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9
10 SUPERIOR COURT OF THE STATE OF CALIFORNIA

11 COUNTY OF SACRAMENTO

12 **JOHN TOS, QUENTIN KOPP, TOWN OF**
13 **ATHERTON, a municipal corporation,**
14 **COUNTY OF KINGS, a subdivision of the State**
15 **of California, PATRICIA LOUISE HOGAN-**
16 **GIORNI, ANTHONY WYNNE, COMMUNITY**
17 **COALITION ON HIGH-SPEED RAIL, a**
18 **California nonprofit corporation,**
19 **TRANSPORTATION SOLUTIONS DEFENSE**
20 **AND EDUCATION FUND, a California**
21 **nonprofit corporation, and CALIFORNIA RAIL**
22 **FOUNDATION, a California nonprofit**
23 **corporation,**

24 Petitioners and Plaintiffs,

25 v.

26 **THE STATE OF CALIFORNIA, CALIFORNIA**
27 **HIGH SPEED RAIL AUTHORITY, a public**
28 **entity, BOARD OF DIRECTORS OF THE**
CALIFORNIA HIGH-SPEED RAIL
AUTHORITY in their individual and official
capacities, JEFF MORALES, in his official
capacity as Chief Executive Officer of the
California High-Speed Rail Authority,
MICHAEL COHEN, in his official capacity as
Director of the Department of Finance of the
State of California, and DOES 2-20 inclusive,

Respondents and Defendants.

Case No. 34-2016-00204740

**REQUEST FOR JUDICIAL NOTICE
IN OPPOSITION TO MOTION FOR
JUDGMENT ON THE PLEADINGS**

Date: October 26, 2018
Time: 11:00 a.m.
Dept.: 28
Judge: Hon. Richard K. Sueyoshi
Trial Date: None set
Action Filed: December 13, 2016

1 Respondents California High-Speed Rail Authority (the “Authority”) and the State of
2 California (collectively, “Respondents”) respectfully request that the Court take judicial notice
3 pursuant to Code of Civil Procedure section 430.30 subdivision (a), Evidence Code section 451
4 subdivision (a), and Evidence Code section 452 subdivisions (c) and (h), as follows:

5 1. Respondents respectfully request that the Court take judicial notice of the California
6 High-Speed Rail Authority San Francisco to San Jose Peninsula Corridor Funding Plan dated
7 January 1, 2017 (“Peninsula Funding Plan”), a copy of which is attached hereto as Exhibit 1.) As
8 the Second Amended Petition alleges, the Peninsula Funding Plan was approved by the Authority.
9 Second Amended Petition ¶¶ 4, 20, 22, 72. The Court may take judicial notice of the Peninsula
10 Funding Plan because it is an “official act[] of the legislative, executive and judicial departments
11 of the United States or of any state of the United States.” (Evid. Code, § 452, subd. (c); *Scott v.*
12 *JPMorgan Chase Bank, N.A.* (2013) 214 Cal.App.4th 743, 752-53.) “This subdivision ‘enables
13 courts in California to take notice of a wide variety of official acts [and] an expansive reading
14 must be provided to certain of its phrases[;] included in ‘executive’ acts are those performed by
15 administrative agencies.’” (*Ibid.*, quoting Simons, California Evidence Manual (2013) Judicial
16 Notice § 7:11, p. 558.)

17 Further, the matter is subject to judicial notice under Evidence Code section 452,
18 subdivision (h), which provides for judicial notice of “[f]acts and propositions that are not
19 reasonably subject to dispute and are capable of immediate and accurate determination by resort
20 to sources of reasonably indisputable accuracy.” The existence of the Peninsula Funding Plan
21 and its contents are extensively discussed in petitioners’ Second Amended Petition, (SAP ¶¶ 4-6,
22 9, 20, 22, 25, 64, 70-72), and are “not reasonably subject to dispute and are capable of ready
23 determination.” (See *Scott v. JPMorgan Chase Bank, N.A.*, *supra*, 214 Cal.App.4th at p. 753.)

24 The Peninsula Funding Plan is relevant to petitioners’ Motion for Judgment on the
25 Pleadings because petitioners are challenging that funding plan in this litigation, and purport to
26 describe it in their motion. (See Petitioners’ Brief, pp. 12-13, 24.)

27 2. Respondents explained in their opposition to the motion for judgment on the pleadings
28 that, when construing a voter-approved bond act, courts generally do not consider materials that

1 were not put before the voters. However, in the event the Court considers extrinsic evidence,
2 other than ballot materials, as to the meaning of Proposition 1A, "The Safe, Reliable High-Speed
3 Passenger Train Bond Act for the 21st Century" (the "Bond Act"), respondents respectfully
4 request that the Court take judicial notice of the Legislative Counsel Bureau Opinion dated June 8,
5 2012, a copy of which is attached as Exhibit 2. Opinions of the Legislative Counsel are relevant
6 to the issue of legislative intent. (See *Pacific Lumber Co. v. State Water Resources Control Bd.*
7 (2006) 37 Cal.4th 921, 939 ["Opinions of the Legislative Counsel, though not binding, are
8 entitled to great weight when courts attempt to discern legislative intent."]; *Kaufman & Broad*
9 *Communities, Inc. v. Performance Plastering, Inc.* (2005) 133 Cal.App.4th 26, 35.)

10 3. If the Court grants petitioners' request for judicial notice of Exhibit 1 to petitioners'
11 request for judicial notice, which is an excerpt from the Official Voter Guide for Proposition 1,
12 respondents respectfully request that the Court also grant judicial notice of the complete
13 document, a copy of which is attached as Exhibit 3, for context.

14 4. If the Court grants petitioners' request for judicial notice of Exhibit F to petitioners'
15 request for judicial notice, which is an excerpt from the Governor's Interim Budget Report, May
16 Revision 2008-09, respondents respectfully request that the Court also grant judicial notice of the
17 complete document, a copy of which is attached as Exhibit 4, for context.

18
19 Dated: August 30, 2018

Respectfully Submitted,

20 XAVIER BECERRA
21 Attorney General of California
22 PAUL STEIN
23 Supervising Deputy Attorney General

24
25 

26 SHARON L. O'GRADY
27 Deputy Attorney General
28 *Attorneys for Respondents and Defendants*
California High-Speed Rail Authority;
Michael Cohen, in his official capacity as
Director of the Department of Finance; and
the State of California

DECLARATION OF COUNSEL

I, Sharon L. O'Grady, declare as follows:

1. I am a Deputy Attorney General, and I represent defendant California High-Speed Rail Authority in this action. The facts set forth herein are based on my personal knowledge, and I could competently so testify if called as a witness.

