MEETING NOTICE
AND AGENDA

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

Wednesday, June 8, 2011
9:30 a.m.
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

• ACCEPTANCE OF FY 2010 TransNet FISCAL AND COMPLIANCE AUDITS
• DRAFT 2011 ITOC ANNUAL REPORT
• ANNUAL ITOC ALLOCATION AND CARRYOVER FUND BALANCE

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To request this document or related reports in an alternative format, please call (619) 699-1900, (619) 699-1904 (TTY), or fax (619) 699-1905.
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, June 8, 2011

ITEM #

1. MEETING SUMMARY FOR THE MAY 11, 2011, ITOC MEETING
   APPROVE
   A summary of the May 11, 2011, ITOC meeting has been prepared for the Committee’s review and approval.
   Estimated Start Time: 9:30 a.m.

2. PUBLIC COMMENTS/COMMUNICATIONS/MEMBER COMMENTS
   INFORMATION
   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. Public speakers are limited to three minutes or less per person. Committee members also may provide information and announcements under this agenda item.
   Estimated Start Time: 9:35 a.m.

REPORTS (3 through 7)

3. SUMMARY OF TRANSPORTATION COMMITTEE AND BOARD OF DIRECTORS ACTIONS ON TransNet-RELATED AGENDA ITEMS
   INFORMATION
   (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.
   Estimated Start Time: 9:50 a.m.

4. ACCEPTANCE OF FY 2010 TransNet FISCAL AND COMPLIANCE AUDITS
   ACCEPT
   (Lisa Kondrat-Dauphin)
   The TransNet Extension Ordinance requires the ITOC to share the initial findings of the annual fiscal and compliance audits and its recommendations with the Transportation Committee 60 days prior to their release. The ITOC presented the initial FY 2010 audit findings and recommendations to the Transportation Committee on March 18, 2011, with the exception of the City San Diego. The ITOC is asked to accept the final FY 2010 TransNet fiscal and compliance audit reports with the exception of the City of San Diego.
   Estimated Start Time: 10:00 a.m.

5. APPOINTMENT OF FY 2011 TransNet FISCAL AND COMPLIANCE AUDIT SUBCOMMITTEE
   APPOINT
   (Lisa Kondrat-Dauphin)
   The TransNet FY 2011 fiscal and compliance audit process is scheduled to begin on July 1, 2011. The ITOC is asked to appoint members to serve on its FY 2011 Fiscal and Compliance Audit Subcommittee.
   Estimated Start Time: 10:20 a.m.

6. DRAFT 2011 ITOC ANNUAL REPORT
   DISCUSSION
   (Ariana zur Nieden)
   The ITOC is asked to review and discuss the draft 2011 ITOC annual report. Following review by the ITOC, the final 2011 annual report will be prepared for presentation to the SANDAG Board of Directors.
   Estimated Start Time: 10:30 a.m.
+7. ANNUAL ITOC ALLOCATION AND CARRYOVER FUND BALANCE  
(Ariana zur Nieden)  

In accordance with the TransNet Extension Ordinance, up to $250,000 per year, as adjusted for inflation annually, will be used for the operation of the ITOC and any funds not utilized in one fiscal year shall remain available for expenditure in subsequent years as part of the annual budget process. At the June 8, 2011, ITOC meeting, staff will present options for spending down allocations for the committee’s consideration.  

Estimated Start Time: 10:50 a.m.

8. SECOND TransNet TRIENNIAL PERFORMANCE AUDIT PROCUREMENT PROCESS AND RECOMMENDATION FOR CONSULTANT (Jim Ryan and Paul Fromer)  

The ITOC established an evaluation subcommittee to conduct the procurement for services to perform the second TransNet Triennial Performance Audit as required by the TransNet Extension Ordinance. Proposals were due on April 29, 2011, and were subsequently reviewed and rated by the evaluation subcommittee. Interviews of the short listed firms were held on June 3, 2011. At the June 8, 2011, ITOC meeting, the evaluation subcommittee will make a recommendation and seek approval from the ITOC to proceed forward with a notice of intent to award. The ITOC is asked to approve the recommended consultant.  

Estimated Start Time: 11:10 a.m.

98. FUTURE MEETING SCHEDULE  

The next regular ITOC meeting is scheduled for Wednesday, July 13, 2011, at 9:30 a.m.  

Estimated Start Time: 11:30 a.m.

109. ADJOURNMENT  

+ next to an agenda item indicates an attachment
San Diego Association of Governments - TransNet Program

INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

June 8, 2011

AGENDA ITEM NO.: 1

Action Requested: APPROVE

MEETING SUMMARY FOR THE MAY 11, 2011,
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE MEETING

File Number 1500100

Attendance

Committee Members:  ▪ Carolyn Lee, Chair  ▪ Jesus Garcia
                    ▪ Jim Ryan, Vice Chair  ▪ Tracy Sandoval
                    ▪ Paul Fromer

Absent:  ▪ Hamid Bahadori  ▪ John Meyer

Staff:  ▪ Kim Kawada  ▪ Ariana zur Nieden

The meeting of the TransNet Independent Taxpayer Oversight Committee (ITOC) was called to order by Chair Carolyn Lee at 9:39 a.m.

1. APPROVAL OF MEETING SUMMARY

   Action: Upon a motion by Vice Chair Jim Ryan and a second by Jesus Garcia, the ITOC approved the April 13, 2011, meeting summary.

2. PUBLIC COMMENTS/COMMUNICATIONS/MEMBER COMMENTS

   There were no public comments.

   Chair Lee requested a status report on the ITOC membership recruitment efforts and Senate Bill 468 (Kehoe) (SB 468). With regard to membership, Kim Kawada, TransNet and Legislative Affairs Program Director, briefed the committee on the recruitment efforts, and asked members to let her know if they have any suggestions for the open committee positions.

   Ms. Kawada provided information on the latest updates on SB 468 and provided the schedule for the legislative process on this bill. She also briefed the committee on the recent State Senate Transportation and Housing Committee hearing on this subject that was held on Tuesday, May 3, 2011.
Vice Chair Ryan asked about the ITOC meeting schedule going forward. He suggested meeting on a quarterly basis, and condensing agenda topics to specifically deal with the committee’s oversight responsibilities.

ITOC members agreed with a more streamlined focus for future agendas and provided suggestions to reduce the frequency of meetings.

Ms. Kawada stated that staff would take a look at these suggestions and mandatory deadlines and would report back to the ITOC in June or July.

Vice Chair Ryan asked about an orientation session for new ITOC members.

Chair Lee suggested that an orientation session be developed for new ITOC members focusing on primary committee responsibilities.

**CONSENT (3)**

3. QUARTERLY TransNet FINANCIAL REPORTS FOR THE PERIOD ENDING MARCH 31, 2011, 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 first TransNet Triennial Performance Audit.

Chair Lee raised a question regarding compliance with the 30 percent fund balance limitation and asked for an update. Lauren Warrem, Director of Finance, responded that SANDAG is enforcing this rule and not making payments to those jurisdictions that are not in compliance.

Vice Chair Ryan requested a memo that noted which jurisdictions have not been spending down their TransNet funds. Ms. Warrem agreed to bring back a report on the balances held for each jurisdiction.

Ms. Sandoval asked what authority ITOC has to spend down the ITOC operating budget carryover funds on other TransNet programs. Ms. Warrem replied that staff would bring back further information regarding options on the use of these funds.

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

**REPORTS (4 through 5)**

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

Ms. Kawada provided the monthly briefing to keep the ITOC informed about relevant SANDAG actions taken on TransNet-related projects and programs. Ms. Kawada provided a summary of Transportation Committee and Board of Directors actions on agenda items that the ITOC has reviewed, including an update on the following items: Regional Transportation Improvement Program Amendment No. 7; Proposed Initial Implementation of the Regional Bicycle Plan; and the 2010 State of the Commute report.
Chair Lee asked about the status of SANDAG’s interest in purchasing State Route 125. Ms. Kawada provided a brief update on this matter.

