MEETING NOTICE AND AGENDA

TransNet INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE (ITOC)

The ITOC may take action on any item appearing on this agenda.

Wednesday, March 8, 2017

9:30 a.m.

SANDAG, 7th Floor Conference Room
401 B Street, Suite 800
San Diego, CA 92101

Please take the elevator to the 8th floor to access the meeting room.

Staff Contact: José A. Nuncio
(619) 699-1908
jose.nuncio@sandag.org

AGENDA HIGHLIGHTS

- INDEPENDENT AUDITOR’S ANNUAL REPORT ON RESULTS OF THE FY 2016 TransNet COMPLIANCE AUDITS
- INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE TERM LIMITS: PROPOSED AMENDMENT TO THE TransNet EXTENSION ORDINANCE
- PROPOSED SANDAG DATA ACCURACY AND MODELING WORK PLAN

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Welcome to SANDAG. Members of the public may speak to the Working Group on any item at the time the Working Group is considering the item. Please complete a Speaker's Slip, and then present the slip to the Clerk of the Working Group. Members of the public may address the Working Group on any issue under the agenda item entitled Public Comments/Communications/Member Comments. Public speakers are limited to three minutes or less per person unless otherwise directed by the Chair. The Working Group may take action on any item appearing on the agenda.

Public comments regarding the agenda can be sent to SANDAG via comment@sandag.org. Please include the agenda item, your name, and your organization. Email comments should be received no later than 12 noon, two working days prior to the meeting. Any handouts, presentations, or other materials from the public intended for distribution at the meeting should be received by the Clerk of the Working Group no later than 12 noon, two working days prior to the meeting.

In order to keep the public informed in an efficient manner and facilitate public participation, SANDAG also provides access to all agenda and meeting materials online at www.sandag.org/meetings. Additionally, interested persons can sign up for e-notifications via our e-distribution list at either the SANDAG website or by sending an email request to webmaster@sandag.org.

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如有需要，可以把SANDAG议程材料翻译成其他语言。

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To access the meeting room please arrive on the 8th floor.
ITEM NO.  | RECOMMENDATION
--- | ---
+1.  | APPROVAL OF MEETING MINUTES
| APPROVE
The Independent Taxpayer Oversight Committee (ITOC) is asked to review and approve the minutes from its February 8, 2017, meeting.
Estimated Start Time: 9:30 a.m.

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 SANDAG that is not on this agenda. Anyone desiring to speak shall reserve time by completing a “Request to Speak” form and giving it to the meeting coordinator prior to speaking. Public speakers should notify the meeting coordinator if they have a handout for distribution to ITOC members. Public speakers are limited to three minutes or less per person. ITOC members also may provide information and announcements under this agenda item.
Estimated Start Time: 9:35 a.m.

CONSENT

+3.  | TransNet ENVIRONMENTAL MITIGATION PROGRAM: LAND MANAGEMENT GRANT PROGRAM QUARTERLY STATUS UPDATE
(Sarah Pierce)
| INFORMATION
The Board of Directors has awarded eight cycles of the TransNet Environmental Mitigation Program Land Management Grant Program. This report provides information to the ITOC on the quarterly status of active projects.
Estimated Start Time: 9:40 a.m.

REPORTS

4.  | SUMMARY OF TRANSPORTATION COMMITTEE AND BOARD OF DIRECTORS ACTIONS ON TransNet-RELATED AGENDA ITEMS
(Ariana zur Nieden)
| INFORMATION
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: 9:45 a.m.
+5A. INDEPENDENT AUDITOR’S ANNUAL REPORT ON RESULTS OF THE FY 2016 TransNet COMPLIANCE AUDITS (Marc Davis, Davis Farr; Lisa Kondrat-Dauphin, SANDAG)

All recipients of TransNet funds are required to undergo an annual compliance audit. The independent audit firm of Davis Farr has completed its field work and Marc Davis will report on the results of the FY 2016 TransNet compliance audits. The ITOC is asked to accept the draft independent auditor’s report of compliance audit results, including initial findings and recommendations, for presentation to the Transportation Committee on March 17, 2017.

Estimated Start Time: 9:50 a.m.

+5B. FY 2016 TransNet EXTENSION ORDINANCE FUNDING ELIGIBILITY REQUESTS (Lisa Kondrat-Dauphin)

The San Diego Metropolitan Transit System and the City of Lemon Grove did not meet an eligibility requirement as noted in the draft FY 2016 TransNet annual compliance audit and have submitted requests to cure the requirements. The ITOC is asked to recommend that the Board of Directors approve the requests.

Estimated Start Time: 10:05 a.m.

+6. INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE TERM LIMITS: PROPOSED AMENDMENT TO THE TransNet EXTENSION ORDINANCE (Ariana zur Nieden)

The FY 2015 TransNet Triennial Performance Audit included a recommendation to alternate the ending terms of ITOC members so that no more than two terms end in any given year in order to maintain the strong level of historical knowledge among committee members. The ITOC is asked to recommend that the Board of Directors approve proposed changes to the TransNet Extension Ordinance and ITOC Bylaws.

Estimated Start Time: 10:20 a.m.

+7. PROPOSED SANDAG DATA ACCURACY AND MODELING WORK PLAN (Ray Major)

At its February 24, 2017, meeting, the Board of Directors approved a data accuracy and modeling work plan (work plan) developed by staff to improve data integrity and accuracy. The ITOC is asked to provide input on the seven components of the work plan.

Estimated Start Time: 10:40 a.m.

+8. DRAFT ASSUMPTIONS FOR THE ANNUAL TransNet MAJOR CORRIDORS PLAN OF FINANCE UPDATE (José Nuncio, Ray Major)

At its February 8, 2017, meeting, ITOC members directed staff to present proposed key assumptions prior to incorporation in the upcoming TransNet Plan of Finance update. Staff will present draft cost and revenue assumptions for ITOC review and discussion.

Estimated Start Time: 11:30 a.m.
<table>
<thead>
<tr>
<th>ITEM NO.</th>
<th>RECOMMENDATION</th>
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<tbody>
<tr>
<td>9.</td>
<td>FUTURE MEETING SCHEDULE</td>
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<td></td>
<td>The next regular ITOC meeting is scheduled for Wednesday, April 12, 2017, at 9:30 a.m.</td>
</tr>
<tr>
<td>10.</td>
<td>ADJOURNMENT</td>
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+ next to an item indicates an attachment
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

March 8, 2017

AGENDA ITEM NO.: 1

Action Requested: APPROVE

FEBRUARY 8, 2017, MEETING MINUTES

The meeting of the TransNet Independent Taxpayer Oversight Committee (ITOC) was called to order by Chair Stewart Halpern at 9:34 a.m.

1. APPROVAL OF MEETING MINUTES (APPROVE)

Action: Upon a motion by Jonathan Tibbitts, and a second by Kai Ramer, the ITOC approved the January 11, 2017, meeting minutes. Yes – Chair Halpern, Vice Chair Dustin Fuller, Brad Barnum, Carolyn Lee, Mr. Ramer, Mr. Tibbitts, and Dick Vortmann. No – None. Abstain – None. Absent – None.

2. PUBLIC COMMENTS/COMMUNICATIONS/MEMBER COMMENTS (INFORMATION)

There were no public or member comments.

CONSENT

3. TransNet REGIONAL TRANSPORTATION CONGESTION IMPROVEMENT PROGRAM PROPOSED FEE ADJUSTMENT (INFORMATION)

The TransNet Extension Ordinance requires that the Regional Transportation Congestion Improvement Program (RTCIP) transportation mitigation fee charged by local jurisdictions be adjusted every year on July 1, in order to maintain the purchasing power of the program for improvements to the Regional Arterial System. Staff has evaluated construction cost trends and relevant indices, and based on this analysis, a 2 percent fee adjustment is recommended, raising the minimum RTCIP exaction from $2,357 to $2,405 beginning July 1, 2017.

4. TransNet SENIOR MINI-GRANT PROGRAM STATUS UPDATE (INFORMATION)

This report provided an overview of the progress made to date by each grant recipient for the Senior Mini-Grant Program.

Action: Consent Item Nos. 3 and 4 were presented for information.
5. SUMMARY OF TRANSPORTATION COMMITTEE AND BOARD OF DIRECTORS ACTIONS ON TransNet-RELATED AGENDA ITEMS (INFORMATION)

This monthly briefing is intended to keep the ITOC informed about relevant SANDAG actions taken on TransNet-related projects and programs.

Ariana zur Nieden, Senior TransNet Program Manager, provided a summary of Transportation Committee and SANDAG Board of Directors actions on agenda items that the ITOC has reviewed: Project Evaluation Results for FY 2018 and FY 2019 TransNet Senior Mini-Grant Program Funding; TransNet Smart Growth Incentive Program and Active Transportation Grant Program: Quarterly Progress Report; TransNet Environmental Mitigation Program Annual Status Report; and Proposed Amendment to SANDAG Board Policy No. 031: TransNet Ordinance and Expenditure Plan Rules.

Action: This item was presented for information.

6. PROJECT EVALUATION RESULTS FOR FY 2018 AND FY 2019 TransNet SENIOR MINI-GRANT PROGRAM FUNDING (DISCUSSION)

SANDAG is responsible for distributing TransNet Senior Mini-Grant funds through a competitive process as required by the TransNet Extension Ordinance. Staff presented the list of proposed Senior Mini-Grant projects from the most recent call for projects for TransNet funding eligibility.

Audrey Porcella, Regional Planner II, presented the item.

Action: This item was presented for discussion.

7. PROPOSED FY 2018 ITOC ANNUAL OPERATING BUDGET (DISCUSSION/POSSIBLE ACTION)

In accordance with the TransNet Extension Ordinance, the ITOC must submit an annual operating budget for the upcoming fiscal year to the SANDAG Board of Directors for approval 90 days prior to the beginning of the fiscal year.

Ms. zur Nieden presented the item.

Action: Upon a motion by Mr. Tibbitts, and a second by Mr. Vortmann, the ITOC recommended that the SANDAG Board of Directors approve the proposed FY 2018 ITOC Annual Operating Budget. Yes – Chair Halpern, Vice Chair Fuller, Mr. Barnum, Ms. Lee, Mr. Ramer, Mr. Tibbitts, and Mr. Vortmann. No – None. Abstain – None. Absent – None.
8. QUARTERLY TransNet FINANCIAL REPORTS FOR THE PERIOD ENDING DECEMBER 31, 2016, AND OTHER FINANCIAL DATA (INFORMATION)

Staff presented the quarterly TransNet financial information in accordance with requests from the ITOC as well as in response to recommendations from the first and second TransNet Triennial Performance Audits. Staff also presented an update on the monitoring of local jurisdiction balances.

Lisa Kondrat-Dauphin, Senior Accountant, presented the item.

Action: This item was presented for information.

9. FY 2017 TransNet PROGRAM REVENUE REVISION AND ESTIMATES FOR FY 2018 TO FY 2022 (INFORMATION)

Ray Major, Director of Technical Services and Chief Economist, and Dawn Vettese, Financial Programming Manager, presented the TransNet revenue estimates that are provided to the transit agencies, local agencies for their local streets and roads program, and the non-motorized program to support both ongoing operations and capital projects.

Chair Halpern requested that staff present draft revenue and cost assumptions in advance of each annual Plan of Finance update.

Chair Halpern also requested that staff provide a status update on management and forecasting process improvements stemming from lessons learned at a future meeting.

Mr. Vortmann requested that staff pursue efforts to better inform the public regarding the relative magnitude of the federal and state matching funds compared to the smaller local TransNet portion to provide some perspective on the three to one ratio of federal/state vs. TransNet funding, including the remaining amount of TransNet funds available after debt service. He also requested that staff provide a quantification of the variance between the prior Demographic and Economic Forecasting Model and the more recent Consensus Forecast.

Action: This item was presented for information.

10. OVERVIEW OF DEVELOPMENTS IN THE FINANCIAL MARKETS (INFORMATION)

André Douzdjian, Director of Finance, and Mr. Major provided the quarterly briefing intended to keep the ITOC informed about the latest developments in the financial markets, the economy, sales tax revenues, and the strategies being explored and implemented to minimize possible impacts to the TransNet program.

ITOC members requested that the next presentation include a report on cross-border spending and the correlation to impacts on local sales tax revenues.

Action: This item was presented for information.
11. TransNet ENVIRONMENTAL MITIGATION PROGRAM: ANNUAL STATUS REPORT (INFORMATION)

Keith Greer, Senior Regional Planner, and Sarah Pierce, Regional Planner II, provided an annual status update on the implementation of the TransNet Environmental Mitigation Program.

Action: This item was presented for information.

12. FUTURE MEETING SCHEDULE

The next regular ITOC meeting is scheduled for Wednesday, March 8, 2017, at 9:30 a.m.

13. ADJOURNMENT

Chair Halpern adjourned the meeting at 11:57 a.m.
### INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE
### MEETING ATTENDANCE FOR FEBRUARY 8, 2017

<table>
<thead>
<tr>
<th>JURISDICTION/ORGANIZATION</th>
<th>NAME</th>
<th>ATTENDING</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance/Budgeting</td>
<td>Stewart Halpern</td>
<td>Yes</td>
<td>Chair</td>
</tr>
<tr>
<td>Biology/Environmental</td>
<td>Dustin Fuller</td>
<td>Yes</td>
<td>Vice Chair</td>
</tr>
<tr>
<td>Contractor/Construction</td>
<td>Brad Barnum</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Right of Way Acquisition</td>
<td>Carolyn Lee</td>
<td>Yes</td>
<td></td>
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<tr>
<td>Licensed Engineer</td>
<td>Kai Ramer</td>
<td>Yes</td>
<td></td>
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<tr>
<td>Licensed Civil/Traffic Engineer</td>
<td>Jonathan Tibbitts</td>
<td>Yes</td>
<td></td>
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<tr>
<td>Private Sector</td>
<td>Dick Vortmann</td>
<td>Yes</td>
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</tbody>
</table>

**ADVISORY MEMBERS LISTED BELOW (ATTENDANCE NOT COUNTED FOR QUORUM PURPOSES)**

<table>
<thead>
<tr>
<th>Jurisdiction/Organization</th>
<th>Name</th>
<th>Attending</th>
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<tbody>
<tr>
<td>San Diego County Auditor’s Office</td>
<td>Tracy Drager (1st Alt.)</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**SANDAG STAFF MEMBERS LISTED BELOW**

- Kim Kawada, Chief Deputy Executive Director
- José Nuncio, *TransNet* Department Director
- Veronica Serrano, Associate Project Control Analyst
- Ariana zur Nieden, Senior *TransNet* Program Manager
Introduction

The Board of Directors entered into a Memorandum of Agreement (MOA) with state and federal agencies on the implementation of the Environmental Mitigation Program (EMP). Originally signed on February 22, 2008, the MOA was most recently amended on April 26, 2013.

A provision of the MOA allocates $4 million annually for ten years to implement regional habitat management and monitoring efforts to help maintain the region’s biological integrity, with the intention of avoiding future listing of endangered species. Allocation of the $4 million is done on an annual basis by the Board of Directors pursuant to a funding strategy (originally approved on December 15, 2006, and last updated by the Board of Directors on September 23, 2016).

The Board of Directors allocates a portion of the $4 million annually for the TransNet EMP Land Management Grant Program. The purpose of this report is to provide the FY 2017 2nd quarter status report (covering October 1, 2016, to December 31, 2016), to the Independent Taxpayer Oversight Committee (ITOC) (Attachment 1).

Next Steps

The next quarterly status report of active land management grant projects (January 1, 2017, to March 31, 2017) is expected to be presented in June 2017 to the ITOC, Regional Planning Committee, and Transportation Committee.


Key Staff Contact: Sarah Pierce, (619) 699-7312, sarah.pierce@sandag.org
TransNet ENVIRONMENTAL MITIGATION PROGRAM: LAND MANAGEMENT GRANT PROGRAM QUARTERLY STATUS UPDATE

File Number 1200300

Introduction

The SANDAG Board of Directors entered into a Memorandum of Agreement (MOA) with state and federal agencies on the implementation of the TransNet Environmental Mitigation Program (EMP). Originally signed on February 22, 2008, the MOA was most recently amended on April 26, 2013.

A provision of the MOA allocates $4 million annually for ten years to implement regional habitat management and monitoring efforts to help maintain the region’s biological integrity, thus helping to avoid the future listing of endangered species. The Board of Directors allocates a portion of the $4 million annually for the TransNet EMP Land Management Grant Program to assist land managers in filling funding gaps to promote regional priorities. The purpose of this report is to provide information to the Committee on the quarterly status of active land management grant projects (Attachment 1).

Discussion

The TransNet Extension Ordinance and Expenditure Plan, approved by voters in November 2004, includes the EMP, which provides funding to mitigate habitat impacts from regional and local transportation projects, and provides funding for regional land management and biological monitoring. A portion of this funding is distributed through a competitive Land Management Grant Program, which is administered consistent with the requirements identified in Board Policy No. 035: Competitive Grant Program Procedures.

Since the program’s inception, 98 land management grants totaling approximately $14.6 million in TransNet funding have been awarded to land management entities in the region through a competitive grant program. Eligible applicants include land managers from private and nonprofit organizations, local jurisdictions, and other government agencies. Between October 1, 2016, and December 31, 2016, two projects were completed: the Dehesa Nolina and Dudleya Project by Conservation Biology Institute and the Cactus Wren Project by the Otay Water District.

Attachment 1 provides the status of the ten active land management grants covering the reporting period of October 1, 2016, to December 31, 2016. The contracts for 71 awarded grants have been closed-out and have no further billing. In addition, SANDAG staff is in the process of finalizing contracts for 17 projects awarded funding by the Board of Directors on November 18, 2016.
Projects under the EMP Land Management Grant Program are placed on the “watch list” if a grantee is not making timely progress toward their milestones (which are defined in Board Policy No. 035) and the grantee has not yet sought corrective action. Delays in tasks leading up to either the award of a contract or project completion may place grantees on the watch list. As of the date of this quarterly report, no projects are currently on the watch list.

Grant Oversight

SANDAG staff provides ongoing oversight of projects under the TransNet-funded EMP Land Management Grant Program through review of quarterly reports and invoices. Annual and quarterly status updates are provided to the Independent Taxpayer Oversight Committee (ITOC) and the Regional Planning and Transportation Committees.

Staff reviews quarterly reports to ensure that grantees are making timely progress with respect to Board Policy No. 035 provisions and to ensure that the project submission of deliverables matches the scopes of work in their grant contract agreements.

Next Steps

The next quarterly status report of active land management grant projects (covering January 1 to March 31, 2017) is expected to be presented in June 2017 to the ITOC and Regional Planning and Transportation Committees.