2. I have personal knowledge of the matters set forth herein, and if sworn as a witness I would competently testify thereto.

3. Attached hereto as Exhibit 1 is true and correct copy of the California High-Speed Rail Authority San Francisco to San Jose Peninsula Corridor Funding Plan dated January 1, 2017, which I obtained from the Authority's internet site at http://www.hsr.ca.gov/docs/about/funding_finance/SF_to_SJ_Peninsula_Corridor_Funding_Plan.pdf (accessed on April 29, 2018).


4. Attached hereto as Exhibit 2 is true and correct copy of the Legislative Counsel Bureau Opinion dated June 8, 2012, which was Tab 385 to the Appendix filed in the Third District Court of Appeal in *California High-Speed Rail Authority v. Superior Court*, No. C075668, in which proceeding the Court of Appeal issued the decision *California High-Speed Rail Authority v. Superior Court* (2014) 228 Cal.App.4th 676.

5. Attached hereto as Exhibit 3 is a true and correct copy of the Proposition 1 ballot materials, which I obtained from the University of California Hastings website at https://repository.uchastings.edu/cgi/viewcontent.cgi?article=2280&context=ca_ballot_props (accessed on August 29, 2018).

6. Attached as hereto as Exhibit 4 is a true and correct copy of Governor's Interim Budget Report May Revision 2008-09, which I obtained from the California Department of Finance website at http://www.dof.ca.gov/budget/historical_budget_Publications/2008-09/may_revision/documents/2008_09_May_Revision.pdf (accessed on April 29, 2018).

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I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed on August 30, 2018 at San Francisco, California.


SHARON L. O'GRADY

SA2016104863

EXHIBIT 1



CALIFORNIA
High-Speed Rail Authority

San Francisco to San Jose Peninsula Corridor Funding Plan

Final – January 1, 2017

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- I. Anticipated Timing of Receipt of Funds
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Glossary of Key Defined Terms

Agreement Regarding Commitments Toward Peninsula Corridor Electrification Project	Agreement Regarding Commitments Toward Peninsula Corridor Electrification Project approved by CHSRA Board (Resolution 16-21), signed and effective August 9, 2016, that provides further detail to the 7-party Supplement to 2012 MOU with regard to funding arrangements between the Authority and JPB.
Blended System	A blended system approach refers to the integration of high-speed trains with non-high-speed intercity and commuter/regional rail systems via coordinated infrastructure (the system) and scheduling, ticketing, and other means (operations).
California High Speed Rail Program Phase 1	The corridor of the high-speed rail system from Los Angeles and Anaheim to San Francisco including the blended system between San Francisco and San Jose.
California High Speed Rail Program Silicon Valley to Central Valley Line ("Valley to Valley Line" or "V2V")	As defined in the 2016 Business Plan, this is the segment of the California High-Speed Rail System that runs from San Jose Diridon Station to just north of Bakersfield, which will connect with the Peninsula Corridor from San Jose to San Francisco.
Peninsula Corridor (also referred to as "San Francisco to San Jose Peninsula Corridor Segment" or "Corridor")	Railway and facilities comprising the rail corridor between San Jose and San Francisco.
Caltrain Modernization Program ("CalMod")	A group of rail improvement projects, (including electrifying the railroad, installing an advanced signal system, and procuring high-performance electric trains) in order to enable electrified commuter rail service from San Francisco to San Jose and to prepare the corridor for high-speed rail.
Carl Moyer Memorial Air Quality Standards Attainment Program ("Carl Moyer Program")	A state-funded program that offers grants to reduce air pollution emissions from heavy-duty engines.
Communications Based Overlay Signal System ("CBOSS") (also referred to as "PTC" and "Advanced	A project within the CalMod program involving the installation of a federally mandated Positive Train Control system, referred to as the CBOSS, to equip the corridor with safety technology and increase system capacity to help accommodate future increases in service and ridership demand.

Signaling")	
Electric Multiple Units ("EMU")	An electric multiple unit or EMU is a train where each carriage is powered separately and runs on electricity. An EMU requires no separate locomotive, as electric traction motors are incorporated within one or a number of the carriages.
High-Speed Passenger Train Finance Committee ("The Committee")	The Committee consists of the State Treasurer, the Director of Finance, the Controller, the Secretary of Transportation, and the Chairperson of the Authority. The State Treasurer serves as Chairperson of the Committee.
Peninsula Corridor Electrification Project ("PCEP" or "Caltrain Corridor Project")	A project within the CalMod program involving the installation of new electrical infrastructure and the purchase of electrified vehicles called Electric Multiple Units ("EMU") for services in the Peninsula Corridor.
Peninsula Corridor Joint Powers Board ("PCJPB", "JPB" or "Caltrain")	The governing body for the Caltrain commuter rail transit service between San Francisco, San Jose and Gilroy.
SB 1029	Senate Bill 1029, a "trailer bill" to the State Budget Act of 2012, under which Prop 1A bond proceeds in the amount of \$600 million were appropriated by the Legislature for the PCEP.
SB 557	Senate Bill 557, enacted in 2013, adds detail to provisions governing the expenditure of the funds appropriated under SB 1029. The bill requires any track expansion for the San Francisco to San Jose segment beyond the blended system approach to be approved by all parties to the 9-Party MOU.
2013 Memorandum of Understanding	Agreement between the Authority and Caltrain to form a new partnership for the planning, environmental review, design, and construction of improvements in the Corridor using the blended system.
7-Party Supplement to the 2012 MOU ("Seven Party MOU Supplement" or "MOU Supplement")	A 2016 supplement to the 2012 9-Party Memorandum of Understanding for Financial Commitments to address the funding gap for the Peninsula Corridor Electrification Project.
9-Party Memorandum of Understanding ("Nine Party MOU" or "2012 Nine Party MOU")	A 2012 agreement between the Authority, Caltrain, and seven other entities to describe, identify and work to fully fund an interrelated program of projects to modernize Caltrain and enable high speed rail service in the Corridor.

