MEETING NOTICE AND AGENDA

TransNet INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE (ITOC)
The ITOC may take action on any item appearing on this agenda.

Wednesday, October 13, 2010
9:30 a.m.

SANDAG
SANDAG 7th Floor Conference Room
401 B Street, 7th Floor
San Diego, CA 92101

Staff Contact: Kim Kawada
(619) 699-6994
kka@sandag.org

AGENDA HIGHLIGHTS

• OVERVIEW OF DEVELOPMENTS IN THE FINANCIAL MARKETS AND UPDATE ON 2010 TransNet BOND ISSUANCE PROPOSAL

• STATE ROUTE 76 CORRIDOR UPDATE

• FIRST TransNet TRIENNIAL PERFORMANCE AUDIT: REPORT ON ACTIONS TAKEN TO IMPLEMENT RECOMMENDATIONS

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Welcome to SANDAG. Members of the public may speak to the TransNet Independent Taxpayer Oversight Committee (ITOC) members on any item at the time the ITOC is considering the item. Also, members of the public are invited to address the ITOC on any issue under the agenda item entitled Public Comments/Communications/Member Comments. Speakers are limited to three minutes. The ITOC may take action on any item appearing on the agenda.

This agenda and related staff reports can be accessed at www.sandag.org under Meetings on SANDAG’s Web site. Public comments regarding the agenda can be forwarded to SANDAG via the e-mail comment form also available on the Web site. E-mail comments should be received no later than noon, two working days prior to the ITOC meeting.

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## INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

**Wednesday, October 13, 2010**

### ITEM #

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<thead>
<tr>
<th>Item</th>
<th>Recommendation</th>
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<tr>
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### +1. SUMMARY FOR THE SEPTEMBER 8, 2010, ITOC MEETING

A summary of the September 8, 2010, ITOC meeting has been prepared for the Committee's review and approval.

### 2. PUBLIC COMMENTS/COMMUNICATIONS/MEMBER COMMENTS

Members of the public shall have the opportunity to address the ITOC on any issue within the jurisdiction of the Committee that is not on this agenda. Speakers are limited to three minutes. Committee members also may provide information and announcements under this agenda item.

### 3. SUMMARY OF TRANSPORTATION COMMITTEE AND BOARD OF DIRECTORS ACTIONS ON TransNet-RELATED AGENDA ITEMS (Kim Kawada)

This monthly briefing is intended to keep the ITOC informed about relevant SANDAG actions taken on TransNet-related projects and programs. Staff will provide a summary of Transportation Committee and Board of Directors actions on agenda items that the ITOC has reviewed.

### +4. OVERVIEW OF DEVELOPMENTS IN THE FINANCIAL MARKETS AND UPDATE ON 2010 TransNet BOND ISSUANCE PROPOSAL (Lauren Warrem)

This monthly briefing is intended to keep the ITOC informed about the latest developments in the financial markets, the economy and revenues, and the strategies we are exploring and implementing to minimize possible impacts to the TransNet program. The SANDAG Director of Finance also will update the ITOC on the proposed 2010 TransNet bond issuance. In September, the ITOC received an update on the proposal, and the Transportation Committee and the Board of Directors both reviewed the draft bond documents for a proposed issuance of up to $360 million in bonds to support the TransNet Early Action Program. Final review and action by the Transportation Committee and Board on the bond documents is scheduled for their October meetings.
On September 24, 2010, the Board of Directors adopted the 2010 Regional Transportation Improvement Program (RTIP), the multiyear program of proposed major highway, arterial, transit, and bikeway projects in the San Diego region, covering the period FY 2011 to FY 2015. SANDAG received a request from Caltrans to process an amendment due to timing related issues. The ITOC is asked to review and discuss the proposed 2010 RTIP Amendment No. 1. Significant comments will be forwarded to the Transportation Committee, which is scheduled to take action on the amendment at its November 12, 2010, meeting.

Staff will present an update on the State Route 76 (SR 76) Corridor, including the release of the draft environmental document of the SR 76 East project between South Mission Road to Interstate 15 and the ongoing construction of the SR 76 Middle project between Melrose Drive and South Mission Road.

Staff will provide an overview of the TransNet major corridor projects in terms of cost control and schedule adherence based on data provided through the Dashboard reporting system. Updates and refinements to the Dashboard also will be discussed. This item relates to the required quarterly reporting process specified under Paragraph 10 of the Ordinance.

The ITOC released the first Triennial Performance Audit on the TransNet program in May 2009. This required audit from the TransNet Extension Ordinance generally gave the program high marks, while making a series of recommendations to improve various processes. Staff will provide an update on the status of the implementation of the recommendations.
MEETING SUMMARY FOR THE SEPTEMBER 8, 2010,
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE MEETING

Attendance

Committee Members: Carolyn Lee, Chair
Jim Ryan, Vice Chair
Hamid Bahadori
Paul Fromer
David Lloyd
Jesus Garcia
Tracy Sandoval

Absent: John Meyer

Staff: Gary L. Gallegos
Renée Wasmund
Kim Kawada
Ariana zur Nieden

The meeting of the TransNet Independent Taxpayer Oversight Committee (ITOC) was called to order by Chair Carolyn Lee at 9:33 a.m.

1. APPROVAL OF MEETING SUMMARY

Action: Upon a motion by Jesus Garcia and a second by Hamid Bahadori, the ITOC approved the July 14, 2010, meeting summary.

2. PUBLIC COMMENTS/COMMUNICATIONS/MEMBER COMMENTS

There were no comments from the public or members.

12. OVERVIEW OF DEVELOPMENTS IN THE FINANCIAL MARKETS AND UPDATE ON THE TransNet 2010 BOND PROPOSAL (INFORMATION)

This monthly briefing is intended to keep the ITOC informed about the latest developments in the financial markets, the economy and revenues, and the strategies we are exploring and implementing to minimize possible impacts to the TransNet program. Marney Cox, Chief Economist, provided an update on the current economic conditions and summarized TransNet revenues compared to the approved revenue forecasts.
On July 23, 2010, the Board of Directors approved the 2010 TransNet Plan of Finance update, including the “Robust” scenario to advance additional projects in key Early Action Program (EAP) corridors. To support these projects, a bond issuance is proposed for 2010. Lauren Warrem, Director of Finance, provided an update on the final bond strategy in anticipation of the issuance of $300 million to $350 million in long-term fixed rate debt to support the TransNet EAP. She described several structural features of the proposed transaction and stated that the bond documents are being readied for recommendation by the Transportation Committee and approval by the Board of Directors during the next two months.

Keith Curry, Public Financial Management (PFM), provided further explanation of the key bond structuring considerations for the proposed bond issuance and stated that the financing team would continue to monitor the market and adjust the recommended strategy as opportunities arise.

CONSENT (3)

3. QUARTERLY TransNet FINANCIAL REPORTS FOR THE PERIOD ENDING JUNE 30, 2010, AND OTHER FINANCIAL DATA (INFORMATION)

Staff provides certain TransNet financial information on a quarterly basis in accordance with requests from the ITOC, as well as in response to a recommendation from the TransNet Triennial Performance Audit.

Lisa Kondrat-Dauphin, Senior Accountant (Acting), presented the item.

Action: This item was presented for information only.

REPORTS (4 through 12)

4. SUMMARY OF TRANSPORTATION COMMITTEE AND BOARD OF DIRECTORS ACTIONS ON TransNet-RELATED AGENDA ITEMS (INFORMATION)

Kim Kawada, TransNet and Legislative Affairs Program Director, presented this monthly briefing intended to keep the ITOC informed about relevant SANDAG actions taken on TransNet-related projects and programs. She provided a summary of Transportation Committee and Board of Directors actions on agenda items that the ITOC has reviewed. At their July meetings, the Transportation Committee recommended and the Board of Directors unanimously approved both the 2010 TransNet Plan of Finance and the Mid-Coast Corridor Light Rail Transit (LRT) Locally Preferred Alternative. In addition, she stated that the Transportation Committee held a public hearing on September 3, 2010, on the proposed 2010 Regional Transportation Improvement Program (RTIP) and recommended that the Board approve a resolution adopting the 2010 RTIP.

Action: This item was presented for information.
5. PROPOSED FINAL 2010 REGIONAL TRANSPORTATION IMPROVEMENT PROGRAM (DISCUSSION)

SANDAG, as the metropolitan planning organization (MPO), is required by state and federal laws to develop and adopt a RTIP, a multi-year program of proposed major highway, arterial, transit, and non-motorized projects, including the TransNet Program of Projects (POP). The 2010 RTIP covers fiscal years 2011 to 2015, and is due to the state by October 1, 2010.

Sookyung Kim, Financial Programming Manager, presented the item and asked the ITOC to review and discuss the TransNet POP included in the Draft 2010 RTIP and to provide comments.

Action: This item was presented for discussion.

6. FY 2010 TransNet FISCAL AND COMPLIANCE AUDIT APPROACH (APPROVE)

The FY 2010 TransNet fiscal and compliance audit process is currently underway. The independent audit firm of Mayer Hoffman McCann has reviewed the FY 2009 Agreed Upon Procedures (AUP) and has developed the recommended FY 2010 AUP.

Ms. Kondrat-Dauphin introduced the item, and Sam Perera, Mayer Hoffman McCann, provided an overview of the audit process and the recommended FY 2010 AUP.

ITOC members discussed adding an additional procedure regarding the Regional Transportation Congestion Improvement Program (RTCIP) (Paragraph 11.c.ii. of the proposed FY 2010 AUP). Members asked Mr. Perera to inquire about the mechanisms recipient agencies have in place to track RTCIP revenues and expenditures. Mr. Perera agreed to include an additional procedure to address this issue.

Action: Upon a motion by Jim Ryan, and a second by Paul Fromer, the ITOC approved the FY 2010 AUP, including the additional procedure regarding the RTCIP.

7. TransNet ENVIRONMENTAL MITIGATION PROGRAM PROGRESS REPORT (INFORMATION)

Keith Greer, Senior Regional Planner, presented an update on the implementation of the TransNet Environmental Mitigation Program. The report included the current status of land acquisition for mitigation, funding for regional land management, and future efforts to launch an interactive Web site for tracking and public information.

Action: This item was presented for information.

8. TransNet ENVIRONMENTAL MITIGATION PROGRAM FY 2010 LAND MANAGEMENT GRANTS (DISCUSSION)

Mr. Greer presented the item. On September 25, 2009, the Board of Directors approved a process and criteria for funding land management projects under the TransNet Environmental Mitigation Program (EMP). Of the 24 applications received, 10 have been recommended for funding. The ITOC reviewed and discussed the list of proposed FY 2010 EMP land management grants for TransNet funding eligibility.

Action: This item was presented for discussion.
9. **SWEETWATER BIKEWAY (INFORMATION)**

Julie Wiley, General Counsel, presented the item. The Sweetwater Bike Path project is located along the west side of Interstate 5 in National City. SANDAG utilized Caltrans to oversee construction of this $4.3 million project, which was completed in 2004. Caltrans hired TM Engineering (TME) to construct the project. Caltrans terminated TME from the project in 2003 and TME’s surety had to bring in a new contractor to complete the project. TME and the surety have filed claims against Caltrans totaling $6 million, and the matter has taken several years to come to arbitration. The arbitration commenced at the beginning of August, and Caltrans has informed SANDAG that if there is an arbitration award in favor of TME and the surety, it will seek additional project funds from SANDAG to pay the award. Staff cannot disclose bargaining positions or arbitration strategies to the ITOC, but this item is intended to put the ITOC on notice that if Caltrans seeks reimbursement from SANDAG and the Board of Directors decides to pay to settle the matter, the potential source of funding from SANDAG will be TransNet Active Transportation funds.

Mr. Bahadori questioned the use of TransNet funds to pay a settlement given Caltrans’ oversight on the project and asked staff whether Caltrans would have consulted SANDAG prior to TME’s termination.

Jim Linthicum, Director of Mobility Management and Project Implementation, stated that Caltrans typically consults with SANDAG when issues such as these arise.

Gary Gallegos, Executive Director, stated that SANDAG and Caltrans are partners in these efforts and together share in both the benefits and responsibilities for projects such as these.

Chair Lee requested an update on the outcome of the matter at a future ITOC meeting.

**Action:** This item was presented for information.

10. **INLAND RAIL TRAIL FINAL FUNDING PLAN ADJUSTMENT (RECOMMEND)**

The North County Transit District (NCTD) has completed the accounting on the Inland Rail Trail. Staff presented the proposal to revise the funding plan and allow NCTD to close out this project.

Jose Nuncio, Manager of Financial Programming and Project Control, presented the item.

**Action:** Upon a motion by David Lloyd, and a second by Mr. Garcia, the ITOC recommended to the Transportation Committee that the Board of Directors approve the final funding plan adjustment.

11. **SPRINTER FINAL FUNDING PLAN ADJUSTMENT (DISCUSSION/POSSIBLE ACTION)**

NCTD has completed the final accounting of the SPRINTER project. At the July 14, 2010, meeting, ITOC members requested additional information on the chronology of funding decisions regarding this project. Staff presented a report with the requested information.

Mr. Nuncio presented the item and asked the ITOC to review and discuss the SPRINTER final funding plan adjustment for possible action.

**Action:** This item was presented for discussion/possible action. The ITOC discussed the item, and no action was taken.
13. FUTURE MEETING SCHEDULE

The next regular ITOC meeting is scheduled for Wednesday, October 13, 2010, at 9:30 a.m.