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

5. **DRAFT 2050 REGIONAL TRANSPORTATION PLAN: OVERVIEW, UPCOMING OUTREACH, AND ADOPTION PROCESS (INFORMATION)**

The Draft 2050 Regional Transportation Plan (2050 RTP) is the blueprint for keeping pace with the mobility and sustainability challenges in a growing region. The 2050 RTP is built on an integrated set of public policies, strategies, and investments to maintain, manage, and improve the transportation system, so it meets the diverse needs of our changing region through 2050. The Board released the Draft 2050 RTP and its Sustainable Communities Strategy for public review and comment on April 22, 2011. The Draft Environmental Impact Report is anticipated to be released in early June 2011.

Heather Adamson, Senior Regional Planner, provided a presentation about the Draft 2050 RTP, as well as outlined the upcoming workshops and public hearings that will take place during the public comment period. The SANDAG Board is anticipated to adopt the 2050 RTP in fall 2011.

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

6. **FUTURE MEETING SCHEDULE**

The next regular ITOC meeting is scheduled for Wednesday, June 8, 2011, at 9:30 a.m.

Vice Chair Ryan and Ms. Sandoval provided a status report on the Fiscal Audit Subcommittee’s efforts.

7. **ADJOURNMENT**

Chair Lee noted that this would be Mr. Garcia’s last ITOC meeting and thanked him for his service.

Chair Lee adjourned the meeting at 10:52 a.m.
**Introduction**

The San Diego Transportation Improvement Program Ordinance and Expenditure Plan (Ordinance 04-01) specifies certain requirements for the recipients of TransNet funds, including a requirement for an independent annual fiscal and compliance audit of each recipient of TransNet funds.

SANDAG Board Policy No. 031, TransNet Ordinance and Expenditure Plan Rules, contains several rules detailing administration of the TransNet Program and addressing the fiscal and compliance audit procedures. In accordance with the audit schedule contained in Rule #17, Section I, Fiscal and Compliance Audit Procedures, the ITOC issues all compliance reports and adopts the annual report no sooner than 60 days following the report of the initial audit findings to the Transportation Committee. ITOC Chair Carolyn Lee presented the initial audit report to the Transportation Committee on March 18, 2011, and therefore, the earliest date that the ITOC could issue and accept the compliance audit results would be May 17, 2011.

**Recommendation**

The ITOC is asked to accept the final FY 2010 TransNet fiscal and compliance audit reports, with the exception of the City of San Diego, as prepared by the independent certified public accounting firm of Mayer Hoffman McCann P.C. (MHM) in accordance with the agreed-upon procedures (AUP), so the final audit reports may be issued.

**Discussion**

The independent certified public accounting firm of MHM performed the FY 2010 TransNet fiscal and compliance audit for the sales tax revenue recipient agencies using the FY 2010 AUP previously approved by the ITOC on September 8, 2010. The AUP include requirements specific to the TransNet Extension Ordinance and SANDAG Board Policy No. 031. In accordance with the TransNet Extension Ordinance and SANDAG Board Policy No. 031, Rule #17, MHM presented the initial draft audit results and findings to the ITOC at its March 9, 2011, meeting for all TransNet recipients, except the City of San Diego (City). The audit for the City is delayed while they are finalizing the FY 2010 year-end closing process. A copy of the audits may be viewed at: http://www.sandag.org/uploads/meetingid/meetingid_2860_12625.pdf.
Two recipient agencies were in noncompliance with the TransNet Extension Ordinance at the time of the initial draft audits. The City of Oceanside was in noncompliance with the Maintenance of Effort (MOE) requirement, and the Metropolitan Transit System (MTS) was in noncompliance with the total operating cost per revenue vehicle hour for bus services level. The SANDAG Board of Directors granted the City of Oceanside three years to meet their MOE shortfall, and MTS was granted an allowance to exclude certain costs from their FY 2010 bus services calculation, in accordance with the TransNet Extension Ordinance. The updated MTS audit is provided as Attachment 1 and indicates current compliance with the TransNet Extension Ordinance, noting SANDAG Board approval of the cost exclusions. The City of Oceanside modified the management response to its finding as follows:

For the audit period, the City had insufficient discretionary funds available to both meet the TransNet MOE requirements and maintain essential programs. The City is increasing the amount of discretionary expenditures on street maintenance and new street projects. The City requested a three-year extension in the time permitted to meet the MOE threshold per Section 8 of the Ordinance.

The request was approved on the following dates:

- Independent Taxpayer Oversight Committee: March 9, 2011
- SANDAG Transportation Committee: March 18, 2011
- SANDAG Board of Directors: March 25, 2011

The MOE deficit is to be eliminated according to the following schedule:

- By June 30, 2011: $100,000
- By June 30, 2012: $600,000
- By June 30, 2013: $610,184
- Total: $1,310,184

The TransNet Extension Ordinance also includes a requirement that the ITOC share the initial findings of the independent fiscal audits and its recommendations with the SANDAG Transportation Committee 60 days prior to their release to resolve inconsistencies and technical issues related to the draft report and recommendations. Chair Lee presented the initial audit findings and recommendations at the March 18, 2011, Transportation Committee meeting. There were no significant comments regarding the audits presented at the Transportation Committee meeting.

**Next Steps**

The results of the FY 2010 TransNet fiscal and compliance audit reports will be incorporated into the 2011 ITOC Annual Report. At its June 8, 2011, meeting, the ITOC is scheduled to discuss the timing of presentation of the 2011 ITOC Annual Report to the SANDAG Board of Directors. As of the date this report was written, the City of San Diego’s FY 2010 fiscal audit was not yet completed and is estimated to be released for review in late July.


Key Staff Contact: Lisa Kondrat-Dauphin, (619) 699-1942, lko@sandag.org
SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Report on Agreed-Upon Procedures
Applied to the TransNet Fund

Year Ended June 30, 2010
Independent Taxpayer Oversight Committee  
San Diego Association of Governments  
San Diego, California

INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the Independent Taxpayer Oversight Committee (ITOC) of the San Diego Association of Governments (SANDAG), solely to assist ITOC and SANDAG in determining whether the San Diego Metropolitan Transit System (MTS) was in compliance with the TransNet Ordinance and TransNet Extension Ordinance for the year ended June 30, 2010. MTS' management is responsible for the accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results of those procedures were as follows:

1. We reviewed the 1987 Proposition A San Diego Transportation Improvement Plan (TransNet Ordinance and Expenditure Plan), the 2004 Proposition A (TransNet Extension Ordinance and Expenditure Plan), and SANDAG Board Policy No. 031: TransNet Ordinance and Expenditure Plan Rules compliance requirements (SANDAG Board Policy No. 031).

   Results: No exceptions were noted as a result of our procedures.

2. We obtained the applicable approved Regional Transportation Improvement Program (RTIP) from SANDAG.

   Results: No exceptions were noted as a result of our procedures.

3. We inquired of the recipient agency's management and determined whether the recipient agency maintains a separate fund for TransNet revenues or has an alternative approach to maintaining separate accountability for reasonableness.
Results: Per discussion with management, *TransNet* revenues and expenditures are not recorded in a separate fund, but MTS maintains separate accountability for all *TransNet* activity. This alternative approach to maintaining separate accountability is allowed per SANDAG Board Policy No. 031, Rule #6, if approved by SANDAG. SANDAG has accepted the MTS' alternative approach although no formal approval process has been documented.

4. We obtained a detailed general ledger for *TransNet* revenues and expenditures from the recipient agency for the current fiscal year.

Results: No exceptions were noted as a result of our procedures.