Acronyms and Abbreviations

ABAG	Association of Bay Area Governments
APTA	American Public Transportation Association
Authority	California High-Speed Rail Authority
BAAQMD	Bay Area Air Quality Management District
Cap & Trade TIRCP	California State Transportation Agency's Transit & Intercity Rail Capital Program
CBOSS	Communications Based Overlay Signal System
CCSF	City and County of San Francisco
CEQA	California Environmental Quality Act
CEM	Crash energy management
CTP	San Mateo Countywide Transportation Plan
DB	Design Build
EIR	Environmental Impact Report
EMU	Electric Multiple Units
FFGA	Full Funding Grant Agreement
FOCS	Fiber Optic Communications System
FRA	Federal Railroad Administration
FTA	Federal Transit Administration
FY	Fiscal Year
GGRF	Greenhouse Gas Reduction Fund
GO	General Obligation
HMI	Human machine interface
IED	Intelligent end device
JPB/PCJPB	Peninsula Corridor Joint Powers Board
LNTP	Limited Notice to Proceed

MOU	Memorandum of Understanding
MTC	Metropolitan Transportation Commission
LCTOP	Low Carbon Transit Operations Program
PCEP	Peninsula Corridor Electrification Project
PD	Project Development
PMFA	Project Management and Funding Agreement
Prop 1A	Proposition 1A, also known as the "Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century"
Prop 1B	Proposition 1B, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006
PTC	Positive Train Control
PTMISEA	Public Transportation Modernization, Improvement, and Service Enhancement Account Program
RIMP	Risk Identification and Management Plan
ROCS	Rail Operations Control System
RTU	Remote Terminal Unit
SB	Senate Bill
SCO	State Controller's Office
SFCTA	San Francisco County Transportation Authority
S&H Code	Streets and Highways Code
SMCTA	San Mateo County Transportation Authority
TASI	Transit America Services Inc.
TJPA	Transbay Joint Powers Authority
VTa	Santa Clara Valley Transportation Authority
YOE	Year of Expenditure

Introduction

Proposition 1A, the "Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century" (the Bond Act) was approved by voters in November 2008. The Bond Act authorizes \$9.95 billion in general obligation (GO) bonds to pay for the capital costs of the high-speed rail system and improvements to regional services which will connect to the system. The Bond Act is codified in Streets and Highways Code Section (S&H) section 2704 et seq. S&H section 2704.08, subdivision (d) requires that, prior to committing any proceeds of bonds described in paragraph (1) of subdivision (b) of Section 2704.04 for expenditure for construction and real property and equipment acquisition on each corridor, or usable segment thereof, other than for costs described in subdivision (g), the authority shall have approved and concurrently submitted to the Director of Finance and the Chairperson of the Joint Legislative Budget Committee the following: (1) a detailed funding plan for that corridor or usable segment thereof...(as further described herein); and (2) a report or reports prepared by one or more financial services firms, financial consulting firms, or other consultants, independent of any parties, other than the authority, involved in funding or constructing the high-speed train system, making certain indications.

Purpose of the Funding Plan

The California High-Speed Rail Authority (Authority) is submitting this Funding Plan in satisfaction of Streets and Highways Code section 2704.08, subdivision (d) for the commitment of \$600 million of Proposition 1A (Prop 1A) bond proceeds for expenditure on improvements to the San Francisco to San Jose Peninsula Corridor Segment ("Peninsula Corridor" or "Corridor") between San Francisco 4th and King and San Jose Tamien Stations. These improvements will both electrify and modernize the Caltrain system and at the same time provide the necessary foundational improvements for the Authority to run high-speed rail service to San Francisco.

As the Legislature directed in making the appropriation of the funds in Senate Bill (SB) 1029 and reaffirmed in SB 557, the Authority plans to use these Prop 1A bond proceeds to electrify the Corridor. Caltrain has embarked on the Caltrain Modernization (CalMod) program, which includes the following components:

1. Installation of a federally-mandated Positive Train Control (PTC) system, otherwise known as the Communications Based Overlay Signal System (CBOSS). CBOSS construction is almost complete and will be finished before the electrification project that is the subject of this Funding Plan.

2. The Peninsula Corridor Electrification Project (PCEP) that includes electrification of the corridor as well as the purchase of Electric Multiple Units (EMUs) that will upgrade the fleet from diesel to electric.¹

Together, the CalMod projects are essential for creating the necessary capacity for high-speed trains to run on the corridor. All of the CalMod components (CBOSS, electrification, and EMUs) are necessary to create the capacity and slots to allow for high-speed rail services in the corridor.

PCEP is the subject of this Funding Plan and is estimated to cost **\$1.980 billion** (in Year of Expenditure (YOE) dollars).

The project follows the “Blended System” approach outlined in the Authority’s 2012 Business Plan (approved by the California High-Speed Rail Board (Board) on April 12, 2012, Resolution HSR#12-13) and established in SB 1029. The blended system approach refers to the integration of high-speed trains with non-high-speed intercity and commuter/regional rail systems via coordinated infrastructure (the system) and scheduling, ticketing, and other means (operations). Upon completion of the projects described in this Funding Plan, full connectivity will be provided between the Caltrain system and the Silicon Valley to Central Valley Line (Valley to Valley Line), a segment on which the Authority has begun construction and plans to run service. After completion of the PCEP, both electrified Caltrain trains and high-speed trains would (extending from the Valley to Valley Line) be able to start using the corridor. However, the Authority plans to make further improvements to speed up service and meet other goals in the corridor and is working to environmentally clear those improvements right now.

Although this Funding Plan describes Caltrain’s plans and estimates for how they will implement the PCEP, the Authority’s key interests in the corridor are governed by the 2016 Business Plan and the agreements that the Authority either has or will execute with Caltrain. The Business Plan lays out the Authority’s plans to begin Valley to Valley service in 2025, by which point if PCEP is complete, the Authority could begin to run trains in the corridor. Additionally, the Authority’s agreements with Caltrain spell out the Authority’s responsibility to contribute a specified and maximum amount of funding (including the \$600 million that is the subject of this Funding Plan) to the project in return for Caltrain delivering the PCEP, granting the Authority the rights that are available to them to operate in the corridor, and collaborating with the Authority on future improvements that will be made to enhance the blended service. Thus the Authority’s plans in the corridor only require Caltrain to fulfill their commitments from the Authority’s agreements with them and complete PCEP by 2025, several years after its currently planned completion.

Background

In January 2004, the Authority and the Peninsula Corridor Joint Powers Board (PCJPB or JPB) entered into a memorandum of understanding (MOU) to establish a framework for future cooperation between

¹ Prop 1A funds will only be used for the electrification piece of PCEP and not the purchase of EMUs.

the two agencies for the development of a high-speed train system for California that would share the rail corridor between the City of San Jose and the City and County of San Francisco (CCSF).

The Authority's 2012 Business Plan established a policy to develop the high-speed rail system utilizing a blended approach consisting of primarily a two-track blended system that would accommodate future high-speed rail trains, existing freight, and modernized PCJPB commuter rail service in the Corridor.