CHARLES “MUGGS” STOLL
Director of Land Use and Transportation Planning

Attachment: 1. Status of Active TransNet EMP Land Management Grant Program Projects:
Reporting period October 1, 2016, to December 31, 2016

Key Staff Contact: Sarah Pierce, (619) 699-7312, sarah.pierce@sandag.org
## Status of Active TransNet EMP Land Management Grant Program Projects:
### Reporting period Oct. 1 to Dec. 31, 2016

<table>
<thead>
<tr>
<th>FY</th>
<th>Date BOD Funding Approval</th>
<th>Contract # IFAS Project #</th>
<th>Grantee</th>
<th>Project</th>
<th>Description of Project Activities</th>
<th>Grant Amount</th>
<th>Contract Execution Date</th>
<th>Contract / Project Expiration Date</th>
<th>Watch List*</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>6th Cycle - FY 2013</td>
<td></td>
<td></td>
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<tr>
<td>1 2013</td>
<td>09/28/12</td>
<td>5001765</td>
<td>1200386 San Diego Audubon Society</td>
<td>California least tern</td>
<td>Observe and record predation events in order to provide recommendations for improving efficacy of predator management actions and in turn improve breeding productivity of CA least tern in Mission Bay Park.</td>
<td>$58,464.00</td>
<td>09/01/13</td>
<td>03/01/17</td>
<td>No</td>
<td>Project IS making timely progress toward their milestones.</td>
</tr>
<tr>
<td>7th Cycle - FY 2015</td>
<td></td>
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<tr>
<td>2 2015</td>
<td>7/24/2015</td>
<td>5004735</td>
<td>1201301 Conservation Biology Institute</td>
<td>Brachypodium Phase 2</td>
<td>Control invasive grass, Brachypodium distachyon, in 4 locations by refining existing Brachypodium Best Management Practices.</td>
<td>$100,000</td>
<td>09/15/15</td>
<td>09/15/17</td>
<td>No</td>
<td>Project IS making timely progress toward their milestones.</td>
</tr>
<tr>
<td>3 2015</td>
<td>7/24/2015</td>
<td>5004731</td>
<td>1201305 City of Chula Vista Oatay River Valley and Salt Creek Cactus Wren 3</td>
<td>Increase the amount of suitable habitat and improve connectivity for the coastal cactus wren along Oatay River Valley and Salt Creek through restoration and enhancement of degraded habitat areas.</td>
<td>$189,863</td>
<td>09/17/15</td>
<td>09/17/18</td>
<td>No</td>
<td>Project IS making timely progress toward their milestones.</td>
<td></td>
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<tr>
<td>4 2015</td>
<td>7/24/2015</td>
<td>5004732</td>
<td>1200397 Mission Resource Conservation District</td>
<td>San Luis Rey, Santa Margarita &amp; San Dieguito Watersheds</td>
<td>Re-treatment of Arundo and maintenance of the right-of-entry (ROE) database, to allow re-treatments to occur on over 350 public and private properties in these watersheds.</td>
<td>$300,000</td>
<td>09/28/15</td>
<td>09/28/18</td>
<td>No</td>
<td>Project IS making timely progress toward their milestones.</td>
</tr>
<tr>
<td>5 2015</td>
<td>7/24/2015</td>
<td>5004738</td>
<td>1201304 County of San Diego Furby-North Preserve</td>
<td></td>
<td>Addition of signage, fencing and gates on the Furby-North Property to prevent unauthorized access into and across the Property and allow for future active restoration of the unauthorized trails as outlined in the Resource Management Plan.</td>
<td>$119,046</td>
<td>10/20/15</td>
<td>08/20/17</td>
<td>No</td>
<td>Project IS making timely progress toward their milestones.</td>
</tr>
<tr>
<td>6 2015</td>
<td>7/24/2015</td>
<td>5004730</td>
<td>1200396 County of San Diego Oatay River Valley Cactus Wren</td>
<td>Restore and enhance areas of degraded habitat along Oatay River Valley to increase the amount of suitable habitat and improve connectivity for the coastal cactus wren.</td>
<td>$66,840</td>
<td>10/20/15</td>
<td>10/20/18</td>
<td>No</td>
<td>Project IS making timely progress toward their milestones.</td>
<td></td>
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<tr>
<td>7 2015</td>
<td>7/24/2015</td>
<td>5004729</td>
<td>1200395 San Diego Audubon Society Nuttall's Lotus</td>
<td>Maintain and expand certain extant small and large populations of Nuttall’s Lotus within Mission Bay Park.</td>
<td>$110,017</td>
<td>09/14/15</td>
<td>09/14/18</td>
<td>No</td>
<td>Project IS making timely progress toward their milestones.</td>
<td></td>
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<tr>
<td>8 2015</td>
<td>7/24/2015</td>
<td>5004734</td>
<td>1200399 San Elijo Lagoon Conservancy Carlsbad Hydrologic Unit 2</td>
<td>Invasive plant re-treatments, limited new treatments, revegetation and habitat restoration, detailed mapping of invasive plants throughout the Carlsbad Hydrologic Unit.</td>
<td>$100,000</td>
<td>09/08/15</td>
<td>09/08/17</td>
<td>No</td>
<td>Project IS making timely progress toward their milestones.</td>
<td></td>
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<tr>
<td>9 2015</td>
<td>7/24/2015</td>
<td>5004736</td>
<td>1201302 United States Fish and Wildlife Service Mother Miguel Mountain</td>
<td>Protect sensitive species, including Mexican flannelbush and critical habitat on the southwestern slope of Mother Miguel Mountain, while managing public access and awareness.</td>
<td>$21,454</td>
<td>12/1/15</td>
<td>12/1/18</td>
<td>No</td>
<td>Project IS making timely progress toward their milestones.</td>
<td></td>
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<tr>
<td>10 2015</td>
<td>7/24/2015</td>
<td>5004728</td>
<td>1200394 Zoological Society of San Diego Cactus Wren 2015</td>
<td>Implement active restoration of critical cactus wren habitat in the Lake Hodges area and developing a North County Cactus Nursery that will supply local native cacti to restoration projects throughout the region for 2 years.</td>
<td>$230,721</td>
<td>09/22/15</td>
<td>02/28/18</td>
<td>No</td>
<td>Project IS making timely progress toward their milestones.</td>
<td></td>
</tr>
</tbody>
</table>

*Watch List Projects are those grantees not making timely progress toward their milestones (which are defined in Board Policy No. 035) and not yet sought corrective action. Delays in tasks leading up to either the award of a contract or project completion may place grantees on the watch list.*
San Diego Association of Governments – TransNet Program

INDEPENDENT TAXPAYER
OVERSIGHT COMMITTEE

March 8, 2017

INDEPENDENT AUDITOR’S ANNUAL REPORT ON RESULTS
OF THE FY 2016 TransNet COMPLIANCE AUDITS

File Number 1500200

Introduction

The San Diego Transportation Improvement Program Ordinance and Expenditure Plans (Ordinance Nos. 87-1 and 04-01) specify 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. Ordinance No. 04-01, TransNet Extension Ordinance and Expenditure Plan (Ordinance), assigns the responsibility to conduct the annual fiscal and compliance audits to the Independent Taxpayer Oversight Committee (ITOC).

Board Policy No. 031, TransNet Ordinance and Expenditure Plan Rules, contains several rules specifically dealing with administration of the TransNet Program. This policy addresses the fiscal and compliance audit procedures. In accordance with the proposed audit schedule contained in Section I of Rule No. 17, Fiscal and Compliance Audit Procedures, the independent auditor issues a report of the results of the compliance audit and presents this report to the ITOC in March.

Recommendation

The ITOC is asked to accept the draft independent auditor’s report of compliance audit results (Attachment 1), including initial findings and recommendations, for presentation to the Transportation Committee on March 17, 2017.

Discussion

FY 2016 TransNet Compliance Audits

Davis Farr, LLP, performed the audit of the FY 2016 TransNet sales tax revenue recipient agencies using the agreed-upon procedures (AUP) approved by the ITOC at its July 13, 2016, meeting. These AUP include requirements specific to the Ordinance and Board Policy No. 031. Attachment 1 includes both the independent auditor’s report of compliance audit results and recipient agencies FY 2016 TransNet draft audit reports.
The Ordinance also includes a requirement that the ITOC share the initial findings of the independent fiscal audits and its recommendations with the Transportation Committee 60 days prior to their release to resolve inconsistencies and technical issues related to the draft report and recommendations of the ITOC. Section I of Rule No. 17, Fiscal and Compliance Audit Procedures, also includes a proposed annual audit schedule with certain milestone activities. Proposed dates for the upcoming activities are discussed below:

- **March/April**: Auditors issue a report of compliance audit results and present to the ITOC at its March meeting. The ITOC presents initial results and finding(s) of the audit and its recommendations to the Transportation Committee.
  
  - Audit results are scheduled for presentation to the ITOC on March 8, 2017. Presentation of the initial findings by the ITOC Chair is scheduled for the March 17, 2017, Transportation Committee meeting.

- **May**: The ITOC issues all compliance reports and adopts the Annual Report.
  
  - May 16, 2017, would be the earliest date that the ITOC could issue the compliance audit results (60 days following the report of the initial audit findings to the Transportation Committee on March 17). Issuance of the final audit reports and adoption of the ITOC Annual Report, including the results of the annual audits and its process, is scheduled for the June 14, 2017, ITOC meeting.

- **June**: The ITOC Annual Report, which includes results of the annual audit and its process, is presented to the Board of Directors.
  
  - Presentation of the ITOC Annual Report is scheduled for the June 23, 2017, Board of Directors meeting.

Attachment: 1. Independent Taxpayer Oversight Committee *TransNet* and *TransNet* Extension Activities, Year Ended June 30, 2016

Key Staff Contact: Lisa Kondrat-Dauphin, (619) 699-1942, lisa.kondrat-dauphin@sandag.org
Item 5A — Attachment 1:
Independent Taxpayer Oversight Committee TransNet and TransNet Extension Activities, Year Ended June 30, 2016

The full document in electronic format can be downloaded at:

Hard copies will be provided at the meeting or are available by contacting the Public Information Office at (619) 699-1950 or via email at pio@sandag.org.

The following is a Summary of Results from the document.
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

TransNet and TransNet Extension Activities

Summary of Results

Year Ended June 30, 2016
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

TransNet and TransNet Extension Activities

Summary of Results

Year Ended June 30, 2016

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</tr>
</tbody>
</table>
Background

TransNet is the half-cent sales tax for local transportation projects that was first approved by voters in 1988. In 2004, the San Diego voters renewed their commitment to the region's transportation improvement program by approving Proposition A, implemented through the Extension Ordinance, and continuing an existing half-cent transportation sales tax for an additional 40 years. Administered by the San Diego Association of Governments (SANDAG), the program has been instrumental in expanding the region's transportation system, reducing traffic congestion, and bringing critical transportation programs to life.

Scope of the Engagement

This engagement was to apply agreed-upon procedures in order to assist the Independent Taxpayer Oversight Committee (ITOC) and SANDAG in determining whether the recipients of TransNet funds were in compliance with the TransNet Ordinance and the TransNet Extension Ordinance for the year ended June 30, 2016. We performed the procedures in accordance with attestation standards established by the American Institute of Certified Public Accountants.

In accordance with SANDAG Board Policy No. 031, Rule #17, Section I, fiscal and compliance audit procedures are to be completed in a timely manner. The Policy recommends that the auditors issue a report of compliance audit results and present them to the ITOC.

The following are the major compliance components included in the scope of the procedures:

- TransNet and TransNet Extension Expenditures;
- Maintenance of Effort (MOE);
- SANDAG Board Policy No. 031, Rule 17, Section IV, Local Agency Balance Limitations (30% Rule);
- Local Street improvements – Congestion Relief vs. Maintenance;
- Regional Transportation Congestion Improvement Program (RTCIP); and
- Transit Operator eligibility for receipt of funds.

The procedures performed were approved by the ITOC prior to commencing fieldwork. The sufficiency of those procedures is solely the responsibility of the ITOC. The specific procedures performed and the results of those procedures are included in each of the draft reports for the recipient agencies. Following approval of the procedures, we scheduled and performed our fieldwork during the months of September 2016 through December 2016.
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

TransNet and TransNet Extension Activities

Summary of Results

Year Ended June 30, 2016

Results of Procedures

TransNet and TransNet Extension Expenditures

As required by SANDAG Board Policy No. 031, each recipient agency is required to account for TransNet activities in a separate fund, or if an alternative approach is used, it must be approved by SANDAG. All recipient agencies complied with this requirement.

During our fieldwork, we obtained the following items:

- Trial balance including balance sheet and income statement;
- Detailed general ledger including revenue and expenditure details;
- Schedule A – Schedule of Status of Funds by Project; and
- Schedule B – Cumulative Schedule of Status of Funds by Project.

The objectives of the procedures were to ensure the following:

- Expenditures were allowable in accordance with the TransNet Ordinance and TransNet Extension Ordinance;
- Revenues were recorded and agreed to SANDAG's payment records;
- Interest income allocation methodology was reasonable;
- Explanations were obtained and disclosed for projects that had a negative balance; and
- Proper approvals were obtained for inter-project transfers.

Based upon the results of the procedures performed, all recipient agencies were in compliance with the revenue and expenditure requirements. In addition, the following Agencies are in the process of obtaining proper approvals for inter-project transfers during the draft report period. The Cities anticipate obtaining all approvals and be in compliance prior to issuing the final reports.

- CalTrans
- City of Carlsbad
- City of El Cajon

- City of Encinitas
- City of La Mesa
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

TransNet and TransNet Extension Activities

Summary of Results

Year Ended June 30, 2016

Maintenance of Effort (MOE)

In accordance with Section 8 of the TransNet Extension Ordinance, each recipient agency receiving revenues pursuant to Section 4(D) shall annually maintain, at a minimum, the same level of local discretionary funds expended for street and road purposes on average over the last three fiscal years completed prior to the operative date of the TransNet Extension Ordinance (FY 2001 through FY 2003), as was reported in the State Controller’s Annual Report of Financial Transactions for Street and Roads, and as re-indexed in FY 2015.

During our fieldwork, we obtained the following items:

- From SANDAG, the current MOE requirements for each recipient agency subject to this requirement; and
- From the recipient agencies, Schedule 3 of the Annual Report of Financial Transactions for Streets and Roads.

Based upon the results of the procedures performed, all recipient agencies, except the City of Lemon Grove, were in compliance with the MOE requirements for the year ended June 30, 2016. The City of Lemon Grove reported an unmet MOE requirement in the amount of $21,196 for the year ended June 30, 2016. See Attachment A for a summary of compliance with the MOE requirements.

SANDAG Board Policy No. 031, Rule #17, Section IV, Local Agency Balance Limitations (30% Rule)

In accordance with the 30% Rule, a recipient agency that maintains a balance of more than 30 percent of its annual apportionment (after debt service payments) must use the remaining balance to fund projects. SANDAG will defer payment until the recipient agency’s Director of Finance, or equivalent, submits a certification that the unused balance has fallen below the 30 percent threshold, and will remain below the threshold until such time that a new threshold is determined.

The objectives of the procedures were to ensure that the recipient agency’s TransNet fund balance for those programs that receive funding from the annual apportionment (Local Streets and Roads, Local Street Improvements, and Transit Services) is not more than 30% of the recipient agency’s current year annual apportionment (net of debt service payments).

In order to ensure compliance with the 30% Rule, we performed the following:

- Obtained the schedule of annual apportionments from SANDAG;
- Obtained and reviewed the fund balance of the programs that received annual allocations; and
- Compared the fund balance of the programs noted above to the apportionment schedule to ensure the excess fund balance did not exceed the 30% threshold.
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

TransNet and TransNet Extension Activities

Summary of Results

Year Ended June 30, 2016

Based upon the results of the procedures performed, all recipient agencies, with the exception of those noted below, were in compliance with the 30% Rule:

- City of Escondido
- City of La Mesa
- City of Poway
- City of San Marcos

These instances of non-compliance were reported for informational purposes only and not as a finding. However, SANDAG will defer payments to these agencies until they are in compliance with the 30% Rule. For the year ended June 30, 2015, there were five cities that were not in compliance, including the City of San Marcos. See Attachment B for a summary of compliance with the 30% Rule.

**Local Street Improvements – Congestion Relief vs. Maintenance**

As specified in Section 2(C)(1) of the TransNet Extension Ordinance, at least 70% of the revenues provided for local street and road purposes should be used for congestion relief, and no more than 30% for maintenance. In order to ensure SANDAG is in compliance with the TransNet Extension Ordinance, we performed the following:

- Inquired and obtained source data used to calculate the Local Street Improvements Allocation Schedule in SANDAG’s TTrak program (SANDAG’s TransNet tracking program) and recalculated the total fund distribution per jurisdiction; and
- Reviewed the FY 2016 TransNet Streets and Road Fund Allocation Schedule and determined that at least 70% of the revenues provided for local street and road purposes were used for congestion relief purposes and that no more than 30% were used for maintenance purposes.

Based upon the results of the procedures performed, SANDAG was in compliance with the Local Street Improvement requirements. See Attachment C for the Local Street Improvement allocation between congestion relief and maintenance, by recipient agency.

**Regional Transportation Congestion Improvement Program (RTCIP)**

In accordance with Section 9(A) of the TransNet Extension Ordinance and Expenditure Plan, each local agency in the San Diego region shall contribute a minimum of $2,000, subject to an annual adjustment based upon an index, in exactions from the private sector, for each newly constructed residential housing unit in that jurisdiction to the RTCIP. However, each jurisdiction may use their own fee schedule, as long as the fees are at a minimum the adjusted amount as approved by the SANDAG Board of Directors annually. The RTCIP revenue is to be used to construct improvements to the Regional Arterial System.

The objectives of the procedures were to ensure the following:
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

TransNet and TransNet Extension Activities

Summary of Results

Year Ended June 30, 2016

- Each recipient agency collected at least the minimum exaction fee of $2,310 from each newly constructed residential housing unit;

- Documentation was submitted to the ITOC on a timely basis and proper approval was obtained for the exaction fee; and

- Expenditures were allowable in accordance with the TransNet Extension Ordinance and Expenditure Plan.

In order to ensure compliance with the TransNet Extension Ordinance, we performed the following:

- Obtained a detailed general ledger from the recipient agencies;

- Obtained the RTCIP approved schedule for collecting and/or contributing private sector exactions;

- Obtained the RTCIP schedule (Schedule C of the associated reports) including beginning balance, exactions collected, interest earned, expenditures, and ending balance;

- Verified that the exaction fee being collected was approved by the City Council or Board of Supervisors and is in compliance with the TransNet Extension Ordinance and SANDAG Board Policy No. 031; and

- Verified that expenditures, if any, complied with the TransNet Extension Ordinance and SANDAG Board Policy No. 031.

Based upon the results of the procedures performed, all recipient agencies were in compliance with the RTCIP requirements.

Transit Operator Eligibility for Receipt of Funds

In accordance with the TransNet Extension Ordinance, in order for transit operators to maintain eligibility for receipt of funds, the operator must limit the increase in its total operating cost per revenue vehicle hour for bus or revenue vehicle mile for rail services from one fiscal year to the next, to no more than the increase in the Consumer Price Index (CPI) for San Diego County over the same period.

In order to ensure compliance with the TransNet Extension Ordinance, we performed the following:

- Calculated the increase in operating cost per revenue vehicle hour for bus services and revenue vehicle mile for rail services between June 30, 2015 and June 30, 2016;

- Calculated the increase in the CPI for San Diego County between June 30, 2015 and June 30, 2016; and
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

TransNet and TransNet Extension Activities

Summary of Results

Year Ended June 30, 2016

- Compared the increase in total operating cost per revenue vehicle hour for bus services, and revenue vehicle mile for rail services, to the increase in the CPI.

The San Diego Metropolitan Transit System (MTS) was not in compliance with the rail operator eligibility requirements. See the Summary of Findings by Recipient Agency section of this report (page 7).

**Indirect Cost Allocated to Projects in RTIP**

At the request of the ITOC, we inquired of management whether indirect costs are allocated to the projects included in the RTIP. If so, we documented the indirect cost rate allocated and the basis of allocation. We documented whether the recipient agency’s indirect cost plan had been reviewed by a cognizant agency. If not, then we documented the year the indirect cost plan was last updated, the year the methodology was last reviewed, and whether the methodology was reasonable. The following cities or agencies allocated indirect costs to projects included in the RTIP. See Procedure (6)(f)(v) in the associated reports attached for indirect cost rate allocated and the basis of allocation.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Indirect Costs Approved by Cognizant Agency</th>
<th>Year Last Reviewed</th>
<th>Methodology Reasonable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caltrans</td>
<td>Yes</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>City of Carlsbad</td>
<td>No</td>
<td>2013</td>
<td>Yes</td>
</tr>
<tr>
<td>City of Chula Vista</td>
<td>No</td>
<td>2012</td>
<td>Yes</td>
</tr>
<tr>
<td>City of El Cajon</td>
<td>No</td>
<td>2015</td>
<td>Yes</td>
</tr>
<tr>
<td>City of Escondido</td>
<td>No</td>
<td>2015</td>
<td>Yes</td>
</tr>
<tr>
<td>City of La Mesa</td>
<td>No</td>
<td>2014</td>
<td>Yes</td>
</tr>
<tr>
<td>City of Oceanside</td>
<td>No</td>
<td>2015</td>
<td>Yes</td>
</tr>
<tr>
<td>City of San Diego</td>
<td>Yes</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>City of Santee</td>
<td>No</td>
<td>2016</td>
<td>Yes</td>
</tr>
<tr>
<td>County of San Diego</td>
<td>No</td>
<td>2016</td>
<td>Yes</td>
</tr>
<tr>
<td>SANDAG</td>
<td>Yes</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>MTS</td>
<td>No</td>
<td>2016</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Local Street Improvements: Maintenance Monitoring**

At the request of ITOC, we documented the percentage of local street and road revenue cumulatively expended for maintenance. In accordance with the TransNet Extension Ordinance, the local jurisdictions receiving local street improvement funds may not spend more than 30% of cumulative funds for Maintenance purposes. All recipient agencies were in compliance with this requirement. Results of this procedure are located in Attachment D.
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

TransNet and TransNet Extension Activities

Summary of Results

Year Ended June 30, 2016

Summary of Findings by Recipient Agency

The following findings were identified during performance of the agreed-upon procedures.

