for toll roads and bridges provided that the State agrees to certain conditions. However, one of those conditions is that all toll revenues not used to meet bridge operating and maintenance costs or debt service obligations must be dedicated to use only for purposes allowable with Federal highway funds. Current California law makes a portion of State toll bridge revenues in the San Francisco Bay Area available for allocation by the Metropolitan Transportation Commission for various other purposes, including the subsidy of transit and ferry operations. Without a modification of either State or Federal law, it appears that Federal funds could not be used.

The Commission supports the timely completion of the toll bridge seismic retrofit program and urges the Legislature and Administration to reach an early resolution of the issue of funding for the entire program.

(2) <u>State-Local Partnership Program</u>

The State-Local Partnership Program was established by the Transportation Blueprint legislation of 1989 with an intended funding level of $200 million per year (Section 2600 of the Streets and Highways Code). The program provides State matching funds for all qualifying local agency projects that are not in the STIP. Historically, the program has provided enough funding to provide a State match of about 20% for the qualifying local projects.

The Budget proposes to reduce funding for the State-Local Partnership Program to a level that will permit the allocation of $100 million for new projects in 1995-96.

The Commission supports the Budget proposal. The State-Local Partnership Program is the largest of the Transportation Blueprint programs outside of the STIP and SHOPP. The Commission therefore finds it appropriate that the Partnership Program share in meeting the shortfall facing all State transportation programs.

Because the State-Local Partnership Program is funded entirely from State funds, the reduction of $100 million in allocation capacity for new partnership projects would support a much higher level of STIP allocation capacity in the coming year through the leveraging of Federal funds.

(3) <u>Transfer of funds from the State Highway Account</u>

Over the past three years, the Legislature has transferred or loaned $493 million from transportation to General Fund programs. Of that amount, only $36 million has been repaid.

The Budget proposes to transfer an additional $77 million from the State Highway Account to the General Fund in 1995-96, noting that this is in keeping with the 1994-95 two-year budget agreement with the Legislature. The stated purpose of the $77 million transfer is to offset $180 million in debt service on bonds authorized for rail programs by Propositions 108 and 116. In addition, the Budget proposes the transfer of $5 million to the Habitat Conservation Fund of the Wildlife Conservation Board. That transfer is discussed below under the discussion of the Environmental Enhancement and Mitigation program.

The Commission has consistently opposed the budget transfer of transportation funds to non-transportation purposes. These transfers are inconsistent with longstanding statutory policy for State Highway Account revenues and inconsistent with the funding plan set forth in the Transportation Blueprint of 1989, as ratified by voters in 1990 (Propositions 111 and 108). Both Propositions 108 and 116 were to be paid from general obligations, not from user fees and existing transportation revenues.

Should the Governor and Legislature determine that a General Fund crisis requires a transfer from transportation funds, any such transfer should be made a loan to be repaid as soon as possible. The Commission urges that the recent practice of transferring transportation funds be curtailed and that all funds transferred in the past three years be repaid.

Because the proposed transfers from the State Highway Account would be taken entirely from State funds, they would reduce the current allocation capacity available for STIP projects by a much greater amount because of the lost opportunity to leverage Federal transportation funds.

(4) Level of Funding for Caltrans staffing

The Budget proposes a net reduction of 1226 personnel years (6.5 percent) from the revised 1994-95 level. The Budget Summary attributes these reductions to:

- Declining project development workload resulting from the reduced State and Federal revenues available for the capital outlay program.
- Efficiencies, including the elimination of unnecessary oversight functions for local projects.
- Eliminating funds for unspecified "excessive Federal mandates."
- A policy decision to reduce reimbursable workload for local governments.

The Commission fully supports the "Transform Caltrans" effort to reengineer the Department's business processes and to free up resources to be made available for the capital program. The Commission, however, raises the following cautions and concerns regarding the Budget proposals for Caltrans staffing reductions:

- Caltrans needs to identify and explain the efficiencies that would permit staffing reductions while maintaining productivity. For example, the Budget includes an "unallocated reduction" of 716 PYs and $67,344,000 for Caltrans support. According to the Budget, additional information will be developed prior to Legislative consideration of the budget. Staff reductions should come in concert with measures taken to improve the productivity of Caltrans, without compromising the quality or quantity of the Department's output.