The Authority and the PCJPB, together with the Metropolitan Transportation Commission (MTC), the San Francisco County Transportation Authority (SFCTA), the Santa Clara Valley Transportation Authority (VTA), the City of San Jose, the CCSF, the San Mateo County Transportation Authority (SMCTA) and the Transbay Joint Powers Authority (TJPA) entered into an MOU that adopted an early investment strategy for the Blended System in the San Francisco to San Jose Peninsula Corridor ('2012 Nine Party MOU'). The 2012 Nine Party MOU includes the Authority's commitment to secure approval and release of \$600 million of Proposition 1A funds and \$106 million of Proposition 1A "connectivity" funds to complete, at the earliest possible date, the CalMod program. In July 2012, the Legislature passed and the Governor signed SB 1029 that appropriated the \$600 million of Proposition 1A funds for PCEP and \$106 million of connectivity funds for CBOSS, as contemplated in the 2012 Nine Party MOU. The Authority's funding for the project is being matched by a variety of federal, state, and local sources.

Since 2012, PCJPB has certified a California Environmental Quality Act (CEQA) Environmental Impact Report (EIR) for the PCEP and has engaged in a competitive procurement process for the PCEP which has led to separate design build (DB) contracts for the Corridor electrification and the purchase of EMUs. Both of these contracts have been executed. After receiving bids on the contracts, PCEP is now projected to cost \$1.980 billion (this does not include the cost of CBOSS), which is higher than the original cost estimate in the 2012 Nine Party MOU.

To fill the funding gap, PCJPB has applied for, and significantly advanced in the process of receiving, a \$647 million grant from the Federal Transit Administration's (FTA) Core Capacity Program, which did not exist at the time of the 2012 MOU. Execution of the Full Funding Grant Agreement (FFGA) that would finalize the grant is expected in early 2017. Additionally, seven of the original nine parties to the 2012 Nine Party MOU have approved additional funds to pay for the increase in project cost. Those parties and corresponding commitments are:

1. California High-Speed Rail Authority: \$113 million
2. PCJPB: \$9 million
3. The MTC: \$28.4 million
4. The SFCTA: \$20 million total with CCSF.
5. The VTA: \$20 million
6. The CCSF (see SFCTA)
7. The SMCTA: \$20 million.

On August 9, 2016 the Authority Board approved a funding agreement and the 7-party Supplement to the 2012 MOU that further reiterates the Authority's commitment to provide to \$600 million in Prop 1A funds (as directed by the Legislature in 2012), and an additional \$113 million from Cap-and-Trade or other sources, approved by the Authority Board to support the PCEP. An electrified corridor is foundational to the Authority running its electrified trains, in a blended system with Caltrain. Along with approving the agreement, the Board (as a CEQA responsible agency) adopted CEQA findings regarding PCEP.

Finally, PCJPB was awarded \$20 million of California State Transportation Agency's Transit & Intercity Rail Capital Program (Cap & Trade TIRCP) funds. With the combination of these additional funds, the PCEP is now fully funded.

Exhibit I-1: Sources of Funds Summary

Source	\$ Amount	%
Federal	977.7	49.4%
State	741	37.4%
Local	261.6	13.2%
Total Project Funding	1980.3	100%

Source: PCEP Funding Plan

Current Status

Throughout 2016 the PCEP team continued to advance the project. As planned in the procurement process for the electrification contract, an apparent best value proposer was selected and negotiations were initiated in April. The project team worked extensively to negotiate technical and commercial sections with the apparent best value proposer. The negotiations were successfully completed at the end of June. The JPB awarded the electrification contract to Balfour Beatty Infrastructure, Inc. at its meeting on July 7, 2016. It was fully executed on August 15, 2016.

The PCJPB procurement process also continued for the EMU manufacturer. PCJPB staff began negotiations in late April with Stadler US, Inc. Negotiation discussions focused on technical exceptions and contractual / legal exceptions. The project team issued a letter to Stadler on May 20, 2016 to request a proposal in response to negotiations. Stadler submitted a revised proposal on June 17, 2016 after which negotiations were successfully completed. The JPB awarded the EMU Vehicle contract to Stadler US, Inc. at its meeting on July 7, 2016. The contract was fully executed on August 15, 2016.

Organization of the Funding Plan

This Funding Plan is organized consistent with the requirements of S&H Code section 2704.08, subdivision (d).

Section A of this Funding Plan describes the San Francisco to San Jose Peninsula Corridor Segment as the Usable Segment for this Funding Plan.

Section B of this Funding Plan describes the sources of funds to be used for the improvements to the Corridor.

Section C of this Funding Plan provides the projected ridership and operating revenue for the Caltrain service in the Corridor.

Section D of this Funding Plan describes the construction cost estimates, including cost escalation and reserves for contingencies, for the PCEP.

Section E Since the Legislature made the appropriation for the PCEP without a separate subdivision (c) Funding Plan, there are no material changes to report.

Section F of this Funding Plan describes the terms and conditions of agreements that the Authority has executed or intends to enter into with Caltrain for the construction and operation of the Corridor. It also describes certain other existing agreements between Caltrain and/or the Authority and other parties.

A. The Usable Segment

Streets and Highways Code section 2704.08, subdivision (d)(1)(A) requires identification of the corridor, or usable segment thereof, and the estimated full cost of constructing the corridor or usable segment thereof. A usable segment is defined as a portion of corridor that includes at least two stations.

The Usable Segment – Requirements

This subsection outlines the requirements for a Corridor or Usable Segment and illustrates how the Peninsula Corridor, with the improvements included in the CalMod program and PCEP, meets these requirements. The Board has identified and selected the Corridor as a Usable Segment by its adoption of this Funding Plan. As part of the selection process, the Board considered the criteria for prioritization set forth in Section 2704.08, Subdivision (f).

The Peninsula Corridor meets the requirements of a Usable Segment, which is defined in Section 2704.01 as “a portion of a corridor that includes at least two stations.” The Corridor runs from the current line’s northern terminus at the 4th and King Street Station in the City of San Francisco to Tamien Station in San Jose, a total distance of approximately 51 miles. The usable segment includes high-speed rail stations at 4th and King Street in San Francisco and at Diridon Station in San Jose. Eventually, through additional investments, the service will be expanded to a permanent terminal at the San Francisco Transbay Transit Center and will serve a station at Millbrae. That extension is not part of this Funding Plan.