<table>
<thead>
<tr>
<th>Recipient Agency</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Lemon Grove</td>
<td>City was not in compliance with MOE requirement</td>
</tr>
<tr>
<td>San Diego Metropolitan Transit System</td>
<td>Increase in revenue vehicle mile exceeded increase in CPI</td>
</tr>
</tbody>
</table>

Responses from the recipient agencies to the findings identified are included in the individual recipient agency reports.
## Compliance With Maintenance of Effort Requirement

**Fiscal Year 2016**

<table>
<thead>
<tr>
<th>Recipient Agency</th>
<th>In Compliance</th>
<th>Streets and Roads</th>
<th>Specialized Transportation Services</th>
<th>Transit Bus Subsidies</th>
<th>Deficit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad</td>
<td>Yes</td>
<td>$4,897,196</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chula Vista</td>
<td>Yes</td>
<td>2,999,670</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coronado</td>
<td>Yes</td>
<td>685,316</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Del Mar</td>
<td>Yes</td>
<td>368,365</td>
<td>16,973</td>
<td></td>
<td></td>
</tr>
<tr>
<td>El Cajon</td>
<td>Yes</td>
<td>1,403,896</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Encinitas</td>
<td>Yes</td>
<td>1,665,638</td>
<td>46</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Escondido</td>
<td>Yes</td>
<td>2,534,929</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imperial Beach</td>
<td>Yes</td>
<td>217,840</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>La Mesa</td>
<td>Yes</td>
<td>1,530,076</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lemon Grove</td>
<td>No</td>
<td>147,377</td>
<td></td>
<td></td>
<td>21,196</td>
</tr>
<tr>
<td>National City</td>
<td>Yes</td>
<td>1,459,882</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oceanside</td>
<td>Yes</td>
<td>2,321,866</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poway</td>
<td>Yes</td>
<td>884,681</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Diego</td>
<td>Yes</td>
<td>19,384,257</td>
<td>143,433</td>
<td>772,157</td>
<td></td>
</tr>
<tr>
<td>San Marcos</td>
<td>Yes</td>
<td>3,804,565</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Santee</td>
<td>Yes</td>
<td>485,044</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solana Beach</td>
<td>Yes</td>
<td>416,150</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vista</td>
<td>Yes</td>
<td>2,098,885</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County of San Diego (1)</td>
<td>Yes</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note 1** - The County does not have discretionary expenditures or projects that can be reported under the MOE.
## Compliance With 30 Percent Fund Balance Limitation FY 2014 – FY 2016

<table>
<thead>
<tr>
<th>Recipient Agency</th>
<th>Fiscal Year 2016</th>
<th>Fiscal Year 2015</th>
<th>Fiscal Year 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In Compliance</td>
<td>30% Limitation</td>
<td>S&amp;R Balance</td>
</tr>
<tr>
<td><strong>Streets and Roads</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carlsbad</td>
<td>Yes</td>
<td>$829,883</td>
<td>$513,575</td>
</tr>
<tr>
<td>Chula Vista</td>
<td>Yes</td>
<td>1,715,670</td>
<td>42,296</td>
</tr>
<tr>
<td>Coronado</td>
<td>Yes</td>
<td>172,696</td>
<td>(98,189)</td>
</tr>
<tr>
<td>Del Mar</td>
<td>Yes</td>
<td>(1,178)</td>
<td>(7,305)</td>
</tr>
<tr>
<td>El Cajon</td>
<td>Yes</td>
<td>706,011</td>
<td>(206,485)</td>
</tr>
<tr>
<td>Encinitas</td>
<td>Yes</td>
<td>479,269</td>
<td>184,569</td>
</tr>
<tr>
<td>Imperial Beach</td>
<td>Yes</td>
<td>203,594</td>
<td>136,888</td>
</tr>
<tr>
<td>La Mesa</td>
<td>No</td>
<td>301,707</td>
<td>319,826</td>
</tr>
<tr>
<td>Lemon Grove</td>
<td>Yes</td>
<td>207,659</td>
<td>(292,191)</td>
</tr>
<tr>
<td>National City</td>
<td>Yes</td>
<td>292,442</td>
<td>(200,330)</td>
</tr>
<tr>
<td>Oceanside</td>
<td>Yes</td>
<td>1,336,339</td>
<td>(4,476,221)</td>
</tr>
<tr>
<td>Poway</td>
<td>No</td>
<td>439,174</td>
<td>461,734</td>
</tr>
<tr>
<td>San Diego, City</td>
<td>Yes</td>
<td>9,327,243</td>
<td>1,458,566</td>
</tr>
<tr>
<td>San Marcos</td>
<td>No</td>
<td>593,220</td>
<td>871,183</td>
</tr>
<tr>
<td>Santee</td>
<td>Yes</td>
<td>144,187</td>
<td>(86,287)</td>
</tr>
<tr>
<td>Solana Beach</td>
<td>Yes</td>
<td>62,267</td>
<td>(1,820)</td>
</tr>
<tr>
<td>Vista</td>
<td>Yes</td>
<td>664,018</td>
<td>(2,780,862)</td>
</tr>
<tr>
<td>County of San Diego</td>
<td>Yes</td>
<td>3,950,425</td>
<td>1,297,041</td>
</tr>
<tr>
<td><strong>Transit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metropolitan Transit System (MTS)</td>
<td>Yes</td>
<td>9,183,692</td>
<td>–</td>
</tr>
<tr>
<td>North County Transit District (NCTD)</td>
<td>Yes</td>
<td>3,697,342</td>
<td>–</td>
</tr>
</tbody>
</table>

Yes = In Compliance  
No = Not in compliance and not receiving TransNet payment.
### Compliance with Allocation of Local Street Improvements Revenues

<table>
<thead>
<tr>
<th>Recipient Agency</th>
<th>Allocation of Sales Tax Revenues Received</th>
<th>70% Congestion Relief Allocated</th>
<th>30% Maintenance Allocated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad</td>
<td>$2,766,278</td>
<td>$1,936,395</td>
<td>$829,883</td>
</tr>
<tr>
<td>Chula Vista</td>
<td>5,718,900</td>
<td>4,003,230</td>
<td>1,715,670</td>
</tr>
<tr>
<td>Coronado</td>
<td>575,653</td>
<td>402,957</td>
<td>172,696</td>
</tr>
<tr>
<td>Del Mar</td>
<td>195,421</td>
<td>136,795</td>
<td>58,626</td>
</tr>
<tr>
<td>El Cajon</td>
<td>2,353,369</td>
<td>1,647,358</td>
<td>706,011</td>
</tr>
<tr>
<td>Encinitas</td>
<td>1,597,563</td>
<td>1,118,294</td>
<td>479,269</td>
</tr>
<tr>
<td>Escondido</td>
<td>3,460,383</td>
<td>2,422,268</td>
<td>1,038,115</td>
</tr>
<tr>
<td>Imperial Beach</td>
<td>678,646</td>
<td>475,053</td>
<td>203,594</td>
</tr>
<tr>
<td>La Mesa</td>
<td>1,524,627</td>
<td>1,067,239</td>
<td>457,388</td>
</tr>
<tr>
<td>Lemon Grove</td>
<td>692,196</td>
<td>484,537</td>
<td>207,659</td>
</tr>
<tr>
<td>National City</td>
<td>1,359,931</td>
<td>951,952</td>
<td>407,979</td>
</tr>
<tr>
<td>Oceanside</td>
<td>4,454,465</td>
<td>3,118,125</td>
<td>1,336,339</td>
</tr>
<tr>
<td>Poway</td>
<td>1,463,913</td>
<td>1,024,739</td>
<td>439,174</td>
</tr>
<tr>
<td>San Diego, City</td>
<td>31,090,809</td>
<td>21,763,566</td>
<td>9,327,243</td>
</tr>
<tr>
<td>San Marcos</td>
<td>2,069,359</td>
<td>1,448,551</td>
<td>620,808</td>
</tr>
<tr>
<td>Santee</td>
<td>1,414,206</td>
<td>989,944</td>
<td>424,262</td>
</tr>
<tr>
<td>Solana Beach</td>
<td>426,779</td>
<td>298,745</td>
<td>128,034</td>
</tr>
<tr>
<td>Vista</td>
<td>2,213,393</td>
<td>1,549,375</td>
<td>664,018</td>
</tr>
<tr>
<td>County of San Diego</td>
<td>14,485,728</td>
<td>10,140,010</td>
<td>4,345,718</td>
</tr>
</tbody>
</table>

Result: SANDAG appropriately allocated TransNet revenues for the Local Street Improvements program in accordance with the TransNet Extension Ordinance.
Local Street Improvements: Maintenance Monitoring

<table>
<thead>
<tr>
<th>Recipient Agency</th>
<th>Cumulative Revenue</th>
<th>30% of Cumulative Revenue</th>
<th>Cumulative Maintenance Expenditures</th>
<th>Available Maintenance Funds</th>
<th>Cumulative % Expended for Maintenance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad</td>
<td>$27,232,597</td>
<td>$8,169,779</td>
<td>$(284,842)</td>
<td>$7,884,937</td>
<td>1.05%</td>
</tr>
<tr>
<td>Chula Vista</td>
<td>45,017,822</td>
<td>13,505,347</td>
<td>(8,210,889)</td>
<td>5,294,458</td>
<td>18.24%</td>
</tr>
<tr>
<td>Coronado</td>
<td>4,882,735</td>
<td>1,464,820</td>
<td>(66,888)</td>
<td>1,397,932</td>
<td>1.37%</td>
</tr>
<tr>
<td>Del Mar</td>
<td>5,263,259</td>
<td>1,578,978</td>
<td>(394,270)</td>
<td>1,184,708</td>
<td>7.49%</td>
</tr>
<tr>
<td>El Cajon</td>
<td>18,596,657</td>
<td>5,576,087</td>
<td>(3,156,947)</td>
<td>2,419,140</td>
<td>16.98%</td>
</tr>
<tr>
<td>Encinitas</td>
<td>15,079,712</td>
<td>4,523,914</td>
<td>(1,411,705)</td>
<td>3,112,209</td>
<td>9.36%</td>
</tr>
<tr>
<td>Escondido</td>
<td>31,858,637</td>
<td>9,557,591</td>
<td>(7,943,236)</td>
<td>1,614,355</td>
<td>24.93%</td>
</tr>
<tr>
<td>Imperial Beach</td>
<td>6,003,477</td>
<td>1,801,043</td>
<td>(1,793,527)</td>
<td>7,516</td>
<td>29.87%</td>
</tr>
<tr>
<td>La Mesa</td>
<td>16,551,565</td>
<td>4,965,469</td>
<td>(3,091,443)</td>
<td>1,874,026</td>
<td>18.68%</td>
</tr>
<tr>
<td>Lemon Grove</td>
<td>5,449,165</td>
<td>1,634,750</td>
<td>(1,469,697)</td>
<td>165,053</td>
<td>26.97%</td>
</tr>
<tr>
<td>National City</td>
<td>14,164,910</td>
<td>4,249,473</td>
<td>(0)</td>
<td>4,249,473</td>
<td>0.00%</td>
</tr>
<tr>
<td>Oceanside</td>
<td>41,300,380</td>
<td>12,390,114</td>
<td>(11,351,400)</td>
<td>1,038,714</td>
<td>27.48%</td>
</tr>
<tr>
<td>Poway</td>
<td>11,531,013</td>
<td>3,459,304</td>
<td>(3,432,843)</td>
<td>26,461</td>
<td>29.77%</td>
</tr>
<tr>
<td>San Diego, City</td>
<td>241,930,328</td>
<td>72,579,098</td>
<td>(70,556,377)</td>
<td>2,022,721</td>
<td>29.16%</td>
</tr>
<tr>
<td>San Marcos</td>
<td>31,395,152</td>
<td>9,421,785</td>
<td>(3,511,817)</td>
<td>5,909,968</td>
<td>11.19%</td>
</tr>
<tr>
<td>Santee</td>
<td>22,569,741</td>
<td>6,770,922</td>
<td>(1,894,290)</td>
<td>4,876,632</td>
<td>8.39%</td>
</tr>
<tr>
<td>Solana Beach</td>
<td>9,092,308</td>
<td>2,727,692</td>
<td>(164,237)</td>
<td>2,563,455</td>
<td>1.81%</td>
</tr>
<tr>
<td>Vista</td>
<td>19,577,026</td>
<td>5,865,223</td>
<td>(4,676,175)</td>
<td>1,189,048</td>
<td>23.89%</td>
</tr>
<tr>
<td>San Diego, County</td>
<td>128,297,118</td>
<td>38,489,135</td>
<td>(9,682,329)</td>
<td>28,807,238</td>
<td>7.55%</td>
</tr>
</tbody>
</table>
Funding Eligibility Requests

Introduction

The TransNet Extension Ordinance (Ordinance) includes annual eligibility requirements of transit operators to continue receiving Transit Services program revenues pursuant to Section 4(C)5 and an annual maintenance of effort (MOE) requirement of each local agency receiving Local Street Improvement program revenues pursuant to Section 4(D). These requirement calculations are included in the June 30, 2016, annual compliance audits (see Agenda Item No. 5A), which were prepared by the independent certified public accounting firm, Davis Farr, LLP. If a transit operator or a local agency does not meet its annual compliance requirement, the Ordinance provides guidance on additional steps.

Recommendation

The Independent Taxpayer Oversight Committee (ITOC) is asked to recommend to the Transportation Committee that the Board of Directors, acting as the San Diego County Regional Transportation Commission, approve the requests of (1) San Diego Metropolitan Transit System (MTS) to both exclude from the total FY 2016 operating cost per revenue vehicle hour for rail services calculation certain cost increases that were due to external events entirely beyond the control of MTS and to calculate the rail services requirement as an average over the previous three fiscal years; and (2) the City of Lemon Grove (City) for special circumstances to allow through June 30, 2019, in which to meet its FY 2016 MOE requirement. These requests are permitted under Section 4(C)5 and Section 8 of the Ordinance, respectively.

Discussion

San Diego Metropolitan Transit System Request

The FY 2016 TransNet compliance audit for MTS includes the following finding:

The San Diego Metropolitan Transit System (MTS) increase in its operating cost per revenue vehicle miles from June 30, 2015 to June 30, 2016 for rail services exceeded the increase in the Consumer Price Index (CPI) for San Diego County. The CPI decreased by 8.17%, while the operating cost per revenue vehicle mile for rail services increased by 2.47%.
Per Section 4(C)5 of the Ordinance, MTS is requesting the exclusion of certain costs related to non-cash financial statement reporting, described in detail in the attached letter from MTS (Attachment 1).

The Board of Directors approval of the average calculation with cost exclusions as requested by MTS would enable compliance with Section 4(C)5 of the Ordinance, and MTS would be eligible to receive all apportioned FY 2017 TransNet revenues. If the Board of Directors does not approve the requested calculation, MTS would remain in non-compliance for FY 2016 and would be eligible to receive FY 2017 TransNet revenues equal only to those received in FY 2016 adjusted for any increase in the Consumer Price Index (CPI) for San Diego County over the same period as shown below. Because the CPI for FY 2016 was negative, the increase would be 0 percent. See the table below for details:

<table>
<thead>
<tr>
<th></th>
<th>FY 2016 Final</th>
<th>0% CPI for FY 2017</th>
<th>FY 2017 Projection</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTS Transit Operations</td>
<td>$29,526,568</td>
<td>$29,526,568</td>
<td>$30,347,638</td>
<td>$(821,070)</td>
</tr>
<tr>
<td>MTS Specialized Services</td>
<td>783,198</td>
<td>$783,198</td>
<td>804,977</td>
<td>$(21,779)</td>
</tr>
<tr>
<td>MTS Totals</td>
<td>$30,309,766</td>
<td>$30,309,766</td>
<td>$31,152,615</td>
<td>$(842,849)</td>
</tr>
</tbody>
</table>

If the actual FY 2017 TransNet receipts are identical to the FY 2017 projections, a total of $842,849 would be reduced from the FY 2017 transit operator apportionment and withheld from the FY 2018 TransNet disbursements to MTS.

City of Lemon Grove Request

The FY 2016 TransNet compliance audit for the City includes the following finding:

The City did not meet the MOE requirement for Streets and Roads as follows:

- Current year local discretionary expenditures $126,181
- Less MOE base year requirement $(147,377)
- Shortfall of MOE expenditures $21,196

Ordinance Section 8 states in part:

> Each local agency receiving revenues pursuant to Section 4(D) shall annually maintain as a minimum the same level of local discretionary funds expended for street and road purposes on average over the last three fiscal years completed prior to the operative date of this Ordinance...

Section 8 of the Ordinance also includes the following language:

> Any local agency which does not meet its maintenance of effort requirement in any given year shall have its funding under Section 4(D)(1) reduced in the following year by the amount by which the agency did not meet its required maintenance of effort level. In the event that special circumstances prevent a local agency from meeting its maintenance of effort requirement, the local agency may request up to three additional fiscal years to fulfill its requirement.

In accordance with Section 8 of the Ordinance, the City is requesting until June 30, 2019, due to special circumstances, as described in Attachment 2, to make up the deficit.
**Next Steps**

The MTS and City requests are scheduled for consideration at the March 17, 2017, Transportation Committee meeting with action on the request scheduled for consideration at the March 24, 2017, Board of Directors meeting. Any comments received from the ITOC on the requests will be conveyed to the Transportation Committee and Board of Directors.

Attachments:  1. Letter of Request from MTS dated January 31, 2017  
               2. Letter of Request from the City of Lemon Grove dated February 8, 2017

Key Staff Contact: Lisa Kondrat-Dauphin, (619) 699-1942, lisa.kondrat-dauphin@sandag.org
Mr. Jose Nuncio  
TransNet Program Director  
SANDAG  
401 B Street Suite 800  
San Diego, CA 92101

Dear Mr. Nuncio,

MTS' financial performance for fiscal year 2016 proved to be exemplary. As indicated in the below table, Bus Operations' cost per revenue hour decreased by 3.46% as compared to the previous fiscal year, while Rail Operations' cost per revenue mile increased slightly by 2.4%. Over a three year average, Bus Operations and Rail Operations have been extremely efficient resulting in Bus Operations decreasing by 2.82% per revenue vehicle hour and Rail Operations increasing very slightly at 0.61% per revenue mile.