- Caltrans needs to develop satisfactory measures of its efficiency and productivity. Among the findings of the SRI management audit of Caltrans, cited above, was that "no set of overall department measures exist that disaggregate into division, functional unit, project, and individual staff targets to use as the basis for regularly tracking achieved performance versus target and for annual performance reviews. Such measures are essential if Caltrans is to improve its efficiency and productivity." The report recommended that Caltrans develop such measures and obtain agreement on them from the policy entities that monitor Caltrans' performance. The report notes that "this concurrence is a key element of making the measurement system effective, as these measures need to become seriously established as the basis for assessing Caltrans' effectiveness. Without concurrence and support from policy-setting bodies, use of the measures will not be enforced, and they will fail to become the means for effecting change within the department."

- Caltrans needs to improve its management information system capabilities. The SRI audit report noted that its recommendation on measures of productivity would be enhanced by coupling it with recommended improvements in Caltrans' management information system to permit the timely collection, processing, and dissemination of the data needed to manage and measure performance. The report found that "current weaknesses in measurement are sufficiently pervasive that Caltrans will require major expenditures in time and funds to remedy them in their entirety." Specifically, SRI estimated needed resources of 12 PYs over 18 months to support the reengineering of project delivery and project management processes and 20 PYs over two years to create a new systems development environment and upgrade Caltrans information systems staff skills and capabilities.

- Long term funding levels for capital outlay should be examined. The Caltrans staffing level proposed in the Budget assumes a declining capital improvement program, limited to the funds now available. No funds would replace the reductions and delays attributable to the seismic restoration and retrofit programs, nor would any new funds replace the rail bond revenues originally included in the 1989 Transportation Blueprint legislation. The Commission has endorsed the timely appointment of a Blue Ribbon Task Force, as proposed in the California Transportation Plan, and completion of its work to identify future options for program funding and delivery.

- Caltrans needs to identify the specific "excessive Federal mandates" for which funding would be eliminated and how the savings would be achieved. In the absence of specific information, the Commission would simply raise the following questions of value and risk:

  (1) Does the program or activity for which funding would be eliminated have value to the State sufficient to justify the expenditure of State funds? A program or activity is not necessarily "excessive" because it is partially funded or mandated by the Federal Government.

  (2) Does the proposed elimination of funding rely on actions yet to be taken by the Federal Government, and is there a significant risk that such actions will not be taken?

  (3) Would the proposed elimination of funding subject the State to Federal sanctions, resulting in the loss of Federal funding?

(5) Short-Term Financing

The Budget proposes in 1995-96 to initiate the use of short-term notes as authorized by Chapters 195 and 196 of the Statutes of 1991 (Katz/Killea). Under this legislation, notes may be issued to the extent cash is needed to support the seismic retrofit program and notes must mature no later than June 30, 2000. Repayment is to be made from the State Highway Account.

The Caltrans plan is to borrow funds over each of the next three years, with an anticipated cash expenditure of approximately $150 million in 1995-96.

The Commission fully supports the use of Katz-Killea notes to keep both the seismic retrofit program and the STIP moving to greatest extent possible in the near term. At the same time, the Legislature should recognize that this measure does not create any additional funding for the program in the long run. It will provide additional cash this year at the cost of cash available in the later years of the decade.

On March 30, 1995, the Commission adopted the report, as required by legislation (Government Code Section 14560.7), stating the need for the issuance of short-term notes and making the specific request to the Legislature for authorization in the Budget Act for the Commission to enter into any related agreements, or to issue financing instruments as necessary.

