

Summary

This is the fourth report in a series of annual reports that we are required to submit by Chapter 16 of the Statutes of 1990. The 1989 Transportation Blueprint Legislation (Transportation Blueprint) contains provisions increasing transportation taxes, fees, and bond proceeds and requires the State to allocate and spend these increased revenues (blueprint revenue) on specified transportation programs. Based on our review for fiscal year 1994-95, we found that although half of the ten-year Transportation Blueprint period has elapsed, the total revenues and expenditures are less than half of the total amounts anticipated by the legislation. Furthermore, we found that the revenue sources provided by the Transportation Blueprint may not produce the total revenue of \$18.5 billion anticipated by the legislation. The potential shortfall includes \$2 billion due to voters turning down two \$1 billion bond issues. Additionally, if fuel tax and vehicle weight fee revenue collections continue for the next five years at the same rate as collections for fiscal year 1994-95, there will be an additional shortfall of approximately \$1.4 billion for a total shortfall of approximately \$3.4 billion.

We also found that the projects we examined are included in the specified transportation programs and adhere to statutory requirements for their respective programs. Furthermore, 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. Included in the allocations and expenditures were state matching and exchange funds authorized by the Streets and Highways Code, Sections 182.6(g) and (h) and 182.9. These sections do not specify whether blueprint revenues or other state revenues are to be used for the match and exchange.

Background

In 1989, the Legislature and the governor approved Chapters 105, 106, and 108 of the Statutes of 1989. These statutes contain various 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 bond acts proposed by Chapter 108, 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, and as subsequently amended, are collectively referred to in this report as the Transportation Blueprint.

The Transportation Blueprint specifies the sources that will generate the blueprint revenues 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 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 1994 Annual Report.

In addition to generating revenue for transportation projects, the Transportation Blueprint requires the State to expend the revenue only on specified programs. The appendix to this report provides a brief description of these programs.

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

After the commission allocates funds to the projects in the STIP, the Department of Transportation (department) spends the funds on the adopted transportation projects. The department's expenditures include payments for costs that it has incurred for transportation projects, as well as payments to local governments for reimbursements of costs the local government incurred for transportation projects.

In addition to 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 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 1994-95, we evaluated the policies, procedures, and guidelines that the commission and the department developed for the allocation and expenditure of the revenue generated by the Transportation Blueprint. We found these policies and procedures appropriate and adequate to comply with the requirements of the Transportation Blueprint. We also reviewed the commission's allocations for transportation projects to determine if the commission allocated the blueprint revenues for the programs specified 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 if the projects meet legislated program requirements. We also reviewed the distributions of the blueprint revenues that the State Controller's Office made to cities and counties. Further, we determined the total amount of blueprint revenue collected each year since the passage of the legislation and the annual amount of these revenues state agencies expended or distributed for each of the various Transportation Blueprint programs.

Allocations and Expenditures Meet Statutory Requirements

We reviewed 65 transportation projects for which the commission allocated blueprint revenue when it was required and for which the department expended blueprint revenue in fiscal year 1994-95. These projects are included in Transportation Blueprint programs such as the Flexible

Congestion Relief, Traffic Systems Management, and Intercity Rail Programs. Based on our review, we determined that the commission and the department complied with the requirements of the Transportation Blueprint. For example, we found that each of the four Flexible Congestion Relief projects that we reviewed would reasonably be expected to reduce or avoid congestion by increasing the capacity of the transportation system as required by legislation. Additionally, each of the five Traffic Systems Management projects that we reviewed is for traffic operations control systems, such as television surveillance systems, turn lanes, traffic signals, and high-occupancy vehicle lanes, as required by legislation. Further, the 15 Intercity Rail, Interregional Road System, and Commuter and Urban Rail Transit Program projects that we reviewed are located on highways and rail corridors that legislation specifies for these programs.