<table>
<thead>
<tr>
<th>Bus Operations</th>
<th>FY16</th>
<th>FY15</th>
<th>FY14</th>
<th>FY13</th>
<th>3 Year Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Costs</td>
<td>176,336,687</td>
<td>168,742,546</td>
<td>157,766,807</td>
<td>161,801,667</td>
<td></td>
</tr>
<tr>
<td>Revenue Vehicle Hours</td>
<td>2,076,738</td>
<td>1,918,459</td>
<td>1,793,042</td>
<td>1,747,714</td>
<td></td>
</tr>
<tr>
<td>Operating Cost per Revenue Vehicle Hour</td>
<td>84.91</td>
<td>87.96</td>
<td>87.99</td>
<td>92.58</td>
<td></td>
</tr>
<tr>
<td>CPI</td>
<td>205.415</td>
<td>213.587</td>
<td>228.254</td>
<td>227.028</td>
<td></td>
</tr>
<tr>
<td>Increase/(Decrease) in CPI</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.5%</td>
<td>0.2%</td>
<td></td>
</tr>
<tr>
<td>Increase/(Decrease) in Ratio</td>
<td>-3.46%</td>
<td>-0.04%</td>
<td>-4.96%</td>
<td>-2.82%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rail Operations</th>
<th>FY16</th>
<th>FY15</th>
<th>FY14</th>
<th>FY13</th>
<th>3 Year Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Costs</td>
<td>$ 75,515,683</td>
<td>$ 73,101,951</td>
<td>$ 71,592,168</td>
<td>$ 66,350,716</td>
<td></td>
</tr>
<tr>
<td>Revenue Vehicle Miles</td>
<td>8,673,789</td>
<td>8,596,143</td>
<td>8,516,212</td>
<td>7,758,089</td>
<td></td>
</tr>
<tr>
<td>Operating Cost per Revenue Vehicle Mile</td>
<td>8.71</td>
<td>8.50</td>
<td>8.41</td>
<td>8.53</td>
<td></td>
</tr>
<tr>
<td>CPI</td>
<td>205.418</td>
<td>213.587</td>
<td>228.254</td>
<td>227.028</td>
<td></td>
</tr>
<tr>
<td>Increase/(Decrease) in CPI</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.5%</td>
<td>0.2%</td>
<td></td>
</tr>
<tr>
<td>Increase/(Decrease) in Ratio</td>
<td>2.4%</td>
<td>1.2%</td>
<td>-1.7%</td>
<td>0.61%</td>
<td></td>
</tr>
</tbody>
</table>

In fiscal year 2016, the TransNet annual CPI requirement (increases in operating cost per revenue hour / mile not exceed CPI) decreased by 3.8% (resulting in a 0% target as compared to fiscal year 2015 for MTS). MTS achieved this target for Bus Operations, but was not in compliance with this flat expense ratio for Rail Operations. Although the fiscal year 2016 findings reflect that Rail Operations is not compliant with the annual CPI requirement, the operating cost per revenue vehicle mile ratio for Rail Operations again changed very modestly (2.4%) from fiscal year 2016 and over the past three years, costs have increased very slightly at 0.61% per revenue mile.

Certain uncontrollable, required non-cash accounting transactions within Rail Operations prohibited MTS from achieving compliance with the CPI target. When GASB 68 for net pension liability was first implemented in fiscal year 2015, it required agencies to put the net pension liability on the face of the financial statements. In fiscal year 2016, due to the poor performance on CalPERS pension fund...
investments, the resulting accounting adjustment increased pension expense by approximately $700,000, representing a $1.6 million swing in operating costs as compared to fiscal year 2015. In addition, GAAP requires an actuarial determined amount to be entered for employee workers’ compensation claims. The swing on this non-cash accounting transaction from fiscal year 2015 to fiscal year 2016 was $400,000. If these non-cash transactions were excluded from this calculation, Rail Operations would also be considered within compliance with a decrease in cost per revenue mile of -0.3%.

Due to the fact that CPI decreased by -3.8% for fiscal year 2016 (resulting in a 0% target as compared to fiscal year 2015 for MTS), MTS requests that the SANDAG Board of Directors approve our request to calculate the eligibility requirement excluding $1.6 million in GASB 68 pension expense between the two fiscal years as well as the $400,000 actuarial adjustment for employee claims. We appreciate ITOC’s recognition of our continued and concerted efforts to increase the efficiency of our operations and responsibly manage our costs.

Sincerely,

Larry Mariotti
Chief Financial Officer
February 8, 2017

Jose Nuncio  
_TransNet_ Program Director  
San Diego Association of Government  
401 B Street, Suite 800  
San Diego, CA 92101

Dear Mr. Nuncio,

The _TransNet_ Audit Report (agreed-Upon Procedures) for the fiscal year that ended June 30, 2016 indicated that the City did not meet its Maintenance of Effort ("MOE") requirement by $21,196 as required per Section 8 of the _TransNet_ Extension ordinance. The deficit occurred because of the City believed it had budgeted sufficient funds to meet its MOE requirement for FY 2015-16.

The City is committed to revising its internal procedures and financing plan for maintenance of local streets and construction of roadway improvements to ensure compliance with _TransNet_ MOE requirements for future fiscal years.

In accordance with Section 8 of the _TransNet_ Extension Ordinance, The City of Lemon Grove ("City") requests the Commission to review and approve its request due to special circumstances, the City was unable to meet the _TransNet_ MOE requirement for FY 2016, and to allow the City two years, or until June 30, 2019, to expend the aforementioned amount over and above the regular MOE threshold to make up the shortfall. The additional time requested to fulfil the FY 2015-16 MOE obligation gives the City the opportunity to use its finite local discretionary funds to meet the requirements of the _TransNet_ Extension Ordinance.

If you have any questions about this matter please call me directly at (619) 825–3814.

Sincerely,

Mike James  
Assistant City Manager / Public Works Director
San Diego Association of Governments – TransNet Program

INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

March 8, 2017

AGENDA ITEM NO.: 6

Action Requested: RECOMMEND

INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE
TERM LIMITS: PROPOSED AMENDMENT TO THE
TransNet EXTENSION ORDINANCE

File Number 1500200

Introduction

The FY 2015 TransNet Triennial Performance Audit included a recommendation to alternate the ending terms of Independent Taxpayer Oversight Committee (ITOC) members. At its February 17, 2017, meeting, the Transportation Committee reviewed this proposal and recommended that the Board of Directors approve the proposed amendments to the TransNet Extension Ordinance and related changes to the ITOC Bylaws.

At its February 24, 2017, meeting, the Board of Directors conducted the first reading (Attachment 1) of the San Diego County Regional Transportation Commission (RTC) Ordinance No. RTC-CO-2017-04, which would incorporate proposed amendments to the TransNet Extension Ordinance that would further stagger terms to prevent the turnover of more than two members at any one time and would allow ITOC members filling mid-term vacancies to serve an additional two four-year terms (not to exceed a total of ten years). In addition, in the event that more than two members would need to be replaced during the same recruitment period, the proposed amendments would provide that the Selection Committee would determine the length of the members’ first term.

Recommendation

The ITOC is asked to recommend that the Board of Directors approve the proposed amendments to the TransNet Extension Ordinance related to ITOC term limits. The ITOC also is asked to recommend the Board of Directors’ approval of the proposed changes to the ITOC Bylaws (Attachment 1).

Next Steps

The Board of Directors, acting as the San Diego County RTC, is scheduled to consider adoption of RTC Ordinance No. RTC-CO-2017-04, approving the proposed amendments to the TransNet Extension Ordinance and ITOC Bylaws at its March 24, 2017, meeting. Pending approval by a two-thirds majority of the Board of Directors, the amendments would take effect in time for the next round of ITOC member appointments scheduled to occur in May 2017.

Attachment: 1. February 24, 2017, Board of Directors Meeting Report: First Reading: Regional Transportation Commission Ordinance No. RTC-CO-2017-04: Independent Taxpayer Oversight Committee Term Limits

Key Staff Contact: Ariana zur Nieden, (619) 699-6961, ariana.zurnieden@sandag.org
AGENDA ITEM NO. 17-02-16
FEBRUARY 24, 2017
ACTION REQUESTED – CONDUCT FIRST READING

FIRST READING: REGIONAL TRANSPORTATION COMMISSION ORDINANCE NO. RTC-CO-2017-04:
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE TERM LIMITS

File Number 1500100

Introduction

The FY 2015 TransNet Triennial Performance Audit included a recommendation to alternate the ending terms of Independent Taxpayer Oversight Committee (ITOC) members. At its February 17, 2017, meeting, the Transportation Committee reviewed this proposal and recommends that the Board of Directors approve the proposed amendments to the TransNet Extension Ordinance and related changes to the ITOC Bylaws. Pursuant to this, the Board of Directors is asked to conduct the first reading of Regional Transportation Commission [RTC] Ordinance No. RTC-CO-2017-04, which would incorporate proposed amendments to the TransNet Extension Ordinance that would further stagger terms to prevent the turnover of more than two members at any one time, and would allow ITOC members filling mid-term vacancies to serve an additional two four-year terms (not to exceed a total of ten years). In addition, in the event that more than two members would need to be replaced during the same recruitment period, the proposed amendments would provide that the Selection Committee would determine the length of the members’ first term. Related changes to the ITOC Bylaws also would be needed to ensure consistency with the TransNet Extension Ordinance amendments; these are outlined in Attachment 3.

The ITOC is scheduled to review the proposed amendments at its meeting on March 8, 2017.

Discussion

FY 2015 TransNet Triennial Performance Audit

In accordance with the TransNet Extension Ordinance, one of the responsibilities of the ITOC is to conduct triennial performance audits of SANDAG and other agencies involved in the implementation of TransNet-funded projects and programs. The ITOC conducted its most recent audit in FY 2015 with the assistance of an independent auditor. ITOC member Carolyn Lee and staff from the audit firm of Sjoberg Evashen Consulting, Inc., presented the audit report for discussion by the Transportation Committee at its March 20, 2015, meeting.
At its March 2015 meeting, the Transportation Committee discussed the FY 2015 TransNet Triennial Performance Audit (third audit) report and recommendations. Performance Audit Recommendation No. 18 states that to improve the effectiveness of the ITOC in fulfilling its responsibilities, the following should be considered:

Adopting a method to alternate the ending terms of ITOC members so that no more than two terms end in any given year.

The performance audit noted that currently, ITOC members serve staggered four-year terms. Current staggering of membership terms will result in three seats ending in 2017 and four seats ending in 2019. With more than half of the seven total seats ending at the same time, the performance audit noted that it may be worthwhile to consider a different method to alternate the ending terms. This would help maintain the strong level of historical knowledge among committee members.

As part of its role in carrying out the TransNet triennial performance audits, at least twice a year the ITOC reviews and discusses the status of audit recommendations. At its October 2015 meeting, alternatives for addressing Recommendation No. 18 were presented to the ITOC; these included options such as alternating the expiration of ITOC member appointments, including the cost and time associated with solicitations, and keeping ending terms as they are currently. Staff also provided a summary of similar term limit structures for taxpayer oversight committees at other agencies for comparison purposes.

ITOC members questioned the current partial term structure where members filling mid-term vacancies currently are not able to serve the full eight years allowed per Ordinance provisions. The timing of proposed changes also was discussed, with direction provided to revisit any proposed changes in the lead up to the next ITOC solicitation. The next ITOC solicitation is scheduled to be advertised in March 2017 for replacement of those with terms expiring in May 2017.

Prior TransNet Triennial Performance Audits

It is important to note that as a result of prior recommendations from earlier performance audits conducted in FY 2009 and FY 2012, regular reporting and monitoring has been established to preserve the institutional knowledge of ITOC members. For example, according to the FY 2012 TransNet Triennial Performance Audit (second audit), “many of the changes implemented in response to the audit recommendations have strengthened oversight and accountability to ensure the foundation surrounding the TransNet program continues to be solid. For instance, SANDAG has improved the data available to the ITOC and other committees on a quarterly basis to include extensive program revenue and expenditure data to assist in overseeing the program and ensuring it is on course. Additionally, there is a record of past ITOC decisions now maintained to enhance ITOC’s effectiveness in overseeing the program – especially as members transition on and off the committee – and transparency to the public as well.”

Every month, staff provides ITOC members with a report on Board of Directors and Transportation Committee actions taken on TransNet-related items. At the request of ITOC members, historical actions in the form of chronologies are provided with each project progress.

1 The FY 2015 TransNet Triennial Performance Audit report and recommendations can be found on the SANDAG website: sandag.org/uploads/committeeid/committeeid_75_19305.pdf
report. Regular reporting on the status of Early Action Program projects, routine review of the projects proposed for funding in the Regional Transportation Improvement Program, quarterly reporting on the progress made by TransNet recipient agencies, quarterly financial reporting, and onboarding for new ITOC members are all examples of reporting practices implemented that have strengthened general oversight and helped ITOC fulfill its responsibilities more effectively.

While the need for additional reporting identified in previous audits has been addressed through the implementation of the regular monitoring practices listed in the paragraph above, the most recent performance audit included the additional recommendation to adopt a method to further consider alternating service terms. To ensure continuity of methods and processes such that the strong level of historical knowledge among committee members may be further maintained, the FY 2015 audit recommends changes to ITOC member term limits.

**Proposed Changes to ITOC Member Term Limits**

The attachment to the TransNet Extension Ordinance entitled “Statement of Understanding Regarding the Implementation of the Independent Taxpayer Oversight Committee for the TransNet Program” states as follows:

> ITOC members shall serve a term of four years, except that initial appointments may be staggered with terms of two to four years. In no case shall any member serve more than eight years on the ITOC. Term limits for ITOC members should be staggered to prevent significant turnover at any one time. The initial appointment process should be based on this staggered term limit concept.

The ITOC Bylaws further state the following:

> ITOC members shall serve a term of four years, except that initial appointments may be staggered with terms of two to four years. Term limits for ITOC members should be staggered to prevent significant turnover at any one time. If mid-term vacancies occur, the process for replacement shall generally follow the same process as established for regular appointments. The Selection Committee may modify the process as may be necessary given the particular circumstances.

The four proposed amendments to the TransNet Extension Ordinance and ITOC Bylaws are attached and shown in tracked changes (Attachments 2 and 3). Suggested modifications to existing language included in the Ordinance and ITOC Bylaws would allow members filling mid-term vacancies to serve an additional two four-year terms, not to exceed a total of ten years. Proposed changes also would include further staggering to prevent turnover of more than two members at any one time. Third, in the event that more than two members need to be replaced during the same recruitment period, the Selection Committee would determine the length of the members’ first term. A listing noting upcoming term expirations for ITOC positions is included below.
Terms expiring May 2017 | Terms expiring May 2019
---|---
A professional with experience in the management of large-scale construction projects | A professional in the field of municipal/public finance and/or budgeting
A professional with experience in real estate, land economics, and/or right-of-way acquisition | A professional in biology or environmental science
The chief executive officer or person in a similar senior-level decision-making position of a major private sector employer | A licensed engineer with appropriate credentials in the field of transportation project design or construction
 | A licensed architect, civil engineer or traffic engineer

Finally, the ITOC Bylaws would include one further proposed change to clarify that, in addition to ITOC recommendation, approval by the Board of Directors is necessary in order to amend ITOC Bylaws.

**Next Steps**

The Board of Directors, acting as the San Diego County Regional Transportation Commission, is scheduled to consider adoption of RTC Ordinance No. RTC-CO-2017-04, approving the proposed amendments to the TransNet Extension Ordinance and ITOC Bylaws in March. Pending approval by a two-thirds majority of the Board, the amendments would take effect in time for the next round of ITOC member appointments scheduled to occur in May 2017.

GARY L. GALLEGOS
Executive Director

Attachments: 1. RTC Ordinance No. RTC-CO-2017-04, Approving Proposed Amendments to the TransNet Extension Ordinance
3. Proposed Amendments to TransNet ITOC Bylaws

Key Staff Contact: Ariana zur Nieden, (619) 699-6961, ariana.zurnieden@sandag.org
RESOLUTION NO. RTC-CO-2017-04

AN ORDINANCE OF THE SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION AMENDING REGIONAL TRANSPORTATION COMMISSION ORDINANCE NO. RTC-CO-04-01 RELATED TO INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE TERM LIMITS

WHEREAS, the TransNet Extension Ordinance established the Independent Taxpayer Oversight Committee (ITOC) to provide an enhanced level of accountability for the expenditure of funds and to develop recommendations for improvements to the performance of the TransNet program;

WHEREAS, the TransNet ITOC roles and responsibilities are described in the document incorporated by reference to the TransNet Extension Ordinance and titled “STATEMENT OF UNDERSTANDING REGARDING THE IMPLEMENTATION OF THE INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE FOR THE TransNet PROGRAM;” and

WHEREAS, Responsibility No. 3 states the ITOC shall have the responsibility to conduct triennial performance audits of SANDAG and other agencies involved in the implementation of TransNet-funded projects and programs; and

WHEREAS, the FY 2015 TransNet Triennial Performance Audit included a recommendation to consider a different method for alternating ITOC member term limits in order to better preserve ITOC member institutional knowledge;

NOW THEREFORE BE IT RESOLVED that the SANDAG Board of Directors, ALSO ACTING AS THE SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION, DOES HEREBY RESOLVE AS FOLLOWS:

The Terms and Conditions section of the attachment to Regional Transportation Commission Ordinance No. RTC-CO-04-01 entitled “STATEMENT OF UNDERSTANDING REGARDING THE IMPLEMENTATION OF THE INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE FOR THE TransNet PROGRAM” is hereby amended to read as set forth below:

Terms and Conditions for ITOC members

- ITOC members shall serve a term of four years, except that initial appointments may be staggered with terms of two to four years less than four years in order to ensure the terms of the ITOC members are sufficiently staggered.

- ITOC members shall serve without compensation except for direct expenses related to the work of the ITOC.
In no case shall any member serve more than eight years on the ITOC. ITOC members shall serve no more than eight years unless the member’s first term was less than four years, in which case the member may serve an additional two terms after the partial term. In no case, however, shall any member serve more than ten years on the ITOC.

If and when vacancies in the membership of the ITOC occur, the same selection process as outlined above shall be followed to select a replacement to fill the remainder of the term. At the completion of a term, eligible incumbent members will need to apply for reappointment for another term.

Term limits for ITOC members should be staggered to prevent significant turnover of more than two members at any one time. The initial appointment process should be based on this staggered term limit concept. In the event more than two members need to be replaced during the same recruitment period, the Selection Committee shall determine the length of their replacements’ first term in order to limit concurrent future turnover. (Changes in strikeout and underline)

PASSED AND ADOPTED this 24th of March 2017.

AYES:

NOES:

ABSENT:

Chair of the Board of Directors of the San Diego County Regional Transportation Commission

[Seal]

Attest:

Secretary of the Board of Directors of the San Diego County Regional Transportation Commission
STATEMENT OF UNDERSTANDING REGARDING THE IMPLEMENTATION OF THE INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE FOR THE TransNet PROGRAM

Purpose of the ITOC

The Independent Taxpayer Oversight Committee (ITOC) is intended to provide an increased level of accountability for expenditures made under the TransNet Extension, in addition to the independent annual fiscal and compliance audits required under the existing TransNet program. The ITOC should function in an independent, open and transparent manner to ensure that all voter mandates are carried out as required in the Ordinance and Expenditure Plan, and to develop positive, constructive recommendations for improvements and enhancements to the financial integrity and performance of the TransNet program.

Intent of the ITOC as a Functional Partner to SANDAG

The TransNet Ordinance contains a summary of the ITOC's role and responsibilities consistent with the above Purpose. In this document, additional and supplementary details with regard to the ITOC are delineated. These pertain to the process for selecting members of ITOC, terms and conditions governing membership, responsibilities, funding and administration, and conflict of interest provisions.

It is noteworthy that these details have been developed in a cooperative process between SANDAG and representatives of the San Diego County Taxpayers Association, and with the involvement of other transportation professionals within the region. This document is understood to provide the basis for describing how the ITOC will function once the Ordinance is approved.

In addition to the details outlined in this document the intent that provides the foundation for the desired partnership between ITOC and SANDAG, as viewed by the principal authors, is summarized as follows:

- **Resource**—it is the intent that the ITOC will serve as an independent resource to assist in the SANDAG implementation of TransNet projects and programs. The Committee's membership is designed to provide to SANDAG a group of professionals who, collectively, can offer SANDAG the benefit of their experience to advance the timely and efficient implementation of TransNet projects and programs. The ITOC will work in a public way to ensure all deliberations are conducted in an open manner. Regular reports from the ITOC to the SANDAG Board of Directors (or policy committees) are expected with regard to program and project delivery, and overall performance.

- **Productive**—it is the intent that the ITOC will rely upon data and processes available at SANDAG, studies initiated by the ITOC, and other relevant data generated by reputable sources. It is understood, however, that SANDAG will be continuously striving to improve the reliability of data and to update analytical and modeling processes to be consistent with the state-of-the-art, and that the ITOC will be kept abreast of any such efforts, and invited to participate in development of such updates in a review capacity.
Cost-efficient—it is the intent that the ITOC will not add cost burden to the SANDAG implementation of the *TransNet* program and projects. Rather, through a cooperative and productive working relationship between ITOC and the SANDAG implementation team, it is the objective that costs will be saved.

Flexible—it is the intent that the ITOC will assist SANDAG to be opportunistic to take advantage of changing situations in the future with regard to technologies and transportation developments. Therefore, the provisions contained below are viewed through 2048 based upon a 2004 perspective and are not meant to be unduly restrictive on ITOC’s and SANDAG’s roles and responsibilities.