14. ADJOURNMENT

Chair Lee adjourned the meeting at 12:08 p.m.
OVERVIEW OF DEVELOPMENTS IN THE FINANCIAL MARKETS AND UPDATE ON 2010 TransNet BOND ISSUANCE PROPOSAL

Introduction

This monthly briefing is intended to keep the ITOC informed about the latest developments in the financial markets, the economy, and revenues, and the strategies SANDAG is exploring and implementing to minimize possible impacts to the TransNet program. In addition, the SANDAG Director of Finance will update the ITOC on the bond strategy as the documents are being readied for recommendation by the Transportation Committee and approval by the Board of Directors later this month.

The ITOC received a verbal report on the proposed bond issuance at its September 8, 2010, meeting, including a discussion of the structuring considerations. Attachment 1 contains a memorandum from the SANDAG financial advisors, Public Financial Management, which provides additional information relating to the structuring considerations as well as recommendations for the proposed bond issuance.

The pros and cons of each of these structuring considerations, as well as a brief walk through of the bond documents were provided to the Transportation Committee and Board of Directors in September. The draft of the October 15, 2010, Transportation Committee report on the proposed bond issuance is included as Attachment 2. It provides an update on the proposed bond issuance and also addresses several questions raised by Transportation Committee and Board of Directors members at their September meetings. The ITOC is asked to discuss the upcoming bond issuance strategy.

SANDAG recently received notification from both rating agencies, Standard & Poor’s and Moody’s, confirming that SANDAG has maintained its previous strong ratings of AAA and Aa1, respectively.
**Next Steps**

Following is the proposed schedule:

- October 15 Transportation Committee – final review of bond documents; recommend approval to Board of Directors
- October 22 Board of Directors – final review and approval of bond documents
- November 10 – anticipated closing date


Key Staff Contact: Lauren Warrem, (619) 699-6931, lwa@sandag.org
Memorandum

To: SANDAG Independent Taxpayer Oversight Committee (ITOC), Transportation Committee, and Board of Directors

From: Keith D. Curry, Public Financial Management

Re: Financial Plan and Next Financing

At the request of the SANDAG staff, Public Financial Management, Inc., (“PFM”) has prepared this memorandum for the members of the Independent Taxpayer Oversight Committee, Transportation Committee, and SANDAG Board of Directors. This memorandum provides a brief overview of the proposed upcoming 2010 bond issuance and describes several structural features of the transaction for consideration by SANDAG in its role as the San Diego County Regional Transportation Commission (“Commission”).

PFM worked with SANDAG staff to develop a “Robust” scenario, within the TransNet financial planning model, which delivers projects ready for construction and prepares the next list of shovel-ready projects. The TransNet Plan of Finance (POF), based on the “Robust” scenario, was approved by the Board of Directors at its July 23, 2010, meeting and forms the basis for the proposed 2010 bond issuance. In accelerating program delivery, the “Robust” scenario accomplishes three objectives: (i) accelerates projects during a low construction cost environment, (ii) takes advantage of historically low interest rates and, (iii) captures the 35 percent Build America Bonds (“BABs”) federal interest subsidy before expiration in 2010. The size of the upcoming 2010 bond issuance necessary to implement the “Robust” scenario is estimated to be approximately $350 million.

Described below are key bond structuring considerations for the proposed bond issuance:

2010 Bond Issuance – Structuring Considerations

As noted in our previous memo in July, PFM recommends that SANDAG issue TransNet sales tax revenue bonds, including a hybrid alternative of BABs and tax-exempt municipal bonds. BABs are taxable bonds issued by municipalities, whose interest rate is then subsidized by the federal government to bring the net interest rate down to levels comparable or below traditional tax-exempt municipal bonds. The federal government currently provides cash subsidy payments directly to the issuer equal to 35 percent of the issuer's interest costs. Issuing BABs allows municipal issuers to tap a broader universe of investors (over and above traditional tax-exempt municipal bond investors) interested in taxable bonds. Expanding the investor base has helped achieve lower costs of borrowing for municipal issuers. PFM recommends that the 2010 bond issuance includes a possible mix of tax-exempt bonds and taxable BABs. PFM is continuing to work with SANDAG staff and the financing team to determine the optimum mix, based on prevailing economics and project eligibility requirements applicable to the BABs program and tax-exempt financing.

Debt Service Structure

PFM recommends that SANDAG issue the upcoming 2010 bonds as a “back-loaded” debt service structure, placing most of the repayment of the principal of the bonds in the final ten years of the 40-year amortization period. The debt outstanding for the Series 2008 bonds is a thirty-year level debt service structure, which will be fully amortized by April 1, 2038. However, the TransNet Extension does not expire
until April 1, 2048. To take advantage of the debt service capacity in the latter years of the program, the recommended structure would allow for most of the principal on the 2010 bonds to amortize during the last ten years of the Extension. When combining the proposed back-loaded debt service structure for the upcoming 2010 issuance with the current debt service for the Series 2008 Bonds, the result would be an aggregate level debt service as shown in the graph below. This structure would take advantage of low long-term rates on the back end of the yield curve, maintain constant debt service through 2048, and preserve very strong debt service coverage for the program. It also is a familiar and commonly accepted structure by the rating agencies.

![Graph showing projected TransNet debt service (2010-2048)]

**Treatment of the BABs Subsidy**

With the proposed issuance of BABs, the Commission’s bond documents need to be revised to explicitly account for the federal interest subsidy of 35 percent. There are at least two ways in which the federal subsidy can be accounted for in the Commission’s bond documents: (i) as an increase in annual revenues, or (ii) a decrease in annual debt service. The draft Third Supplemental Indenture associated with the upcoming 2010 bonds would amend the Commission’s Master Indenture and the original definition of debt service by treating the federal subsidy as a decrease in annual debt service. PFM recommends decreasing annual debt service by the federal subsidy amount resulting in the most favorable calculation of annual debt service coverage, from the Commission’s perspective, thereby minimizing the amount required to fund a debt service reserve fund in the future which provides more proceeds for projects.

**Call Option (10 Year Par Call vs. Make Whole Call)**

One difference between the traditional tax-exempt market and the taxable market is the differing call option conventions. Traditional tax-exempt municipal bonds are nearly always sold with a call option whereby the issuer may exercise the option to call any outstanding bonds after 10 years from the sale date, at a price equal to the par amount of bonds being called (i.e., no premium for an early call). This is identified as a “10-year par call,” and it provides for restructuring flexibility by allowing the issuer to take...
advantage of possible lower interest rates in the future. Conversely, investors in the taxable bond market have not traditionally offered a 10-year par call to issuers, but rather have preferred to hold the taxable securities until final maturity. Instead of a 10-year par call, issuers are typically offered a “make-whole call” provision whereby issuers must pay a “make-whole premium” to investors by discounting the total remaining debt service on the bonds to be called, by prevailing interest rates. By linking the discount rate to prevailing interest rates, issuers would pay a higher premium during a low interest rate environment and would pay a lower premium during a high interest rate environment if the issuer exercises the call option. As such, a make-whole call provides an issuer future restructuring flexibility, but typically would not allow for an economic refunding in the future.

As the taxable market has continued to grow and expand to municipal issuers with BABs, the prevalence of a traditional 10-year par call option is becoming more acceptable with some taxable investors. In today’s market environment, SANDAG would have to pay approximately 40 basis points through increased annual interest rates for a 10-year par call option; this amounts to a 26 basis point increase in annual interest rates after the federal subsidy. This equates to approximately $16 million in present value cost for a 10-year par call on the BABs. PFM has worked with the SANDAG financing team and has determined that future interest rates would have to be below today’s historically low rates in order for SANDAG to exercise the call option for debt service savings. In view of the fact that SANDAG maintains the flexibility to restructure the 2010 bonds through the use of the make-whole call feature – albeit at some potential cost in the future – we do not recommend that SANDAG forego $16 million in present value interest rate savings for the incremental flexibility provided by the 10-year par call. PFM will continue to monitor the market and adjust our recommended strategy if opportunities arise.

**Debt Service Reserve Fund**

The Debt Service Reserve Fund (DSRF) is a fund in which money is placed in reserve to be used to pay debt service if pledged revenues are insufficient to satisfy the annual debt service requirements. Usually, the debt service reserve fund is sized to either 10 percent of the par amount, 125 percent of average annual debt service, or maximum annual debt service (MADS). However, BABs investors typically do not place as much value in having a DSRF, and the number of BAB issuances without a DSRF has increased. Issuer ratings and BABs pricings have not been affected when a DSRF has not been funded. This is particularly true in instances where the issuer can demonstrate very high debt service coverage, as is the case with the Commission. Rating agency presentations are scheduled for September 20, 2010. If the rating agencies indicate that SANDAG’s ratings will not be negatively impacted by not funding a DSRF, PFM recommends that the 2010 issuance not include a DSRF. If the rating agencies indicate otherwise (i.e., SANDAG’s ratings would decline), PFM recommends the funding of a DSRF at the level which would allow SANDAG to maximize its ratings.

**Recommendation**

PFM recommends that SANDAG proceed to sell approximately $350 million in senior lien TransNet sales tax revenue bonds in 2010 with a possible mix of tax-exempt and taxable BABs. We recommend that the principal on the 2010 bonds be back-loaded to take advantage of low long-term rates and create a conservative aggregate level debt service structure. We further recommend that the BABs subsidy be treated as a direct offset to debt service, as it would increase coverage levels and maximize the bond proceeds for capital projects. PFM also recommends issuing BABs with a make whole call structure, but will continue to monitor the market environment and adjust our recommendation if the opportunity arises. We also recommend that no debt service reserve fund be funded for the 2010 bonds, while maintaining flexibility in the documents so that the Commission can adapt accordingly based on feedback from rating agencies and investors.
PROPOSED TransNet 2010 BOND ISSUANCE: FINAL REVIEW AND RECOMMENDATION OF BOND DOCUMENTS

Introduction

In December 2005, the Board of Directors approved a financial strategy to implement the TransNet Extension and to fulfill ongoing commitments of the original TransNet measure. The financial strategy supported the Board’s desire to jumpstart a TransNet Early Action Program (EAP) of projects.

Since that time, the Board of Directors has continued to support implementation of the TransNet EAP. The Board has regularly reviewed program revenues and costs, has continued to dedicate the majority of discretionary federal and state funding to the EAP, and has approved annual updates to the TransNet Plan of Finance. The most recent update - the 2010 TransNet Plan of Finance - was approved by the Board on July 23, 2010. With this update the Board approved a “Robust” scenario that would advance to construction (prior to FY 2018) additional projects under development in key EAP corridors and prepare the next list of shovel-ready projects. An integral part of the approved Plan of Finance is a proposed TransNet 2010 bond financing to meet the near-term EAP cash flow needs.

The Board’s July action and the proposed bond financing discussed in this report would allow the region to capitalize on opportunities presented by the current financial and construction market conditions. The Robust scenario accomplishes three objectives: (1) accelerates projects during a low construction cost environment; (2) takes advantage of historically low interest rates; and (3) captures the 35 percent Build America Bonds (BABs) federal interest subsidy before its scheduled expiration at the end of calendar year 2010.

In addition, SANDAG staff has worked with our member agencies and the transit operators on the opportunity to participate in the TransNet debt issuance for (1) new funds to advance TransNet eligible projects and/or (2) refinancing of outstanding TransNet commercial paper. The Cities of San Marcos, Santee, Solana Beach, and National City have expressed an interest and have obtained approvals from their respective councils. A total of $350 million of fixed-rate bonds is proposed to be issued to meet the needs of both SANDAG and the interested cities.

As discussed at the September 17, 2010, Transportation Committee meeting, this strategy is now moving into the implementation stage with the sale of bonds scheduled for the end of October, contingent upon Transportation Committee and Board approval. This report provides an update on...
the preparations for the transaction and an additional opportunity to review the draft bond documents. It also summarizes the responsibilities of the Transportation Committee and Board of Directors with respect to this bond issuance, and addresses the questions raised at both the Transportation Committee and Board of Directors meetings in September.

Discussion

The financial strategy previously approved by the Board of Directors includes the existing $100 million commercial paper program, low interest rates locked in through interest rate exchange agreements (swaps), and the issuance of $600 million of long-term, variable-rate debt in March 2008. The proposed 2010 issuance would complement our current debt portfolio, allowing for further diversification through the use of a fixed-rate strategy.

Responses to Questions

At the September meetings, members of the Transportation Committee and Board of Directors raised several questions concerning the proposed 2010 issuance. Responses to these questions are provided below:

Should we refinance the $600 million in variable rate bonds? We continuously monitor our entire debt program, including whether a refinancing of the $600 million in variable-rate bonds into fixed-rate bonds would be advantageous. Refinancing would require that we “unwind” or terminate the swaps, which would be very costly based on current market conditions. The variable-rate bond program, even with the increased cost of the liquidity facilities, has been cost-effective, averaging an annual rate of 4.3 percent to date. This has resulted in interest expense savings in excess of $13 million when compared to what interest expense would have been if SANDAG had issued fixed-rate bonds in March 2008 instead of variable-rate bonds.