In addition to reviewing the commission's allocations for specific projects, we verified the commission's calculations of the minimum level of total project funding that the commission must allocate to each county based on "North/South" split legislation. Specifically, the "North/South" split 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. The commission calculates the minimum levels for each county based on the county's population and the total road miles in the county. We found that the commission calculated these levels correctly.

***Total Transportation Blueprint
Revenues and Expenditures
Are Less Than Expected***

As shown in Table 2, the amount of blueprint revenue generated in the first five years of the ten-year period of the Transportation Blueprint is approximately \$7 billion. This amount is approximately 38 percent of the Transportation Blueprint estimate of \$18.5 billion. However, voters rejected two of the three \$1 billion rail bond issues proposed in the Transportation Blueprint. In addition to this \$2 billion, if the volume of fuel sold in the remaining five years of the program remains at fiscal year 1994-95 levels, there will be a further revenue shortfall of approximately \$800 million. Also, if commercial weight fee revenue remains constant at fiscal year 1994-95 levels for the next five years, there will be a

further revenue shortfall of approximately \$600 million, resulting in a total shortfall from these two revenue sources of approximately \$1.4 billion. The potential shortfall from these three sources could be approximately \$3.4 billion.

Table 2

***Comparison of Estimated to Actual
Revenue Collected Under the
Transportation Blueprint
(in Thousands)***

	Source of Funds					Total Revenue
	Fuel Taxes	Sales and Use Tax	Commercial Weight Fees	Rail Bond Proceeds^a		
Fiscal Year						
1990-91 ^b	\$ 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	
Blueprint Revenue Collected	\$ 5,373,288	\$226,054	\$ 646,478	\$ 814,100	\$ 7,059,920	
Remaining Blueprint Revenue to Be Collected	7,626,712	273,946	1,353,522	2,185,900	11,440,080	
Estimated Blueprint Revenue by Source^c	\$13,000,000	\$500,000	\$2,000,000	\$3,000,000	\$18,500,000	
Percentage of Revenue Collected Through Fiscal Year 1994-95	41.33%	45.21%	32.32%	27.14%	38.16%	

^a Although the Transportation Blueprint estimated that \$3 billion would be raised with three separate \$1 billion rail bond issues, voters approved only one of the three rail bond issues placed on the ballot.

^b Annual revenues as reported by the department and the Board of Equalization.

^c Source: California Transportation Commission's 1994 Annual Report.

The blueprint revenue collected for the five-year period, beginning with fiscal year 1990-91 and ending with fiscal year

1994-95, is less than 50 percent of the anticipated collections if each of the revenue sources generated constant annual amounts over the ten-year period of the Transportation Blueprint. However, the annual revenue amounts are not constant. For example, as shown in Table 2, the major source of revenue

is fuel taxes. The Transportation Blueprint increased fuel taxes by nine cents per gallon in increments over the period from August 1990 to January 1994. 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 will be less in the first five years than in the last five years of the Transportation Blueprint. Another reason that revenue is less than 50 percent is that the Transportation Blueprint contains provisions for a two-step increase in commercial weight fees. The first increase took effect in June 1990 and the second in January 1995.

Table 3 presents the total amount of blueprint revenue that the Transportation Blueprint estimated the State would expend on each of the transportation programs over the ten-year period of the Transportation Blueprint. The Transportation Blueprint recognizes that this estimate was the best available at the time of the legislation and, in a changing environment such as California, that periodic reviews and revisions would be necessary. Since the 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 as much as \$3.4 billion less than the original Transportation Blueprint estimate. Additionally, as discussed later, new legislation requires the department to use funds appropriated for the Traffic Systems Management program for matching federal funds for certain projects.

Table 3 also shows the amount of actual expenditures incurred and commitments to expend (obligations) for each of the Transportation Blueprint programs for the first five years of the ten-year period. As shown in the table, the State expended approximately 35 percent of the \$18.5 billion of expenditures estimated by the Transportation Blueprint. The table also shows that there is 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

expenditures for individual programs to be in equal amounts each year of the ten-year period.