**Membership and Selection Process**

1. **Membership:** There shall be seven ITOC voting members with the characteristics described below. The intent is to have one member representing each of the specified areas of expertise. If, however, after a good faith effort, qualified individuals have not been identified for one or more of the areas of expertise, then no more than two members from one or more of the remaining areas of expertise may be selected. For each of the areas of expertise listed below, an individual representing one of the region’s colleges or universities with a comparable level of academic experience also would be eligible for consideration.

- A professional in the field of municipal/public finance and/or budgeting with a minimum of ten years in a relevant and senior decision making position in the public or private sector.
- A licensed architect, civil engineer or traffic engineer with demonstrated experience of ten years or more in the fields of transportation and/or urban design in government or the private sector.
- A professional with demonstrated experience of ten years or more in real estate, land economics, and/or right-of-way acquisition.
- A professional with demonstrated experience of ten years or more in the management of large-scale construction projects.
- A licensed engineer with appropriate credentials in the field of transportation project design or construction and a minimum of ten years of experience in a relevant and senior decision making position in the government or private sector.
- The chief executive officer or person in a similar senior-level decision making position, of a major private sector employer with demonstrated experience in leading a large organization.
- A professional in biology or environmental science with demonstrated experience of ten years or more with environmental regulations and major project mitigation requirements and/or habitat acquisition and management.
- **Ex-Officio Members:** SANDAG Executive Director and the San Diego County Auditor

The criteria established for the voting members of the ITOC are intended to provide the skills and experience needed for the ITOC to carry out its responsibilities and to play a valuable and constructive role in the ongoing improvement and enhancement of the *TransNet* program. Applications will be requested from individuals interested in serving on the ITOC through an open, publicly noticed solicitation process.
2. Technical Screening Committee: A technical screening committee will be established to review applications received from interested individuals. This committee will consist of three members selected by the SANDAG Executive Director from high-level professional staff of local, regional, state, or federal transportation agencies outside of the San Diego region, or from one of the region's colleges or universities in a transportation-related field, or a combination thereof. The committee will develop a list of candidates determined to be qualified to serve on the ITOC based on the criteria established for the open position(s) on the ITOC. The technical screening committee will recommend two candidates for each open position from the list of qualified candidates for consideration by the Selection Committee. The recommendations shall be made within 30 days of the noticed closing date for applications.

3. Selection Committee: A selection committee shall be established to select the ITOC members from the list of qualified candidates recommended by the technical screening committee. The selection committee shall consist of the following:

- Two members of the County of San Diego Board of Supervisors
- The Mayor of the City of San Diego
- A mayor from the Cities of Chula Vista, Coronado, Imperial Beach, or National City selected by the mayors of those cities.
- A mayor from the Cities of El Cajon, La Mesa, Lemon Grove, or Santee selected by the mayors of those cities.
- A mayor from the Cities of Carlsbad, Del Mar, Encinitas, Oceanside, or Solana Beach selected by the mayors of those cities.
- A mayor from the Cities of Escondido, Poway, San Marcos, or Vista selected by the mayors of those cities.

The selection of ITOC members shall be made within 30 days of the receipt of recommendations from the technical screening committee. All meetings of the selection committee shall be publicly noticed and conducted in full compliance with the requirements of the Brown Act. Should the selection committee be unable to reach agreement on a candidate from the qualified candidates recommended by the technical screening committee, the selection committee shall request the technical screening committee to recommend two additional qualified candidates for consideration.

**Terms and Conditions for ITOC members**

- ITOC members shall serve a term of four years, except that initial appointments may be staggered with terms of two to four years less than four years in order to ensure the terms of the ITOC members are sufficiently staggered.

- ITOC members shall serve without compensation except for direct expenses related to the work of the ITOC.

- In no case shall any member serve more than eight years on the ITOC. ITOC members shall serve no more than eight years unless the member's first term was less than four years, in which case the member may serve an additional two terms after the partial term. In no case, however, shall any member serve more than ten years on the ITOC.
If and when vacancies in the membership of the ITOC occur, the same selection process as outlined above shall be followed to select a replacement to fill the remainder of the term. At the completion of a term, eligible incumbent members will need to apply for reappointment for another term.

Term limits for ITOC members should be staggered to prevent significant turnover of more than two members at any one time. The initial appointment process should be based on this staggered term limit concept. In the event more than two members need to be replaced during the same recruitment period, the Selection Committee shall determine the length of their replacements’ first term in order to limit concurrent future turnover.

**ITOC Responsibilities**

The ITOC shall have the following responsibilities:

1. Conduct an annual fiscal and compliance audit of all *TransNet*-funded activities using the services of an independent fiscal auditor to assure compliance with the voter-approved Ordinance and Expenditure Plan. This annual audit will cover all recipients of *TransNet* funds during the fiscal year and will evaluate compliance with the maintenance of effort requirement and any other applicable requirements. The audits will identify expenditures made for each project in the prior fiscal year and will include the accumulated expenses and revenues for ongoing, multi-year projects.

2. Prepare an annual report to the SANDAG Board of Directors presenting the results of the annual audit process. The report should include an assessment of the consistency of the expenditures of *TransNet* funds with the Ordinance and Expenditure Plan and any recommendations for improving the financial operation and integrity of the program for consideration by the SANDAG Board of Directors. This consistency evaluation will include a review of expenditures by project type for each local jurisdiction. The ITOC shall 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 ITOC’s draft report and recommendations. Once this review has taken place, the ITOC shall make any final amendments it deems appropriate to its report and recommendations, and adopt its report for submission directly to the SANDAG Board of Directors and the public. The ITOC shall strive to be as objective and accurate as possible in whatever final report it adopts. Upon completion by the ITOC, the report shall be presented to the SANDAG Board of Directors at its next regular meeting and shall be made available to the public.

3. 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. A draft of the ITOC’s report and recommendations regarding the performance audits shall be made available to the SANDAG Transportation Committee at least 60 days before its final adoption by the ITOC to resolve inconsistencies and technical issues related to the ITOC’s draft report and recommendations. Once this review has...
taken place, the ITOC shall make any final amendments it deems appropriate to its report and related recommendations, and adopt its report for presentation directly to the SANDAG Board of Directors and the public. The ITOC shall strive to be as objective and constructive as possible in the text and presentation of the performance audits. Upon completion by the ITOC, the report shall be presented to the SANDAG Board of Directors at its next regular meeting and shall be made available to the public.

4. Provide recommendations to the SANDAG Board of Directors regarding any proposed amendments to the Ordinance and Expenditure Plan.

5. Provide recommendations as part of the 10-year review process. This process provides an opportunity to undertake a comprehensive review of the TransNet program every 10 years and to make recommendations for improving the program over the subsequent 10 years. This review process should take into consideration the results of the TransNet-funded improvements as compared to the performance standards established through the Regional Transportation Plan and the Regional Comprehensive Plan.

6. Participate in the ongoing refinement of the SANDAG transportation system performance measurement process and the project evaluation criteria used in development of the Regional Transportation Plan (RTP) and in prioritizing projects for funding in the Regional Transportation Improvement Program. The focus of this effort will be on TransNet-funded projects. Based on the periodic updates to the RTP, as required by state and federal law, the oversight committee shall develop a report to the SANDAG Transportation Committee, the SANDAG Board of Directors and the public providing recommendations for possible improvements and modifications to the TransNet program.

7. On an annual basis, review ongoing SANDAG system performance evaluations, including the SANDAG “State of the Commute” report, and provide an independent analysis of information included in that report. This evaluation process is expected to include such factors as level of service measurements by roadway segment and by time of day, throughput in major travel corridors, and travel time comparisons by mode between major trip origins and destinations. Such information will be used as a tool in the RTP development process.

8. 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.

9. Review proposed debt financings to ensure that the benefits of the proposed financing for accelerating project delivery, avoiding future cost escalation, and related factors exceed issuance and interest costs.

10. Review the major Congestion Relief projects identified in the Ordinance for performance in terms of cost control and schedule adherence on a quarterly basis.

In carrying out its responsibilities, the ITOC shall conduct its reviews in such a manner that does not cause unnecessary project delays, while providing sufficient time to ensure that adequate analysis can
be completed to allow the ITOC to make objective recommendations and to provide the public with information about the implementation of the TransNet program.

**ITO C Funding and Administration**

1. 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 funds made available to the ITOC shall not exceed $250,000 annually, as adjusted for inflation annually for the duration of the program. Any funds not utilized in one fiscal year shall remain available for expenditure in subsequent years as part of the annual budget process.

2. The expenditures of the ITOC shall be audited annually as part of the same fiscal audit process used for all other TransNet-funded activities.

3. The process for selecting the initial ITOC members shall be started no later than April 1 of the year following the passage of the Ordinance by the voters. Because the funding for this activity would not be available until Fiscal Year 2008-09, the ITOC activities during the initial transition period will be phased in to the extent possible within the budget constraints of the one percent administrative cap under the current TransNet Ordinance. Given the forty-year duration of the TransNet tax extension, the ITOC shall continue as long as funds from the current authorization remain available.

4. An annual ITOC operating budget shall be prepared and submitted to the SANDAG Board of Directors for its approval 90 days prior to the beginning of each fiscal year.

5. All ITOC meetings shall be public meetings conducted in full compliance with the Brown Act. The ITOC will meet on a regular basis, at least quarterly, to carry out its roles and responsibilities.

6. SANDAG Directors and staff will fully cooperate with and provide necessary support to the ITOC to ensure that it successfully carries out its duties and obligations, but should limit involvement to the provision of information required by the ITOC to ensure the independence of the ITOC as it carries out its review of the TransNet program and develops its recommendations for improvements.

7. ITOC members and their designated auditors shall have full and timely access to all public documents, records and data with respect to all TransNet funds and expenditures.

8. All consultants hired by the ITOC shall be selected on an open and competitive basis with solicitation of proposals from the widest possible number of qualified firms as prescribed by the SANDAG procedures for procurement. The scope of work of all such consultant work shall be adopted by the ITOC prior to any such solicitation.

9. SANDAG shall provide meeting space, supplies and incidental materials adequate for the ITOC to carry out its responsibilities and conduct its affairs. Such administrative support shall not be charged against the funds set aside for the administration of the ITOC provided under No. 1 above.
**Conflict of Interest**

The ITOC shall be subject to the SANDAG conflict of interest policies. ITOC members shall have no legal action pending against SANDAG and are prohibited from acting in any commercial activity directly or indirectly involving SANDAG, such as being a consultant to SANDAG or to any party with pending legal actions against SANDAG during their tenure on the ITOC. ITOC members shall not have direct commercial interest or employment with any public or private entity, which receives *TransNet* sales tax funds authorized by this Ordinance.
INTRODUCTION

The TransNet Extension Ordinance and Expenditure Plan, approved by the voters in November, 2004 as Proposition A, established the Independent Taxpayer Oversight Committee (ITOC). The ITOC is intended to provide an increased level of accountability for expenditures made under the TransNet Extension, in addition to the independent annual fiscal and compliance audits required under the existing TransNet program. The ITOC is to function in an independent, open and transparent manner to ensure that all voter mandates are carried out as required in the Ordinance and Expenditure Plan, to support the implementation of the objectives of Proposition A to reduce congestion and improve regional mobility, and to develop positive, constructive recommendations for improvements and enhancements to the financial integrity and performance of the TransNet program. The ITOC reports to the public and makes recommendations to the SANDAG Board of Directors, which has the responsibility for decisions related to the implementation of the TransNet program. These bylaws are based on the provisions related to the ITOC that were included as part of Proposition A.

A. MEMBERSHIP

There shall be seven ITOC voting members with the characteristics described below. The intent is to have one member representing each of the specified areas of expertise. If, however, after a good faith effort, qualified individuals have not been identified for one or more of the areas of expertise, then no more than two members from one or more of the remaining areas of expertise may be selected. For each of the areas of expertise listed below, an individual representing one of the region’s colleges or universities with a comparable level of academic experience also would be eligible for consideration. The criteria established for the voting members of the ITOC are intended to provide the skills and experience needed for the ITOC to carry out its responsibilities and to play a valuable and constructive role in the ongoing improvement and enhancement of the TransNet program. Applications will be requested from individuals interested in serving on the ITOC through an open, publicly noticed solicitation process. The seven voting members are to include:

1. A professional in the field of municipal/public finance and/or budgeting with a minimum of ten years in a relevant and senior decision making position in the public or private sector.

2. A licensed architect, civil engineer or traffic engineer with demonstrated experience of ten years or more in the fields of transportation and/or urban design in government or the private sector.

3. A professional with demonstrated experience of ten years or more in real estate, land economics, and/or right-of-way acquisition.

4. A professional with demonstrated experience of ten years or more in the management of large-scale construction projects.

5. A licensed engineer with appropriate credentials in the field of transportation project design or construction and a minimum of ten years of experience in a relevant and senior decision making position in the government or private sector.

6. The chief executive officer or person in a similar senior-level decision making position, of a major private sector employer with demonstrated experience in leading a large organization.
7. A professional in biology or environmental science with demonstrated experience of ten years or more with environmental regulations and major project mitigation requirements and/or habitat acquisition and management.

8. Ex-Officio Members: SANDAG Executive Director and the San Diego County Auditor

B. SELECTION PROCESS

1. Technical Screening Committee

A technical screening committee will be established to review applications received from interested individuals. This committee will consist of three members selected by the SANDAG Executive Director from high-level professional staff of local, regional, state or federal transportation agencies outside of the San Diego region, or from one of the region’s colleges or universities in a transportation-related field, or a combination thereof. The committee will develop a list of candidates determined to be qualified to serve on the ITOC based on the criteria established for the open position(s) on the ITOC. The technical screening committee will recommend two candidates for each open position from the list of qualified candidates for consideration by the Selection Committee. The recommendations shall be made within 30 days of the noticed closing date for applications.

2. Selection Committee

A selection committee shall be established to select the ITOC members from the list of qualified candidates recommended by the technical screening committee. The selection committee shall consist of the following:

- Two members of the County of San Diego Board of Supervisors
- The Mayor of the City of San Diego
- A mayor from the Cities of Chula Vista, Coronado, Imperial Beach, or National City selected by the mayors of those cities.
- A mayor from the Cities of El Cajon, La Mesa, Lemon Grove, or Santee selected by the mayors of those cities.
- A mayor from the Cities of Carlsbad, Del Mar, Encinitas, Oceanside, or Solana Beach selected by the mayors of those cities.
- A mayor from the Cities of Escondido, Poway, San Marcos, or Vista selected by the mayors of those cities.

The selection of ITOC members shall be made within 30 days of the receipt of recommendations from the technical screening committee. All meetings of the selection committee shall be publicly noticed and conducted in full compliance with the requirements of the Brown Act. Should the selection committee be unable to reach agreement on a candidate from the qualified candidates recommended by the technical screening committee, the selection committee shall request the technical screening committee to recommend two additional qualified candidates for consideration.
C. TERMS AND CONDITIONS FOR ITOC MEMBERS

1. Length of Term

ITOC members shall serve a term of four years, except that initial appointments may be less than four years in order to ensure the terms of the ITOC members are sufficiently staggered with terms of two to four years. Term limits for ITOC members should be staggered to prevent significant turnover at any one time.

Term limits for ITOC members should be staggered to prevent turnover of more than two members at any one time. In the event more than two members need to be replaced during the same recruitment period, the Selection Committee shall determine the length of their replacements’ first term in order to limit concurrent future turnover.

2. Additional Term

For a member eligible to serve for an additional four year term, an application for reappointment to continue as a member of the ITOC must be submitted to the Selection Committee for approval at least 120 days prior to the end of the member’s current term. If the Selection Committee does not approve the additional term, the position will be considered vacant at the end of the member’s current term and the selection process for a new member will be initiated. In no case shall any member having served two four-year terms, serve more than eight years on the ITOC.

ITOC members shall serve no more than eight years unless the member’s first term was less than four years, in which case the member may serve an additional two terms after the partial term. In no case, however, shall any member serve more than ten years on the ITOC.

3. Removal from Membership

Members of the ITOC may be removed for cause including the member’s failure to attend more than 50% of the regular ITOC meetings, not including special meetings or subcommittee meetings, in one calendar year or for failure to comply with the ITOC’s conflict of interest provisions. The Selection Committee will be automatically notified when an ITOC member has failed to meet the established standard for attendance and will consider any appeal or review of extenuating circumstances prior to initiating the process to select a new member.

4. Vacancies

If mid-term vacancies occur as a result of Section C(3) or due to the death, disability, or resignation of a member, the process for replacement shall generally follow the same process as established for regular appointments described in Section B. The Selection Committee may modify the process as may be necessary given the particular circumstances. Every effort should be made to fill the vacancy in the same area of expertise.
5. **Selection of Chair and Vice-Chair:**

   The ITOC shall select a Chair and Vice-Chair by majority vote of the committee. The Chair and Vice-Chair shall serve a term of one year. The selection will be made at the first regular meeting following commencement of the SANDAG fiscal year.

6. **Responsibilities of the Chair**

   The Chair will run the ITOC meetings, work with staff to set the agenda for the meetings, and serve as the primary spokesperson for the ITOC to the SANDAG Board of Directors and Transportation Committee, other groups and organizations, and the media.

7. **Responsibilities of the Vice-Chair**

   The Vice-Chair serves in the capacity of the Chair when the Chair is not available.

8. **Compensation**

   ITOC members shall serve without compensation except for direct expenses (parking/mileage for attendance at meetings) related to the work of the ITOC.

9. **Conflict of Interest**

   The ITOC shall be subject to the SANDAG conflict of interest policies. ITOC members shall have no legal action pending against SANDAG and are prohibited from acting in any commercial activity directly or indirectly involving SANDAG, such as being a consultant to SANDAG or to any party with pending legal actions against SANDAG during their tenure on the ITOC. ITOC members shall not have direct commercial interest or employment with any public or private entity, which receives TransNet sales tax funds authorized by this Ordinance. Each ITOC member shall be required to sign a conflict of interest statement and an annual statement of economic interests.

D. **ITOC FUNDING AND ADMINISTRATION**

1. **Annual Funding**

   Beginning with the implementation of the TransNet Extension on July 1, 2008, 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 funds made available to the ITOC shall not exceed $250,000 annually, as adjusted for inflation annually for the duration of the program. Any funds not utilized in one fiscal year shall remain available for expenditure in subsequent years as part of the annual budget process.

2. **Transition Period**

   During the initial transition period through July 1, 2008, the ITOC’s activities will be phased in to the extent possible within the budget constraints of the one percent administrative cap under the initial TransNet Ordinance. Through June 30, 2008, the provisions of the initial TransNet Ordinance will remain in effect with requirements such as the completion of the annual fiscal audits of TransNet recipients being administered by SANDAG using the 1% administrative funds. Staff will work in
coordination with the ITOC on key activities that will become ITOC responsibilities after July 1, 2008 and seek ITOC’s input as appropriate during this transition period.

3. **Duration of the ITOC**

Given the forty-year duration of the TransNet tax extension, the ITOC shall continue as long as funds from the current authorization remain available. These activities would include conducting annual fiscal audits of recipients until TransNet funds are fully expended and the development of related project close-out procedures. The ITOC budget for FY 2048 should reflect the estimated funding required to complete the close-out of the TransNet program.

4. **Audits of ITOC Expenditures**

The expenditures of the ITOC shall be audited annually as part of the same fiscal audit process used for all other TransNet-funded activities.

5. **Annual Budget Process**

An annual ITOC operating budget shall be prepared and submitted to the SANDAG Board of Directors for its approval 90 days prior to the beginning of each fiscal year, starting April 1, 2008 for the 2008-09 Fiscal Year.

6. **Open Meeting Requirements**

All ITOC meetings, including any standing subcommittees of the ITOC which may be established, shall be public meetings conducted in full compliance with the Brown Act. The ITOC will meet on a regular basis, at least quarterly, to carry out its roles and responsibilities.

7. **Meeting Procedures**

Except as otherwise provided by the TransNet Ordinance or its bylaws, the ITOC shall conduct its business in accordance with generally accepted parliamentary procedures based on the principles of Roberts Rules of Order, as applicable to committees similar to the ITOC.

8. **Quorum**

A quorum of the ITOC shall consist of a minimum of four members. To pass a motion, fifty percent plus one of the members present and voting must vote in favor (a minimum of three votes at the minimum quorum level).