The scope of the PCEP is summarized in **Exhibit A-1**. Additional details also may be found in Section D, Projected Construction Cost, in this Funding Plan. **Exhibit A-2** provides a map of the CalMod program construction boundaries.

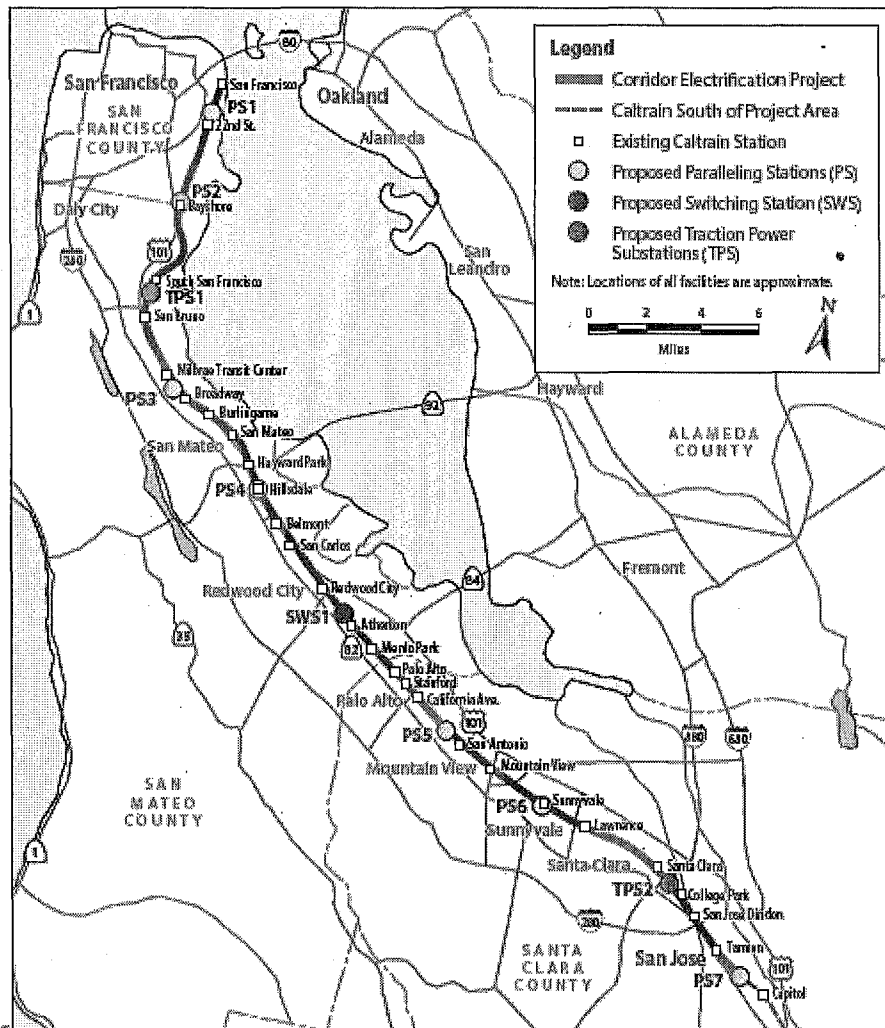
Exhibit A-1. Peninsula Corridor Electrification Project – Major Elements

Section / Scope	Description	Estimated Cost (YOE \$)	Delivery Method & Current Status
Electrification Infrastructure	Design and construction of the electrified infrastructure including the Overhead Catenary System, substations, switching stations, paralleling stations and management reserve	\$1,316 million	DB contract executed and Limited Notice to Proceed (LNTP) for design and some advanced material purchases approved
Purchase of EMUs	Purchase of up to 96 EMU's	\$664 million	Contract for bi-level EMUs has

Section / Scope	Description	Estimated Cost (YOE \$)	Delivery Method & Current Status
	to replace Caltrain's fleet of diesel rolling stock		been executed and LNTP has been approved.
Total PCEP Cost		\$1,980 million	

Source: Caltrain (includes capital costs, retained costs and contingencies)

Exhibit A-2. Peninsula Corridor Modernization Project Construction Boundaries



Source: Caltrain EIR Executive Summary

Caltrain Modernization Program

Caltrain is completing the CalMod Program to electrify and modernize the railroad and allow for high-speed rail blended service in the corridor. CalMod encompasses the delivery of CBOSS to be completed

in 2017 and PCEP to be completed by December 2021. Additionally, planning efforts will prepare for the shared use of the Peninsula Corridor by both Caltrain and high-speed rail service in a blended system.

The electrification system envisioned for the corridor will be configured in such a way that it would enable the future operation of high-speed rail service. The power supply system of choice for a steel wheel-on-steel-rail high-speed train operation is 25-kV, 60-Hz, single-phase AC electrification, which is also what the JPB needs for its EMUs and which is what PCEP will install. The Corridor is currently rated for a maximum of 79 mph and high-speed trains would be able to run at that speed after the PCEP improvements are made. However, to make the service faster and safe at higher speeds, track and other system upgrades will be needed in the future in order to support higher speeds. High-speed rail service in the corridor has never been envisioned at 220mph so the upgrades that will be needed in the future will achieve more modest speed increases. Those upgrades and higher speed operations are the subject of a separate environmental analysis being conducted by the Authority and Federal Railroad Administration (FRA).

Exhibit A-3 describes the major milestones achieved or to be reached toward completion of the PCEP improvements on the Corridor.

Exhibit A-3. Major Milestones Achieved in Advancing the Usable Segment

Milestone	Description	Date
1	Federal Environmental Review / 35% Design	Complete-2009
2	2012 Nine Party MOU	Complete-2012
3	Board Action for Selection of Contracting Method (DB for electrification, Best Value for Vehicles)	Complete-2013
4	Procurement of Owner's Team	Complete-2014
5	Request for Qualifications for Electrification and Request for Information for Vehicles	Complete-2014
6	State Environmental Review	Complete-Jan. 2015
7	Approval of Entry into Core Capacity Program/Project Development (Federal Funding)	Complete-Apr. 2015
8	Inclusion of \$125 million Core Capacity Funding in FY17 President's Budget.	Feb. 2016
9	Caltrain Board Approves Electrification and EMU Contracts	Complete – Jul. 2016
10	Design / Manufacture / Build / Test	2016-2020-21
11	Open for Revenue Service	2020-21

B. Sources of Funds and Anticipated Time of Receipt

Streets and Highways Code section 2704.08, subdivision (d)(1)(B) requires identification of the sources of all funds to be used and anticipated time of receipt thereof based on offered commitments by private parties, and authorizations, allocations, or other assurances received from governmental agencies.