What is our bonding capacity? Debt service coverage is a measure of the ability to make interest and principal payments on an annual basis and is one of the primary attributes the rating agencies and potential bondholders use to measure the creditworthiness of an issuer. If we were to assume a conservative approach, and calculate debt service coverage over the life of the 2008 and proposed 2010 bonds (through 2048) using FY 2010 sales tax revenues (i.e., assuming no growth), the annual debt service coverage would not drop below 4.39. This means that, based on FY 2010 sales tax revenue, we could pay the annual debt service 4.39 times. The Trust Indenture requires a minimum debt service coverage ratio of 1.3. Additionally, the purpose of the Plan of Finance, which the Board approved in July, is to measure the financial ability of SANDAG to implement the projects in the TransNet Extension Ordinance. There are a number of cost and revenue assumptions included in the Plan of Finance, one of which is future bonding capacity. The most recent update of the Plan of Finance demonstrated sufficient bonding capacity to complete the Major Corridor projects in the TransNet program.

What is the cost of negative arbitrage? Is it more advantageous to issue all $350 million in bonds now, or to delay a portion of the bond issuance? Negative arbitrage occurs when the bond proceeds are invested at a rate that is lower than the interest rate we are paying the bondholders. In the current market environment, this situation is unavoidable. The goal is to minimize the negative arbitrage, while at the same time issuing the optimum amount of debt to allow implementation of the capital program at the lowest cost. The base case analysis assumes the issuance of $350 million in bonds in November 2010, the bonds bear interest expense at
3.56 percent, bond proceeds are spent over three years, and 0.8 percent is earned on the unspent proceeds (a conservative assumption). The estimated negative arbitrage or “cost of carry” in the base case analysis is approximately $11 million.

For comparison, we analyzed two alternative scenarios, both of which assume a delay in the issuance of a portion of the bonds, with $200 million issued in 2010 and the balance of $150 million issued in two years (2012). As with the base case, the bond proceeds are assumed to be spent down over the same three-year period. For the $150 million in bonds issued in 2012, Scenario A assumes they are issued as tax-exempt (TE), and Scenario B assumes they are issued as taxable BABs with a 30 percent subsidy rate.

Currently, there is legislation pending in both houses of Congress to continue the BABs program, but at lower subsidy rates. However, whether the program will be renewed is unknown at this time; therefore, any bond issuance assumed beyond 2010 would be subject to this risk. There also is general market risk with delaying a portion of the bond issuance. The market is currently at a point of historically low interest rates, and market consensus is that interest rates would increase over the next 12 to 24 months. In both alternative scenarios, the interest rate for the 2012 issuance assumes a 40 basis point increase over today’s rates.

The table below summarizes the major assumptions and costs of the various scenarios. Both alternative scenarios would result in negative arbitrage, albeit at lower amounts than the base case. However, in both scenarios the likely interest rate increases, coupled with the loss or reduction of the BABs subsidy, would result in higher debt service costs to the TransNet program. Therefore, proceeding with the proposed 2010 issuance of $350 million in bonds is recommended at this time.

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<th>Bond Structure and Timing</th>
<th>Base Case</th>
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<td>No subsidy (2012)</td>
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<tr>
<td>(1) Estimated Negative Arbitrage</td>
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What is the risk of elimination of the federal BABs subsidy? The interest on the taxable BABs is subsidized by the federal government at the rate of 35 percent. Since the program began, more than $135 billion in BABs has been issued. Given the level of participation in the program, the impact of eliminating the subsidy would be far-reaching and significant and is therefore unlikely to occur. Another consideration is that although the federal government is subsidizing the BABs at a rate that makes them competitive with a tax-exempt bond, the federal government also in effect subsidizes the tax-exempt bond market in that taxpayers pay reduced federal taxes. Regardless, in the unlikely event that the BABs subsidy were eliminated, we have mitigated the impact to SANDAG by including an “extraordinary” call provision in the bond documents, which would allow SANDAG to pay off the bonds at a premium (most likely by issuing tax-exempt bonds).
What is the risk that member agency funding could be appropriated for debt service? What is the risk to SANDAG of allowing member agencies to participate in the bond issuance? The existing and proposed bonds and the commercial paper are fully secured by TransNet sales tax revenues. The 2008 and 2010 bonds are issued as senior lien debt, which gives those bondholders the first right to the sales tax revenues, with the commercial paper on a subordinate lien basis. The California State Board of Equalization collects the sales taxes for the region and remits the funds to the SANDAG Trustee, U.S. Bank, on a monthly basis. The Trustee withholds all required debt service payments for bonds and commercial paper, and makes the debt service payments on behalf of SANDAG. All net revenues after the Trustee’s withholdings are remitted to SANDAG for expenditure on TransNet-eligible SANDAG projects or for pass-through to local agencies for TransNet-eligible projects in accordance with the TransNet Extension Ordinance. Therefore, no other SANDAG funding sources or member agency funds (other than TransNet funds) are at risk to being appropriated for purposes of paying debt service. In addition, since the Trustee will withhold all debt service payments (both for SANDAG and participating member agency portions), there is minimal risk to SANDAG to allow member agencies to participate in the proposed 2010 bond issuance.

What ability does the State have to appropriate the TransNet sales tax for other purposes? With limited exceptions, the TransNet sales tax is imposed upon the same transactions and items subject to the sales tax levied statewide by the State of California. The State Legislature or the statewide voters, through the initiative process, could change or limit the transactions and items upon which the statewide sales tax and the TransNet sales tax are imposed. Any such change or limitation could have an adverse impact on the TransNet sales tax collected. The State Legislature also could attempt to redirect all or a portion of the TransNet sales tax from its use to pay for the projects authorized in the Ordinance and debt service on the proposed 2010 bonds to instead be used for State general fund purposes or other statewide uses. In the informal opinion of Bond Counsel, however, any attempt by the State Legislature to redirect the use of the TransNet sales tax in a manner that would prevent the payment of debt service on the proposed 2010 bonds would violate the Impairment Clause of the United States Constitution, and accordingly, should be precluded. It is likely that interpretation and application of such legislation would ultimately be determined by the courts. In the opinion of Disclosure Counsel, based in part on discussions of the issue with the financing team (including Bond Counsel), the risk of the State redirecting all or a portion of the TransNet sales tax is highly unlikely, and therefore immaterial and unnecessary to include in the Official Statement.

**Structuring Considerations**

As presented in September, there are four primary structuring considerations for the proposed bond issue, as follows:

1. **Debt Service Structure:** What is the optimal mix between tax-exempt and taxable bonds and what should the term of repayment be?

   Recommended Approach: For the SANDAG projects and for the Cities of San Marcos ($30 million), Solana Beach ($5.5 million) and Santee ($3.95 million), the recommended approach is to issue taxable BABs with a back-loaded debt service structure. This places most of the repayment of the principal of the bonds in the final ten years of the 38-year amortization period. When combining this proposed back-loaded debt service structure with the current debt service for the 2008 bonds, the result would be an aggregate level debt service as shown in the graph on page 2 of the PFM memo (Attachment 1). This structure takes advantage of
low long-term rates on the back end of the yield curve, maintains constant debt service through 2048, and preserves very strong debt service coverage for the program. The Cities of National City ($3.366 million) and Santee ($4.5 million) also will be taking part in the tax-exempt bond issuance, with a 10-year amortization period.

2. BABs Subsidy Treatment: Should the subsidy be treated as an increase in annual revenue or a decrease to debt service expense?

   Recommended Approach: The BABs subsidy is estimated to total $218 million over the life of the bond issue. The recommended approach is to treat the subsidy as a decrease to debt service expense, because it would result in a higher debt service coverage ratio than if it were treated as an increase in annual revenue. There is no downside risk to SANDAG to taking this approach.

3. Call Options: Should SANDAG retain the right to call the bonds early at par in 10 years (“10-year par call”), or allow investors to hold the bonds to maturity with an option to call the bonds early at a premium (“make-whole call”)?

   Recommended Approach: The primary reason for the 10-year par call option is to have the flexibility to refinance the debt at a later date should interest rates decrease significantly. Future interest rates would have to be considerably below today’s historically low rates in order for SANDAG to exercise the call option for debt service savings, an event that is not likely to occur. Based on the current market, the flexibility provided by the 10-year par call would cost us approximately $16 million in present value interest rate savings (because the market charges the issuer for this flexibility). As a result, the recommended approach is to retain the make-whole call option, which still provides flexibility to restructure, albeit at some potential cost in the future.

4. Debt Service Reserve Fund: How much, if any, should be placed in the debt service reserve fund?

   Recommended Approach: The purpose of the Debt Service Reserve Fund is to pay debt service if pledged revenues (TransNet sales tax) are insufficient to satisfy the annual debt service requirements. There is a cost to funding a debt service reserve in that it increases the amount of issued debt, and there is the cost of negative arbitrage on the funds placed in reserve. In some cases, the rating agencies require a debt service reserve in order to receive a favorable rating. However, that is not the case with SANDAG as our ratings have been reaffirmed at AAA with Standard & Poor’s and Aa1 with Moody’s. As a result, the recommended approach is to not fund a debt service reserve.

Attachment 1 contains a memorandum from SANDAG financial advisors, Public Financial Management, which provides more information relating to these structuring considerations. The pros and cons of each of these structuring considerations as well as a brief walk through of draft bond documents were discussed with the Transportation Committee on September 17 and the Board of Directors on September 24. The Independent Taxpayer Oversight Committee received a verbal report on the proposed bond issue on September 8, and will receive another update on October 13, including a discussion of the structuring considerations.
**Board and Committee Member Responsibilities**

Before making a decision regarding the bond issuance, the Board and Transportation Committee members should review all of the documents to become familiar with their contents. Attached to this report are the draft bond documents (Attachments 2-7) for review and information, along with a “catalogue of blanks” (Attachment 8) detailing when the missing information will be filled in and the responsible party. Board and Transportation Committee members should pay particular attention to the information contained in the Official Statement (Attachment 3) to ensure there are no inaccuracies concerning SANDAG.

The Board and Committee members also should ensure that to the best of their knowledge all of the factual statements are true and correct in all material respects and that the information does not contain any untrue or misleading statement of a material fact or omit to state any material fact that would make the information in any of the documents regarding SANDAG misleading. The Transportation Committee is being asked to make a recommendation on the bond issuance due to its responsibilities in carrying out certain aspects of the TransNet program and to ensure that its members are not aware of any inaccurate statements regarding SANDAG in the documents. It is the SANDAG Board of Directors, in its role as the San Diego County Regional Transportation Commission, however, that will ultimately have responsibility for approving the transaction.

When carrying out their fiduciary responsibilities, public officials may rely upon employees, bond counsel, disclosure counsel, and other professionals to assure that they are in compliance with the antifraud provisions of the federal securities laws, as long as the reliance is reasonable. In order for the reliance to be considered reasonable, the public official must (1) make complete disclosure to the appropriate professional of any potentially material mistake or omission in the documents; (2) request the professional’s advice as to what disclosure is proper; (3) receive advice regarding the appropriate disclosure; and (4) rely in good faith on that advice.

SANDAG Bond Counsel (Orrick, Herrington & Sutcliffe LLP), Disclosure Counsel (Nossaman LLP), and Financial Advisor (Public Financial Management) will be present to give the Transportation Committee information regarding proper disclosure. The Chief Deputy Executive Director (Renée Wasmund), TransNet and Legislative Affairs Program Director (Kim Kawada), Director of Finance (Lauren Warrem), Chief Economist (Marney Cox), and General Counsel (Julie Wiley) have all reviewed the draft bond documents, and to the best of the staff’s knowledge, all of the factual statements are true and correct in all material respects, and the information does not contain any untrue or misleading statement of a material fact or omit to state any material fact that would make the information in those documents regarding SANDAG misleading.

**Next Steps**

Following is the proposed schedule:

- October 22 Board of Directors – final review and approval of bond documents
- October 28 – pricing of bonds
- November 10 – anticipated closing date
The Board’s visionary action to approve the financial strategy to jump start the TransNet Extension has resulted in much progress on several EAP projects during the last five years. The execution of the proposed plan to issue fixed-rate, long-term debt will allow for this momentum to continue. The funds the bonds provide will allow the expedited delivery of construction projects and critical development milestones on other projects, providing for the mobility needs of the region while continuing to successfully compete for the additional funds the program will need in the future.

LAUREN WARREM
Director of Finance

2. Draft San Diego County Regional Transportation Commission Resolution No. RTC 2011-01
3. Draft Preliminary Official Statement
4. Draft Third Supplemental Indenture
5. Draft Second Supplement to the Amended and Restated Subordinate Indenture
6. Draft Bond Purchase Agreement
7. Draft Continuing Disclosure Agreement
8. Catalogue of Outstanding (Blank) Items by Document

Key Staff Contacts: Lauren Warrem, (619) 699-6931, lwa@sandag.org
Kim Kawada, (619) 699-6994, kka@sandag.org
San Diego Association of Governments - TransNet Program

INDEPENDENT TAXPAYER
OVERSIGHT COMMITTEE

October 13, 2010

AGENDA ITEM NO.: 5

Action Requested: DISCUSSION

2010 REGIONAL TRANSPORTATION IMPROVEMENT PROGRAM: File Number 1500300
AMENDMENT NO. 1

Introduction

SANDAG, at its meeting on September 24, 2010, approved the 2010 Regional Transportation Improvement Program (RTIP), the multi-billion dollar program of projects covering the period from FY 2011 to FY 2015 and funded by federal, state, TransNet local sales tax, and other local funding sources. Due to timing issues, SANDAG is processing Amendment No. 1 to the 2010 RTIP as an administrative amendment. The federal agencies delegated the approval of administrative amendments to the state, thereby streamlining the approval process.