5. We obtained the Schedule of Status of Funds by Project (Schedule A) from the recipient agency and determined that it included a beginning balance. *TransNet* funds received, expenditures incurred, interest income, adjustments and an ending balance listed alpha-numeric by MPO ID.

a. We reviewed Schedule A and determined that the projects are properly classified and reported by *TransNet* program (i.e., original *TransNet* vs. *TransNet* Extension; local streets and roads; local street improvements, including congestion relief vs. maintenance; highway; major corridor; environmental mitigation program; etc). We agreed the beginning balance from the prior year or reviewed that the recipient agency provided a footnote for any restatements.

Results: No exceptions were noted as a result of our procedures.

b. We obtained a listing of *TransNet* payments made to the recipient agency from SANDAG and compared the *TransNet* revenue recorded by the recipient agency to the listing of payments received from SANDAG.

Results: No exceptions were noted as a result of our procedures.

c. We identified the interest income reported for the year ended June 30, 2010.

i. We reviewed the interest income reported on Schedule A and agreed it to the *TransNet* general ledger.

Results: No exceptions were noted as a result of our procedures.

ii. We ensured that interest is applied to each active project that carries a positive beginning balance.

Results: No exceptions were noted as a result of our procedures.

iii. We reviewed the interest allocation methodology for reasonableness.
Results: No exceptions were noted as a result of our procedures.

d. We identified the total TransNet expenditures for the year ended June 30, 2010.

i. We reviewed the total project expenditures reported on Schedule A and agreed them to the TransNet general ledger.

Results: No exceptions were noted as a result of our procedures.

ii. We selected individual expenditures for testing that comprised at least 25% of the total dollar amount of expenditures from the general ledger and obtained supporting documentation (i.e., invoice and copy of check or EFT wire).

Results: MTS recorded total expenditures in the amount of $87,776,557. We selected $50,736,570 (57.80%) for testing. No exceptions were noted as a result of our procedures.

iii. For the expenditures selected, we identified the MPO ID that the expenditures are charged and determined whether the MPO ID is included in the RTIP (see procedure 2) and that the individual expenditure is an eligible cost per the TransNet and TransNet Extension Ordinances and Expenditure Plan requirements.

Results: No exceptions were noted as a result of our procedures.

e. We determined that any amounts reported in the "adjustments" column are explained in the form of a footnote and that the adjustments are consistent with SANDAG Board Policy No. 031, Rule #17, Section III.

Results: No exceptions were noted as a result of our procedures.

f. We obtained a list of completed projects from the recipient agency that is reported by the TransNet program and MPO ID. We determined whether any remaining TransNet funds for completed projects were transferred to another TransNet-eligible project. We determined that projects identified as completed in the previous fiscal year are not presented in Schedule A for the current fiscal year.

Results: No exceptions were noted as a result of our procedures.

g. If the balance of a completed project has not been transferred to another TransNet-eligible project, we ensured that a footnote is presented that includes the subsequent year's intended action in accordance with SANDAG Board Policy No. 031, Rule #17, Section III.

Results: No exceptions were noted as a result of our procedures.
h. If a project ending balance is negative, we ensured that an explanation in the form of a footnote to Schedule A is included with the subsequent year's intended action in accordance with SANDAG Board Policy No. 031, Rule #17, Section III.

Results: No exceptions were noted as a result of our procedures.

i. We determined whether projects which have had no activity over the past two years, other than interest earnings, are closed out or that the recipient agency has presented a footnote as to the status of the project, including when the project will be completed.

Results: No exceptions were noted as a result of our procedures.

j. We obtained a signed staff report or resolution from the recipient agency's governing body consenting to the transfer of TransNet funds from one project to another. We determined whether transfers requiring an amendment to the RTIP followed the amendment process outlined in Rule #7 of SANDAG Board Policy No. 031.

Results: No exceptions were noted as a result of our procedures.

k. We determined whether the recipient agency reported non-TransNet activity separate from TransNet activity in Schedule A.

Results: No exceptions were noted as a result of our procedures.

6. We obtained the Cumulative Schedule of Status of Funds by Project (Schedule B) from the recipient agency and determined that it included cumulative information for all TransNet Extension projects including TransNet funds received, expenditures incurred, interest income, adjustments and an ending balance listed alpha-numeric by MPO ID.

a. We reviewed Schedule B and determined that projects are properly classified and reported by TransNet program (i.e., local street improvements, including congestion relief versus maintenance; major corridors; and environmental mitigation program; etc.). We reviewed the ending balances at June 30 and ensured that the balances agreed for those projects reported in both Schedules A and B.

Results: No exceptions were noted as a result of our procedures.

7. We determined that the ending fund balance per Schedule A for those projects that are derived from the recipient agency's annual TransNet apportionment did not exceed 30% of the recipient agency's current year annual apportionment, net of debt service payments. We determined whether the recipient agency included a schedule showing the annual apportionment, debt service payments (if applicable), net annual
apportionment, 30% balance threshold, applicable project status balance, and excess balance over the threshold.

Results: MTS is in compliance with the 30% requirement. The fund balance under the apportionment is as follows:

<table>
<thead>
<tr>
<th>Fiscal year 2010 apportionment</th>
<th>$21,864,194</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: debt service payment</td>
<td></td>
</tr>
<tr>
<td>Net estimated apportionment</td>
<td>21,864,194</td>
</tr>
<tr>
<td>30% base</td>
<td>30%</td>
</tr>
<tr>
<td>Fiscal year 2010 30% threshold</td>
<td>6,559,258</td>
</tr>
<tr>
<td>Less: fund balance per Schedule A</td>
<td>(225,061)</td>
</tr>
<tr>
<td>Fund balance under apportionment</td>
<td>$6,334,197</td>
</tr>
</tbody>
</table>

8. If applicable, we obtained a roll forward schedule (by commercial paper and bonds) showing the beginning balance of debt additions, repayments and the ending balance. We agreed this schedule to long-term debt information for each recipient agency provided by SANDAG.

Results: This procedure is not applicable as there are no commercial paper and bonds outstanding as of June 30, 2010.

9. We reviewed the maintenance of effort (MOE) requirement for MTS.

Results: This procedure is not applicable as MTS is not subject to MOE requirements.

10. We reviewed transit operator eligibility for receipt of funds.

   a. We calculated and reported the total operating cost per revenue vehicle hour for bus services, and total operating cost per revenue vehicle mile for rail services for the current year and the prior year.

   b. We obtained the increase in the Consumer Price Index for San Diego County (CPI) over the same period from SANDAG.

   c. We reviewed and reported the increase in total operating cost per revenue vehicle hour for bus services, and total operating cost per revenue vehicle mile for rail services in excess of the increase in the CPI.

Results: The increase in the total operating cost per revenue vehicle hour for bus services, and total operating cost per revenue vehicle mile for rail services is shown in the tables below.
The growth rate for bus total operating cost per revenue vehicle hour exceeded the increase in the CPI. However, MTS submitted to the SANDAG Board a request to exclude $847,900 in certain costs from the calculation. The SANDAG Board of Directors approved MTS' request. Therefore, we have excluded the costs from the calculation and the MTS bus service growth rate is now in compliance with the requirements.

The growth rate for Rail total operating cost per revenue vehicle hour was equal to the increase in the CPI and was in compliance with the requirements.

### Operating Cost per Revenue Vehicle Hour for Bus Services

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cost for buses (1)</td>
<td>$142,314,150</td>
<td>$148,098,933</td>
<td></td>
</tr>
<tr>
<td>Revenue vehicle hours</td>
<td>1,733,857</td>
<td>1,829,147</td>
<td></td>
</tr>
<tr>
<td>Total operating cost per revenue vehicle hour</td>
<td>$82.08</td>
<td>$80.97</td>
<td>1.01369</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>244.242</td>
<td>240.885</td>
<td>1.01394</td>
</tr>
</tbody>
</table>

(1) In the prior year report, 2009 operating costs were reported as $81,271,392. The variance of $66,827,541 is due to: (1) the addition of $7,675,393 due to a change in the indirect cost allocation; (2) the addition of contracted services in the amount of $59,639,022; (3) the addition of $1,068,126 of OPEB expense; and (4) the deduction of $1,555,000 of amortization of OPEB expense.