(6) STIP Funding From the Transportation Planning and Development Account

The Budget includes $75 million from the Transportation Planning and Development (TP&D) Account for the Transit Capital Improvement (TCI) program. Since the original publication of the Proposed Budget in January, Caltrans has proposed that only $30 million of this amount be used to fund new projects on the 1995-96 TCI list (Section 99317 of the Public Utilities Code). The remaining $45 million would be used to fund rail projects in the 1994 STIP, including projects that were originally programmed from Blueprint rail bond revenues. This proposal has been supported by the regional transportation planning agencies.

The Commission, in its action to adopt the 1995-96 TCI program on March 30, 1995, endorsed the proposal to use $45 million from the TP&D Account for 1994 STIP projects during 1995-96. These funds are a critical part of the State cash needed to support the Commission's 1995 Allocation Plan. Under the Plan, support would be provided for major rail projects in both Los Angeles and the San Francisco Bay Area. The Commission agrees with the Department and the regional agencies that it makes far more sense to use these funds to maintain existing commitments than to add another $45 million in new commitments.

Other Budget Issues

In addition to the six major issues described above, the Commission has identified ten other issues to bring to the Legislature's attention. These include four issues that are related to or part of Caltrans' proposal for reductions in staffing and local assistance programs, two issues related to rail transportation funding, and four other budget-related issues of particular concern to the Commission. These ten other issues include the following:

- State planning subventions to regional transportation planning agencies.
- Environmental enhancement and mitigation program.
- Caltrans support for Local Assistance.
- Transportation demand management program.
- Use of State Highway Account for 1994 STIP rail projects.
- Intercity rail services.
- Automatic grade crossing maintenance program.
- Potential Federal transportation funding sanction.
- Tort liability reform.
- Insufficient overweight truck penalties.

Elimination of State Planning Subventions to Regional Transportation Planning Agencies

The "unallocated reduction" in the Budget apparently includes $9,032,000 in proposed reductions in local assistance. This reduction includes the elimination of the State planning subvention program, a reduction of $4,032,000, funded from the Transportation Planning and Development (TP&D) Account. The remaining $5,000,000 reduction is taken from the Environmental Enhancement and Mitigation program, funded from the State Highway Account.

State planning subventions to transportation planning agencies from the TP&D Account have been authorized since the Transportation Development Act was first enacted in 1971. For urban counties, these subventions may be up to 70 percent of the non-Federal funds used for planning. For rural counties, which generally receive no Federal planning funds, the subventions may exceed 70 percent of the total planning expenditures. Last year, 29 rural counties received about $1.1 million in State planning subventions.

The Commission questions the wholesale elimination of State planning subvention funds without a corresponding reduction in State planning requirements. Transportation planning agencies throughout the State, particularly those in rural counties, are dependent on these funds to carry out their transportation planning responsibilities under State law. In addition, these funds are used by regional agencies to carry out work that, under Federal law, would otherwise be the responsibility of Caltrans. The Caltrans budget proposal is unexplained, and it is applied indiscriminately, without reference to the need for the subvention in regions across the State.

The Commission supports continuation of at least $1.1 million in State planning subventions for the 29 rural counties, which are most dependent upon it. If the State planning subventions are eliminated entirely, as proposed by Caltrans, the Legislature should reexamine all State transportation planning requirements.

Environmental Enhancement and Mitigation Program

The Budget proposes to eliminate $10 million in funding for the Environmental Enhancement and Mitigation (EEM) program in 1995-96. Of the $10 million, $5 million would stay in the State Highway Account to support STIP programs. The other $5 million would be transferred from the State Highway Account to the Habitat Conservation Fund created by Proposition 117 (1990) for appropriation to the Wildlife Conservation Board.

The EEM program was created under the Transportation Blueprint legislation of 1989 with an intended funding level of $10 million per year for ten years (Section 164.56 of the Streets and Highways Code). Under the program, State, local and Federal agencies and nonprofit organizations receive grants for projects that are related to the environmental impact of building or modifying transportation facilities. Project priorities are set by the Resources Agency and project allocations are made by the California Transportation Commission.