At its meeting on November 12, 2010, the Transportation Committee is scheduled to approve Amendment No. 1 to the 2010 RTIP. The ITOC is asked to review and provide comments to the proposed Amendment No. 1 focusing its review on the TransNet-funded portion of the project.

Role of the ITOC

Based on the provisions of the TransNet Extension Ordinance, the ITOC is responsible for reviewing projects proposed for funding with TransNet funds and providing comments to the SANDAG Transportation Committee and Board of Directors for consideration when actions are taken on the RTIP. The text of Ordinance Paragraph #8 relating to the ITOC’s role in the RTIP process is provided below:

Review and comment on the programming of TransNet revenues in the Regional Transportation Improvement Program (RTIP). This provides an opportunity for the ITOC to raise concerns regarding the eligibility of projects proposed for funding before any expenditures are made. In addition to a general eligibility review, this effort should focus on significant cost increases and/or scope changes on the major corridor projects identified in the Ordinance and Expenditure Plan.

Attachment: 1. November 12, 2010, Draft Transportation Committee Report – 2010 Regional Transportation Improvement Program: Amendment No. 1

Key Staff Contact: Michelle Merino, (619) 595-5608, mmer@sandag.org
2010 REGIONAL TRANSPORTATION IMPROVEMENT PROGRAM:
AMENDMENT NO. 1

Introduction

On September 24, 2010, the Board of Directors adopted the 2010 Regional Transportation Improvement Program (RTIP), the multiyear program of proposed major highway, arterial, transit, and bikeway projects in the San Diego region covering the period FY 2011 to FY 2015. The 2010 RTIP is a multi-billion dollar program of projects funded by federal, state, TransNet local sales tax, and other local funding sources. The 2011 Federal State Transportation Improvement Program (FSTIP), which incorporates the SANDAG 2010 RTIP, is scheduled to receive federal approval on December 15, 2010.

Background

There are two types of RTIP amendments, formal and administrative. Formal amendments require, among other things, a 15-day public notice period, while administrative amendments are considered minor in nature and do not require a public notice period. Chapter 2 of the adopted 2010 RTIP provides additional details regarding the differences between formal and administrative amendments. Amendment No. 1 is considered administrative because the proposed change only adds a new funding source and exchanges funding, which is consistent with the federally accepted administrative amendment procedures. The federal agencies delegated the approval of administrative amendments to the state, thereby streamlining the approval process.

Independent Taxpayer Oversight Committee

The Independent Taxpayer Oversight Committee (ITOC) is the independent citizen oversight committee that reviews TransNet-funded projects. The ITOC is scheduled to review Amendment No. 1 at its October 13, 2010, meeting focusing its review on the TransNet-funded portion of this project. Any significant comments received will be presented to the Transportation Committee.

Discussion

Generally, SANDAG does not process amendments while awaiting the final approval for the RTIP. However, the project listed below must obligate the federal funds as soon as the 2010 RTIP is approved. It is anticipated that Amendment No. 1 will be approved soon after the 2010 RTIP is approved. The proposed changes are described below and additional details are included in Table 1 (Attachment 1).
Caltrans

I-805 HOV/Managed Lanes - South (CAL78C): Caltrans received $975,000 in federal Interstate Maintenance Discretionary (IMD) funds. In order to begin using the IMD funds, Caltrans needs to obligate this money. This action would allow Caltrans to leverage federal funds, which reduces the amount of TransNet funds needed for this project. This amendment proposes to exchange a like amount of TransNet-Major Corridors (MC) with IMD funds. Also, this amendment reconciles prior year TransNet-MC based on actual funds expended through FY 2010. The total project remains at $46,016,000.

Fiscal Constraint Analysis

Federal regulations require the 2010 RTIP to be a revenue-constrained document with programmed projects based upon available or committed funding and/or reasonable estimates of future funding. Funding assumptions are generally based upon: (1) authorized or appropriated levels of federal and state funding from current legislation; (2) conservative projections of future federal and state funding based upon a continuation of current funding levels; (3) the most current revenue forecasts for the TransNet program; and (4) the planning and programming documents of the local transportation providers.

As an administrative amendment, an updated fiscal constraint analysis is not required. The proposed changes included in Amendment No. 1 do not affect the fiscal constraint as submitted as part of the 2010 RTIP update. Chapter 4 of the Final 2010 RTIP discusses in detail the financial capacity analysis of major program areas, including discussion of available revenues. The 2010 RTIP, including Amendment No. 1, continues to be reasonable when considering available funding sources.

Air Quality Analysis

On September 24, 2010, SANDAG found the 2010 RTIP in conformance with the Regional Air Quality Strategy/State Implementation Plan (SIP) for the San Diego region. All of the required regionally significant capacity increasing projects were included in the quantitative emissions analysis conducted for the 2030 San Diego Regional Transportation Plan: Pathways for the Future (2030 RTP) and the 2010 RTIP. It is anticipated that the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA) will approve the conformity determination for the 2010 RTIP and the conformity redetermination for the 2030 RTP as part of the 2011 FSTIP.

The proposed amendment does not reflect a change in the design, concept, or scope of the project or the conformity analysis years as modeled for the regional emissions analysis of the 2010 RTIP and 2030 RTP. The project in RTIP Amendment No. 1 meets the conformity provisions of the Transportation Conformity Rule (40 CFR §93.122(g)). Amendment No. 1 does not interfere with the timely implementation of Transportation Control Measures. The 2010 RTIP, including Amendment No. 1, remains in conformance with the SIP.

LAUREN WARREM
Director of Finance

Attachment: 1. Table 1, 2010 Regional Transportation Improvement Program, Amendment No. 1

Key Staff Contact: Michelle Merino (619) 595-5608; mmer@sandag.org
Table 1
2010 Regional Transportation Improvement Program
Amendment No. 1
San Diego Region (in $000s)

Caltrans

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PROJECT PRIOR TO AMENDMENT

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## 2010 Regional Transportation Improvement Program
### Amendment No. 1
#### San Diego Region (in $000s)

### RTIP Fund Types

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<td>High Priority Demonstration Program under FY 2004 Appropriations</td>
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<td>FTA Section 5309 (FG)</td>
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<td>Federal Transit Administration Discretionary - New Starts Program</td>
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<td>FTA Section 5310</td>
<td>Federal Transit Administration Elderly &amp; Disabled Program</td>
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<td>FTA Section 5311</td>
<td>Federal Transit Administration Rural Program</td>
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### 2010 Regional Transportation Improvement Program
**Amendment No. 1**
**San Diego Region (in $000s)**

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<td>GARVEE Grant Anticipated Revenue Vehicles</td>
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<td>HSIP Highway Safety Improvement Program</td>
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<td>TLSP Traffic Light Synchronization Program (State Prop. 1B)</td>
<td>TransNet-MC Prop. A Extension Local Transportation Sales Tax - Major Corridors</td>
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<td>TSM Transportation Systems Management</td>
<td>TransNet-REMP Prop. A Extension Local Transportation Sales Tax - Regional Environmental Mitigation Program</td>
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<td>TransNet-SMIP Prop. A Extension Local Transportation Sales Tax - Regional Smart Growth Incentive Program</td>
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<td>TransNet-SS Prop. A Extension Local Transportation Sales Tax - Senior Services</td>
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<td>TransNet-T Prop. A Local Transportation Sales Tax - Transit</td>
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<td>TransNet-TSI Prop. A Extension Local Transportation Sales Tax - Transit System Improvements</td>
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Monday, September 27, 2010
STATE ROUTE 76 CORRIDOR UPDATE

An update on State Route 76 Corridor activities was presented to the Transportation Committee on September 17, 2010. Attached is the Transportation Committee report. Staff will provide a similar presentation to the ITOC.

Attachment: 1. September 17, 2010, Transportation Committee Report – State Route 76 Corridor Update

Key Staff Contact: Allan Kosup, (619) 688-3611, allan.kosup@dot.ca.gov
STATE ROUTE 76 CORRIDOR UPDATE

On September 3, 2010, Caltrans released the Draft Environmental Document for the State Route 76 (SR 76) East project. The close of the public comment period is scheduled for November 2, 2010. SR 76 is currently a two-lane conventional highway. The East project would widen 5.2 miles of SR 76 between South Mission Road and Interstate 15 (I-15) from two to four lanes, construct a park-and-ride facility at I-15, and modify the SR 76/I-15 interchange.

The project study area includes the unincorporated communities of Fallbrook and Bonsall in northern San Diego County. The project area is within the San Luis Rey River Valley and consists of open space, agricultural fields, avocado and citrus groves, horse breeding and training facilities, horse pastures, scattered commercial developments, and residential properties.

Two build alternatives and the No-Build alternative are presented in the document. The No-Build alternative would leave SR 76 as a two-lane highway between South Mission Road and I-15. The Existing Alignment alternative would widen SR 76 along its existing alignment along the north side of the San Luis Rey River. The Southern Alignment alternative would relocate SR 76 to the south side of the river. The Existing Alignment alternative is estimated to cost $200 million and the Southern Alignment alternative $322 million.

The SR 76 Middle project is currently under construction. The project will widen SR 76 from two to four lanes between Melrose Drive and South Mission Road. Construction began in January 2010 and is scheduled to be complete in December 2012 with a total estimated cost of $171 million.

JIM LINTHICUM
Director of Mobility Management and Project Implementation

Key Staff Contact: Allan Kosup, (619) 688-3611, allan.kosup@dot.ca.gov
QUARTERLY PROGRESS REPORT ON TransNet MAJOR CORRIDOR PROJECTS   File Number 1200100

Introduction

This report provides an overview of the TransNet Major Corridor projects in terms of project cost control, schedule adherence, industry trends, and transportation performance measures. This overview fulfills the ITOC requirement defined in the TransNet Extension Ordinance to review the Major Corridor projects on a quarterly basis. The Major Corridor projects are designed to enhance mobility along the corridor and provide congestion relief.

Discussion

The SANDAG TransNet Project Office monitors the Major Corridor projects. Project expenditures are tracked against the project budgets approved by the Board of Directors, and critical-path project schedules are compared against baseline schedules. The Project Office assesses transportation industry trends and develops transportation system and project performance measures. The Project Office also operates and maintains the TransNet Dashboard reporting system that provides cost, schedule, trend, and performance information for Major Corridor projects. The Dashboard can be accessed at www.KeepSanDiegoMoving.com.

Schedule Adherence

This past quarter, a total of eight public hearings were held for TransNet Early Action Program (EAP) projects. Five were held for the Interstate 5 (I-5) North Coast project, two for the I-805 South project, and one for the State Route 76 (SR 76) East project. The comment periods on the draft environmental documents end on November 22, 2010, for the I-5 North Coast project, on October 13, 2010, for the I-805 South project, and on November 2, 2010, for the SR 76 East project.

The state budget impasse has delayed the beginning of construction of the I-805 High-Occupancy Vehicle Extension and Carroll Canyon Direct Access Ramp project. The baseline schedule to begin construction was March 30, 2010; this date has been pushed to December 16, 2010. The open to public date also has been delayed from June 2012 to summer 2013.

The Mid-City Rapid Bus project also is experiencing project delays. The project would provide rapid bus service between downtown San Diego and San Diego State University along El Cajon Boulevard. Community stakeholders have expressed a concern over the loss of parking in certain sections of the corridor and a desire to forgo rapid bus service in favor of light rail service. Light rail service
(estimated to cost $1.2 billion) is being evaluated over the long-term as part of the 2050 Regional Transportation Plan (RTP). The current estimate and budget for the Mid-City Rapid Bus project is $44.5 million. The baseline open to public date is November 2011; this date has been modified to a current open to public date of April 2012.

At its July 23, 2010, meeting, the Board unanimously approved the locally preferred alternative (LPA) for the 11-mile Mid-Coast Corridor Transit extension of the San Diego Trolley from Old Town Transit Center to University of California, San Diego (UCSD) and University City. One of three light rail transit (LRT) alternatives considered during scoping, LRT 1 is the previously adopted LPA as refined to include direct service to UCSD and University Towne Center (UTC). The route follows the railroad right-of-way north from the Old Town Transit Center to Gilman Drive, then crosses to the west side of I-5 to a station at Nobel Drive and continues on to serve the UCSD campus, medical centers on the east side of I-5, and terminate at the Westfield UTC transit center. The Board’s motion for approval also included a direction to study the feasibility of an additional station at the Veterans Affairs Hospital. The baseline and current open to public date remains December 2014.

Additional TransNet Major Corridor project schedule information can be viewed in the TransNet Dashboard. Updated monthly schedules are compared to the baseline schedules. The baseline schedule for a given phase is established at the time of full funding for that phase.

**Cost Control**

At its July 23, 2010, meeting, the Board added funding to the budget for 16 new TransNet EAP projects as part of the 2010 TransNet Plan of Finance. Funding for new phases of work also were approved for nine existing TransNet EAP projects. The three major phases of work for transportation improvement projects include the environmental, design/right-of-way, and construction phases. A total of $1.2 billion in additional funding was approved as part of the 2010 TransNet Plan of Finance. SANDAG and Caltrans staffs are currently preparing amendments to the FY 2011 Capital Improvement Program to incorporate the funding for the new and the existing EAP projects.