### Operating Cost per Revenue Vehicle Mile for Rail Services

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cost for rail (1)</td>
<td>$61,127,104</td>
<td>$60,713,758</td>
<td></td>
</tr>
<tr>
<td>Revenue vehicle miles</td>
<td>7,848,443</td>
<td>7,894,528</td>
<td></td>
</tr>
<tr>
<td>Total operating cost per revenue vehicle mile</td>
<td>$7.79</td>
<td>$7.69</td>
<td>1.01300</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>244.242</td>
<td>240.885</td>
<td>1.01394</td>
</tr>
</tbody>
</table>

(1) In the prior year report, 2009 operating costs were reported as $58,536,769. The variance of $2,176,989 is due to the deduction of OPEB expense from operating costs in the prior report.
11. We obtained the approved Regional Transportation Congestion Improvement Program (RTCIP) from SANDAG for the year ended June 30, 2010.

a. We obtained a general ledger for the RTCIP fund from MTS.

b. We obtained the RTCIP approved schedule for collecting and/or contributing private sector exactions to its Funding Program from MTS.

c. We obtained the RTCIP schedule, which included the beginning balance, exactions collected, interest earned, expenditures incurred and the ending balance, from MTS. We agreed the ending balance per the prior year schedule to the beginning balance for the year ended June 30, 2010, or footnoted any restatements.

i. We determined that MTS is using the most current approved fee amount.

ii. We inquired of management as to whether procedures are in place to track each exaction fee paid by development.

iii. We determined whether all exaction fees have been expended within seven years of collection.

iv. We obtained a list of RTCIP-approved regional arterial system projects from SANDAG and tested at least 10% of the expenditures to ensure that the expenditures are for projects on the approved regional arterial system project list.

v. We reviewed and ensured that the City and the County of San Diego provided its full monetary contribution required by Section 9(A) of the TransNet Extension Ordinance. We inquired of management and ensured that procedures exist to ensure all qualified properties are included in the program.

vi. We identified interest income for the year ended June 30, 2010, and determined whether the interest income reported on the RTCIP schedule agrees to the RTCIP general ledger. We reviewed the interest allocation methodology for reasonableness.

Results: The RTCIP is a requirement for local jurisdictions that have newly constructed residential housing units. Therefore, these procedures are not applicable to transit operators such as MTS.

12. For ITOC only, we reviewed at least 25% of ITOC expenditures to determine whether they are reasonable and necessary in carrying out ITOC’s responsibilities under the TransNet Extension Ordinance in the ITOC Responsibilities Section of the attachment to Commission Ordinance CO-04-01 entitled “Statement of Understanding Regarding the Implementation of the Independent Taxpayer Oversight Committee for the TransNet Program.”
Results: This procedure is not applicable for MTS.

13. For SANDAG only, we performed the following additional procedures per Section 12 of the TransNet Extension Ordinance and Expenditure Plan.

   a. We determined that the total administrative expenditures do not exceed one percent of the annual TransNet apportioned revenues, plus any funds not utilized in prior years.

   b. We reviewed at least 25% of the administrative expenditures and determined whether they were expended by SANDAG for staff salaries, wages, benefits, overhead, and for those services, including contractual services, necessary to administer TransNet.

      Results: These procedures are not applicable for MTS.

14. For SANDAG only, we performed the following additional procedures:

   a. We inquired and obtained source data used to calculate the Local Street Improvement Allocation Schedule in the TTrak program and recalcuated the total funds contributed per jurisdiction.

   b. We reviewed the fiscal year 2010 TransNet Local Street Improvements Allocation Schedule and determined whether at least 70% of the revenues provided for local street improvement purposes were used for congestion relief purposes and that no more than 30% were used for maintenance purposes.

      Results: These procedures are not applicable for MTS.

15. We reviewed any prior year findings and recommendations and determined whether they were adequately addressed.

      Results: No findings and recommendations were noted in the prior year report.

16. We prepared findings and recommendations as a result of performing these agreed-upon procedures. We have included the Agency's response to the findings, if applicable.

      Results: This procedure is not applicable as there were no findings and recommendations required to be prepared for the year ended June 30, 2010.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on MTS' receipt and disbursement of TransNet funds. Accordingly, we
do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Independent Taxpayer Oversight Committee and the San Diego Association of Governments and is not intended to be and should not be used by anyone other than these specified parties.

Irvine, California
October 25, 2010
<table>
<thead>
<tr>
<th>Project Name</th>
<th>Operating:</th>
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<th>Capital:</th>
<th>Mission Valley East</th>
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<th>Total TransNet</th>
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<tr>
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<td>$4,721,229</td>
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<tr>
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<td>$20,900,000</td>
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<tr>
<td></td>
<td>(17,509,358)</td>
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<tr>
<td>Project Status</td>
<td>Project Expenditures</td>
<td>MTS Adjustments</td>
<td>Project Expenditures for</td>
<td>Project Expenditures for</td>
<td>Project Expenditures for</td>
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<td>July 1, 2009</td>
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Schedule of Status of Funds by Project Year Ended June 30, 2010

(Continued)
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<tr>
<th>MPO ID</th>
<th>Project Name</th>
<th>Project Status</th>
<th>Funds Received</th>
<th>Interest Income</th>
<th>Project Expenditures</th>
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<td><strong>TransNet Extension</strong></td>
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<tr>
<td></td>
<td>Senior and Disabled Transportation:</td>
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<td>SAN 67</td>
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<td></td>
<td>Blue Line Rehab</td>
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<td>43,310,407</td>
<td>(43,310,407)</td>
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</table>

Total **TransNet Extension** $ 62,367,201 $ (62,367,201) $ - $ 225,061

Total **TransNet and TransNet Extension** $ 4,721,229 $ 83,267,201 $ 13,188 $ (87,776,557) $ - $ 225,061
# SAN DIEGO METROPOLITAN TRANSIT SYSTEM

*TransNet* Extension Activities
Cumulative Schedule of Status of Funds by Project
Year Ended June 30, 2010

<table>
<thead>
<tr>
<th>MPO ID</th>
<th>Project Name</th>
<th>Funds Received</th>
<th>Interest Income</th>
<th>Project Expenditures</th>
<th>MTS Adjustments</th>
<th>Status June 30, 2010</th>
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<td><strong>TransNet Extension</strong></td>
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<tr>
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<tr>
<td>SAN 67</td>
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<td>$(43,310,407)</td>
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<td>$-</td>
</tr>
<tr>
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DRAFT 2011 ITOC ANNUAL REPORT

Introduction

The ITOC provides annual status reports to the SANDAG Board of Directors on the TransNet program, including the delivery of the Major Corridor projects, overall program performance, and compliance with the requirements set forth in the TransNet Extension Ordinance.

The draft 2011 ITOC Annual Report highlights the progress made during July 1, 2010, to June 30, 2011; it summarizes key ITOC activities, recommendations, and enhancements in support of the financial integrity and performance of the TransNet program. Beginning with the FY 2009 cycle, the ITOC assumed the responsibility for conducting the annual TransNet fiscal and compliance audits. The draft FY 2011 Annual Report would include a summary of the results of the FY 2010 fiscal and compliance audits.

A draft of the 2011 ITOC Annual Report is included as Attachment 1, and a copy of last year’s ITOC Annual Report is included as Attachment 2. The ITOC is asked to review and discuss the draft and provide any suggested changes to staff on the proposed content and format of the report. A revised version of the annual report would be presented to the ITOC for action at its July 13, 2011, meeting.