9. **Access to Records**

ITOC members and their designated auditors shall have full and timely access to all public documents, records and data with respect to all TransNet funds and expenditures.

10. **Consultant Selection**

All consultants hired by the ITOC shall be selected on an open and competitive basis with solicitation of proposals from the widest possible number of qualified firms as prescribed by the SANDAG procedures for procurement. The scope of work of all such consultant work shall be adopted by the ITOC prior to any such solicitation.
E. STAFFING AND SUPPORT OF THE ITOC

1. General Support for ITOC

At the ITOC’s request, SANDAG shall provide reasonable staff support and shall provide meeting space for regularly scheduled meetings at the SANDAG offices (401 B Street, Suite 800, San Diego, CA 92101). SANDAG will provide supplies and incidental materials adequate for the ITOC to carry out its responsibilities and conduct its affairs. Such staffing and administrative support shall not be charged against the funds set aside for the administration of the ITOC provided under Section D(1).

2. Compliance with Public Meeting Requirements

SANDAG shall assist the ITOC in terms of compliance with the public meeting laws, including posting meeting notices and agendas. An Internet webpage for the ITOC will be maintained by SANDAG as part of its website containing ITOC agenda materials, reports, and other information related to the ITOC. As a general practice, the agenda and related materials will be distributed to ITOC members one week prior to the scheduled meeting.

3. Preserving ITOC Independence

SANDAG Directors and staff will fully cooperate with and provide necessary support to the ITOC to ensure that it successfully carries out its duties and obligations, but should limit involvement to the provision of information required by the ITOC to ensure the independence of the ITOC as it carries out its review of the TransNet program and develops its recommendations for improvements.

F. ITOC ROLES AND RESPONSIBILITIES

The TransNet Ordinance specifies the roles and responsibilities for the ITOC and describes the intent of the ITOC as a functional partner to SANDAG in the ongoing implementation of the TransNet program. As stated in the TransNet Ordinance, in carrying out its responsibilities, the ITOC shall conduct its reviews in such a manner that does not cause unnecessary project delays, while providing sufficient time to ensure that adequate analysis can be completed to allow the ITOC to make objective recommendations and to provide the public with information about the implementation of the TransNet program.

1. Intent

The TransNet Extension Ordinance (pp. 44-45) contained intent language that summarized the foundation of the desired relationship between ITOC and SANDAG. That intent language is included below and provides general guidance for how the ITOC and SANDAG should interact as the ITOC carries out each of the specific roles and responsibilities.

- Resource—it is the intent that the ITOC will serve as an independent resource to assist in the SANDAG implementation of TransNet projects and programs. The Committee’s membership is designed to provide to SANDAG a group of professionals who, collectively, can offer SANDAG the benefit of their experience to advance the timely and efficient implementation of TransNet projects and programs. The ITOC will work in a public way to ensure all deliberations are conducted in an open manner. Regular reports from the ITOC to the public and to the SANDAG Board of
Directors (or policy committees) are expected with regard to program and project delivery, and overall performance.

- Productive—it is the intent that the ITOC will rely upon data and processes available at SANDAG, studies initiated by the ITOC, and other relevant data generated by reputable sources. It is understood, however, that SANDAG will be continuously striving to improve the reliability of data and to update analytical and modeling processes to be consistent with the state-of-the-art, and that the ITOC will be kept abreast of any such efforts, and invited to participate in development of such updates in a review capacity.

- Cost-efficient—it is the intent that the ITOC will not add cost burden to the SANDAG implementation of the TransNet program and projects. Rather, through a cooperative and productive working relationship between ITOC and the SANDAG implementation team, it is the objective that costs will be saved.

- Flexible—it is the intent that the ITOC will assist SANDAG to be opportunistic to take advantage of changing situations in the future with regard to technologies and transportation developments.

2. Implementation Procedures

A set of implementation procedures for each of the basic ITOC responsibilities established in the Ordinance will be developed by the ITOC and updated from time to time as necessary. These implementation procedures will be based on the basic Ordinance language for each ITOC responsibility with additional background information, a detailed description of the way in which the ITOC is to approach each area of responsibility, and a schedule or general timing for when each activity should be undertaken.

G. EFFECTIVE DATE AND AMENDMENTS:

1. Effective Date

These Bylaws shall become effectively effective upon adoption approval by the SANDAG Board of Directors by a majority vote of the ITOC.

2. Amendments:

These Bylaws may be amended or repealed and new Bylaws adopted by majority vote of the ITOC members in office at that time and subject to SANDAG Board of Directors approval.

Attachments:
1. Full Text of the TransNet Extension Ordinance and Expenditure Plan
2. Summary of major Brown Act requirements for public meetings
3. Key provisions of Roberts Rules of Order for conducting meetings
4. ITOC Guidelines

Note: Attached materials on Brown Act, Roberts Rules of Order, and related administrative guidelines for conducting meetings were prepared by Julie Wiley, SANDAG General Counsel and were distributed at the first ITOC meeting on May 18, 2005.
San Diego Association of Governments – TransNet Program

INDEPENDENT TAXPAYER
OVERSIGHT COMMITTEE

March 8, 2017

AGENDA ITEM NO.: 7

Action Requested: DISCUSSION/POSSIBLE ACTION

PROPOSED SANDAG DATA ACCURACY
AND MODELING WORK PLAN

File Number 3100900

Introduction

At its February 8, 2017, meeting, Independent Taxpayer Oversight Committee (ITOOC) members requested that staff provide a status update at a future ITOC meeting on management and forecasting process improvements stemming from lessons learned.

At its February 24, 2017, meeting, the Board of Directors approved a data accuracy and modeling work plan (work plan) developed by staff to improve data integrity and accuracy. In addition, Board members directed staff to hire an outside party to initiate an independent examination of issues surrounding SANDAG’s sales tax revenue forecasts and asked that the ITOC provide input on the seven elements of the work plan (Attachment 1).

Recommendation

The ITOC is asked to provide input on the seven components of the staff work plan to improve data accuracy (Attachment 1).

Next Steps

At its March 10, 2017, meeting, the Executive Committee is scheduled to discuss who should conduct the independent examination. Once the Executive Committee identifies potential outside parties who can conduct the examination, it will forward a recommendation to the Board of Directors for its consideration.

Going forward, staff will present ongoing progress reports to the Board of Directors and the ITOC to ensure both remain informed about the implementation of the work plan.


Key Staff Contact: Ray Major, (619) 595-5668, ray.major@sandag.org
PROPOSED SANDAG DATA ACCURACY AND MODELING WORK PLAN

Introduction

The methodology used in the SANDAG Demographic and Economic Forecasting Model (DEFM) currently is under review by SANDAG staff after errors were discovered in the model that inflated wage growth in certain economic sectors over time. Once the errors were discovered, it became clear that they resulted in higher than expected estimations of future taxable retail sales, which in turn have affected the revenue forecasts for future TransNet Extension funds and Measure A. (Those revenue forecasts were calculated separately from DEFM but used taxable retail sales data from the model.) As was reported to the Board of Directors at its meeting on December 16, 2016, while DEFM is being updated staff has temporarily substituted in a different forecast model using an alternative methodology to estimate future TransNet revenue. The new estimate is arrived at using a consensus of three nationally recognized, independent forecasts.

This report details a recommended work plan that will fully investigate the cause of the errors in DEFM, how and when staff identified the errors, what impacts the errors have had on work products, and how those impacts will be addressed. The proposed work plan also calls for the development of processes and safeguards for consideration by the Board of Directors that can be put in place to ensure similar problems do not occur again, as well as provide transparency to issues of concern that may arise in the future.

Discussion

SANDAG uses a variety of forecasting tools to make estimates. The primary role of DEFM is to forecast future population, jobs, and housing in the region. The model, which originally was created in the 1970s and continually has undergone minor updates since then, is used to make a new forecast ahead of the creation of each Regional Transportation Plan (RTP). These forecasts are done in a series, with the most recent being Series 13, and the next in line being Series 14. The Board of Directors adopts each forecast as part of the process of reviewing and approving the RTP.

By its very nature, forecasting is extremely difficult and complex. A forecast is fundamentally an educated guess at what likely will occur. Minor changes to inputs into forecasting models may have
small impacts in the near term, but dramatic impacts when calculations are made 30 or 40 years into the future.

Over the last few years, SANDAG has been engaged in a systematic process to comprehensively update its modeling capabilities. Because of the extremely complex nature of these computer models, the updates are expensive and time consuming. The first model to undergo an update was the Activity Based Model (ABM), which was completed in 2014. DEFM was next on the list. The Board of Directors included funds to start the initial work on this update in the FY 2015 Program Budget. That work is ongoing.

As part of the DEFM update, SANDAG staff planned to address an issue that they had noticed for some time – that the model was estimating the growth of future taxable retail sales in the region at a significantly higher rate in the future than actually had occurred in the past.

However, in October 2016 as election time approached, press reports challenged the validity of the $18 billion revenue forecast for Measure A. At the direction of management, the modeling and economics teams started investigating DEFM. In November 2016, after weeks of work, staff identified the root cause and concluded that there was an error in the loading of data into DEFM that had caused industry output, and in turn taxable retail sales estimates, to be high. The taxable retail sales numbers had in fact been used in the process of calculating the Measure A revenue forecast, as well as financial capacity estimates used in the TransNet Plan of Finance.

SANDAG management and staff have taken several actions since then, including updating the Board of Directors on December 16, 2016. That update included an evaluation of the TransNet Program and a presentation on the new, independent forecast for future TransNet Extension revenue. In addition, the SANDAG Chief Economist position was consolidated with the Technical Services Director position to integrate oversight of forecasting processes.

Going forward, staff recommends the following seven-part work plan to investigate the error, identify the potential impacts, address any substantive problems that may have resulted with the agency’s work products, and put in place policies and safeguards to ensure that similar problems do not occur again and that any concerns that may arise are brought to the attention of the Board.

- **Conduct Detailed Review:** Conduct a detailed review of the nature of the error in DEFM and its root cause. Review and validate input data, transformations, and equations in the Series 13 forecasting model (the most recent series completed using DEFM) to ensure accuracy of the data and integrity of the model results. Present this information to the Board of Directors.

- **Conduct Dependency Analysis:** Identify key SANDAG reports and deliverables that used data from Series 13. Evaluate the significance of the impacts from any potential forecasting errors and the potential effects on findings and policy recommendations.

- **Map Modeling Process Flow:** In preparation for future forecasts, map all data flow from source through databases, models, and outputs to provide transparency and identify areas for improved quality assurance processes. Complete online documentation and visual mapping of interactions in the model, showing all data sources, processes, interactions, and flows.
• Improve Data Governance: As a first step toward formal data governance, conduct interviews and document the customer-supplier relationship between SANDAG staff and the SANDAG Technical Services Department. This effort will lead to a better understanding of the type of data that agency staff request from Technical Services and a better understanding of how the data are requested, stored, used, and versioned. This information will be used to develop a data warehouse, standardize data extraction routines, and ensure consistency of data.

• Review and Oversight: Validate the new SANDAG population, housing, and economic forecasting model using an independent expert review committee, including convening a panel of experts in economics, demographics, and land use to review the methods, data sources, and assumptions of the new SANDAG forecasting model. The panel will evaluate the efficacy and sufficiency of the proposed Series 14 forecasting model to adequately forecast population, housing, and economic variables for SANDAG planning purposes.

• Enhance Transparency: Develop a set of agency methods and standards to ensure data and analytic transparency, including establishing checking points where full disclosure and analysis are provided to ensure that others can see how models were developed, how data was processed, and what assumptions were made along the way.

• Develop and Formalize Processes: Understand how staff roles, work flows, and technology (e.g., models, databases, software) contribute to producing key agency deliverables. This information will be used to realign the Technical Services Department, as well as add professional quality assurance staff and a dedicated database administrator. This effort will reduce single points of failure, and increase accountability, visibility, and efficiency. Conduct research and prepare an assessment of the current state of software and database platforms to facilitate a plan to implement industry best practices as they relate to data structures, data quality, database design and development, and database governance.

Next Steps

Upon receiving input and direction, SANDAG staff proposes to implement this work plan and follow up with ongoing progress reports to the Board of Directors and the TransNet Independent Taxpayer Oversight Committee. The implementation of this program may require additional staff and consultant resources. Upon direction from the Board, staff will return with proposed program budget amendments to support the work effort.

GARY L. GALLEGOS
Executive Director

Key Staff Contact: Ray Major, (619) 595-5668, ray.major@sandag.org
INTRODUCTION

At its February 8, 2017, meeting, the ITOC reviewed and discussed the FY 2017 TransNet revenue revision and estimates for the next five years, FY 2018 through FY 2022. As part of that discussion, Independent Taxpayer Oversight Committee (ITOC) members requested that staff present draft revenue and cost assumptions that are used to develop the annual TransNet Plan of Finance (POF), before the POF is presented for ITOC approval. While major assumptions, such as projected sales tax revenue, anticipated state and federal funds, and estimated project costs, have been regularly included with each POF update, ITOC members felt that it would be beneficial to have a separate presentation and discussion focused solely on the assumptions, ahead of the approval of each POF. In April, the POF will be presented to the ITOC.

This report provides a look back at the assumptions used in the most recent Board-approved 2015 POF for the capital program. It also presents a comparison against the proposed assumptions for the upcoming POF update for ITOC discussion.

The purpose of the TransNet POF is to provide SANDAG with a strategic tool to build a comprehensive financing strategy based upon updated project costs, delivery schedules, and revenue forecasts. As a forward-looking document, the TransNet POF assesses the financial capacity for the next five to seven years in order to identify opportunities to advance completion of additional capital projects, as well as to identify the need to slow down, should rising project costs, decreasing revenues, or other factors result in reduced financial capacity.

The POF is updated approximately once a year, or more frequently as opportunities or challenges arise. The primary focus of the POF is the Major Corridors Program, which includes construction of all the major highway, rail, and transit capital projects listed in the TransNet Extension Ordinance and a subset of the TransNet program called the Early Action Program (EAP). The most recent update to the POF (the 2015 update) for the Major Corridors capital program was approved by the Board of Directors at its January 22, 2016, meeting. A separate element of the POF focuses on supporting the ongoing operation of bus and Trolley services that are included in the TransNet Extension Ordinance. This transit POF will be brought to ITOC in April.
The POF includes revenue estimates from not just TransNet, but all reasonably anticipated fund types, including state and federal sources that are needed to complete projects outlined in the TransNet Extension Ordinance. Using the latest information available, such as sales tax receipt data from the California Board of Equalization, the POF includes sales tax revenue estimates for the short-term (the next five years), as well as projected sales tax growth rates through 2048 (the last year of the TransNet Extension). The original $14 billion revenue estimate developed in 2002 for the TransNet Extension Program is not used for the POF.

On the cost side, the POF incorporates the latest cost estimates for those projects actively being worked on, as they become available through the annual SANDAG Program Budget update. For projects not yet actively being worked on, historically, the POF had taken the original cost estimates from the TransNet Extension Ordinance and escalated them each year based on inflation. However, in December 2016, at the direction of the Board of Directors, staff took a fresh look at the TransNet Program following the defeat of Measure A. At that point, staff discontinued the practice of using the previous methodology of escalating project costs from 2002 to the POF update year and forward through 2048. Instead, project cost estimates based on the agency’s long-term Regional Transportation Plan (RTP) were incorporated into the POF. Over time, the estimated project costs in the RTP had diverged from the escalated costs of the original estimates for TransNet projects, as more detailed design and engineering was done, technology evolved, and additional scope was added to projects in the RTP.

Whereas in the past staff provided single point estimates for revenues and costs in the POF, moving forward ranges will be provided, where appropriate, to better capture the inherent uncertainty associated with forecasting years into the future.

Recommendation

The ITOC is asked to review and discuss the proposed draft assumptions for incorporation into the upcoming TransNet Major Corridors POF update.

Discussion

TransNet Major Corridors Program

For comparison purposes, a summary of both the Board-approved 2015 plan assumptions and the proposed draft assumptions are included below. Further details about the major assumptions used in last year’s update for the Major Corridors Program (Attachment 1) and proposed assumptions for this year’s update (Attachment 2) are included as attachments with this report.

Key Assumptions

SANDAG updates the Capital Improvement Program project costs and schedule assumptions as part of the annual SANDAG Program Budget development process. Project Managers fine tune assumptions and delivery schedules based on updated information, which is then incorporated into the annual POF update.
**Board-Approved 2015 Plan of Finance Assumptions**

The approved 2015 update included federal program funds consistent with the federal transportation authorization, Moving Ahead for Progress in the 21st Century (MAP-21), and state program funds included in the 2016 State Transportation Improvement Program (STIP) Fund Estimate adopted by the California Transportation Commission in August 2015. The 2016 STIP Fund Estimate significantly reduced available funds, and the 2015 POF update reflected that reduction in the STIP share for state funds. For the TransNet Program, there was a slight increase in the overall revenues compared to the sales tax revenue assumptions included in the previous 2014 update mainly due to revised estimated growth over the short-term, as approved by the Board of Directors in February 2015 and as discussed in Attachment 1.

In terms of construction costs for the Board-approved 2015 update, these continued to remain stable, and the bidding environment was competitive. During the 2011 – 2015 period following the Great Recession, the number of bidders on construction contracts ranged between four to seven per job, compared to three to four per job during prior to the Great Recession (2005 – 2007) when the rate of construction cost increase was at its highest. During the economic recession (2007 – 2010) when costs were at their lowest, the number of bidders per job averaged eight to ten. Moving forward, the construction industry continued to recover with normal price escalation. The cost escalation assumptions used in the upcoming POF (described further in Attachment 2) reflect these trends.

**Proposed Assumptions for the Upcoming Plan of Finance**

The draft assumptions for the upcoming POF are proposed to include federal funding consistent with the Fixing America's Surface Transportation (FAST) Act. For the TransNet Program, two forecasts (short-term and long-term) are incorporated into the POF. The short-term, five-year forecast is based on the latest estimate for the next five years approved by the Board of Directors on February 24, 2017. This five-year forecast is typically provided for the use of transit operators' budgets, but it also serves as the basis for the short-term estimate. The long-term forecast is for the period after the end of the five-year forecast through the end of TransNet in 2048. The long-term forecast is the revised, long-term consensus forecast presented to the Board of Directors on December 16, 2016 (discussed further in Attachment 2).

It should be noted that all revenues presented in this report are in year of expenditure dollars. What this means is that they are shown as they would be collected or expended in a future year, without the adjustment for inflation that would occur if revenues were shown in constant year dollars.

For the upcoming update, construction costs are expected to decrease slightly. While the bidding environment remains competitive (still ranging from four to six bidders per job), the construction industry has indicated that prices will go up in the future. The cost escalation assumptions proposed for the upcoming POF update (described further in Attachment 2) will reflect these trends.

Below is a side-by-side comparison of the most recently used assumptions and the proposed POF assumptions. Given the inherent uncertainty associated with forecasting long-term financial revenue and cost assumptions, a range is provided where appropriate.
Sales Tax Revenue Forecast – Short Term

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<thead>
<tr>
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<tbody>
<tr>
<td>Amount</td>
<td>$574 million</td>
<td>$530 million – $585 million</td>
</tr>
<tr>
<td>Revenue Growth Rates (annual rates of change)</td>
<td>4.9% – 5%</td>
<td>2.62% – 4.19%</td>
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</table>

As mentioned above, short-term revenues are based on the latest short-term revenue forecast approved by the Board of Directors. At its February 24, 2017, meeting, the Board of Directors approved high and low ranges of plus and minus five percent for the short-term forecast. The mid-point of the range is used for financial capacity analysis. Short-term growth rates are applied to the last actual year of sales tax collection (for example, the proposed POF applies the growth rate for FY 2017 to the actual sales tax collection amount in FY 2016). This approach ensures that the revenue estimates are grounded on actual receipts.