Expenditures are remaining within the Board-approved budgeted amounts for all TransNet Major Corridor projects. Charts showing actual expenditures against budgets can be viewed in the TransNet Dashboard.

**Trends**

The 12-month Caltrans construction cost index decreased 2.2 points to 236.1 for a 0.9 percent decrease for the second quarter of 2010 compared to the previous quarter. The index is down a total of 105.1 points from its all-time high of 341.2 during the second quarter of 2007. Comparing back to 2002 when the index was at 157.5, the index has increased 50 percent. (TransNet Major Corridor costs were estimated in 2002 dollars when the TransNet Extension Ordinance was originally prepared.)

At its July 14, 2010, meeting, the ITOC asked for a more in depth review of the Caltrans construction cost index. A more in depth review will be provided at the October 13, 2010, ITOC meeting.
The average number of bidders on Caltrans projects over $5 million shows a decrease from the previous quarter. The average number of bidders is a good indication of the level of competition for transportation project construction work. More competition usually means better bid prices. The average number of bidders is down by 2.7 to 7.9 for the second quarter of 2010 compared to the previous quarter. The average number of bidders remains well above a low of 3.2 bidders experienced during the third quarter of 2006.

**Transportation Performance Measures**

Staff has continued to work with the ITOC through the TransNet Triennial Performance Audit process to develop a number of transportation performance measures. These measures are used to assess the effectiveness and efficiency of the TransNet EAP. The next presentation on transportation performance measures is scheduled for the April 13, 2011, ITOC meeting.

Key Staff Contact: Richard Chavez, (619) 699-6989, rch@sandag.org
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

October 13, 2010

AGENDA ITEM NO.: 8

Action Requested: INFORMATION

FIRST TransNet TRIENNIAL PERFORMANCE AUDIT:
REPORT ON ACTIONS TAKEN TO IMPLEMENT RECOMMENDATIONS

File Number 1500200

Introduction

The Independent Taxpayer Oversight Committee (ITOC) released the first TransNet Triennial Performance Audit in May 2009. This required audit from the TransNet Extension Ordinance generally gave the program high marks, while making a series of recommendations to improve various processes. Staff will provide an update on the status of the implementation of the performance audit recommendations.

Discussion

The performance audit, which was conducted by Sjoberg Evashenk Consulting, Inc., in accordance with the requirements of the Extension Ordinance, was presented to the SANDAG Board of Directors in May 2009. The Executive Summary from the performance audit, which highlights the audit recommendations received, is included as Attachment 1 to this report. Staff presented the proposed implementation plan for each recommendation at the July 8, 2009, ITOC meeting and received direction from the ITOC to provide sample performance and financial reports for ITOC review. Since then, 21 of the 25 performance audit recommendations have been completed, and staff has presented numerous reports responsive to many of the recommendations on a regular basis. At the October 13, 2010, ITOC meeting, staff will provide an update on the actions taken to implement the performance audit recommendations, as shown in Attachment 2.

Attachments:
1. Executive Summary from the First TransNet Triennial Performance Audit
2. Matrix of Actions Taken to Implement Recommendations from the First TransNet Triennial Performance Audit


Key Staff Contact: Richard Chavez, (619) 699-6989, rch@sandag.org
Allan Kosup, (619) 688-3611, allan_kosup@dot.ca.gov
Ariana zur Nieden, (619) 699-6961, azu@sandag.org
Executive Summary

In 2004, the San Diego voters renewed their commitment to the region’s transportation improvement program by approving Proposition A, implemented through the TransNet Extension Ordinance (Ordinance), and continuing an existing half-cent transportation sales tax for an additional forty years. Although the measure became effective April 1, 2008, the San Diego Association of Governments (SANDAG) and its partners embarked on an ambitious program to accelerate certain major corridor highway construction and transit projects beginning in Fiscal Year 2005-2006. SANDAG estimated that costs for these early action program (EAP) projects slated for completion by 2015 will reach $5 billion.

With the TransNet program only in the infancy of its 40-year duration, it is premature to predict results and reach conclusions on ultimate project delivery efficiencies or the success of performance outcomes given that many projects are still in preliminary scoping and environmental phases. For most projects, complete information is often not available because these projects have not evolved from early development stages into design and construction phases where more defined results can be assessed. Thus, we focused largely on the overall structure, practices, and controls established by SANDAG and Caltrans to plan, implement, manage, monitor, and oversee the development and delivery of the early action projects. Successfully accomplishing these steps should lay the foundation for sustaining a viable 40-year transportation and transit development system. Our audit revealed that SANDAG and Caltrans have launched a solid network with appropriate oversight, fiscal control, program management, and project delivery practices, although we identified activities that could be enhanced at a program-wide as well as project-specific level.

In the sections that follow, we describe SANDAG and Caltrans efforts addressing the key elements of a successful program delivery listed below:

- Governance and Oversight
- Performance Monitoring and Accountability
- Fiscal Control and Budget Data
- Project Management and Delivery

A Robust Governance Structure is Employed, Although Oversight Could be Enhanced

Over the last three years, SANDAG has worked in conjunction with its transportation and transit partners to employ a robust framework with many critical elements to help achieve long-term project and program success. For instance, we found appropriate levels of governance and involvement from the SANDAG Board of Directors (Board), SANDAG Transportation Committee, and the Independent Taxpayers Oversight Committee (ITOC) that provide valuable and necessary oversight for key project costs and delivery practices. SANDAG’s broad responsibilities and delivery methods have fostered an environment of collaboration that successfully crosses local jurisdictional and governmental borders to create synergies in the development of the region’s transportation and transit projects. In part, this is demonstrated through SANDAG’s use of corridor director positions in concert with...
Caltrans allowing for heightened accountability through a cross-agency project management structure tracking projects from cradle to grave, as well as continuous monitoring over all corridor projects’ schedules and costs.

However, better information could be provided to oversight bodies, including the ITOC, to assist in policy-setting, monitoring, and decision-making as current data provided does not capture full project history, critical prior budget actions, scope adjustments approved, project risks and benefits, or cumulative impact of past decisions made. Additional statistics related to project impact on travel time and congestion, as well as project performance in terms of schedule and budget adherence.

**While Solid Management over TransNet Exists, Greater Performance Monitoring and Reporting Would Further Promote Accountability**

In an effort to enhance transparency and promote accountability, SANDAG and Caltrans both utilize appropriate tools and employ reasonable processes to monitor the overall TransNet program as well as manage individual project performance. Throughout the highway and transit project efforts, SANDAG and Caltrans management foster a collaborative environment setting the tone emphasizing the coordinated flow of critical project data between the agencies, controls over budget and schedule adherence, and joint resolution of project dilemmas.

SANDAG and Caltrans apply numerous practices and automated tools to track budget and schedule data. For instance, detailed project budget and schedule data used by SANDAG and Caltrans project managers are consolidated through a “Dashboard” database that efficiently streamlines data collection and summarizes corridor, segment, and project status through the automatic integration of data gathered from disparate systems. Available for use by internal project teams as well as the general public, we found Dashboard data related to budgets, expenditures, and schedules to be generally reliable.

While the Dashboard provides a good framework for online reporting of project status, older budget and expenditure data included for certain projects may skew data and activities under the TransNet program. Additionally, some early projects are not included within the Dashboard data thus providing an incomplete picture of TransNet funded project activity. SANDAG should revisit the intent and vision of the Dashboard and determine how best to track and provide meaningful project results as well as consider other minor enhancements recommended by our audit.

Moreover, the TransNet program would benefit from incorporating challenging goals and targets for program outcomes and develop and track associated measures to assess efficiencies and effectiveness of efforts as part of a comprehensive monitoring system. Existing TransNet program goals could be more clearly defined through objectives linked to specific performance measures. In addition to adopting meaningful effectiveness measures, SANDAG should establish goals, strategies, and performance measures to track program and project delivery efficiency indicators related to meeting delivery milestones, staying within set ranges of cost estimates, and reducing support costs and overhead by predetermined
amounts. Results from these performance indicators should be made available to oversight entities, particularly the ITOC, Corridor Directors, and to the public.

**Revenue and Cost Models are Practical, Yet Project Budget and Schedule Reprioritizations Should be Better Chronicled**

Another critical component of a successful program is sound financial planning and controls over financial management. Our review revealed that SANDAG’s Plan of Finance and debt structure model appear reasonable and are based on sound assumptions that provide and dedicate funding to complete the EAP projects as promised. Since accelerating funding for these projects, as of June 30, 2008, SANDAG has committed approximately $635 million in bonds and commercial paper financing. Moreover, SANDAG has well-positioned itself to maximize funding and is motivated in identifying potential revenue streams that could leverage sales tax revenue. Although the 40-year revenue forecast is difficult to predict with certainty at this time, such forecasts and cost projections appear reasonable. Further, budget projections are periodically revisited using actual results and adjusted as necessary in preparing future forecasts. For instance, since actual sales tax receipts have decreased in the last two years, SANDAG revised its short-term revenue projections downward, and is in the process of modifying its long-term funding forecasts.

However, the availability of sufficient funding is and is likely to remain a significant challenge to project completion. Toward this end, when the EAP projects were identified, the SANDAG Board effectively dedicated nearly all of federal, state, and local TransNet sales tax funds to the delivery of these projects. The governing and oversight bodies publically vetted and deliberated the decision and ultimately agreed the EAP projects would provide the most regional benefits—even at the risk that other TransNet projects may not be accomplished. As part of the biennial Regional Transportation Improvement Program process as well as the annual budget process, SANDAG and its transportation partners continually revisit and revise project budget, scope, and delivery schedules as part of regional planning and prioritization efforts. The continual reprioritization is consistent with its authority as the Regional Transportation Commissions and was reemphasized in the Ordinance.

With the ongoing reprioritization and budgetary movement of the various EAP project components, SANDAG should employ mechanisms to formally track the budget history of each corridor or segment outlined in the Ordinance as amended or updated during annual processes. Such tracking of evolutionary changes occurring over time would memorialize the early decisions and actions affecting a particular corridor or segment in a consolidated manner—as well as provide decision makers charged with program oversight with additional information to use when weighing options or alternatives presented to them for resolution. Currently, much of this information is available in a variety of forms such as the quarterly reports submitted to the ITOC and SANDAG Board as well as in project team meetings and other senior management reports; yet, no central repository or consolidated resource exists to easily account for funding or project scope changes made.
Project Delivery Methods are Sound, However Some Practices Could be Enhanced

Generally, SANDAG and Caltrans appear to have an adequate project management and oversight structure to review, update, and monitor projects to ensure sufficient cost controls and timely project delivery. Overall practices in place for project delivery are consistent with peers and industry best practices. However, SANDAG could benefit from formalizing its project delivery practices and procedures by memorializing Board policy direction into procedural implementation manuals to guide daily project activities, and by instituting uniform filing systems and automated tools for tracking project history files.

Because the TransNet program is in its infancy, many of the EAP projects are in preliminary scoping or early design stages. For instance, only four projects have begun construction. While not enough time has passed or efforts completed for us to draw conclusions on project performance, preliminary indications revealed that taxpayers are seeing early value for their investment. Our review of EAP project data between Fiscal Years 2006-2007 and 2008-2009 revealed that while several individual projects and segments have experienced budget overruns and schedule delays, the EAP projects generally appear to be on schedule and are currently meeting the TransNet authorized program budget of nearly $5 billion. Our review of the underlying detail behind budget overages by project phase revealed that generally project managers employed reasonable cost monitoring and project management techniques to timely address and mitigate project scope, schedule and cost changes, while minimizing the overall project cost overruns.

In addition to reasonably established timelines, proven construction cost estimate models, and techniques based on sound assumptions, solid processes are in place to monitor costs throughout a project’s lifecycle in areas such as task order amendments and change order approvals. Our comparisons of bids to estimates for the 21 EAP project construction contracts issued over the past three years showed an average difference of only 2.2 percent for all contracts. Additionally, our review of key performance indicators for the EAP projects showed industry-acceptable low percentages of change orders as compared to contract amounts, and cost estimate variances within the acceptable norm. Although we found sound procedures were established to award and monitor consultant work, better documentation practices could be employed in reviewing and approving task order requests for time extension for those task order amendments we reviewed. Similarly, change orders issued over the last three years accounted for approximately 14 percent of amounts originally bid. While this percentage is higher than the 10 percent average in the construction industry, the difference between payments and the initial contract bid value was only 7.64 percent.