As of the date this report was written, the City of San Diego’s FY 2010 fiscal audit was not yet completed; the draft audit report is estimated to be released for review in late July. Tentative dates for presentation of the City of San Diego audit results to the Transportation Committee and subsequent presentation of the 2011 ITOC Annual Report to the SANDAG Board are listed below for consideration by the ITOC.

- Late July – City of San Diego FY 2010 audit results released
- August – no meetings (dark)
- September 14, 2011 – auditors present City of San Diego audit results at ITOC meeting
- September 16, 2011 – ITOC Chair presents City of San Diego audit results to Transportation Committee
- September 23, 2011 – ITOC Chair presents annual report at SANDAG Board meeting
Alternatively, the ITOC could present the annual report at the July 22, 2011, Board meeting - without the audit results for the City of San Diego. The ITOC is asked to discuss the timing of the presentation of the final ITOC annual report to the Board.

2. ITOC 2010 Annual Report

Key Staff Contact: Ariana zur Nieden, (619) 699-6961, azu@sandag.org
The Independent Taxpayer Oversight Committee

The Independent Taxpayer Oversight Committee (ITOC) monitors the expenditure of TransNet funds, the voter approved half-cent sales tax for transportation improvements in the San Diego region. The Committee also helps ensure that all voter mandates are carried out and develops recommendations for improvements to the financial integrity and performance of the TransNet program. The Committee was established as a condition of the 2004 TransNet Extension Ordinance.

TransNet Description (Use Logo)

In 2004, 67 percent of the region’s voters supported the extension of TransNet from 2008 to 2048 – thereby generating an additional $14 billion to be distributed among highway, transit, and local road projects in approximately equal thirds. The SANDAG administers the TransNet half-cent sales tax.

The 40-year extension will help fund major highway expansion projects along Interstates 5, 8, 15, and 805 as well as State Routes 52, 54, 56, 67, 75, 76, 78, 94, 125, and 905. In addition, it will support improvements to the public transportation system, including new Bus Rapid Transit (BRT) services and high-occupancy vehicle and Express Lanes along many of the major corridors. The TransNet Extension Ordinance also includes an extensive $850 million environmental mitigation program, and a $280 million smart growth incentive fund. Two percent of the available funds will be earmarked annually for bicycle paths and facilities, pedestrian improvements, and neighborhood safety projects. TransNet funds also help pay for senior, disabled, and youth discounted transit passes.

ITOC Activities for FY 2010

The ITOC reviewed and advised on many key TransNet-supported programs during the July 1, 2010, to June 30, 2011, fiscal year, including:

- Conducted the FY 2010 TransNet Fiscal and Compliance Audits
- Reviewed implementation of recommendations from the first Triennial Performance Audit
- Developed a Request for Proposals for the second Triennial Performance Audit
- Reviewed amendments to both the 2008 and the 2010 Regional Transportation Improvement Programs
- Reviewed the final 2010 Regional Transportation Improvement Program
- Continued to oversee new developments in the Environmental Mitigation Program for both acquisition and management
- Continued to receive regular updates on the status of financial markets, the state budget, and potential impacts on the TransNet program
- Reviewed TransNet FY 2011 program revenue revisions and FY 2012 to FY 2016 revenue estimates
- Recommended approval of the 2010 TransNet Plan of Finance
- Reviewed the proposed 2010 Bond Issuance
- Reviewed proposed amendments to Board Policy No. 031
- Accepted annual Regional Transportation Congestion Improvement Program submittals from local jurisdictions
- Reviewed reports from project managers on the following activities:
  - Draft 2050 Regional Transportation Plan
  - TransNet Smart Growth Incentive Program, Active Transportation Grant Program, and Senior Mini-Grant Program
  - Regional Bicycle Plan
  - 2010 Public Opinion Survey results
  - Encinitas Pedestrian Crossing Funding Exchange
  - I-15 Violation Enforcement System Study and I-15 FasTrak® Funding Exchange
  - I-15 Direct Access Ramp and Transit Station Request for Letter of No Prejudice
  - Sorrento to Miramar Double-Track (Phase 1) Request for Letter of No Prejudice
  - 2010 State of the Commute Report
- Received updates from corridor directors/project managers on the following TransNet Early Action Program (EAP) Projects:
  - SPRINTERT
  - Inland Rail Trail
  - Mid-Coast Corridor Transit
  - State Route 76 (SR 76)
  - Orange and Blue Line Trolley Upgrades
  - Interstate 15 (I-15) Express Lanes and BRT
  - I-15 Mid-City Bus Rapid Transit Stations
  - LOSSAN Rail Corridor

**FY 2010 TransNet Annual Fiscal and Compliance Audit (special highlight box with audit charts)**

The TransNet Extension Ordinance requires recipients of TransNet funds to comply with the requirement for an independent annual fiscal and compliance audit. The ITOC is responsible for issuing an annual audit statement on each jurisdiction’s compliance with this requirement. The fiscal and compliance audit report for the year ending June 30, 2010, is available on the SANDAG Web site at www.sandag.org/itoc.

Recipient agencies were in compliance with the major TransNet provisions as noted below. In particular, the following was noted as part of the report:
- As required by SANDAG Board Policy No. 031, each recipient agency accounted for TransNet activities in a separate fund, or via an alternative method, as approved by SANDAG;
Expenditures claimed by all recipient agencies were allowable in accordance with the TransNet Ordinance, TransNet Extension Ordinance, and SANDAG Board Policy No. 031;

SANDAG appropriately allocated TransNet revenues – at least 70 percent for congestion relief purposes and no more than 30 percent for maintenance purposes – in accordance with the TransNet Extension Ordinance; and

Regional Transportation Congestion Improvement Program revenue collected by all recipient agencies was in compliance with Section 9 (a) of the TransNet Extension Ordinance and SANDAG Board Policy.

FY 2010 was the second year recipient agencies were required to perform the agreed-upon procedures under the TransNet Extension Ordinance. Based upon results of the procedures performed, the report also noted the following:

All recipient agencies, with the exception of the City of Oceanside, were in compliance with the Maintenance of Effort (MOE) requirements; the SANDAG Board of Directors approved allowing Oceanside to meet its MOE requirement over a three-year period, in accordance with the TransNet Extension Ordinance.

All recipient agencies were in compliance with revenue and expenditure requirements, with the exception of the Cities of La Mesa and Vista, which did not allocate interest to projects having a beginning balance; both La Mesa and Vista have addressed this requirement by submitting management responses.

The North County Transit District met operator eligibility requirements, and while the Metropolitan Transit System (MTS) did not; MTS has since come into compliance, with the SANDAG Board approving an exception to exclude certain costs from the MTS FY 2010 bus services calculation, in accordance with the TransNet Extension Ordinance.

Fifteen of the 20 reporting agencies were in compliance with Board Policy No. 031, Rule #17 Section IV. Local Agency Balance Limitations, marking a noticeable improvement compared to last year when eight of the reporting agencies were in compliance.

Audit results for both the MOE and Local Street Improvement requirements are highlighted in the adjacent charts. The ITOC will continue to focus on overseeing the implementation of the compliance audit recommendations over the next fiscal year and beyond.

*This section to be finalized once the City of San Diego’s audit is completed.

(Third page)

TransNet Progress in FY 2011 (This section has the captions that go with photos)

The SANDAG Board of Directors is responsible for selecting and prioritizing the timing of TransNet projects. The role of the ITOC is to ensure that the projects carried out as a result of SANDAG Board actions meet the requirements of the TransNet Extension Ordinance. Billions of dollars in TransNet funding have been allocated by SANDAG to improve, expand, and better manage our well-traveled highways and regional transit system. These funds are combined with state and federal dollars to maximize the effectiveness of transportation funding.
Captions for the photos:

- **SR 52:** In March 2011, the SR 52 extension from SR 125 to SR 67 opened amid a community-wide celebration of 20,000 people. The $521 million, four-lane extension completes the gap for East County travelers headed for the coast, helping to relieve traffic on I-8. The dedication of the final piece of the SR 52 marks the completion of this “lockbox” project.