The Habitat Conservation Fund was created by Proposition 117 for the acquisition of habitat to protect deer and mountain lions or rare and endangered species or for the acquisition, enhancement, or restoration of wetlands, aquatic habitat for salmon and trout spawning, or riparian habitat. Proposition 117 requires that $30 million be transferred to the Habitat Conservation Fund each year from the General Fund or from other state accounts. Each year, the $30 million is appropriated to various agencies, including the Wildlife Conservation Board. The Board is charged with ensuring that about one-third of all money in the Fund, including that appropriated to the other agencies, is used to acquire deer and mountain lion habitat.

The Commission could support the reduction of the EEM program in 1995-96 from $10 million to $5 million, in keeping with proposed reductions in the STIP and the annual State-Local Partnership Program and in light of the funding shortfall affecting all transportation programs.

However, the Commission strongly opposes the transfer of State fuel tax revenues from the EEM program to the Proposition 117 program of the Wildlife Conservation Board. Such a transfer would be another instance of transferring transportation funds to a non-transportation purpose. These transfers have been consistently opposed by the Commission, as described above in the discussion of transfers as a major budget issue. Under the proposed EEM transfer, the funds ostensibly would remain subject to the highway/guideway restrictions on the use of State fuel tax revenues in Article XIX of the California Constitution. However, the Commission questions whether these restrictions could truly be met within the framework of the Proposition 117 program. Nothing in the four-year history of the EEM program would suggest that this is likely.

Reductions in Caltrans Support for Local Assistance

Caltrans is proposing to implement a portion of the "unallocated reduction" in the Budget through a 50 percent cut in staffing (about 100 PYs) for the Highway Local Assistance Program. This proposed change and its impact were described in a February 2, 1995 letter from the Caltrans Director to the Division Administrator for the Federal Highway Administration.

The Caltrans Highway Local Assistance function is responsible for administering contracts and agreements for the flow of State and Federal funds to local agencies for local projects. Primarily these are Federal funds that, under Federal procedures, must flow through Caltrans, the designated State highway agency. The Federal Government holds the State responsible for assuring compliance with Federal rules on local projects receiving Federal funding. These projects include Regional Surface Transportation Program and Congestion Mitigation and Air Quality program projects, as well as Transportation Enhancement Activities (TEA) and other STIP and TSM projects. Caltrans Local Assistance also administers local grants funded with State funds, including Environmental Enhancement and Mitigation program grants.

To accomplish the staffing reductions, Caltrans has indicated that it plans to do the following:

- Cease mandatory Caltrans participation in field reviews used to scope projects.
- Stop review of project plans, except as requested for selected complex structure designs.
- Cease construction review, including review and authorization of contracts.
- Cease review of environmental documents. They would be forwarded without comment.
- Cease review and approval of local right-of-way clearance and acquisition work.
- Centralize agreement and Federal obligation document processing in Sacramento.
- Centralize invoice processing for payment in Sacramento; eliminate invoice review.
- Implement efficiencies in bridge inspection to reduce Caltrans workload.

The net effect of these changes would be to remove Caltrans from nearly all aspects of local project oversight and support. These changes would probably enable many local agencies, especially large urban agencies with their own technical staffs, to speed up the process for their projects. Other agencies, however, especially those in rural areas without ready access to replacement technical services, would be liable to suffer delays.

The effective implementation of this proposal would require the cooperation of the Federal Highway Administration (FHWA). The degree to which FHWA would permit Caltrans to remove itself from responsibility for environmental and right-of-way matters, in particular, is unclear. Without FHWA cooperation, the proposed staffing reduction could lead to reduced service levels and project delays for all local agencies.

The Commission supports the Department's efforts to remove itself from unnecessary oversight and review of local agency projects and to reengineer the agreement and billing processes for local programs. In large part, the Department's proposal was developed in cooperation with a joint city, county, and planning agency task force on reengineering the local assistance processes in Caltrans.

At the same time, however, the Commission cautions the Legislature that the level of staff reduction being proposed may lead to reductions in service to local agencies as well as to the intended process efficiencies. The concerns of many local agencies were summarized in the following items from the "vision statement" prepared by local agency members of the reengineering task force working group that addressed the environmental and right-of-way processes:

- Savings in Caltrans staff time achieved through reengineering will be redirected to provide improved service to local agencies and not solely to reduce existing staffing.
- Adequate levels of staffing will be provided to the local assistance program.