Moreover, lessons learned from previous projects are discussed and considered on an informal basis through weekly project development meetings and monthly corridor director meetings. However, project evaluation closeout forms used by Caltrans should be more consistently prepared and completed as each phase is completed on long-term projects rather than waiting until construction is final and all claims addressed—which extends several years. Other potential project improvement opportunities for TransNet project practices include consistently applying risk assessments and related mitigation plans, improving project performance reporting practices, and creating a comprehensive set of project development policies and procedures for transit projects.
**Recommendations**

Continuing the strong practices launched and momentum gained in the initial three-year period of the *TransNet* program, we have recommended 25 improvements and refinements to enhance the *TransNet* program. A complete list and discussion of each recommendation is provided in Chapter 5 of this report, with highlights summarized below:

- Develop high-level project summary documents, or “Report Card” to capture project detail relating to key project budget, schedule and scope changes;

- Standardize ITOC administrative documents, including meeting agendas and status reports used in the ITOC oversight and decision-making process;

- Revisit the intent and vision for the Dashboard to potentially include all *TransNet* projects as well as to refine existing data to ensure accuracy, complements, and clarity of data nuances;

- Define and clarify project and program performance goals and targets to measure program performance;

- Continue to regularly monitor and review the debt to revenue ratio and report status monthly to the ITOC;

- Establish a mechanism to link and track the Ordinance planned projects and amounts with current plans and budgets for all *TransNet* projects;

- Enhance current project management and delivery practices by ensuring post-evaluation forms are consistently used and completed for all projects after each project phase, as well as memorializing transit practices and uniform filing systems; and

- Ensure consistent implementation and reliance on best practices to tighten project delivery tools including risk assessment tools.
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<th>Recommendation</th>
<th>Report Reference</th>
<th>Priority</th>
<th>Initial Response and Draft SANDAG/Caltrans Staff Implementation Plan (July 2009)</th>
<th>Status of Actions Taken to Implement Recommendations (as of October 2010)</th>
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<tr>
<td>1. Develop and deliver a brief, high-level summary, or “Report Card,” to the ITOC and other oversight bodies for each transportation project describing project budget and schedule by phase, project performance, project benefits and risks, financial assumptions, project cost range, and highlights of project changes to scope, schedule and cost, as well as budget-to-actual and project-to-date information. Also, consider summarizing Report Card performance on a monthly, quarterly, or annual basis, as appropriate, to identify trends or systemic issues.</td>
<td>Chapter 1, pages 32 and 33</td>
<td>High</td>
<td><strong>Initial Response</strong>: The TransNet program team intends to work with the ITOC to develop a reporting mechanism that is responsive to this recommendation and meets the ITOC needs for timely and appropriate information. Much of this information exists in both organizations and on the Dashboard. Therefore, we will work with the ITOC to determine how to consolidate the information and present it in the most useful manner – possibly through the use of an ITOC subcommittee. The added cost of creating and maintaining the new Report Card also will be assessed. <strong>Implementation Plan</strong>: Develop a report directly from Dashboard and coordinate it with the quarterly progress report on transportation projects Finance Department reports to the Board of Directors. Goal is to provide sample in Fall 2009. Richard Chavez (SANDAG) lead.</td>
<td><strong>Implementation Status</strong>: SANDAG and Caltrans staff presented sample project expenditure reports and provided the TransNet Dashboard system demonstration at the October 14, 2009, ITOC meeting. These reports are provided on a regular basis based on major milestones. Quarterly Progress Reports on TransNet Major Corridor Projects also are presented to the ITOC. ☑ Completed</td>
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<td>2. Summarize and distribute data reflecting key project milestones and performance indicators where period-to-period trends for the program overall, as well as at a corridor or segment level, could be analyzed. Statistics should include budget and schedule targets compared to actual performance, as well as progress towards meeting program objectives such as reducing levels of congestion and travel times, minimizing project cost per mile, and increasing the percentage of projects completed on time and on budget.</td>
<td>Chapter 1, page 34</td>
<td>High</td>
<td><strong>Initial Response</strong>: The setting of performance targets for program, corridor, and segments within the TransNet program is something that the TransNet program team has been and will continue to develop. To a large extent, these early years of the program have effectively served to establish a baseline of project development performance. Much of the data on actual performance and some analysis of budget and schedule targets are currently collected and reported through the Dashboard and other methods. Like Recommendation no. 1, this is another area that the TransNet program team will work with the ITOC to address. The added cost to develop performance targets and track progress against them will be assessed as well. <strong>Implementation Plan</strong>: Use Caltrans “District 11 TransNet Fiscal Year in Review” report as a model and potentially extend to transit projects as well. Report addresses issues, such as expenditures by corridor, by type of funding, by phase (environmental, design, right-of-way, and construction); planned versus actual expenditures; schedule milestones achieved; and support cost ratios. Goal is to present report to ITOC for input in fall 2009. Allan Kosup (Caltrans) lead.</td>
<td><strong>Implementation Status</strong>: Staff presented the first sample performance reports at the October 14, 2009, ITOC meeting. In addition, an online, interactive presentation of the Dashboard also was presented. Quarterly Progress Reports on TransNet Major Corridor Projects have been provided to the ITOC since that time. ☑ Completed</td>
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<td>3. Provide status information regarding existing audit requirements and status updates on internal and external audits in progress or completed of SANDAG, Caltrans, or other transportation partners outlining scope of audit work, results of audit efforts, corrective actions planned or taken, and outstanding findings and unresolved issues as they relate to the TransNet program. In particular, the SANDAG Internal Auditor should report to the ITOC, or its newly formed Audit Subcommittee, once the current in-process audit of contracting and task order practices is completed.</td>
<td>Chapter 4, page 86</td>
<td>Medium</td>
<td><strong>Initial Response</strong>: Due to the ITOC lead role in the annual fiscal audits beginning in FY 2009, a regular reporting process has been developed and will be refined with the ITOC input. SANDAG will apprise the ITOC of the task order process audit results upon its completion. <strong>Implementation Plan</strong>: SANDAG’s internal auditor is not necessarily for TransNet purposes. To the extent that any work performed may be related to TransNet and of interest to the ITOC, it can be reported.</td>
<td><strong>Implementation Status</strong>: The FY 2009 TransNet Fiscal and Compliance Audit reports were accepted by the ITOC at its June 28, 2010, meeting. Presentation to the Board of Directors took place as part of the FY 2010 ITOC Annual Report on September 24, 2010. The final internal audit report for the Task Order Process Operational Review was completed in July 2009. The internal auditor concluded that the Mobility Management and Project Implementation Department (MMPI) has procedures in place to adequately process task orders for architectural and engineering (A&amp;E) professional services. While MMPI has improved its procedures over the years, the report highlights three areas needing further improvements. Over the past year, SANDAG has made progress with implementing the majority of the recommendations that improved the task order process. The SANDAG internal auditor will be available at the October 13, 2010, ITOC meeting to apprise the ITOC, if requested. ☑ Completed</td>
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<td>To assist management and oversight bodies in deliberating project activities, weighing options before making decisions, and strengthening general levels of oversight, SANDAG should work in conjunction with Caltrans to:</td>
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<td>4. Work collaboratively with the ITOC to identify other type of oversight data needed from SANDAG, Caltrans, or other transportation partners where appropriate and within reason.</td>
<td>Chapter 1, pages 31 and 35</td>
<td>Low</td>
<td><strong>Initial Response:</strong> See response to Recommendation no. 1 – this should be addressed as part of that process. <strong>Implementation Plan:</strong> See Draft Implementation Plan for Recommendation no. 1.</td>
<td><strong>Implementation Status:</strong> See implementation status response for Recommendation no. 1.  ✔ Completed</td>
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| 5. | Analyze suggested Report Card data and performance indicator data provided looking for trends, issues, and progress toward overall TransNet goals, as well as consider the multi-faceted project performance details impact on travel time and congestion, as well as project performance in terms of schedule and budget adherence. Moreover, the data could be used to monitor effectiveness of operational strategies and the success of SANDAG in meeting targets. | Chapter 1, pages 32-34 | High | Initial Response: Related to Recommendation nos. 1 and 2 above.  
The ITOC intends to appoint a subcommittee to review this recommendation in conjunction with several others. The subcommittee will have the ability to work independently and with TransNet program staff on an as-needed basis and will develop a reporting process to the full ITOC. An assessment of the costs and benefits will be made by the subcommittee for any proposals developed to address this recommendation.  
Implementation Plan: Related to implementation of Recommendations nos. 1 and 2. After data is presented and agreed upon, quarterly reports can be developed in order to lead to analysis and recommended actions. | Implementation Status: See implementation status response for Recommendation nos. 1 and 2.  
☑ Completed |
| 6. | Work collaboratively with SANDAG to identify other type of oversight data needed from SANDAG, Caltrans, or other transportation partners that can be captured in matrices or other formats enabling a period-to-period review of data and results over time. | Chapter 1, pages 31 and 35 | Low | Initial Response: Same as Recommendation no. 4 above.  
Implementation Plan: Implementation will evolve out of the efforts related to Recommendations nos. 1, 2, 4, and 5. | Implementation Status: See implementation status response for Recommendation nos. 1, 2, 4, and 5.  
☑ Completed |
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<td>To monitor overall program adherence with the Extension Ordinance and assess the overall program impacts resulting from project budget and schedule deviations, the ITOC should:</td>
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| 7. Develop matrices or tracking documents to summarize critical ITOC concerns, issues, and decisions resulting from discussions at monthly meetings, as well as to memorialize resolutions or action items carried forward to subsequent meetings complete with owners assigned and timeframes for completion established. Progress and actions taken could be tracked and progress updated at subsequent meetings, and the matrices could serve as an institutional transfer of knowledge as new ITOC members are appointed. | Chapter 4, page 35 | Medium | **Initial Response:** The ITOC considers this recommendation to be of high priority. SANDAG staff is willing and able to develop historical records of ITOC actions that could be used for continuous updates for future actions. Development of example format alternatives will be presented to the ITOC for consideration. **Implementation Plan:** Will develop a matrix of ITOC actions and decisions. SANDAG IT department is currently updating internal tracking programs for follow-up items and agendas for all Board and Policy Advisory Committee meetings. Anticipate presenting reports in fall 2009. Kim Kawada / Ariana zur Nieden (SANDAG) leads. | **Implementation Status:** Staff presented a sample report format detailing a chronology of ITOC actions on the SPRINT project at the September 8, 2010, ITOC meeting. This same report format will be provided for all Major Corridor projects based on major milestones. In addition, a recurring ITOC agenda item has been added to convey Board and Transportation Committee actions to the ITOC on a monthly basis.  
☑ Completed |


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<td>8. Identify additional entities, positions, or individuals to regularly provide status reports and data to the ITOC (such as the SANDAG Internal Auditor), and incorporate standard monthly meeting agenda categories to address the new areas and ensure all critical TransNet program areas also receive an oversight focus in addition to project-specific activities. Refer to suggested categories in Chapter 1. Also, consider protocols regarding specified time allocations allowing for adequate deliberation prior to decisions rendered for the more critical areas with high-dollar or high-profile impact.</td>
<td>Chapter 1, page 36</td>
<td>Low</td>
<td><strong>Initial Response</strong>: Although the ITOC believes much of this recommendation is already being done, they will have the subcommittee referred to in Recommendation no. 5 above review these issues for potential improvements and/or efficiencies. <strong>Implementation Plan</strong>: Work with new ITOC Chair to evaluate agenda planning process. Kim Kawada/Ariana zur Nieden (SANDAG) leads.</td>
<td><strong>Implementation Status</strong>: Ongoing status reports are provided on a regular basis (i.e., Quarterly Progress Report on TransNet Major Corridor Projects, Quarterly TransNet Financial Report and Other Financial Data, and monthly briefing on Overview of Developments in the Financial Markets). All comments and requests by ITOC members on the agenda planning process or other items are tracked by SANDAG using an internal tracking program for follow-up actions (FUSS). Complete</td>
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<td>9. Consider using the newly formed ITOC Audit Subcommittee as the information portal for audit status updates, especially those of a more sensitive nature. The Subcommittee could report back to the ITOC at large in the more public setting.</td>
<td>Chapter 4, page 86</td>
<td>Low</td>
<td><strong>Initial Response</strong>: See response to Recommendation no. 5 above. <strong>Implementation Plan</strong>: ITOC indicates that they are not prepared to form a performance audit Subcommittee at this time.</td>
<td><strong>Implementation Status</strong>: The ITOC has not formed a performance audit Subcommittee as of the date of this report. Complete</td>
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<td>10. Revisit its intent and vision for the Dashboard to determine whether it should include all TransNet Early Action Program (EAP) projects and report on all Extension Ordinance programs, as well as determine whether the Dashboard is meant to function as an “in-progress” management tool for current projects or should be established as a comprehensive historical data warehouse for the 40-year duration of the TransNet program. Also, use the Dashboard data to summarize performance indicators and monitor progress of indicators such as “percent of work completed compared to total costs” and “support costs as a percent of capital construction costs.”</td>
<td>Chapter 2, pages 44-46</td>
<td>Medium</td>
<td><strong>Initial Response:</strong> All EAP projects are being added to the Dashboard. The Environmental Mitigation Program and Goods Movement Program are being added to the Dashboard. Staff will discuss options with ITOC for adding other programs to the Dashboard. The Dashboard is intended to be a comprehensive historical data warehouse. The Dashboard currently compares percent work complete to total cost. There is some concern with the proposal to track support costs at the project level, which needs to be discussed with the ITOC. <strong>Implementation Plan:</strong> Will keep ITOC up to date on changes and refinements to the Dashboard over time. Some of the Caltrans “District 11 TransNet Fiscal Year in Review” report referred to in Recommendation no. 2 will address work progress and support cost issues. Richard Chavez (SANDAG) lead.</td>
<td><strong>Implementation Status:</strong> See implementation status response for Recommendation no. 2. ☑ Completed</td>
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To refine its existing Dashboard integrated budget and schedule tool, SANDAG should:

<p>| 11. Add an explanatory note to better clarify cumulative data presented or isolate and remove the pre-2005 expenditures to more accurately reflect the TransNet program costs. | Chapter 2, page 45 | Medium | <strong>Initial Response:</strong> A note will be added to the Dashboard to better explain the data presented. <strong>Implementation Plan:</strong> Requires note to be added to Dashboard – should be completed by fall 2009. Richard Chavez (SANDAG) lead. | <strong>Implementation Status:</strong> An explanatory note has been added to the overview in the Dashboard. ☑ Completed |</p>
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<td>To refine its existing Dashboard integrated budget and schedule tool, SANDAG should:</td>
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<td>12. Develop a mechanism to report project budget and schedule history and key changes over the course of the TransNet program.</td>
<td>Chapter 2, page 45</td>
<td>Medium</td>
<td><strong>Initial Response:</strong> Staff will begin to compile the history of changes to budget and schedule from this point forward. Staff will make this available in the Dashboard. Staff needs to discuss with ITOC the effort to compile the history of previous changes and the costs and benefits of doing so. <strong>Implementation Plan:</strong> Research will be done to develop a history of key changes for all TransNet projects back to 2005. A method for including this information in the Dashboard will be developed. All Project Managers will be informed of the process to capture this data going forward. Goal is to have history for all projects complete by the end of 2009. Richard Chavez (SANDAG) lead.</td>
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<td>13. Ensure all Dashboard views and tables are complete and accurate such as “percent of completion” data by clearly identifying and communicating to project managers responsible for the data, the assumptions, and definitions behind the percent complete calculations, as well as monitoring the indicator for reasonableness. Additionally, reassess the need and use of the “Trends, Risks, and Issues” section in the Dashboard to ensure complete and current information or eliminate the section and capture similar data through a different vehicle.</td>
<td>Chapter 2, pages 45-46</td>
<td>Medium</td>
<td><strong>Initial Response:</strong> Staff will modify the “Trends, Risks, and Issues” section in the Dashboard. New tools to help provide better consistency in the “percent of completion” data for the Dashboard are being rolled out to the project teams. Additional training efforts also are being deployed to improve accuracy and consistency. <strong>Implementation Plan:</strong> Will keep ITOC up to date on changes and refinements to the Dashboard over time. Project history from Recommendation no. 12 may be put in the place of “Trends, Risks, and Issues.” Richard Chavez (SANDAG) lead.</td>
<td><strong>Implementation Status:</strong> The TransNet project office has implemented a Quality Assurance/Quality Control process to review the Dashboard every month. This item is anticipated to be complete by December 2010.</td>
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| 14. | Develop and define concrete performance goals and targets to measure project outcomes, as well as performance efficiencies as part of a comprehensive performance monitoring system linking goals with strategic planning, specific goals, and resource allocations and evaluating progress toward objectives, such as levels of reduced congestion, project cost per mile, and percent of projects completed on time and budget. Performance measures should track program and project delivery effectiveness and efficiency indicators related to hitting targets on meeting delivery milestones, staying within certain percentages of cost estimates, and reducing support costs and overhead by prescribed amounts. Performance measures should be challenging yet attainable targets used to assess timelines and cost-effectiveness of projects. Once program-wide performance data is collected, it should be made available to the ITOC and other oversight bodies through the Quarterly Report process whereby program level milestones could be communicated and success or struggle with meeting benchmarks could be discussed to highlight accomplishments or improvements needed, as well as month-to-month changes to identify trends and patterns. Indicators that could be measured include the following hypothetical examples:  
  ✓ Each fiscal year, meet XX percent of project delivery milestones  
  ✓ By XXX, reduce the support to capital ratio to XX percent or lower and reduce overhead cost to XX percent  
  ✓ Each year, keep the total of all low bids within X percent of the total of all engineers’ estimates. | Chapter 2, pages 46-49 | High | Initial Response: Related to Recommendation no. 2 above – more specificity in this recommendation on developing goals/targets. The topic of performance goals, targets, and project/program monitoring provides a key recommendation that the TransNet program team believes may best be addressed by establishing an ITOC subcommittee and a regular reporting process to advance ideas to promote better accountability. This process will allow the ITOC and the TransNet program team to fully assess the costs and benefits of any proposals that are developed. ITOC believes that carpool and FasTrak® usage data should be included in developing the goals and performance measures referred to in this recommendation.  
Implementation Plan: Related to implementation of Recommendations nos. 1 and 2. | ☑ Completed |
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<td>15. Consider using baseline data available in other models, such as the Caltrans California Life-Cycle Benefit/Cost Analysis Model that considers items including travel time savings and reduced emissions, to compare expected project benefits against actual results once projects are completed. Similarly, performance could be weighed against quantitative criteria and calculations used during the regional transportation planning process whereby projects are ranked and prioritized based on estimated cost per person-miles traveled and cost per travel time savings calculations. SANDAG could perform these calculations after project completion to identify variances from anticipated cost-effectiveness measures, discuss reasons for the differences, and use results to adjust future modeling or trend and compare projects against each other.</td>
<td>Chapter 2, page 48</td>
<td>Low</td>
<td><strong>Initial Response:</strong> Related to Recommendation no. 14. This recommendation appears to be a longer-term action plan versus a shorter-term action plan for Recommendation no. 14. Regarding the longer-term, the process for the next Regional Transportation Plan (RTP) will have to incorporate much of what is suggested here to conform to new state laws. The TransNet program team suggests that the TransNet program coordinate and incorporate the appropriate new processes developed in the upcoming RTP cycle. <strong>Implementation Plan:</strong> No specific actions planned other than for TransNet program to participate in the development of the 2011 RTP.</td>
<td><strong>Implementation Status:</strong> The 2050 RTP is scheduled for Board action in summer 2011. The SANDAG Project Office staff has participated in the RTP transportation project evaluation process, and SANDAG has included measures like cost per person-miles traveled and cost per travel time saved in the transportation project evaluation criteria used to prioritize projects in the 2050 RTP update. In addition, SANDAG is in the process of developing a cost-benefit analysis for the 2050 RTP update.</td>
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Building upon strong existing protocols related to transparency holding project owners accountable and economical to demonstrate performance results to the public, SANDAG should work in conjunction with Caltrans to:

16. Once a comprehensive performance monitoring system is designed as discussed above and performance data is captured, designate individual staff follow-up on missed targets, assure corrective actions where needed, or assess the impact of any shortfalls to the overall TransNet program. Such performance monitoring should be routinely conducted to assess the impact of performance not meeting target goals. | Chapter 2, page 49 | Medium | **Initial Response:** The TransNet program team generally concurs with this statement, to the extent that it refers to new performance monitoring systems and/or procedures. The team believes that this kind of accountability has been and will continue to be the routine responsibility of the Corridor Project Directors and the TransNet Project Offices. **Implementation Plan:** No specific actions planned. General accountability is the primary responsibility of the Corridor Project Directors and TransNet Program Offices. | **Implementation Status:** General accountability continues to be the routine responsibility of Corridor Project Directors and TransNet Project Offices. | ☑ Completed |
As funding is an ongoing challenge and projects are continually shifted and reprioritized to stretch limited resources, to monitor financial risks and availability of funds to complete projects, as well as increase accountability, SANDAG should:

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<td>17. Continue to regularly monitor and review the debt-to-revenue ratio, as well as total financing costs to ensure it meets short- and long-term obligations, as well as continue to consistently analyze projected debt service costs and compare planned program financing costs to track any higher than expected bond issuance and debt services costs. Further, SANDAG should determine whether the Plan of Finance strategies should be modified in the long-term, and report to the ITOC on the status of the debt-to-revenue ratio on a regular basis.</td>
<td>Chapter 3, page 54</td>
<td>Low</td>
<td><strong>Initial Response:</strong> We concur with the recommendation. SANDAG updates the Plan of Finance on an annual basis or more frequently, if necessary. As part of the update, some of the key metrics that are analyzed include the debt coverage ratio and the debt service costs, as well as the assumptions underlying sales tax revenue growth and cost escalation factors. In addition, actual debt service costs are monitored on a weekly basis. Regular reports will be provided to the ITOC on the debt coverage ratio. <strong>Implementation Plan:</strong> Plan is to provide a quarterly report and to ensure it occurs with the Plan of Finance update. Example reports will be presented at the September 2009 ITOC meeting. Lisa Kondrat-Dauphin (SANDAG) lead.</td>
<td><strong>Implementation Status:</strong> Example financial reports were presented at the October 14, 2009, ITOC meeting. Quarterly financial reports have been presented since that time. ☑ Completed</td>
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As funding is an ongoing challenge and projects are continually shifted and reprioritized to stretch limited resources, to monitor financial risks and availability of funds to complete projects, as well as increase accountability, SANDAG should:

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| 18. Establish a mechanism to link and track the Extension Ordinance planned projects and amounts with current plans and budgets for all TransNet projects to reduce confusion and better justify to the public how project promises from the Extension Ordinance were amended to result in actual projects delivered. Such ongoing tools should specifically identify and document the history or evolution of a project’s budget over time by tracking all significant changes to project funding, prioritization, and scope over the life of the TransNet program. Moreover, the data should be shared with the ITOC and other oversight bodies to better oversee and understand the cumulative impact of recommendations related to TransNet funding. Other data that would be valuable for the ITOC to receive is the quarterly data related to sales tax revenue collected in the particular quarter, collected to date, and distributed amongst the various Extension Ordinance projects, programs, and entities. | Chapter 3, pages 65-67 | High | **Initial Response:** The budget tracking mechanism recommendation is something that the project teams are committed to developing for projects in the TransNet program. May have some concern for the implementation of this for all projects – particularly those in the program that are not actively being worked on. Cost information for those projects is at a planning level. Also see responses to Recommendations nos. 12 and 14.

Regarding the recommendation for “other data,” we concur. SANDAG will provide a quarterly report to the ITOC containing components such as total TransNet revenue collected and the distribution of the revenue among the programs, as well as the status of spending the bond proceeds.

**Implementation Plan:** Budget tracking recommendation is similar to Recommendation no. 12. “Other data” plan is to provide a quarterly report. Example reports will be presented at the September 2009 ITOC meeting. Lisa Kondrat-Dauphin (SANDAG) lead. | Implementation Status: The ITOC Annual Report includes a “Current Status of TransNet Early Action Projects” section which links Extension Ordinance 2002 dollar estimates and baseline open to public dates for planned projects with current budgets and open to public dates. In addition, the “other data” recommendation has been addressed through example financial reports presented at the October 14, 2009, ITOC meeting. Quarterly financial reports have been presented since that time. | ☒ Completed |
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<td>19.</td>
<td>Chapter 4, pages 75-76</td>
<td>Medium</td>
<td><strong>Initial Response</strong>: The concept of informal post-evaluation for project development has been and will continue to be encouraged for all projects in the program. However, formal processes are not encouraged until a project is formally closed-out due to potential project claim issues. <strong>Implementation Plan</strong>: Would like to present Caltrans project close-out quality assurance processes to ITOC for discussion and focus more on Recommendation no. 25, which is more program-wide, rather than project specific. Plan to present by the end of 2009. Allan Kosup (Caltrans) lead.</td>
<td><strong>Implementation Status</strong>: Caltrans staff presented project close-out quality assurance processes as part of the presentation on example performance reports at the October 14, 2009, ITOC meeting. ✔ Completed</td>
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To expand and enhance the current project management and delivery practices, SANDAG and Caltrans should consider the following:

Ensure post-evaluation forms are consistently used and completed for all highway construction and transit projects after each project phase to ensure appropriate changes are made mid-stream rather than waiting until a project is formally closed-out. Communicate key results to the ITOC, as appropriate. Additionally, consider capturing various process best practices in shared databases that can be easily accessed and considered for application across all TransNet projects as well.
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<td>20.</td>
<td>Chapter 4, pages 77-78</td>
<td>Medium</td>
<td><strong>Initial Response</strong>: While we concur with many of the specific issues contained within this recommendation, SANDAG is considering a more comprehensive management review of the transit planning and project development processes it is responsible for. It would be appropriate to assess these recommendations in light of that management review in order to determine the best course of action. <strong>Implementation Plan</strong>: Will report back to ITOC on status of management review process by the end of 2009. Charles “Muggs” Stoll and Jim Linthicum (SANDAG) leads.</td>
<td><strong>Implementation Status</strong>: As part of the Mid-Coast Corridor Transit project, staff is developing a Project Management Plan (PMP), which is a comprehensive manual on developing major transit projects and addresses contracting; change control; budget and schedule; and document control procedures. The draft PMP is expected to be presented to the Federal Transit Administration (FTA) in fall 2010 with timing of the final PMP presentation to the ITOC contingent upon completion of the FTA review process.</td>
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<td>21.</td>
<td>Chapter 4, page 78</td>
<td>Low</td>
<td><strong>Initial Response</strong>: We concur and will develop this as part of our document control improvements. <strong>Implementation Plan</strong>: To be done with Recommendation no. 20.</td>
<td><strong>Implementation Status</strong>: SANDAG has hired a consultant that will develop a draft configuration management plan and document control plan for Metropolitan Transit System (MTS), North County Transit District (NCTD), and SANDAG capital projects. The draft plans are anticipated to be complete by winter 2010/2011. Also see implementation status for Recommendation no. 20.</td>
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To expand and enhance the current project management and delivery practices, SANDAG and Caltrans should consider the following:

- **20.** Build upon, improve, and formalize transit project documentation of current SANDAG processes and procedures to better ensure long-term continuity of in-house expertise. Towards this end, SANDAG should consider establishing working-level policies and procedures to ensure the uniform application of project delivery and management techniques and make such documentation of practices, controls, and preferences available to SANDAG staff for reference and training purposes. At a minimum, SANDAG should consolidate Board policies into a comprehensive delivery manual where further defined procedures could be established and practices memorialized.  