- **Orange and Blue Line Trolley:** Planned improvements to the Orange and Blue Line Trolley Corridor include low-floor vehicles, signal upgrades, and remodeled stations. A considerable amount of engineering has been completed and the first phase of construction has begun. Fifty-seven low-floor cars will be phased into the Orange Line in 2013 and into the Blue Line by early 2014.

- **COASTER/LOSSAN:** Sweeping upgrades are in the works for the COASTER/LOSSAN Corridor, adding a second track and other enhancements to the coastal rail corridor between Oceanside and downtown San Diego. A dozen rail projects are now in development. In 2010, SANDAG began design on eight double-tracking projects from Carlsbad through Sorrento Valley. Together, these projects will add 12.4 miles of new tracks, resulting in faster service for COASTER riders.

- **I-15:** Major upgrades are being made to the I-15 Express Lanes, a $1.3 billion corridor. After the lanes opened in 2009, construction accelerated along the southern segment – from SR 163 to SR 56 – with completion anticipated in mid-2011, more than a year ahead of schedule. Work continues along the northern segment from Centre City Parkway to SR 78, with completion planned for late 2011.

- **SR 76:** Caltrans started widening SR 76 between Melrose Drive in Oceanside and South Mission Road in Bonsall from two to four lanes. This project is expected to open in fall 2012. Additional progress was made on the eastern segment, from South Mission Road to I-15, with the release of the draft environmental document in September 2010. Completion of this segment is slated for 2015.

(Back page)

**Future ITOC Activities**

Many of the projects and initiatives addressed by the ITOC in FY 2011 will continue in the coming year. This includes continued implementation of the TransNet Early Action Program (EAP), implementation of recommendations from the first triennial performance audit, conducting the second performance audit, and completion of the FY 2011 annual fiscal and compliance audits. The ITOC will continue to support continued progress on the EAP and work toward preparing additional “shovel-ready” projects to take advantage of future funding opportunities.

**Future Challenges**

FY 2011 TransNet revenues are projected to be six percent higher than actual FY 2010 revenues. Although the outlook for future sales tax revenue has improved, it is expected to take years before revenues reach prerecession levels. The ITOC continues to closely monitor the latest developments in financial markets and the economy to minimize possible impacts to the TransNet program. A modest four percent increase in TransNet revenues is projected in FY 2012.
How can you get involved?

The ITOC is made up of citizens with selected expertise to provide effective oversight to protect the substantial investment the region has made in our transportation system.

Citizens can receive real-time information on TransNet projects and programs through www.KeepSanDiegoMoving.com. Within this Web site visitors can access the TransNet Dashboard, which lists detailed project descriptions, updated schedules, and budgetary information for the region’s transportation corridors.

ITOC information also is available by visiting the SANDAG Web site at www.sandag.org/transnet. Here you will find key documents related to the TransNet Extension Ordinance and a listing of past and upcoming agendas of all ITOC meetings. The ITOC meets regularly, every second Wednesday of the month at 9:30 a.m. The meetings are generally held at SANDAG offices at 401 B Street, Suite 800, San Diego, CA 92101, and all meeting agendas are posted to the Web site. Attendance by the public is welcomed and encouraged!

Inquiries to the ITOC can be directed to itoc@sandag.org. Any persons interested in serving on the committee, as vacancies occur, are encouraged to use this same contact to request being placed on the vacancy notification list.

ITOC Membership
Hamid Bahadori** - Traffic/Civil Engineering
Paul Fromer** - Biology/Environmental Science
Jesus Garcia** - Professional Licensed Engineer
Carolyn Lee* - Chair - Real Estate/Right-of-Way Acquisition
David Lloyd** - Private Sector Senior Decision Maker
John Meyer* - Municipal/Public Finance
Jim Ryan* - Vice Chair - Construction Project Management

* Term ends May 2013
** Term ended May 2011
### Current Status of TransNet Early Action Projects (in $1,000s)

#### (Insert table)

<table>
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<tr>
<th>Project Description</th>
<th>Ordinance 2002$ Estimate</th>
<th>Escalated Ordinance 2011$ Estimate</th>
<th>Current Budget (Year of Expenditure)</th>
<th>Baseline Open to Public</th>
<th>Current Open to Public</th>
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<td>Dec-15</td>
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<td>University Town Center Transit Service:</td>
<td></td>
<td></td>
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<tr>
<td>SuperLoop</td>
<td>$30,000</td>
<td>$43,050</td>
<td>$36,349</td>
<td>Sep-08</td>
<td>Sep-09</td>
</tr>
<tr>
<td>I-15 Express Lanes and Transit Service</td>
<td>$769,000</td>
<td>$1,103,515</td>
<td>$961,544</td>
<td>Dec-12</td>
<td>Dec-12</td>
</tr>
<tr>
<td>SR 52 Extension: SR 125 to SR 67</td>
<td>$333,000</td>
<td>$477,855</td>
<td>$528,921</td>
<td>Dec-10</td>
<td>Mar-11</td>
</tr>
<tr>
<td>SR 76 Extension: Melrose Drive to I-15</td>
<td>$164,000</td>
<td>$235,340</td>
<td>$372,908</td>
<td>Dec-14</td>
<td>Aug-15</td>
</tr>
<tr>
<td>Orange and Blue Line Trolley Upgrades</td>
<td>$337,000</td>
<td>$483,595</td>
<td>$454,493</td>
<td>May-14</td>
<td>Jul-13</td>
</tr>
<tr>
<td>Mid-City Transit Service</td>
<td>$89,000</td>
<td>$127,715</td>
<td>$44,526</td>
<td>Jun-12</td>
<td>Dec-12</td>
</tr>
</tbody>
</table>

#### NOTES:

*All current budgets have been reviewed by ITOC and are listed in the SANDAG FY 2012 Budget.*

Ordinance capital cost estimates escalated according to the Caltrans construction index (43.5 percent increase between 2002 and 2010).


  The cost listed in the Ordinance was only the shortfall amount.

Only projects fully funded through construction are shown.

Baseline Open to Public date established when project construction fully funded.

Current Open to Public dates as of March 28, 2011 as listed in the TransNet Dashboard.
Future ITOC Activities

Many of the projects and initiatives addressed by the ITOC in FY 2010 will continue in the coming year. This includes continued implementation of the TransNet EAP, implementation of recommendations from the triennial performance audit, and completion of the FY 2010 annual fiscal and compliance audits. To support continued progress on the EAP and possibly prepare additional “shovel-ready” projects for future funding, the ITOC also may review proposals for additional bonding.

Future Challenges

FY 2010 TransNet revenues are eight percent lower than actual FY 2009 revenues, representing the third year in declining sales tax revenues. Although lower construction bid prices for key TransNet projects have continued to offset revenue reductions, the ITOC continues to closely monitor the latest developments in financial markets and the economy to minimize possible impacts to the TransNet program. A modest increase in TransNet revenues (less than two percent) is projected in FY 2011.

How can you get involved?

The ITOC is made up of citizens with selected expertise to provide effective oversight to protect the substantial investment the region has made in our transportation system. Citizens can receive real-time information on TransNet projects and programs through www.KeepSanDiegoMoving.com. Within this Web site visitors can access the TransNet Dashboard, which lists detailed project descriptions, updated schedules, and budgetary information for the region’s transportation corridors. ITOC information is also available by visiting the SANDAG Web site at www.sandag.org/TransNet. Here you will find key documents related to the TransNet Extension Ordinance and a listing of past and upcoming agendas of all ITOC meetings. The ITOC meets regularly every second Wednesday of the month at 9:30 a.m. The meetings are generally held in the SANDAG downtown office at 401 B Street, Suite 800, San Diego, CA 92101, and all meeting agendas are posted to the Web site. Attendance by the public is welcome and encouraged! Inquiries to the ITOC can be directed to itoc@sandag.org. Any persons interested in serving on the committee, as vacancies occur, are encouraged to use this same contact to request being placed on the vacancy notification list.