The Commission sees no reason to cut off services across the board, without regard to the needs and capabilities of individual local agencies, especially in rural areas. The Commission recommends that the Legislature ascertain from the Department the types and levels of service to local agencies that it can provide with the levels of staffing and funding to be budgeted.

Transportation Demand Management (TDM) Program

Since the publication of the Budget, Caltrans has announced that it is proposing to reduce funding for the Transportation Demand Management (TDM) program by about $23 million, from $40 million to about $17 million. This proposal was first announced on February 15 in a meeting with regional agencies. As first announced, the cut would have included the elimination of all funding for local ridesharing contractors and a reduction of Caltrans staffing for ridesharing programs by at least 22 PYs. In a March 13 meeting, however, Caltrans agreed to work with the regional agencies to develop a revised proposal that would redistribute the $17 million between "block grant" funding for local ridesharing programs and further reductions in the Caltrans staffing for the TDM program.

Under the ridesharing program, Caltrans contracts with 14 local ridesharing contractors to administer and promote local ridesharing efforts. The major local contractors include two nonprofit agencies, RIDES for Bay Area Commuters (RIDES) serving the San Francisco Bay Area and Community Transportation Services (CTS) serving Los Angeles and adjacent counties. The other 12 local ridesharing contractors are local government agencies. These local contractors provide carpool matching programs, administer park and ride lots, operate vanpool programs, and promote public transit and ridesharing alternatives. In air quality non-attainment areas, these activities are among the transportation control measures (TCMs) identified as part of the regional State Implementation Plan (SIP) for air quality under the Federal Clean Air Act. Conformity with the SIP is a requirement for the expenditure of Federal transportation funds. The Caltrans TDM program funds, which are derived entirely from Federal funds, generally provide about half the funding used for local rideshare programs.

Caltrans staffing for the TDM program has included direct implementation of two local programs and assistance with others, as well as a statewide program of research, marketing, and special grants for minor capital improvements such as park and ride lots.

Recent reports have raised serious concerns about the conduct of some ridesharing programs, both by local contractors and by Caltrans personnel responsible for overseeing the contractors. Nevertheless, the proposed Budget, in calling for a cut of more than 50 percent in ridesharing funding, raises a series of questions:

- Are recently reported conduct problems typical of all ridesharing operations? If not, should some operators lose funding for the failing of others? Would a better approach be to establish better controls over the use of the State funds by local contractors?
- Is statewide research and marketing by Caltrans any more effective than the conduct of these activities at the local level by local agencies?
- What impacts will the loss of State funding contributions to local ridesharing contractors have on air quality conformity in individual air basins?
- Given the relatively constant levels of ridesharing, what role, if any, does State funding play in maintaining these levels?
- What relationship exists between the grant program run by Caltrans for minor capital projects and other capital programs, e.g., the STIP and TSM Plan?

Before resolving the appropriate level and nature of State funding for ridesharing programs, the Commission would support a comprehensive evaluation of the need for and effectiveness of State participation in local ridesharing programs throughout the State. The evaluation should consider the varying transportation and air quality needs of individual areas, the need for Caltrans to assume any centralized functions, and the relationship to other existing capital grant programs.

Use of State Highway Account for STIP Rail Projects

The Budget proposes to preserve the balance in the STIP between highway and rail programs by making funds available from the State Highway Account to fund intercity and commuter and urban rail projects. These STIP projects were originally to have been funded from the $3 billion in rail bond measures authorized by AB 973 (1989) and included in the ten-year funding plan of the 1989 Transportation Blueprint legislation.

The Commission fully supports this proposal, which is consistent with the Commission's STIP programming commitments and its 1995 Allocation Plan. Beyond the Allocation Plan and the 1995-96 fiscal year, there will remain approximately $1.8 billion in rail projects and $3.1 billion in highway projects from the 1994 STIP.