According to the executive director of the commission, these variances are due to the priorities the commission establishes for the projects in the STIP. The commission sets a higher priority within STIPs for older projects and allocates funds to projects only when they are ready for construction. The projects included in the 1988 STIP, therefore, have a higher priority than projects added in the 1990 and later STIPs which were adopted subsequent to the Transportation Blueprint. Furthermore, according to the executive director, it takes an average of five years to complete environmental studies, engineering work, right-of-way acquisition, and interagency permit agreements to get a typical major transportation improvement project ready for construction and, consequently,

Table 3
**Actual Five-Year Expenditures and Obligations of
 Blueprint Revenue Compared to the Transportation
 Blueprint's Estimated Ten-Year Total Expenditures by Program
 (In Thousands)**

Program	Streets and Highways Code Section	Ten-Year Estimated Expenditure Amount ^a	Annual Expenditures by Fiscal Year ^b				Total	Percent of Ten-Year Estimated Expenditures Through Fiscal Year 1994-95	
			1990-91 1994-95	1991-92	1992-93	1993-94			
1988 STIP shortfall	164(d)(1)	\$3,500,000	\$393,641	\$ 498,544	\$ 547,565	\$ 502,628	\$ 172,392	\$2,114,770	60.42%
Intercity Rail and Commuter and Urban Rail Transit	164(d)(2)	3,000,000 ^c	43,100	442,592	299,915	158,499	52,849	996,955	33.23
Interregional Road System	164(d)(3)	1,250,000	0	0	614	2,433	0	3,047	0.24
Traffic Systems Management State Match for the Congestion Mitigation and Air Quality and Surface Transportation Programs	164(d)(4)	1,000,000	18,829	32,628	53,602	0	13,563	118,622	11.86
Flexible Congestion Relief	182.4	^d				27,200	(5)	27,195	N/A
State Controller's Office Formula-Based Payments to Cities and Counties	164(d)(5)	3,000,000	0	0	18,613	102,674	138,099	259,386	8.65
State-Local Transportation Partnership	164(d)(6)	3,000,000	139,833	213,170	234,983	278,829	295,539	1,162,354	38.75
Retrofit Soundwalls	164(d)(7)	2,000,000	61,429	198,789	126,549	163,950	128,996	679,713	33.99
Environmental Enhancement and Mitigation Demonstration	164(d)(8)	150,000	0	0	259	1,499	12,244	14,002	9.33
Transit Operations and Capital Improvements	164(d)(9)	100,000	0	9,880	9,880	8,075	9,667	37,502	37.50
State Highway Operation and Protection	164(d)(10)	500,000	13,200	8,690	50,491	60,003	19,375	151,759	30.35
State Matching and Exchange for Federal Funds	164(d)(11)	1,000,000	44,087	80,159	137,517	330,225	267,342	859,330	85.93
Other	182.6(g) and (h) and 182.9	^d	0	0	0	19,535	74,738	94,273	N/A
Total		\$18,500,000	\$714,119	\$1,484,452	\$1,479,988	\$1,656,104	\$1,184,831	\$6,519,494	35.24%

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

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

^c 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.

^d 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.

few projects started in 1990 or later would be ready for construction until 1995 or later. Therefore, according to the executive director, the commission would expect expenditures for projects in the 1988 STIP shortfall to be greater than expenditures for projects in programs such as Flexible Congestion Relief and the Interregional Road System which are programmed in 1990 and later STIPs.