ITOC Membership

Hamid Bahadori** - Chair - Traffic/Civil Engineering
Kevin Clemmens** - Biology/Environmental Science
Jesus Garcia*** - Professional Licensed Engineer
Carolyn Lee - Real Estate/Right-of-Way Acquisition
John Meyer - Vice Chair - Municipal/Public Finance
Jim Ryan** - Construction Project Management
Vacant** - Private Sector Senior Decision Maker

* Term ends May 2013
** Term ends May 2011
*** Term ends December 2011

Current Status of TransNet Early Action Projects (in $1,000s)

<table>
<thead>
<tr>
<th>Project</th>
<th>Ordinance 2002$ Estimate</th>
<th>Escalated Ordinance 2002$ Estimate</th>
<th>Current Budget (Year of Expenditure)</th>
<th>Baseline Open to Public</th>
<th>Current Open to Public</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-Coast Corridor Transit Service</td>
<td>$660,000</td>
<td>$924,000</td>
<td>$1,246,292</td>
<td>Dec-14</td>
<td>Dec-14</td>
</tr>
<tr>
<td>University Town Center Transit Service: SuperLoop</td>
<td>$30,000</td>
<td>$42,000</td>
<td>$36,349</td>
<td>Sep-08</td>
<td>Sep-09</td>
</tr>
<tr>
<td>SR 52 Extension: SR 125 to SR 67</td>
<td>$769,000</td>
<td>$1,076,600</td>
<td>$783,715</td>
<td>Dec-12</td>
<td>Dec-12</td>
</tr>
<tr>
<td>SR 67 Extension: Melrose Drive to I-15</td>
<td>$333,000</td>
<td>$466,200</td>
<td>$520,529</td>
<td>Dec-10</td>
<td>Mar-11</td>
</tr>
<tr>
<td>Orange and Blue Line Trolley Upgrades</td>
<td>$164,000</td>
<td>$229,600</td>
<td>$372,908</td>
<td>Dec-14</td>
<td>Mar-15</td>
</tr>
<tr>
<td>Mid-City Transit Service</td>
<td>$337,000</td>
<td>$471,800</td>
<td>$454,194</td>
<td>May-14</td>
<td>May-14</td>
</tr>
<tr>
<td>Mid-City Transit Service</td>
<td>$89,000</td>
<td>$124,600</td>
<td>$44,526</td>
<td>Jun-12</td>
<td>Jun-12</td>
</tr>
</tbody>
</table>

NOTES: All current budgets have been reviewed by ITOC and are listed in the SANDAG FY 2011 Budget. * Ordinance capital cost estimates calculated according to the Caltrans construction cost index (40 percent increase between 2002 and 2010). ** The SR 52 Extension Ordinance 2002$ Estimate comes from the Sept. ’04 Quarterly Progress Report on Transportation Projects. The cost listed in the Ordinance was only the shortfall amount. * Only projects for which the full extent of improvements have been determined or are nearly determined are listed. ** Baseline Open to Public date established when project construction fully funded. *** Current Open to Public dates as of May 2010 as listed in the TransNet Dashboard.

Independent Taxpayer Oversight Committee

2010 Annual Report

The Independent Taxpayer Oversight Committee (ITOC) monitors the expenditure of TransNet funds, the voter approved half-cent sales tax for transportation improvements in the San Diego region. The Committee also helps ensure that all voter mandates are carried out and develops recommendations for improvements to the financial integrity and performance of the TransNet program. The Committee was established as a condition of the 2004 TransNet Extension Ordinance.

TransNet Extension 2008-2048

In 2004, 67 percent of the region’s voters supported the extension of TransNet from 2008 to 2048 - thereby generating an additional $14 billion to be distributed among highway, transit, and local road projects in approximately equal thirds. The San Diego Association of Governments (SANDAG) administers the TransNet half-cent sales tax.

The 40-year extension will help fund major highway expansion projects along Interstates 5, 8, 15, and 80 as well as State Routes 52, 54, 56, 67, 75, 76, 87, 94, 125, and 905. In addition, it will support improvements to the public transportation system, including new Bus Rapid Transit (BRT) services and high-occupancy vehicle (HOV) and Express Lanes along many of the major corridors. The TransNet Extension Ordinance also includes an extensive $850 million environmental mitigation program, and a $280 million smart growth incentive fund. Two percent of the available funds will be earmarked annually for bicycle paths and facilities, pedestrian improvements, and neighborhood safety projects. TransNet funds also help pay for senior, disabled, and youth discounted transit passes.
The ITOC reviewed and advised on many key ITOC activities:
- Reviewed and recommended approval of the key Project Evaluation Criteria and Plan Performance Measures
- Reviewed and recommended approval of the following ITOC Early Action Program (EAP) Projects: SR 52, SR 76, Mid-Coast Corridor Transit Project, SuperLoop Transit, Mid-City Rapid Bus, SPRINTER, I-15 Express Lanes and BRT, I-805 Express Lanes and BRT, I-5 North Coast Corridor, Orange and Blue Line Trolley Upgrades, Sonora to Miramar, Coastal Rail Double Track, South Line Rail Enhancement, SR 905.

Compliance with Maintenance of Effort Requirements

SR 52 Work continued on the SR 52 extension that will connect SR 125 to SR 67. A series of projects will close the gap for East County travelers headed for the coast. One component of the overall project—a auxiliary lane between I-5 and Mast Boulevard—was completed in September 2009.

The TransNet Board of Directors is responsible for selecting and prioritizing the timing of projects. The role of the ITOC is to ensure that the projects carried out as a result of SANDAG Board actions meet the requirements of the TransNet Extension Ordinance. Billions of dollars in TransNet funding have been allocated by SANDAG to improve, expand, and better manage our well-traveled highways and regional transit system. These funds are combined with state and federal dollars to maximize the effectiveness of transportation funding.

Compliance with Local Street Improvements

Results: All recipient agencies were in compliance with meeting the minimum maintenance of effort requirements.

FY 2009 TransNet Annual Fiscal and Compliance Audit

The TransNet Extension Ordinance requires recipients of TransNet funds to comply with the requirement for an independent annual fiscal and compliance audit. The ITOC is responsible for issuing an annual audit statement on each jurisdiction’s compliance with this requirement. The fiscal and compliance audit report for the year ending June 30, 2009, is available on the SANDAG Web site at www.sandag.org/itoic. The report revealed that all recipient agencies were in compliance with the major provisions noted below. In particular, the following was noted as part of the report:
- As required by SANDAG Board Policy No. 031, each recipient agency accounted for TransNet activities in a separate fund, or via an alternative method, as approved by SANDAG.
- Expenditures claimed by all recipient agencies were allowable, and interest was properly allocated to projects in accordance with the TransNet Ordinance, TransNet Extension Ordinance, and SANDAG Board Policy No. 031.
- All recipient agencies were in compliance with meeting the minimum MOE requirements; the report also re-indexed the MOE, as required per the Ordinance, resulting in reduced MOE levels for fiscal years 2012, 2013, and 2014.
- SANDAG appropriately allocated TransNet revenues—at least 70 percent for congestion relief purposes and no more than 30 percent for maintenance purposes—in accordance with TransNet Extension Ordinance.
- Regional Transportation Congestion Improvement Program revenue collected by all recipient agencies was in compliance with Section 9 (a) of the TransNet Extension Ordinance and SANDAG Board Policy No. 031.

FY 2009 was the first year recipient agencies were required to perform the agreed-upon procedures under the TransNet Extension Ordinance. As a result, the report noted the following opportunities for improvement:
- Compliance with the 30 percent Fund Balance Limitation Rule.
- Preparation of Schedule B—Cumulative Schedule of Status of Funds by Project.