Sales Tax Revenue Forecast – Long Term

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<tr>
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<tbody>
<tr>
<td>Amount</td>
<td>$7.0 billion</td>
<td>$5.5 billion – $6.0 billion</td>
</tr>
<tr>
<td>Revenue Growth Rates (annual rates of change)</td>
<td>3.2% – 5%</td>
<td>3.73% – 4.19%</td>
</tr>
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</table>

In the past, the SANDAG Demographic and Economic Forecasting Model (DEFM) provided the growth rates used for estimating the long-term sales tax revenue forecast. Those growth rates were used as the basis for the 2015 POF. While DEFM is under review after a data aggregation error was discovered in November, staff has developed an interim, more conservative methodology for estimating long-term sales tax revenue. This methodology, comprising a consensus of three nationally-recognized forecasts, was presented to the Board of Directors in December 2016. The Board of Directors approved the use of the consensus forecast for sales tax revenues while data accuracy efforts are implemented. The consensus forecast forms the basis for the long-term revenue estimate for the next POF update. As with the 2015 POF, the proposed update also would apply the long-term growth rates from the consensus forecast to the last year of the short-term forecast to ensure a continued grounding of the forecast on actual receipts.

The overall amount assumed for TransNet revenues, including the short- and long-term estimates for the proposed POF is approximately between $6.0 billion and $6.6 billion in year of expenditure dollars.
State and Federal Matching Revenues – Programmed and Reasonably Committed

<table>
<thead>
<tr>
<th>Item</th>
<th>2015 Board-Approved TransNet Major Corridors POF</th>
<th>Proposed TransNet Major Corridors POF</th>
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<tbody>
<tr>
<td>Amount</td>
<td>$1.8 billion</td>
<td>$1.85 billion</td>
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</table>

State and federal matching funds include Regional Surface Transportation Program (RSTP), Congestion Mitigation and Air Quality (CMAQ), STIP, Traffic Congestion Relief Program (TCRP), Proposition 1B, Cap and Trade, and Federal Discretionary (such as TIGER funds), among others. The 2015 POF included funding programmed in the 2014 Regional Transportation Improvement Program (RTIP), which covered FY 2015 to FY 2019, as well as funds that were reasonably assumed to be available beyond the 2014 RTIP, such as the Full Funding Grant Agreement (FFGA) for the Mid-Coast Corridor Transit Project. The proposed POF assumption includes funds programmed in the 2016 RTIP, as well as amounts assumed to be committed but that fall outside the 2016 RTIP, which covers programming in FY 2017 to FY 2021.

The 2015 POF reflected changes approved by the California Transportation Commission that reduced and delayed STIP funds for the North Coast Corridor. The proposed POF reflects estimates made available by the FAST Act, including anticipated apportionments provided by the Federal Highway Administration (FHWA) and Caltrans for RTIP programming purposes, as well as revenues received through competitive processes, such as state cap-and-trade funds for the LOSSAN corridor during 2016.

Programmed and reasonably committed funds have a high degree of certainty to be available for projects. However, changes in legislative or administrative policies or actions may still affect the timing and amount of these funds. Changes to anticipated programming amounts are reported to the Board of Directors through RTIP amendments, and their impact on project delivery is assessed through updates to the POF.

State and Federal Matching Formula Revenues – Anticipated

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<tr>
<td>Amount</td>
<td>$6.7 billion</td>
<td>$5.9 billion – $7.3 billion</td>
</tr>
<tr>
<td>Percent Share Dedicated to TransNet Major Corridors</td>
<td>90%</td>
<td>90%</td>
</tr>
</tbody>
</table>

State and Federal Matching Formula Revenues anticipated to occur beyond those that have already been programmed include STIP, RSTP and CMAQ funds. Estimated growth rates have remained largely consistent between the 2015 POF and the proposed POF. Long-term growth rates have been reviewed for reasonableness by the FHWA and Federal Transit Administration (FTA) as part of their review of assumptions in the RTP.
The assumptions under both the 2015 and proposed POF are based on the assumptions in the RTP. These assumptions rely on historical growth for these revenues in order to estimate future revenues, as well as changes in law. Given the long-term time horizon, assumptions for these revenue sources will continue to be reviewed and refined as part of updates to the RTP.

The 2015 POF included a Board-approved assumption that 90 percent of the anticipated formula funds listed above would be designated to match TransNet funds for the Major Corridors projects. The remaining 10 percent are approved by the Board of Directors for region-wide programs such as the vanpool and the 511 Program, which help the region implement its Sustainable Community Strategies. The 90 percent set-aside has been reviewed by the Board of Directors annually and held fairly constant for several years, though the Board of Directors has previously approved levels ranging from 86 to 94 percent since the beginning of the implementation of the TransNet Extension. The upcoming POF proposes the same 90 percent set-aside. A high and low range of ten percent plus and minus is considered in the POF, with the Estimate mid-point amount used for financial capacity purposes. The higher ten percent plus or minus range reflects a higher degree of uncertainty regarding the long-term reliability of the estimate, particularly regarding adequate long-term funding of the Highway Trust Fund, which Congress has not yet addressed.

**SR 125 Toll Revenues**

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<tr>
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<tbody>
<tr>
<td>Amount</td>
<td>$89.3 million</td>
<td>$66.4 million</td>
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The 2015 POF assumed continued repayment of loan from the TransNet Program to help acquire the SR 125 Toll Road (or South Bay Expressway). At this time, staff is pursuing a refinancing of the South Bay Expressway, which would re-pay the TransNet Program and eliminate the annual payments from the toll road. The proposed POF assumes a lump sum repayment of $60 million in FY 2018 and a discontinuation of the annual loan payments after FY 2018.

**Bonds, Bond Anticipation Notes, Grant Anticipation Notes, and Commercial Paper**

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<tbody>
<tr>
<td>Amount</td>
<td>$1.65 billion</td>
<td>$1.25 billion – $1.38 billion</td>
</tr>
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The 2015 POF assumed structured debt that includes existing sales tax bonds, grant anticipation notes (GANs), and bond anticipation notes (BANs). The purpose of these types of funds are as follows: Existing sales bonds are the bonds issued by SANDAG in 2008, 2010, 2012, 2014, and 2016 backed by sales tax collections and that have served to advance completion of the TransNet EAP projects, such as I-15 Express Lanes, SR 52 Extension and Blue and Orange Line Modernization. BANs are lower-interest, short-term notes anticipated to be issued in the next two years for near-term expenses associated with the Mid-Coast Corridor Transit Project and paid back in about 2019 with the proceeds of the longer-term, higher-interest Transportation Infrastructure Finance and Innovation Act.
(TIFIA) loan. GANs are bonds that would be issued in the next few years to pay for expenses associated with the Mid-Coast project, that would be paid over time with future appropriations of the Mid-Coast $1.043 billion FFGA. As a reminder, the Mid-Coast FFGA, though approved, will be allocated to SANDAG in annual amounts of approximately $100 million, through about 2026. This means that some construction expenses for the Mid-Coast Corridor Transit Project will need to be covered between now and 2021 when the project opens to users with funds other than FFGA revenues. GANs will provide this source of funds and be paid back with FFGA revenues as they are appropriated after 2021.

A higher degree of pay-go construction payments on the Mid-Coast Corridor Transit Project is assumed, leading the proposed POF to have lower anticipated borrowing needs in the next few years. A high and low range of plus and minus five percent is included in the projection, reflecting a higher degree of certainty.

**Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan**

<table>
<thead>
<tr>
<th>Item</th>
<th>2015 Board-Approved TransNet Major Corridors POF</th>
<th>Proposed TransNet Major Corridors POF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$585 million</td>
<td>$571 million</td>
</tr>
</tbody>
</table>

The 2015 POF included an assumption of a TIFIA loan for the Mid-Coast Corridor Transit Project. Securing a TIFIA loan would allow SANDAG to finance the project at the lowest possible cost with flexible terms and conditions, which is essential to delivering other projects identified within the TransNet Program on time and within budget. Perhaps more importantly, a TIFIA loan would provide additional financial flexibility that would support additional near-term TransNet project completions, including those along the LOSSAN and I-5 North Coast Corridor. The proposed POF also includes an assumption of TIFIA financing, though reduced slightly to reflect the maximum amount available based on the project cost and funding plan as approved in the FFGA for the Mid-Coast Corridor Transit Project executed in September 2016.

**Other Revenues**

<table>
<thead>
<tr>
<th>Item</th>
<th>2015 Board-Approved TransNet Major Corridors POF</th>
<th>Proposed TransNet Major Corridors POF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$180 million</td>
<td>$375 million – $415 million</td>
</tr>
</tbody>
</table>

The TransNet Ordinance includes funding for the Environmental Mitigation Program (EMP). In order to accelerate the economic and environmental benefits associated with the EMP and facilitate the environmental clearance of Major Corridor program projects, the Board of Directors approved a loan from the Major Corridor program to the EMP. Both the 2015 POF and proposed POF include an assumption for other revenues, including loan repayment from the EMP, as well as various interest earnings.
Future Voter-Approved Statewide Initiatives or Federally-Approved Infrastructure Plans

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$3.7 billion</td>
<td>$3.1 billion – $3.8 billion</td>
</tr>
</tbody>
</table>

The POF has included an assumption for infrastructure-focused initiatives historically approved by voters and legislative bodies. This assumption is consistent with the RTP, and was reviewed by the FHWA and FTA as part of their revenue assumption reasonableness review of the RTP, which they approve. There are multiple examples over the past three decades of voters approving major infrastructure-focused funding initiatives, and it is reasonable to assume that voters will continue to exhibit a high degree of interest and support for these initiatives. Examples over the past three decades include: The Passenger Rail and Clean Air Bond Act (Proposition 108) of 1990, the Traffic Congestion Relief Act (Proposition 42) of 2000, the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act (Proposition 1B) of 2006, the California High-Speed Rail Act (Proposition 1A) of 2008, the American Recovery and Reinvestment Act of 2009, and various other programs such as Cap and Trade (state) and TIGER (federal).

The amount assumed corresponds to a measure equivalent to Proposition 1B occurring approximately once every ten years, with increases to account for inflation. In order to account for the fact that the next such initiative has not yet been approved, the first year these funds are assumed is pushed out approximately every POF update. The main reasons are two-fold: First, the 2016 RTIP, which includes programming through FY 2021, may only include funding that has been approved or is reasonably committed; and, secondly, the Board of Directors has considered its EAP to extend approximately five to seven years into the future (through FY 2023 in the case of the upcoming POF, and has considered prudent to fund project work with funding that is programmed or reasonably committed. The 2015 POF assumed approximately $3.7 billion, starting in 2023. The proposed POF assumes a range between $3.1 and $3.8 billion, but this time starting in 2024. This range reflects a plus or minus ten percent range from the mid-point estimate. The higher ten percent plus or minus range reflects a higher degree of uncertainty regarding the long-term reliability of the estimate, given that an actual infrastructure-focused initiative still needs to be proposed and approved by voters. This uncertainty is partially offset by having the initial year begin in 2024.

The assumption of future voter-approved statewide initiatives or federally-approved infrastructure plans represents the assumption with the largest degree of uncertainty regarding its scope, amount, and timing. For this reason, no funds from this assumption are assumed in the near term, defined for this purpose as approximately seven years into the future. Despite the inherent uncertainty associated with this assumption, given the focus voters and legislative bodies have historically and repeatedly placed on infrastructure funding, it is an assumption that is consistent with the RTP and has been reviewed by the FHWA and FTA as part of the reasonableness review of assumptions.
New Fund Sources

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$0</td>
<td>$4 billion – $5 billion</td>
</tr>
</tbody>
</table>

As technological changes accelerate and a combination of automated, electric, and other technologies are implemented, new fund sources may be approved. Already, proposals such as Assembly Bill 1 (Frazier) and Senate Bill 1 (Beall) are proposing increases to Vehicle License Fees, in part to offset the decreases in gas tax revenues from an increasing share of alternative fuel vehicles on the road. Likewise, the state is exploring implementation of a Road Usage Charge that would raise revenues through a Vehicle Miles Traveled structure. The anticipated proliferation of automated vehicles is likely to pose additional challenges and infrastructure demands to the existing and planned surface transportation network. It is reasonable to assume that new, long-term, stable revenue sources will be developed and implemented to address these demands.

In order to maintain a conservative, short-term financial capacity assessment, it also is reasonable and prudent to assume that these new sources are more likely to be developed in the mid- to long-term. A new source that would simply restore the purchasing power of the STIP to 2000 levels would provide, starting in 2025 through 2048, with approximately $4 billion to $5 billion. This assumption would be consistent with and within the estimates provided in the Board-approved RTP.

Summary of Revenue Assumptions

In summary, revenues assumed for the 2015 POF totaled approximately $22.4 billion, in year of expenditure dollars. The total range of revenues assumed for the proposed POF is approximately $24 billion to $27 billion, also in year of expenditure dollars.

TransNet Major Corridor Capital Program Cost Assumptions

As was previously mentioned, the POF updates the revenue forecast for TransNet, as well as state and federal matching funds. Complementing the revenue side of the plan, the POF also updates the latest cost estimates for the Major Corridor projects. The cost estimates used as assumptions are derived from the Board-approved SANDAG Program Budget, as amended. In addition to these cost estimates, that POF also may evaluate anticipated, potential expenditures that may not yet be included in the SANDAG Program Budget. These may include potential claims, the cost of the next phase of work for select projects, or the initial phase of work for a TransNet project not yet started.

The purpose of these potential additions is to assess the potential impacts of having to pay claims during the near term, as well as to explore the possibility of advancing additional projects or phases of projects, and to develop options for Board consideration.
TransNet Major Corridor Capital Program Costs

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$16.6 Billion</td>
<td>$22.6 Billion</td>
<td>$22.2 Billion</td>
</tr>
<tr>
<td>Long-term escalation rate</td>
<td>2.80%</td>
<td>2.69%</td>
<td>2.23% – 3.23%</td>
</tr>
</tbody>
</table>

As reported to the Board of Directors at its December 2016 meeting, the total program cost used in the POF was increased to reflect the costs included in the RTP. The cost to complete the remaining projects in the 2015 POF (meaning the cost of projects from FY 2016 to FY 2048) was estimated to be approximately $15.3 billion. In December 2016, the cost estimate looking forward (FY 2017 to FY 2048) was revised to $22.6 billion to complete all projects, consistent with cost estimates included in the RTP. The upcoming POF update includes an estimate to complete all remaining projects between FY 2017 and FY 2048 of approximately $22.2 billion.

The reason for the decrease between the December 2016 and proposed plans is the result of deleting certain completed projects, including phases of the Blue and Orange Line Modernization ($209 million) and I-15 Express Lanes ($186 million) projects. These closed-out projects also would be removed from the SANDAG Program Budget as part of the FY 2018 Program Budget update.

The long-term escalation rate is developed by updating the ten-year rolling average of the Engineering News Record (ENR) growth index. The ENR is an industry standard that provides construction cost index information. The long-term escalation rate is not intended to portray a stable construction cost environment. Historically, the construction cost index has varied significantly, with annual increases and decreases in excess of 10 percent. The long-term escalation rate is intended to provide a reasonable assumption of the average rates of change over an extended period of time. At this time, a reasonable range would be between 2.23 percent and 3.23 percent, calculated by taking the largest increase (and decrease) of the ten-year moving average with the estimate used for the proposed POF at 2.69 percent. The logic behind this calculation is that it sets the range for possible adjustment from one POF to the next.

Debt Service and Loans

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$5.9 billion</td>
<td>To be determined with POF completion</td>
</tr>
</tbody>
</table>
In addition to the capital cost of the projects outlined above, debt service costs associated with TransNet Major Corridor EAP bonds issued in 2008, 2010, 2012, 2014, and 2016, as well as anticipated BANs, GANs, TIFIA loan, and loans to continue the advancement of the EMP are assumed in both the 2015 POF and proposed POF. The upcoming POF update would include an analysis of the anticipated debt service associated with all existing and planned financings.

**Next Steps**

The proposed assumptions are scheduled for presentation at the March 17, 2017, Transportation Committee meeting. ITOC member comments will be conveyed to the Transportation Committee as part of that report. The next TransNet Major Corridors POF update is anticipated to be presented to the ITOC, Transportation Committee, and Board of Directors at their April 2017 meetings.

Attachments: 1. Board-approved 2015 TransNet Plan of Finance Update Major Assumptions  
              2. Proposed TransNet Plan of Finance Update Major Assumptions

Key Staff Contacts: José Nuncio, (619) 699-1908, jose.nuncio@sandag.org  
                   Ray Major, (619) 595-5668, ray.major@sandag.org
2015 TransNet Plan of Finance Update
Major Assumptions

Projected Sales Tax Revenues

TransNet revenues are derived from taxable retail sales in the region. Taxable retail sales have become increasingly volatile since the 2007 recession. After three years of sales tax revenue declines, SANDAG has experienced five years of revenue growth. Overall, TransNet revenues fell 17.6 percent during FY 2008 – FY 2010 and have since risen 31.7 percent during FY 2011 – FY 2015. At the end of FY 2015, TransNet sales tax revenues were at an all-time high of $268.8 million.

SANDAG uses two distinct forecast methodologies to estimate future sales tax revenue growth. The short-term (or first three years through FY 2018) uses the California State Board of Equalization sales tax revenue allocation formula as well as quarterly factors such as expected job growth, new unemployment claims, and the financial condition of consumers. Beyond FY 2018, the forecast of TransNet revenues is based on the growth in taxable retail sales as projected by the SANDAG Demographic and Economic Forecasting Model, incorporating demographic information important for accurate longer-term forecasts.

The TransNet sales tax growth rates shown in Table 1 are used to forecast future revenue trends and were reported to the Board of Directors in February 2015.

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 POF</td>
<td>4.0%</td>
<td>3.91%</td>
<td>3.92%</td>
<td>3.92%</td>
<td>5.02%</td>
<td>3.2% to 5%</td>
</tr>
<tr>
<td>2015 POF (actual)</td>
<td>3.35%</td>
<td>5%</td>
<td>4.9%</td>
<td>5.1%</td>
<td>5%</td>
<td>3.2% to 5%</td>
</tr>
</tbody>
</table>

State and Federal Matching Revenues

The amounts of state and federal funds assumed for the TransNet Early Action Program (EAP) are based on committed funds to date included in the current 2014 Regional Transportation Improvement Program (2014 RTIP) for the period FY 2015 – FY 2019. For future years, SANDAG estimated federal, state, and local transportation funds based on historic experience. The revenue assumptions used in the 2015 Plan of Finance (POF) for future years beyond the 2014 RTIP are consistent with recent revenue forecasts and programs, including the 2016 State Transportation Improvement Program (STIP) Fund Estimate adopted by the California Transportation Commission in August 2015 and recent revenue forecasts provided by the Federal Highway Administration for federal formula funds reflecting the transportation authorization Moving Ahead for Progress in the 21st Century.
On the federal side, both the recently adopted San Diego Forward: The Regional Plan (Regional Plan) and the 2015 POF assume a federal contribution of approximately 50 percent of the cost for the Mid-Coast Corridor Transit Project. SANDAG has been notified by the Federal Transit Administration that the federal contribution would be fixed at $1.04 billion. A maximum $100 million per year appropriation has been assumed for the Mid-Coast Full Funding Grant Agreement (FFGA) funds, in accordance with Federal Transit Administration appropriation limits for FFGA funds.

On the state side, the 2016 STIP Fund Estimate was significantly lower than the 2014 Fund Estimate; the 2015 POF update reflects this significant reduction. Also, funding awarded to specific projects is subject to state bond sales and allocations to the Proposition 1B transportation infrastructure bond program. Most of the Proposition 1B funds have been allocated by the California Transportation Commission, and the ongoing work paid for by these funds is included in the 2015 POF cash flow analysis. Additionally, the Regional Plan and 2015 POF both assume additional state revenue sources starting in FY 2023, based on historical levels of state transportation funding during the past 20 years.

Current Board Policy directs 90 percent of all discretionary state and federal formula funds\(^1\) to support the TransNet EAP, and the remaining 10 percent of these funds for non-EAP projects, such as the Transportation Demand Management and Transportation Systems Management programs that help implement the Sustainable Communities Strategy included in the Regional Plan.

**Program Costs**

For TransNet EAP projects, SANDAG updates the Capital Improvement Program project costs as part of the annual SANDAG Budget. After a period of high rates of growth in construction costs from 2004 to 2007, a steep decline in construction prices occurred in the three-year period between 2008 and 2010. Construction costs then stabilized between 2010 and 2013. In 2014, costs began rising sharply representing an improvement in the construction industry after a four-year lull in activity. Although there was an initial surge in construction prices, according to the Caltrans Construction Index, which monitors costs for the state, the index has declined from its immediate peak indicating signs of price rise moderation. A more moderate uptick in construction costs is anticipated in 2016 and 2017 with a return to historical averages in 2018. A comparison between the rates used in the 2014 POF and with the 2015 POF update is shown below in Table 2.