- **21.** Create a uniform filing system to strengthen transit project management where critical project documentation such as cost estimates, project budget history, project development team meetings, change orders, and other data are organized and located under a similar numbering system to ensure consistency and availability of important project data. Further, SANDAG may want to create a shared database to house the electronic copies of project documentation.
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<td>22. Conduct an intensive, hands-on workshop in which SPRINTER project management could formally share critical lessons learned and practical experiences with SANDAG and Caltrans executives, including discussing specific implementation details deliberated and benefits versus cost analysis employed. These meetings could result in the establishment of stronger project delivery tools and written policies and procedures to assure best practices are implemented such as:</td>
<td>Chapter 4, pages 79-80</td>
<td>Medium</td>
<td>Initial Response: It is anticipated that NCTD will convene detailed lessons learned workshop with NCTD, SANDAG, and FTA staff in spring 2009, pending the resolution of potential contractor claims and/or litigation. The ITOC is interested in exploring how to involve the public in this process. Staff will communicate this feedback to NCTD staff and report back to the ITOC on the process.</td>
<td>Implementation Status: The FTA conducted a lessons learned workshop for the SPRINTER project on April 6, 2009, where topics such as organizational structure, project scheduling, a more robust project budgeting process, dispute resolution, and communication were discussed. The SPRINTER project has been formally closed out and the final funding plan was presented to the ITOC at its September 8, 2010, meeting.</td>
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<td>✓ Using risk mitigation registers evaluating project risks related to cost, scope, and schedule including descriptions, cause, potential impact, likelihood of impact materializing, mitigation strategy, and costs to mitigate.</td>
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<td>✓ Merging highway construction and transit risk assessment results into an integrated risk plan that can be overseen for the entire TransNet program.</td>
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<td>23. Revisit the task order approval process to identify which individuals are needed for approvals or consider implementing a higher delegated authority level for certain types of amendments wherein a streamlined process could be employed on lower value amendments to ensure approval protocols are not causing unnecessary delays on projects.</td>
<td>Chapter 4, page 88</td>
<td>Low</td>
<td><strong>Initial Response:</strong> As part of ongoing efforts to streamline procurement processes, these issues will be reviewed. <strong>Implementation Plan:</strong> An update to the ITOC will be made as the internal review is complete. Anticipate reporting back by the end of 2009. Kim Kawada/ Ariana zur Nieden (SANDAG) leads.</td>
<td><strong>Implementation Status:</strong> A review of the task order approval process has been completed. As a result, new guidelines have been established. ☒ Completed</td>
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<td>24. Ensure task order amendments for time extension have sufficient written justification explaining why a project needs the extension and assessing the impact of the delay on other project activities and downstream project phases.</td>
<td>Chapter 4, pages 88-89</td>
<td>Low</td>
<td><strong>Initial Response:</strong> We concur and have taken steps to strengthen the documentation required for time extensions. <strong>Implementation Plan:</strong> Has been implemented.</td>
<td><strong>Implementation Status:</strong> As of October 2008, written justification is required for task order time extension requests. This documentation is reviewed by a senior contracts engineer as a quality assurance measure. ☒ Completed</td>
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<td>25. Enhance practices by tracking change orders and contract amendments for the TransNet program overall and developing and trending performance indicators to provide another tool to gauge project and program status or level of success.</td>
<td>Chapter 4, page 91</td>
<td>Medium</td>
<td><strong>Initial Response:</strong> This information is currently gathered and may have value in being reported at a program level. The TransNet program team would like to engage the ITOC in how to implement this process. <strong>Implementation Plan:</strong> Related to Recommendation nos. 2 and 19. Will include examples of Caltrans statewide data on contract change order tracking along with other data in Caltrans “District 11 TransNet Fiscal Year in Review” report. Allan Kosup (Caltrans) lead.</td>
<td><strong>Implementation Status:</strong> Caltrans staff presented contract change order processes as part of the presentation on example performance reports at the October 14, 2009, ITOC meeting. ☒ Completed</td>
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Sales Tax Revenue: Past Year Comparison

Quarter-to-quarter comparison shows an increase in sales tax revenues over the last two quarters.

SANDAG Variable Rate Bonds

- SANDAG Swap Payment
- 30 Year Fixed Rate Bond Index
- SANDAG Total Cost, Net of LIBOR Receipt
SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION

PROPOSED TransNet 2010 BOND ISSUANCE

2010 Bond Financing Team

- San Diego County Regional Transportation Commission
  - Gary L. Gallegos, Executive Director
  - Renée Wasmund, Chief Deputy Executive Director
  - Julie Wiley, General Counsel
  - Marney Cox, Chief Economist
  - Kim Kawada, TransNet and Legislative Affairs Program Director
  - Lauren Warren, Director of Finance

- Financial Advisors, Public Financial Management
  - Keith Curry, Managing Director
  - Peter Shellenberger, Senior Managing Consultant

- Bond Counsel, Orrick, Herrington & Sutcliffe, LLP
  - Mary Collins, Partner
  - Brooke Abola, Senior Associate
  - Devin Brennan, Associate

- Disclosure Counsel, Nossaman, LLP
  - Barney Allison, Attorney at Law

- Senior Underwriter, Barclays
  - Anthony Hughes, Managing Director
  - Michael Gomez, Director
  - John McCray-Goldsmit, Senior Vice President
Plan of Finance (approved July 2010)

- Opportunities lead to the implementation of the Robust scenario
  - Low bid construction cost environment
  - Historically low interest rates
  - Capture the Build America Bonds (BABS) 35% subsidy
  - Increased purchasing power of the TransNet Program
TransNet Extension Early Action Program

Structuring Considerations

- Debt Service Structure
- BABs Subsidy Treatment
- Call Options
- Debt Service Reserve Fund
Structuring Considerations
Debt Service Structure

- Series 2010 estimated Par amount = $350 million
  - $7.9 million tax-exempt / $342.1 million BABs

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<th>Tax-exempt¹</th>
<th>BABs/Taxable²</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>SANDAG</td>
<td>$299,728,322</td>
<td>$299,728,322</td>
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</tr>
<tr>
<td>San Marcos</td>
<td>$30,000,000</td>
<td>$30,000,000</td>
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</tr>
<tr>
<td>Solana Beach</td>
<td>$5,500,000</td>
<td>$5,500,000</td>
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<tr>
<td>Santee</td>
<td>$4,500,000</td>
<td>$3,950,000*</td>
<td>$8,450,000</td>
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<tr>
<td>National City</td>
<td>$3,366,000*</td>
<td></td>
<td>$3,366,000</td>
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<tr>
<td>Cost of Issuance/Underwriters' Discount</td>
<td>$49,000</td>
<td>$2,906,678</td>
<td>$2,955,678</td>
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<tr>
<td>Total Par Issued</td>
<td>$7,915,000</td>
<td>$342,085,000</td>
<td>$350,000,000</td>
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</table>

1. 10 year level debt service.
2. 38 year back-loaded principal.

“Back-loaded” principal structure achieves (1) low long-term interest rates; (2) complements the existing 2008 variable rate debt by maintaining level annual debt service; and (3) maintains strong debt service coverage at above 4.39
Structuring Considerations

- Debt Service Structure
- BABs Subsidy Treatment
- Call Options
- Debt Service Reserve Fund

Financing Strategy Objectives

- Minimize borrowing costs for the Commission
- Maximize TransNet funds available for project construction and project delivery
- Maintain program flexibility
- Satisfy the credit / investor demands with appropriate covenants and strong debt service coverage
- Continue to diversify the debt profile with the issuance of fixed rate bonds
Next steps

- **October 15** – Transportation Committee final review and recommendation to the Board of Directors
- **October 22** – Board of Directors final review and approval of bond documents
- **October 28** – Anticipated pricing of bonds
- **November 10** – Anticipated closing of bonds
Questions to Consider

- Should we refinance the $600 million in variable rate bonds?
- What is our bonding capacity?
- What is the net cost of negative arbitrage?
  Is it more advantageous to issue all $350 million in bonds now, or to delay a portion of the bond issuance?
- What is the risk of elimination of the federal BABs subsidy?
- What is the risk that member agency funding could be appropriated for debt service?
  What is the risk to SANDAG of allowing member agencies to participate in the bond issuance?
- What ability does the State have to appropriate the TransNet sales tax for other purposes?
State Route 76 Corridor

SR-76 East (S. Mission Rd. to I-15)
- Environmental Document Release

SR-76 Middle (Melrose Dr. to S. Mission Rd.)
- Construction Update

Independent Taxpayer Oversight Committee
October 13, 2010

SR 76 Corridor
Objectives

- Expand mobility
- Improve safety
- Enhance natural resources
- Synergy with San Luis Rey River Park
SR 76 East
Alignment Alternatives

Typical Cross Section
SR 76 East
Next Steps

✔ Environmental Process
  - Released Draft Environmental Document, September 3, 2010
  - End Public Review period, November 2, 2010
  - Select Preferred Alternative, Spring 2011
  - Approve Final Environmental Document, Fall 2011

✔ Construction Process
  - Acquire Right of Way, Fall 2011
  - Break Ground on Interchange, Early 2012
  - Complete Corridor Construction, 2015

✔ Funding
  - TransNet, Developer, County TIF, and Tribal Contributions

SR 76 Middle
Construction Update

Looking NE from Melrose Dr.
Site Prep, New San Luis Rey River Bridge

Falsework, New San Luis Rey River Bridge
Quarterly Report on TransNet Early Action Program

Independent Taxpayer Oversight Committee
October 13, 2010

Performance Measures

• Schedule Adherence
  – 8 Public Hearings Held
  – I-805 Carroll Canyon DAR & 2HOV
  – Mid-City Rapid Bus
  – Mid-Coast LRT
• Budget Control
  – Robust Scenario
• Performance Measures
  – Next Report - April 2011
Trends: Average Number of Bidders
on Caltrans projects over $5 million

Trends: Caltrans Construction Index
Trends: Average Number of Bidders
on Caltrans projects over $5 million

2002 2003 2004 2005 2006 2007 2008 2009 2010
Caltrans Construction Index

1. Roadway excavation
2. Aggregate base
3. Asphalt pavement
4. Concrete pavement
5. Structural concrete
6. Bar reinforcement steel
7. Structural steel

Caltrans Projects: April - June 2010

<table>
<thead>
<tr>
<th>Range ($)</th>
<th>Number of Projects</th>
<th>%</th>
<th>Value ($)</th>
<th>%</th>
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<tbody>
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<td>0 to 500k</td>
<td>102</td>
<td>38%</td>
<td>$30M</td>
<td>4%</td>
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<tr>
<td>500k to 5M</td>
<td>148</td>
<td>55%</td>
<td>$252M</td>
<td>37%</td>
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<tr>
<td>5M and above</td>
<td>20</td>
<td>7%</td>
<td>$401M</td>
<td>59%</td>
</tr>
<tr>
<td>Total</td>
<td>270</td>
<td>100%</td>
<td>$683M</td>
<td>100%</td>
</tr>
</tbody>
</table>
Caltrans Construction Index

- Weighted by quantity
- Highs and lows thrown out (1.5 standard deviation)
- 17 items in 7 categories
- Shifting to new formula and base year

Aggregate Base ($ per cubic meter)

[Graph showing the aggregate base for San Diego and Statewide from 2002 to 2010.]
Quarterly Report on
*TransNet* Early Action Program

Independent Taxpayer Oversight Committee
October 13, 2010
First *TransNet* Triennial Performance Audit Report on Actions Taken to Implement Recommendations

Independent Taxpayer Oversight Committee
October 13, 2010

**ITOC Responsibilities**

“Conduct triennial performance audits of SANDAG and other agencies involved in the implementation of TransNet-funded projects and programs to review project delivery, cost control, schedule adherence and related activities. The review should include consideration of changes to contracting, construction, permitting and related processes that could improve the efficiency and effectiveness of the expenditure of TransNet revenues. These performance audits shall be conducted using the services of an independent performance auditor and should include a review of the ITOC’s performance.”
Key Audit Recommendations

– Enhance oversight
– Implement greater performance measures
– Improve budget and schedule change tracking mechanisms
– Enhance project delivery methods

Oversight

– Ongoing reports
  • Monthly financial market overview
  • Quarterly financial report
– Chronology of ITOC actions report
– Agenda item conveys Board and Transportation Committee actions
– Fiscal, compliance, and internal audits
Performance Monitoring

- Major Corridor project reports
  - Periodic
  - Quarterly
  - Annual
- Transportation performance measures

Budget and Schedule Control

- Dashboard
  - Chronology of budget changes
  - Quality Control / Quality Assurance process
  - Explanatory note clarifying cumulative data
  - Modification of trends, risks, and issues
- Risk analysis / Risk registry
Project Delivery

- Change order process
- Project close-out quality assurance process
- Project schedulers

Project Delivery (cont)

- Project management plan
- Configuration management and document control plan
- SPRINTER lessons learned workshop
First *TransNet* Triennial Performance Audit Report on Actions Taken to Implement Recommendations

Independent Taxpayer Oversight Committee
October 13, 2010