This section describes the sources of funds for the PCEP, summarizes key conditions to receipt of funds, including timing constraints and matching funds requirements, and presents the anticipated time of receipt of such funds. A more detailed breakdown of the anticipated timing of each funding source is provided in the PCEP Funding Plan included in **Appendix I**.

Overview of Sources of Funds

SB 1029 appropriated \$600 million from Prop 1A for the PCEP. Additional funds for the project were approved by the Authority Board of Directors in the 7-Party Supplement to the 2012 MOU. **Exhibit B-1** summarizes the sources of all funds contributing to PCEP from all sources.

Exhibit B-1. Sources of Funds for PCEP (\$ millions)

Type	Source of funds	Funding Level (\$millions)	% of Total	Evidence of Commitment
Federal	FTA Formula Program Funds	330.7	16.7%	CA-03-0598: \$960K CA-03-0542: \$2.7M CA-03-0565: \$16.8K CA-90-Y246: \$12M CA-54-0034: \$5.23M (part of \$315M) CA-95-X074: \$4M (SF Transfer to JPB-part of SF local commitment) Funds to be provided by MTC as part of 9-Party MOU
Federal	Section 5309 Core Capacity	72.9	3.7%	FY16 Apportionment: \$14.3M FY14 and FY15 Apportionments: \$58.6M
Federal	Section 5309 Core Capacity	574.1	29.0%	FY17 President's Budget: \$125M FFGA anticipated in early 2017
State	Prop 1B Public Transportation Modernization,	8.0	0.4%	California Department of Transportation Allocation Letter

	Improvement, and Service Enhancement Account Program			
State	Prop 1A	600.0	30.3%	SB 1029 and SB 557
State	Cap-and-Trade or other Authority/State Sources	113.0	5.7%	August 9 2016 Authority Board Action Agenda Item 2
State	Transit and Intercity Rail Capital Program	20.0	1.0%	Grant award announced 8/16/16
Local	Carl Moyer Program	20.0	1.0%	Signed Funding Agreement with BAAQMD
Local	JPB Members	193.2	9.8%	9-Party Funding MOU + 7 Party Supplement
Local	MTC Bridge Tolls	39.4	2.0%	MTC Resolutions 3195 and 4243
Local	Caltrain (LCTOP)	9.0	0.5%	7 Party Supplement
Total Project Funding		1,980.3	100.0%	

Source: PCEP Funding Plan

Federal Funds

FTA Section 5309 Core Capacity Funds

As part of the FTA Section 5309 Core Capacity Program, the JPB submitted a request for \$647 million (YOE\$) in capital funding from for the PCEP, equal to 33 percent of the project's total cost of \$1,980.25 million for electrification and EMUs (YOE\$). The JPB expects to negotiate a FFGA with the FTA for the Core Capacity grant funds in early 2017. The funds would be subject to annual appropriation by Congress with the funding currently programmed through Federal Fiscal Year 2020 through the Fixing America's Surface Transportation Act. The Core Capacity program's process includes three steps: Project Development (PD), Engineering, and FFGA. Once an FFGA is approved, funds are requested each year in the President's budget and are approved through appropriation by Congress.

On April 16, 2015, the JPB received notification from the FTA that the project had been accepted into the PD phase of the Core Capacity program. With this approval, JPB has pre-award authority to incur costs for PD activities prior to the receipt of an FFGA from FTA. PD activities include all work necessary to complete the environmental review process and as much engineering and design activities as JPB believes is necessary to support the environmental review process. Upon completion of the environmental review process FTA extends pre-award authority to project sponsors in PD to incur costs for as much engineering and design as necessary to develop a reasonable cost estimate and financial plan for the project utility relocation, real property acquisition and associated relocations. This pre-award authority does not constitute a commitment that future federal funds will be approved for PD or any other project cost. As with all pre-award authority, relevant federal requirements must be met prior to incurring costs in order to preserve eligibility of the cost for future FTA grant assistance.

On February 9, 2016, President Obama released his FY 2017 federal budget which included \$125 million for PCEP through the FTA Core Capacity Program. In addition, the FTA announced that the project will receive more than \$72 million in prior year Core Capacity funding apportionments. The funding announcement signaled progress toward an FFGA between Caltrain and FTA. Based on Caltrain's application process with FTA, the FFGA is expected to be approved in early 2017 with funds available over the course of the construction period based on the grant agreement.

On August 12, 2016, the FTA approved the PCEP's entry into Engineering with an overall rating of "medium-high". This approval provides additional pre-award authority for non-construction activities including completing engineering work, procuring long-lead time items and any specialized equipment required for the project. Entry into Engineering has locked the share of federal funds that Caltrain can apply for at \$647 million. Both PD and Engineering are important steps in the process of getting an FFGA. Caltrain's significant efforts in moving the program forward and the quick advancement through the Core Capacity application process shows the likelihood that the grant will be approved.

FTA Formula Program Funds

FTA Formula Program funds include prior/current year grants of \$24.91 million and future year commitments of \$309.77 million. These Federal funds are committed by the MTC through the 2012 MOU.

State and Local Funds

Over \$700 million in State and local funding for PCEP is committed through a regional agreement (the 2012 Nine Party MOU) between the following Funding Partners:

1. The Authority
2. MTC
3. PCJPB
4. SFCTA
5. SMCTA
6. VTA
7. City of San Jose
8. CCSF
9. TJPA

The 2012 MOU is the result of a collaborative effort between the JPB, the Authority, the MTC and San Francisco Bay Area local agencies to identify early investments projects along Caltrain's existing rail corridor that improve service, safety and efficiency, and create linkages between the planned state high-speed rail system and local passenger rail service.

In addition to the funds identified in the 2012 MOU, additional funding sources have been committed by the Authority and the other funding partners through a supplemental agreement. This MOU Supplement provides an additional \$210 million in funding and involves seven funding partners, including the

Authority, JPB, MTC, SFCTA, CCSF, VTA, and SMCTA. The MOU Supplement was approved by the JPB in May 2016 and was approved by the Boards of the other signatories between June and August 2016.

State General Obligation Bonds -- Proposition 1A

The Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century approved by the voters as Proposition 1A on November 4, 2008, provides over \$9 billion in bond funding for construction of a high-speed rail system in California. In 2012, SB 1029 appropriated \$600 million in Proposition 1A funds to the construction of the PCEP. These funds require, at project completion, a dollar-for-dollar match of other Federal, State, or local funding.