A recommendation was made for SANDAG to continue to provide training for all recipient agencies to enhance their policies. Audit results included in the report are shown in the adjacent charts. The ITOC will continue to focus on the implementation of the compliance audit recommendations over the next fiscal year and beyond.

TransNet Progress in FY 2010

The SANDAG Board of Directors is responsible for selecting and prioritizing the timing of projects. The role of the ITOC is to ensure that the projects carried out as a result of SANDAG Board actions meet the requirements of the TransNet Extension Ordinance. Billions of dollars in TransNet funding have been allocated by SANDAG to improve, expand, and better manage our well-traveled highways and regional transit system. These funds are combined with state and federal dollars to maximize the effectiveness of transportation funding.

SR 52 Work continued on the SR 52 extension that will connect SR 125 to SR 67. A series of projects will close the gap for East County travelers headed for the coast. One component of the overall project—a auxiliary lane between I-5 and Mast Boulevard—was completed in September 2009.

Mid-Coast Corridor Transit Project

Public outreach and planning continued through 2009 and 2010 on a proposed 11-mile Trolley extension that will connect the Old Town Transit Center to the University City community and the University of California, San Diego.

I-805 Plans continue on improvements to I-805, including HOV lanes from Carroll Canyon to the I-5/I-805 merge and a direct access ramp. Also, in South County, preliminary engineering and environmental work for the I-805 Express Lane Project is underway and expected to be complete in 2010.
ANNUAL ITOC ALLOCATION AND CARRYOVER FUND BALANCE

Introduction

In accordance with the TransNet Extension Ordinance, all costs incurred in administering the activities of the ITOC, including related fiscal and performance audit costs, shall be paid annually from the proceeds of the TransNet sales tax. The Ordinance also states that up to $250,000 per year, as adjusted for inflation annually, will be used for the operation of the ITOC. Any funds not utilized in one fiscal year shall remain available for expenditure in subsequent years as part of the annual budget process.

At its May 11, 2011, meeting, ITOC members asked what authority ITOC has to spend down its operating budget carryover funds on other TransNet programs/projects. This report provides information about the annual ITOC allocation and presents options for the ITOC to consider.

Discussion

The TransNet Extension Ordinance directs that SANDAG, acting as the San Diego County Regional Transportation Commission, allocate funding to the ITOC as follows:

**Up to $250,000 per year, with adjustments for inflation based on the Consumer Price Index for San Diego County, may be expended for activities related to the ITOC.** [Emphasis added.]

This language establishes that the entire $250,000 does not need to be expended each year by the ITOC, and that SANDAG can allocate less to the ITOC if the ITOC is not anticipated to need to full allocation amount. In addition, the attachment to the Ordinance entitled “Statement of Understanding Regarding the Implementation of the Independent Taxpayer Oversight Committee for the TransNet Program,” states:

Any funds not utilized in one fiscal year shall remain available for expenditure in subsequent years as part of the annual budget process.

This provision was inserted in recognition of the fact that in some years the ITOC’s expenses may exceed $250,000, and the funds should be allowed to carry over into subsequent years when a larger than typical amount of expenses is anticipated. As part of the budget process, however, the ITOC can determine that it will not need all of the money that would otherwise carry over into the next fiscal year.
The ITOC Operating Budget Analysis for the period ending March 31, 2011, is included as Attachment 1. The balance of carryover funds from previous fiscal years is expected to be approximately $431,394 through the end of FY 2011 and grow in future fiscal years (through the end of FY 2014).

If the ITOC desires to reduce its balance of carryover funds, it could elect to receive less than its $250,000 annual allocation (as adjusted for inflation) and spend down the carryover balance on its annual operating costs over time. The ITOC also could request a reduced allocation for its anticipated budgetary needs. If the ITOC decides to pursue one of these options, the funds not utilized by the ITOC would be distributed to other TransNet projects and programs in accordance with Section 4 of the TransNet Extension Ordinance. Attachment 2 depicts the flow of funds pursuant to the Ordinance.

The ITOC is asked to discuss the dollar amount, if any, by which it would like to reduce its carryover balance or future budget allocation.

Attachment:  1. ITOC Operating Budget Analysis
                      2. TransNet Extension Flow of Funds Chart – FY 2009 through FY 2048

Key Staff Contact: Ariana zur Nieden, (619) 699-6961, azu@sandag.org
### ITOC Operating Budget Analysis


<table>
<thead>
<tr>
<th></th>
<th>FY 2011</th>
<th>Projected¹</th>
<th>FY 2012</th>
<th>FY 2013</th>
<th>FY 2014</th>
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<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Budget Amount¹</td>
<td>$341,892</td>
<td>$256,419</td>
<td>$(85,473)</td>
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<td></td>
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<tr>
<td><strong>Expenses</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Fiscal Audits³</td>
<td>161,000</td>
<td>47,948</td>
<td>$(113,052)</td>
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<td>87,008</td>
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<td>Triennial Performance Audit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>285,090</td>
<td>-</td>
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<tr>
<td>Mileage</td>
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<td>Advertisement</td>
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<td>128</td>
<td>1,292</td>
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</tr>
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<td>Postage/Delivery</td>
<td>164</td>
<td>-</td>
<td>$(164)</td>
<td>166</td>
<td>169</td>
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<td>Reserve for Outside Consulting Services</td>
<td>20,000</td>
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<td>$(20,000)</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>183,865</td>
<td>49,682</td>
<td>$(114,183)</td>
<td>393,305</td>
<td>109,971</td>
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<tr>
<td><strong>Net Difference</strong></td>
<td>158,027</td>
<td>206,737</td>
<td>48,710</td>
<td>(45,594)</td>
<td>243,644</td>
</tr>
<tr>
<td><strong>Beginning of Year</strong></td>
<td>273,367</td>
<td>273,367</td>
<td>48,710</td>
<td>(45,594)</td>
<td>243,644</td>
</tr>
<tr>
<td><strong>End of Year</strong></td>
<td>$431,394</td>
<td>$480,104</td>
<td>$385,800</td>
<td>$629,444</td>
<td>$878,397</td>
</tr>
</tbody>
</table>

**Notes:**

1. Annual budget is $250,000 in 2002 dollars escalated annually by the Consumer Price Index (CPI). CPI for FY 2011 is approximately 2.0%.
2. Projected FY 2012 and FY 2013 budgets are escalated by approximately 1.7%, and the projected FY 2014 budget is escalated by approximately 2.1%, which is the expected CPI increase.
3. Projected annual fiscal audit budgets are based on negotiated rates with the independent certified public accounting firm Mayer Hoffman McCann P.C.
Total Annual 1/2% Sales Tax Receipts (Net of BOE Fees)

1 %
- Up to 1% to SANDAG for Administration

$250,000
- ITOC Activities (with CPI adjustment)

2 %
- Bicycle, Pedestrian & Neighborhood Safety Program

Net Annual Revenues

38 %
- Major Corridor Capital Projects

4.4 %
- Major Corridor Project EMP

1.8 %
- Local Project EMP

2.1 %
- Smart Growth Incentive Program

29.1 %
- Local Street & Road Formula Funds*

16.5 %
- Transit Services

8.1 %
- New Major Corridor Transit Operations

Major Project Mitigation

Economic Benefit Fund

Local Project Mitigation

2.5 %
- Specialized Services for Seniors & Disabled (ADA)

3.25 %
- Senior Grant Program

94.25 %
- Pass/Subsidies/Operations/Capital Per SRTP

50% Match For State/Fed Funds

Financing Costs

Percentage/Dollar distribution specified in Ordinance

* Percentages based on 2002 dollar estimates in TransNet Extension Ordinance and Expenditures Plan

** Formula Distribution to local jurisdictions based 2/3 on population and 1/3 on maintained road miles with a $50,000 base per jurisdiction.