A longer range funding problem not addressed by this proposal is the need for a strategy to fund rail capital improvements that do not qualify for Federal funds. Unlike urban rail projects, intercity rail projects are ineligible for Federal transportation funds and so must be funded from State cash only. Similarly, the commuter rail projects of the Southern California Regional Rail Authority (Metrolink) do not qualify for Federal funds because Metrolink's operations do not comply with Federal requirements for transit labor protective arrangements. In part for these reasons, the funding of intercity rail projects and Metrolink commuter rail projects in the current Allocation Plan is very limited.

Intercity Rail Services

The Budget identifies $43,148,000 (an increase of $9,668,000) for intercity rail services, including $14,319,000 to expand intercity rail services in 1995-96. These expanded services include one additional train for a full year on the San Diegan (San Diego-Los Angeles-Santa Barbara); two additional trains for a half-year on the San Joaquin route (Bakersfield-Oakland); and two additional trains for a full year on the Capitol Corridor (Roseville-Sacramento-Oakland-San Jose). Language in the proposed Budget Bill would prohibit the CTC from allocating the $14,319,000 for any purpose other than the designated service expansions without written approval of the Department of Finance.

Despite this restriction, the proposed budget increase seems intended to create an undesignated reserve for intercity rail rather than to implement a planned course of action based on considered assumptions. In each of the past two years, Caltrans has received an appropriation for service expansion. During that period, no service expansion has been implemented, except for the addition of a third Los Angeles-Santa Barbara train after the Northridge earthquake. In each year, funds appropriated for expansion have been redirected to other intercity rail purposes, including higher operating subsidies on existing services and the construction of minor capital improvement projects. The proposed 1995-96 Budget does not describe the existing base of intercity rail service and the uncertainties and assumptions made regarding the funding needed to support it.

In the coming year, the cost of operating the intercity rail program faces at least two new major uncertainties. The first is that Amtrak is pursuing service cutbacks in response to and in anticipation of cutbacks in its funding support from Congress. The other is that Amtrak's 25-year basic agreement with the American Association of Railroads, which sets the terms for Amtrak's access to the lines of the private railroads, is due to expire April 1, 1996. The basic agreement includes the process for determining the scope and cost of capital improvements on those lines over which Amtrak provides service. The renegotiation of the basic agreement could well lead to further State costs just to maintain current levels of service starting in FY 1995-96.

To some extent, the level of operating subsidies is beyond Caltrans' control, since operating charges are determined by Amtrak. However, the Commission believes that the Legislature should understand the assumptions behind the Budget proposal and that Caltrans should project service demands and operating subsidy needs beyond the budget year.

As for service expansions, the Commission finds insufficient information in the Department's California Rail Passenger Program Report, 1993/94-2002/03 to support the Budget proposal. This report lays out long range goals for the expansion of services in each corridor, yet fails to identify a timetable or specific standards for expansion. The report consistently states that expansions will depend on "demonstrated ridership demand," as well as on the availability of equipment and funding, yet there are no criteria for current ridership that would trigger service expansion nor are there projections of future demand at various service levels.

Without operating measures and targets, it is difficult to determine whether proposed services are cost effective and justified. For this reason, the Commission has asked Caltrans to develop a strategic business plan for its intercity rail services that would project service demand and set performance targets for each route. At the February, 1995, Commission meeting, the Department presented a draft of its strategic business plans for the San Joaquin and Capitol Corridors. A third business plan, for the San Diegan, is pending. Together, these three draft business plans can serve as a first step toward the development of a more comprehensive intercity rail business plan.

Automatic Grade Crossing Maintenance Program

Caltrans has identified $4,000,000 as set aside for the Automatic Grade Protection Program as part of the $24.76 million proposed in Budget item 2660-101-042 (Local Assistance, Highway Program).

The Commission supports a funding level of $4,000,000 in 1995-96 for this program.