We could not determine expenditures for five transportation programs directly from the accounting records because the department does not use a unique program code to account for the 1988 STIP shortfall expenditures. Instead, the department records 1988 STIP shortfall project expenditures using the program codes for the Interregional Road System, Flexible Congestion Relief, Retrofit Soundwalls, Traffic Systems Management, and the State Highway Operation and Protection Program. As a result, some of the expenditures recorded in these program codes are part of the 1988 STIP shortfall, and some are part of subsequent STIPs. To determine the portion of expenditures under these program codes that is for the 1988 STIP shortfall and the portion that is for subsequent STIPs, we used expenditure ratios that the department provided to us to calculate the amounts expended for these five programs and the amount expended for the 1988 STIP shortfall. For example, the Retrofit Soundwalls Program expenditure of \$12,244,000 for fiscal year 1994-95 is based on the department's determination that it expended 13 percent of its total fiscal year 1994-95 expenditures under the Retrofit Soundwalls program code for 1988 STIP shortfall projects.

The table also shows that expenditures for fiscal years 1993-94 and 1994-95 include state matching and exchange funds authorized by Chapter 1177, Statutes of 1992. The statutes 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 providing the amount of these funds necessary to match federal funds available to local governments for the Congestion Mitigation and Air Quality Program and for TSM projects in the Regional Surface Transportation Program. As a result of this legislation, the department provided over \$27 million of blueprint revenue to local governments for matching federal funds for these programs.

In addition to this matching, Chapter 1177 added Sections 182.6(g) and (h) that allow certain local governments to exchange an apportionment of federal funds for state funds and Section 182.9 that requires the commission to allocate certain amounts of state funds for matching of federal funds in addition to the authority provided by Section 182.4 or, if excess, for any transportation purpose. These two sections do not specify whether the State must expend blueprint revenue or other state revenue for the match and exchange funds. During fiscal year 1993-94 and 1994-95, the State expended more than \$94 million of blueprint revenue to provide state funds for these two purposes. Table 3 shows the \$94 million as an unplanned expenditure because legislation does not explicitly authorize the State to expend blueprint revenue for these purposes.

According to the executive director, commission staff were involved in the preparation of the legislation that resulted in the addition of Sections 182.6(g) and (h) and 182.9 to the Streets and Highways Code. According to the executive director, although these sections do not specify that blueprint revenue should be used for these match and exchange purposes, the commission understood the intent of the legislative package to mean that blueprint revenue would be used for all sections of the legislation.

In addition to the State's expenditures for transportation programs, the Transportation Blueprint requires the State Controller's Office to distribute a portion of the blueprint revenue directly to cities and counties. We found that the State Controller's Office distributed approximately \$296 million to counties in fiscal year 1994-95. Furthermore, we determined that the State Controller's Office calculated the amount of these distributions to cities and counties in accordance with the formulas provided in legislation.

Lastly, Table 3 shows that the State expended approximately \$600,000 of blueprint revenue for programs other than those listed in the Transportation Blueprint. The expenditures in this category include projects in the local assistance program for bridge replacements and repairs. Expenditures for bridge work are appropriate for Transportation Blueprint revenue because although these projects were in the local assistance program and not the SHOPP, bridge projects are one of the types of projects included in the SHOPP, which is a Transportation Blueprint program.

We conducted this review under the authority vested in the Bureau of State Audits by the Government Code, Section 14525.6, as amended by the Government Code, Section 8546.8, and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Appendix

Programs for Which the State Uses Transportation Funds Made Available by the 1989 Transportation Blueprint Legislation

State Transportation Improvement Program

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

Intercity Rail Program

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

Commuter and Urban Rail Transit Program

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

Interregional Road System Plan Program

A program to improve state highways outside urban areas with populations of more than 50,000 on eligible routes specified in Streets and Highways Code, 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

A program to provide solutions for congestion on the 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

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

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

Retrofit Soundwalls Program

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

Environmental Enhancement and Mitigation Demonstration Program

A program to undertake environmental enhancement and mitigation projects that are directly or indirectly related to the environmental impact of modifying existing transportation facilities or to the design, construction, or expansion of new transportation facilities.

State Highway Operation and Protection Program

A program that provides for capital improvements related to the rehabilitation, safety, and maintenance of existing state highways and bridges, which do not add a new traffic lane to the system.