Pursuant to S&H Code section 2704.08, in order for the Authority/Caltrain to use the bond funds, the Director of Finance must review this Funding Plan and find that the plan is likely to be successfully implemented as proposed. Additionally, under S&H Code section 2704.12 and subsequent sections, the High-Speed Passenger Train Finance Committee² (Committee) must first authorize the issuance of the bond funds. In 2013, the Committee authorized Prop 1A Bond funds in the amount of \$8.6 billion. In 2015, the Sacramento Superior Court entered judgment validating that authorization.

State Non-Prop 1A Funding

The Authority has also committed up to \$113 million in additional funds, which will come from Cap-and-Trade or other sources available to the Authority and the State, to the PCEP, above and beyond the original \$600 million commitment of Proposition 1A funding. The Authority Board approved the commitment of these funds at their August 9, 2016 meeting. On November 18, 2016 the Authority and PCJPB executed an agreement to make these funds available.

On June 20, 2014, the Governor signed the Budget Act of 2014 (SB 852 and SB 862), which included an appropriation of proceeds from the State's Cap-and-Trade Program to various programs and projects that will reduce greenhouse gas emissions in furtherance and accordance with Assembly Bill 32 (Global Warming Solutions Act of 2006). Specifically, SB 852 appropriated \$872 million in Cap-and-Trade auction proceeds from the Greenhouse Gas Reduction Fund (GGRF) in Fiscal Year (FY) 2014-15, with \$250 million going to the high-speed rail project. SB 862 also appropriated \$400 million to the Authority to be made available starting in FY 2015-16, and continuously appropriated until expended. These one-time appropriations are further augmented by SB 862, known as the Cap-and-Trade Expenditure Plan, which established a programmatic structure for the continuous appropriation of annual Cap-and-Trade proceeds from the GGRF including 25% of all proceeds for the high-speed rail program.

In making the continuous appropriation, the Legislature determined that these funds could be used to pay for planning and construction costs for the Phase 1 Blended System and/or to repay loans made to

² The Committee consists of the State Treasurer, the Director of Finance, the Controller, the Secretary of Transportation, and the Chairperson of the Authority. The State Treasurer serves as Chairperson of the Committee.

the Authority. The Authority has already received the Cap-and-Trade proceeds necessary to meet its obligations for the additional funding.

Proposition 1B/Public Transportation Modernization and Improvement Account

The Public Transportation Modernization, Improvement, and Service Enhancement Account Program (PTMISEA) was created by Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act, approved by California voters in 2006. PTMISEA funds may be used for transit rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements, or rolling stock (buses and rail cars) procurement, rehabilitation or replacement. Funds in this account are appropriated annually by the Legislature to the State Controller's Office (SCO) for allocation through the State Transit Assistance formula (contained in Public Utilities Code Article 6.5) distributions: 50% allocated to Local Operators based on fare-box revenue and 50% to Regional Entities based on population. In November 2014, the JPB committed \$8 million in formula funds from the PTMISEA to the PCEP.

On November 7, 2014, the JPB received a letter from the Department of Transportation confirming that the award had been made in full and that funds would be allocated directly.

Carl Moyer Program

The Carl Moyer Memorial Air Quality Standards Attainment Program (Carl Moyer Program) is a state-funded program that offers grants to reduce air pollution emissions from heavy-duty engines. The program is administered by the Bay Area Air Quality Management District (BAAQMD), which approved and allocated \$20 million in Carl Moyer Program funds for the PCEP in July 2015. The JPB anticipates receiving \$4M per year for five years.

JPB Member Contributions

The JPB member agencies provide equal shares of local capital funds for system-wide improvement projects. Funding from the respective partners comes from their local sources. JPB members contributed a total of \$133 million in the Nine Party MOU from the following sources:

- San Mateo County ½ cent sales tax
- VTA Measure A sales tax
- San Francisco County Proposition K sales tax, Regional Transportation Improvement Program, and San Francisco County GO Bond proceeds.
 - SFMTA - will disburse up to \$39 million of GO Bond proceeds, inclusive of the initial \$7.76 million disbursement, to the JPB's account as eligible capital costs are incurred.

It should be noted that \$4 million of San Francisco's commitment to the project is included in FTA grant CA-90-X074. These funds were transferred to the JPB in lieu of an equivalent amount of local funds from the City and County of San Francisco.

JPB Member Contributions—7-Party Supplement

VTa, SMCTA, SFCTA and CCSF are providing an additional \$20 million each (a total of \$60 million) for the project. These funds have been committed through the 7-Party Supplement that was approved by the JPB in May 2016 and was approved by the Boards of the other signatories between June and August 2016.

MTC Bridge Tolls

Bridge toll revenues provide funding for transit projects on or near bridge corridors that help to relieve bridge traffic and/or provide alternative public transit services. These funds are administered by the MTC, which has committed \$39.4 million to the project through Resolutions 3195 and 4243, passed by the MTC Board in June 2016.

The JPB approved the allocation of these funds at their July 2016 meeting. Funds are currently available for both the electrification and EMU components of the project and are available in their entirety on a reimbursement basis.

Caltrain LCTOP

The LCTOP program provides state Cap-and-Trade proceeds on a formula basis to transit agencies to help fund transit projects and transit operations that reduce greenhouse gas emissions. The JPB will allocate \$9 million of its formula share of LCTOP funds to the Project as indicated in the 7-Party Supplement. These funds are received on an annual basis and so far \$1.9 million in Fiscal Years 2015 and 2016 funds has been committed. All of JPB's annual LCTOP formula funding will be directed to costs associated with the procurement of EMU's until the \$9 million commitment has been reached.

Additional Funding for Cost Overruns or Funding Shortfalls

As part of its review of Caltrain's Core Capacity Grant evaluation, FTA recommended that Caltrain have a plan in place to address either a 10% cost overrun or a 10% funding reduction, which equates to about \$198 million. In a November 22, 2016 letter to FTA, Caltrain confirmed that the PCEP local and regional funding partners including MTC, SMCTA, VTA, and CCSF and SFCTA have agreed to provide a commitment of up to an additional \$50 million each to fund any potential cost overruns up to \$200 million. These commitments, if necessary, would provide funding over and above the \$1.98 billion budget, which already includes \$316 million in overall project contingency.