Section 1231.1 of the Public Utilities Code requires that each Caltrans budget proposal set aside an amount for allocation by the California Transportation Commission (CTC) to the Public Utilities Commission (PUC) for the purpose of paying to railroads the public agency share of maintaining automatic grade crossing protection. The CTC is to determine the amount of the allocation in consultation with the PUC. Funds appropriated for this purpose are then available for allocation and expenditure without regard to fiscal year.

In September 1994, the PUC adopted a resolution recommending that $4,000,000 be allocated for 1995-96 for this program. The CTC supported this recommendation with a resolution of its own in October. The CTC found the PUC recommendation justified because:

- the CTC has recognized, as a matter of safety, the importance of maintaining the grade crossing protection devices at the interface of road/rail transportation systems; and

- the PUC anticipates claims of more than $4,250,000 for calendar year 1995 and has therefore determined that $4,000,000 is the appropriate level of funds to be aside for allocation from the proposed 1995-96 Budget.

Potential Federal Transportation Funding Sanction

A provision of the Federal Fiscal Year (FFY) 1990-91 U. S. DOT appropriations bill required each state to take action by October 1, 1993, either to enact a statute imposing a mandatory six-month suspension of driving privileges for anyone convicted of a controlled substance offense, or to reject that concept by formal action of the Governor and State Legislature. A state failing to take either of these actions would lose 5 percent of its Federal transportation funds in FFY 1993-94 and FFY 1994-95, with the sanction increasing to 10 percent annually beginning with FFY 1995-96. A state taking action by October 1, 1995, could recoup all withheld Federal funds. For a state failing to take action by October 1, 1995, all Federal funds withheld beginning October 1, 1995, are lost to the state permanently, with no opportunity to recoup at a later date.

Because of California's initial inaction on this issue, the State suffered the withholding of $47 million of Federal obligational authority for FFY 1993-94. With the enactment of AB 79x (Chapter 38, First Extraordinary Session, 1994), this funding was restored along with Federal funding for FFY 1994-95. However, the provisions of AB 79x sunset one year after their effective date (i.e., on November 30, 1995) unless a new bill deletes or extends the date. This means that the Legislature and the Governor must act this year to avoid the permanent loss of approximately $100 million in Federal funds.

The Budget anticipates that no Federal funds will be lost due to Federal sanctions.

The Commission urges the Legislature and the Governor to take action as soon as possible to resolve this matter and avoid this potential loss of Federal funds, either by removing the sunset provisions of AB 79x or by taking formal action to reject the concept of a mandatory driver's license suspension for a controlled substance offense conviction. AB 1304 (Bowler), as introduced on February 23, 1995, would accomplish this by deleting the sunset provisions in Sections 13202.3 and 14907 of the Vehicle Code.

Tort Liability Reform

Multi-million dollar judgments against Caltrans continue to drain resources needed for investment in the State's transportation system. The Department reports that through February 1995, with one-third of the fiscal year remaining, less than a quarter remains of the $41.5 million budgeted for FY 1994-95 for tort claims.

The Commission believes that State and local highway programs deserve further tort liability protection. Legislation should limit the liability of state and local governments in direct proportion to their share of fault. The estimated savings, potentially as much as 50 percent of the current annual outlay for damage claims and judgments, would be enough to nearly double the Department's annual safety improvements program. Individuals have other means, and the responsibility, to protect themselves against accidental loss. The State's Financial Responsibility Law requires all motorists to carry liability insurance, and disability insurance and coverage for medical expenses are widely available.

The Commission strongly supports legislation limiting tort liability of State and local governments to their proportional share of fault to protect public transportation funds, to the fullest extent possible, for the purposes to which they are constitutionally dedicated: the operation, maintenance and improvement of California's transportation system.

Insufficient Overweight Truck Penalties

Studies clearly demonstrate that trucks exceeding statutory weight limits cause significant damage to highways and are not paying their fair share of highway maintenance costs. Current penalties for weight violations are so modest that they furnish no economic disincentive nor do they fund overweight enforcement or highway repair.

The Commission supports substantial increases in overweight truck penalties as a pavement damage surcharge, allowing for enhanced enforcement, including capital costs for weigh and inspection stations and for roadway repair.