<table>
<thead>
<tr>
<th>Construction Escalation Rate</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2019 – FY 2048</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 POF</td>
<td>3.30%</td>
<td>3.00%</td>
<td>2.80%</td>
<td>2.80%</td>
<td>2.80%</td>
</tr>
<tr>
<td>2015 POF</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.8%</td>
<td>2.80%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

\(^1\) These revenue sources include the STIP, Proposition 1B State-Local Partnership Program, Regional Surface Transportation Program, and Congestion Mitigation and Air Quality Funding Program. Prior American Recovery and Reinvestment Act of 2009 funding also has been dedicated to fund EAP projects.
Proposed TransNet Plan of Finance Update

Major Assumptions

Projected Sales Tax Revenues

TransNet revenues are derived from taxable retail sales in the region. Taxable retail sales have become increasingly volatile since the 2007 recession. After three years of sales tax revenue declines, SANDAG has experienced five years of revenue growth. Overall, TransNet revenues fell 17.6 percent during FY 2008 to FY 2010 and have since risen during FY 2011 to FY 2016. At the end of FY 2016, TransNet sales tax revenues were at an all-time high of $275.5 million.

This forecast is based on nationally recognized sources of data, including IHS Global Insight, Moody’s, and Woods & Poole. The short-term (or first two years through FY 2018) uses the California State Board of Equalization sales tax revenue allocation formula as well as quarterly factors such as expected job growth, new unemployment claims, and the financial condition of consumers. Beyond FY 2018, the forecast of TransNet revenues is based on the growth in taxable retail sales. The growth rate included here was arrived at using three variables: (1) the population forecasts from the SANDAG Demographic and Economic Forecasting Model; (2) a consensus of independent national forecasts of real rates of growth in per capita retail sales; and (3) nationally projected inflation rates. These variables are used to calibrate the forecast and produce the long-term estimates. To mitigate against the risk of overestimating revenues, the revenue forecast is based on an average of the retail sales growth rates reflected in the three aforementioned national data sources.

The TransNet sales tax growth rates shown in Table 1 are used to forecast future revenue trends. The 2015 Plan of Finance (POF) figures were reported to the Board of Directors in January 2016, while the figures proposed for the upcoming POF reflect the figures discussed with the Board of Directors in December 2016 and approved with the short-term revenue forecast in February 2016.

<table>
<thead>
<tr>
<th>Revenue Growth Rate</th>
<th>FY2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021 – FY 2048</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 POF</td>
<td>5%</td>
<td>4.9%</td>
<td>5.1%</td>
<td>5%</td>
<td>4.9</td>
<td>3.2% to 5%</td>
</tr>
<tr>
<td>Proposed POF</td>
<td>2.62%</td>
<td>3.33%</td>
<td>4.19%</td>
<td>3.98%</td>
<td>3.73%</td>
<td>3.73% to 4.19%</td>
</tr>
</tbody>
</table>

State and Federal Matching Revenues

The amounts of state and federal funds assumed for the TransNet Early Action Program (EAP) are based on available and committed funds to date included in the current 2016 Regional Transportation Improvement Program (2016 RTIP) for the period FY 2017 to FY 2021. For future years, SANDAG estimated federal, state, and local transportation funds based on historic experience. The revenue assumptions proposed for the upcoming POF for future years beyond the 2016 RTIP are consistent with recent revenue forecasts and programs, including the 2016 State Transportation Improvement Program (STIP) adopted by the California Transportation Commission (CTC) in May 2016 and recent revenue forecasts provided by the Federal Highway Administration for federal formula funds reflecting the transportation authorization Fixing America’s Surface Transportation (FAST) Act.
On the federal side, the next POF update is proposed to include a federal contribution of approximately 50 percent of the cost for the Mid-Coast Corridor Transit Project. SANDAG has been notified by the Federal Transit Administration (FTA) that the federal contribution would be fixed at $1.04 billion. A maximum $100 million per year appropriation is assumed for the Mid-Coast Full Funding Grant Agreement (FFGA) funds, in accordance with FTA appropriation limits for FFGA funds.

On the state side, the 2016 STIP was significantly lower than the 2014 Fund Estimate; the upcoming POF update would reflect this significant reduction. Also, funding awarded to specific projects is subject to state bond sales and allocations to the Proposition 1B transportation infrastructure bond program. Most of the Proposition 1B funds have been allocated by the CTC, and the ongoing work paid for by these funds is included in the cash flow analysis. Additionally, while San Diego Forward: The Regional Plan (Regional Plan) assumes additional state revenue sources starting in FY 2023, based on historical levels of state transportation funding during the past 20 years, the proposed update assumes these funds starting in FY 2024.

Current Board Policy directs 90 percent of all discretionary state and federal formula funds\(^1\) to support the TransNet EAP, and the remaining 10 percent of these funds for non-EAP projects, such as the Transportation Demand Management and Transportation Systems Management programs that help implement the Sustainable Communities Strategy included the Regional Plan.

Program Costs

For TransNet EAP projects, SANDAG updates the Capital Improvement Program project costs as part of the annual SANDAG Program Budget. After a period of high rates of growth in construction costs from 2004 to 2007, a steep decline in construction prices occurred in the three-year period between 2008 and 2010. Construction costs then stabilized between 2010 and 2013. In 2014 costs began rising sharply representing an improvement in the construction industry after a four-year lull in activity. Although there was an initial surge in construction prices, according to the Caltrans Construction Index, which monitors costs for the state, the index has declined from its immediate peak indicating signs of price rise moderation. A more moderate uptick in construction costs is anticipated in 2017, being carried forward into the future. A comparison between the rates used in the 2015 POF and with the proposed update is shown below in Table 2:

<table>
<thead>
<tr>
<th>Construction Escalation Rate</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020 – FY 2048</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 POF</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.8%</td>
<td>2.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Proposed POF</td>
<td>2.69%</td>
<td>2.69%</td>
<td>2.69%</td>
<td>2.69%</td>
<td>2.69%</td>
</tr>
</tbody>
</table>

\(^1\) These revenue sources include the State Transportation Improvement Program, Proposition 1B State-Local Partnership Program, Regional Surface Transportation Program, and Congestion Mitigation and Air Quality funding program. Prior American Recovery and Reinvestment Act of 2009 funding also has been dedicated to fund EAP projects.
PROPOSED DATA AND MODELING WORK PLAN

Independent Taxpayer Oversight Committee
March 8, 2017

PROPOSED WORK PLAN

1. CONDUCT DETAILED REVIEW
2. CONDUCT DEPENDENCY ANALYSIS
3. MAP MODELING PROCESS FLOW
4. IMPROVE DATA GOVERNANCE
5. IMPROVE REVIEW AND OVERSIGHT
6. ENHANCE TRANSPARENCY
7. DEVELOP AND FORMALIZE PROCESSES
1. CONDUCT DETAILED REVIEW

► OBJECTIVE
Review and validate input data, transformations, and equations to ensure accuracy of data and integrity of model results

► ACTION
Trace input from its source through transformations and model equations to the final reported outputs

► RESULT
Documentation of errors and confirmation that SR13 Forecast contains no other problems

SERIES 13
Demographic and Economic Forecasting Model (DEFM)

Forecasts demographic (population, housing, jobs, etc.) and economic (income, retail sales, GRP, etc.) data used as inputs in other SANDAG work products

Inputs (1970–2012)
• 689 historic economic time series variables
• Moody’s national drivers

Sub-Models
• 136 interactive econometric equations
• Demographic and cohort modules

Outputs (2013–2048)
• 471 economic variables
• ~1,600 demographic variables
Taxable Retail Sales

Used in estimating Measure A revenue and TransNet financial capacity

SR13 FINAL TREATS DECONSTRUCTION

Taxable Retail Sales
\[ TRets = f(YD_{\text{Per Tax}}) \]

Disposable Personal Income
\[ YD = Y - \text{Per Tax} \]

Social Security, Residency Adjustment
\[ SSRA = f(CPay_{\text{Shifts}}) \]

Civilians Payrolls
\[ CPay = f(WEA_{\text{Adj}}, Payroll, J\text{dx}) \]

Wages Adjusted by Employment Mix
\[ WEA_{\text{Adj}} = WQands_{\text{Adj}} \times \text{KMkInd} \]

Gross Regional Product
\[ GRP = f(QWands, \text{Shifts}) \]

Industry Output
\[ Q_{\text{ind}} = \text{Emp}_{\text{ind}} \times \text{LabProd}_{\text{ind}} \]

Labor Productivity
\[ \text{LabProd}_{\text{ind}} = f(LabProd_{\text{adj}}, \text{Shifts}) \]

US Labor Productivity by DEFM Sector
\[ \text{LabProd}_{\text{US}} = f(Q_{\text{US}}, \text{Emp}_{\text{US}}) \]

SD Labor Productivity
\[ \text{LabProd}_{\text{SD}} = \frac{Q_{\text{SD}}}{\text{Emp}_{\text{SD}}} \]

SD Output by DEFM Sector
\[ \text{SD Output} = \text{LabProd}_{\text{SD}} \times \text{Emp}_{\text{SD}} \]

Source Data
SD Output \[ Q_{\text{SD}}, \text{Emp}_{\text{SD}} \]
SD Employment \[ \text{LabProd}_{\text{US}}, \text{Emp}_{\text{US}} \]
Taxable Retail Sales

\[ TRetS_t = f(YD_t, Shfits) \]
2. CONDUCT
DEPENDENCY ANALYSIS

► OBJECTIVE
Identify key SANDAG reports and deliverables that used suspect data, evaluate significance, and assess effects on findings and policy recommendations

► ACTION
• Identify work products that used erroneous data
• Assess impact in terms of significance to the work product
• Ascertain if any material changes in policy or decisions would have been impacted

► RESULT
Mitigation plan for impacted products

<table>
<thead>
<tr>
<th>Product</th>
<th>Detail</th>
<th>Severity</th>
<th>Comment</th>
<th>Level of Effort to Fix</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Diego Forward Transportation Projects Costs and Phasing (Appendix A)</td>
<td>Expected revenues used to plan projects. ABM modeling used to order projects (also see Appendix M)</td>
<td>Medium</td>
<td>Available TransNet revenues could impact projects</td>
<td>Moderate - would need to re-estimate revenues and project plans</td>
</tr>
</tbody>
</table>
3. MAP MODELING PROCESS FLOW

► **OBJECTIVE**
Map data flow from source through databases, models, and outputs to provide transparency and identify areas for improved quality assurance processes

► **ACTION**
Document and diagram all interactions

► **RESULT**
Blueprint of current process flow to be used as the foundation for improving communication, processes, product quality, and transparency

---

MODELING PROCESS FLOW

**DATA FLOW**

- QA/QC
- SQL database
- sensor
- data, test
- estimates
- SPAS/CODIS (Samtec)
- Local control system (System 6.5)
- regional network
- contact, data

**MODEL FLOW**

- DEMOGRAPHIC MODEL
- ECONOMIC MODEL
- LAND USE MODEL
- TRAVEL DEMAND MODEL

FOR ILLUSTRATIVE PURPOSE ONLY
4. IMPROVE DATA GOVERNANCE

► OBJECTIVE
Implement a data warehouse and management system to ensure availability, usability, integrity, and security of the SANDAG data assets

► ACTION
• Identify customer-supplier relationships
• Define owners/custodians of data assets
• Build a centralized data warehouse
• Formalize data QA, storage, archiving, and back-up procedures
• Develop escalation procedures to allow visibility into errors or problems

► RESULT
Industry standard, best-in-class data governance

5. IMPROVE REVIEW AND OVERSIGHT

► OBJECTIVE
Validate SR14 population, housing, and economic forecasting model

► ACTION
Convene a panel of independent experts in economics, demographics, and land use to review the methods, data sources, and assumptions

► RESULT
Independent and objective assessment of the suitability of SR14 forecasting model for regional planning purposes
6. ENHANCE TRANSPARENCY

► OBJECTIVE
Develop a set of agency methods and standards to ensure data and analytic transparency

► ACTION
Develop check points where disclosure of analysis are provided to ensure that others can see how models were developed, how data was processed, and what assumptions were made

► RESULT
Provide clarity to the Board of Directors, ITOC, and the public regarding data and modeling products

TRANSPARENCY EXAMPLE:
TransNet Revenue Forecasting (2002)
TRANSPARENCY EXAMPLE:
TransNet Revenue Forecasting

Extrapolated Data

$14B

Annual Collections (in 2002$)

2002 Forecast
($14B)

Actual

2002 Forecast
($14B)
TRANSPARENCY EXAMPLE:
TransNet Revenue Forecasting

Extrapolated Data

Actual Collections ($3B in 2002$)

TRANSPARENCY EXAMPLE:
TransNet Revenue Forecasting

Extrapolated Data

$14B

Shortfall ($450M)

Actual Collections ($3B in 2002$)
7. DEVELOP AND FORMALIZE PROCESSES

► OBJECTIVE
Improve alignment of resources on SANDAG work program priorities and formalize process to avoid potential errors

► ACTION
- Assess current work assignments and skillset alignment
- Evaluate current modeling and data procedures
- Implement a plan guided by industry best practices for:
  - data structures
  - data quality
  - database design and development
  - database governance

► RESULT
Implement processes to minimize single points of failure and move toward a more process-driven approach

PROPOSED DATA AND MODELING WORK PLAN

- 1. Conduct Detailed Review
- 2. Conduct Dependency Analysis
- 4. Improve Data Governance
- 5. Improve Review and Oversight
- 6. Enhance Transparency
- 7. Develop and Formalize Processes
Draft Assumptions for 2016-2017 Major Corridors Plan of Finance
Independent Taxpayer Oversight Committee
March 8, 2017

TransNet Plan of Finance Overview

• Purpose
• Assesses capacity
  – Short-term: Next 5-7 years
  – Long-term: Remaining years through 2048
• Based on assumptions of future revenues
• Grounded on latest estimates for active projects based on annual overall SANDAG Budget
Fresh Look Moving Forward

• RTP vs. Ordinance cost estimates
• Range vs. single point estimates

Relationship RTP, RTIP, Budget, POF

- RTP - Regional Transportation Plan
  Updated every 4 years
- RTIP - Regional Transportation Improvement Program
  Updated every 2 years
- Program Budget
  Updated annually
- Plan of Finance
  5-7 year Early Action Plan (EAP)
  Remaining
  Updated annually
Side-by-side Comparison of Assumptions:
Last POF Compared to Next POF

Sales Tax Revenue Forecast – Short Term

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$574 million</td>
<td>$530 million - $585 million</td>
</tr>
<tr>
<td>Revenue Growth Rates (annual rates of change)</td>
<td>4.9% – 5%</td>
<td>2.6%-4.2%</td>
</tr>
</tbody>
</table>
### Sales Tax Revenue Forecast – Long Term

<table>
<thead>
<tr>
<th>Item</th>
<th>2015 Board-Approved TransNet Major Corridors Plan of Finance FY 2021 - FY 2048</th>
<th>Proposed TransNet Major Corridors Plan of Finance FY 2022 - FY 2048</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$7.0 billion</td>
<td>$5.5 billion - $6.0 billion</td>
</tr>
<tr>
<td>Revenue Growth Rates (annual rates of change)</td>
<td>3.2% - 5%</td>
<td>3.7% - 4.1%</td>
</tr>
</tbody>
</table>

### Sales Tax Revenue Forecast – Total

- **2015 POF Sales Tax Revenues - TransNet**: $7.6B
- **2016 POF Sales Tax Revenues - TransNet**: $6.0B - $6.6B

Potential Range: +/- 5%
**State and Federal Matching Revenues – Programmed and Reasonably Committed**

<table>
<thead>
<tr>
<th>Item</th>
<th>2015 Board-Approved TransNet Major Corridors Plan of Finance</th>
<th>Proposed TransNet Major Corridors Plan of Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$1.8 billion</td>
<td>$1.85 billion</td>
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</tbody>
</table>

**State and Federal Matching Formula Revenues – Anticipated**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$6.7 billion</td>
<td>$5.9 billion - $7.3 billion</td>
</tr>
<tr>
<td>Percent Share Dedicated to TransNet Major Corridors</td>
<td>90%</td>
<td>90%</td>
</tr>
</tbody>
</table>

Potential Range: +/- 10%
SR 125 Toll Revenues

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$89.3 million</td>
<td>$66.4 million</td>
</tr>
</tbody>
</table>

Bonds, Bond Anticipation Notes (BANs), Grant Anticipation Notes (GANs), and Commercial Paper

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$1.65 billion</td>
<td>$1.25 billion - $1.38 billion</td>
</tr>
</tbody>
</table>

Potential Range: +/- 5%
Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$585 million</td>
<td>$571 million</td>
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</tbody>
</table>

Future voter-approved statewide initiatives or federally-approved infrastructure plans

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$3.7 billion</td>
<td>$3.1 billion - $3.8 billion</td>
</tr>
</tbody>
</table>
Past voter-approved statewide initiatives or federally-approved infrastructure plans

- Passenger Rail and Clean Air Bond Act (Proposition 108)
- Traffic Congestion Relief Act (Proposition 42)
- Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act (Proposition 1B)
- American Recovery and Reinvestment Act
- Cap and Trade
- California High-Speed Rail (Proposition 1A)
- Transportation Investment Generating Economic Recovery (TIGER) Program

Potential New Funds

- Vehicle License Fees
- Road Usage Charges
- New Technologies

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<tbody>
<tr>
<td>Amount</td>
<td>$0</td>
<td>$4 billion - $5 billion</td>
</tr>
</tbody>
</table>
**Total Revenue**

2016 Proposed TransNet Plan of Finance Revenues
(Year of Expenditure Dollars)

- **Mid-Coast**
- **TIFIA**
- **Infrastructure-focused Initiatives**

<table>
<thead>
<tr>
<th>Millions</th>
<th>Estimate</th>
<th>High Range</th>
<th>Low Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>200</td>
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<tr>
<td>400</td>
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<td>600</td>
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<tr>
<td>1000</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1200</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>1400</td>
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</tbody>
</table>

**TransNet Major Corridor Capital Program Costs**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$16.6 billion</td>
<td>$22.6 Billion</td>
<td>$22.2 Billion</td>
</tr>
<tr>
<td>Long-term escalation rate</td>
<td>2.80%</td>
<td>2.69%</td>
<td>2.23% - 3.23%</td>
</tr>
</tbody>
</table>
## Debt Service and Loans

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$5.9 billion</td>
<td>To be determined with Plan of Finance completion</td>
</tr>
</tbody>
</table>

## Next Steps

- **Draft Assumptions**
  - March 17 Transportation Committee Meeting
- **TransNet Plan of Finance update**
  - April 12 ITOC Meeting
  - April 21 Transportation Committee Meeting
  - April 28 Board of Directors Meeting
Comparison of Total Project Costs

Total Annual Cost

Financing for EAP

Pay-As-You-Go

Cumulative Program Costs

Billions

Dec 2016 Run  Proposed POF  Board Approved (2015 POF)

Feb 2017 Run  Dec 2016 Run  Jan 2016 Run
### Other Revenues

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$180 million</td>
<td>$375 million - $415 million</td>
</tr>
</tbody>
</table>

**TOTAL OTHER PROCEEDS**

- **Margin of error**: 5%

**2015 Other Proceeds** vs **2016 Other Proceeds**

### TIFIA (POF) compared to Revised Forecast (YOE Dollars)

- **9.1% Difference** between Submitted and Consensus.
- **Submitted to TIFIA November 2016 ($19.3B)**
- **Consensus ($17.5B)**
- **Moody's ($16.8B)**
- **Woods & Poole ($18.8B)**
POF’s 5-YR Forecast Compared to Actual Collection

Sales Tax Revenues Actuals and Projections (in Year of Expenditure $)

- Actuals
- 2010 POF
- 2011 POF
- 2012 POF
- 2013 POF
- 2014 POF
- 2015 POF
- 2016 POF

[Bar chart showing actuals and projections for sales tax revenues from 2010 to 2020]