C. Projected Ridership and Operating Revenue

Streets and Highways Code section 2704.08, subdivision (d)(1)(C) specifies inclusion of a projected ridership and operating revenue report. There are several provisions of the Bond Act that contemplate use of newly constructed high-speed rail line segments for non-high-speed passenger train service, as distinguished from high-speed train service. (see § 2704.08, subd. (f)(3) [referring to "the utility of those corridors or usable segments thereof for passenger train services other than the high-speed train service"]; see § 2704.08, subd. (c)(2)(I) [referring to "one or more passenger service providers ... using the tracks or stations for passenger train service"]; see Sec. 2704.08, subdivision (d)(2)(C) [referring to "one or more passenger train providers ... using the tracks or stations for passenger train service"]]).

Caltrain has developed tools to forecast the projected ridership and revenue for its system. Caltrain will operate its service between San Francisco, San Jose, and Gilroy.³ The Authority will run its high-speed rail service on the San Francisco to San Jose Corridor using a blended system approach once it is connected with the Valley to Valley Line, as described in the 2016 Business Plan. The Authority is not planning to run stand-alone service in the San Francisco to San Jose Peninsula Corridor Segment.⁴

Peninsula Corridor Projections

Caltrain has projected ridership and revenue for its own rail operations in the Corridor. Implementation of the Caltrain Modernization project is anticipated to result in increased ridership. Caltrain expects its improved electrified service on the Corridor to increase daily weekday ridership from 47,000 per year in 2013 to 69,000 per year in 2020 and 111,000 in 2040 (Source: *Final EIR, Vol. 1, PG. 2-14, Table 2-3*).

³ PCEP only electrifies the Corridor between San Jose and San Francisco so service to Gilroy will be operated using diesel trains. The Authority is developing its own plans to connect San Jose and Gilroy that will be separate from Caltrain's diesel service.

⁴ The Authority has conducted extensive analysis of ridership for the Valley to Valley Line and those forecasts are included in the 2016 Business Plan. The ridership forecasts for the Authority's service that will use the Corridor are provided in the Business Plan as well as associated technical documents available on the Authority's website at http://hsr.ca.gov/About/Business_Plans/2016_Business_Plan.html.

Additionally, further technical information on the Authority's ridership and revenue forecasts is available on the Authority website here:

http://hsr.ca.gov/About/ridership_and_revenue.html

Table C-1. Caltrain Estimated Daily Weekday Ridership with the Project

Daily Weekday Ridership	2013	2020	2040
Existing/No Project	47,000	57,000	84,000
With Project	n/a	69,000	111,000

Source: Caltrain FEIR, Appendix I, Ridership Technical Memorandum.

Note that the following assumptions have been made in relation to the production of the above data⁵:

- Ridership above is based on boardings, not boardings and alightings.
- 2020 was used for ridership analysis to ensure full operation of the new electrified service.
- Existing / "No Project" analysis assumes the same schedule as at present (5 trains per peak hour; 1 train per off-peak hour per direction; total of 92 trains per day) for both 2020 and 2040
- For 2020, analysis assumed 75% electrified and 25% diesel service from San Jose to San Francisco.
- For 2040, analysis assumes fully electrified service between San Jose and San Francisco. PCEP only has sufficient funding at present to provide 75% electrified service between San Jose and San Francisco. Caltrain anticipates that it will obtain additional funding to allow full electrified service between San Jose and San Francisco to occur by 2040

The Caltrain ridership projections are based on a travel demand model. The travel demand model used to prepare the systemwide ridership forecasts to support PCEP is a version of the VTA Model developed for the San Mateo City/County Association of Governments in 2011. This version of the VTA Model was originally developed in 2009 by the VTA to support the Grand Boulevard Initiative Corridor Project and the San Mateo Countywide Transportation Plan (CTP) update. The VTA Model used in the CTP update was validated to year 2005 conditions and made use of the Association of Bay Area Governments (ABAG) Committed Regional Plans socioeconomic data forecasts (informally known as ABAG projections 2011) to develop forecast year 2035 projections (*Source: Caltrain Ridership Technical Memorandum*).

The model incorporates enhancements and considerations including:

- Updated to reflect 2013 base year conditions
- Adjusted and validated to year 2013 Caltrain system ridership
- Updated from the original base year 2005 for both transit and highway network changes, including a comprehensive update of both public and private shuttles serving the Corridor.

⁵ At the time when forecasts were provide Caltrain assumed an opening date of 2020

- Used to prepare forecast year ridership and output for the project horizon years of 2020 and 2040, using updated socioeconomic data forecasts prepared by ABAG and updated background transportation improvements as defined in the recently adopted Bay Area Regional Transportation Plan.

The inputs to the model included:

- ABAG Socioeconomic Data Projections
- Roadway and Transit Networks
- Pricing
- Caltrain Schedules and Service Levels for Base Year 2013 and 2020 Project and 2040 Project + Transbay Transit Center Conditions.

(Source: Final EIR Appendix I, Ridership Technical Memorandum, pp. 1-10)

The EIR Appendix I, Ridership Technical Memorandum, contains more complete information that is the basis for the modeling and the results. **Exhibit C-2** below describes the forecast revenue and ridership for the Corridor (Caltrain services only) from 2015 through 2024. Revenue forecasts are based on annualized ridership estimates and an assumed schedule of fare increases. Annualized ridership estimates are interpolated from 2013 project-level ridership forecasts and have been adjusted based on updated project schedule and actual ridership trends.

Exhibit C-2 – Caltrain Annual Ridership and Operating Revenue

Year-by-Year Caltrain Revenues & Ridership										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Farebox Revenue (\$ millions)	\$80.0	\$83.7	\$91.1	\$92.5	\$100.9	\$102.8	\$121.4	\$128.9	\$142.3	\$146.7
Non-Farebox Revenue (\$ millions)	\$9.3	\$9.2	\$9.5	\$9.6	\$9.9	\$10.0	\$10.9	\$11.2	\$11.5	\$11.7
Ridership (millions)	19.2	20.5	20.8	21.1	21.5	21.9	24.5	26.1	26.1	27.7

Source: Caltrain SRTP Tables 4.1 and 4.3

D. Projected Construction Cost

Streets and Highways Code section 2704.08, subdivision (d)(1)(D) requires inclusion of a construction cost projection including estimates of cost escalation during construction and appropriate reserves for contingencies.

This section provides the cost estimate for construction activities for the PCEP.

Construction Cost Projections

The cost for the PCEP is estimated at **\$1.980 billion YOES** (\$1.855 billion in \$2015). A breakdown is provided in **Exhibits D-1 and D-2** below. At this point, contracts have been awarded for both the electrification design-build contract and the EMU purchase. The estimated construction costs include an escalation component of **\$125 million**. Allocated and unallocated contingencies in the estimate add up to **\$316 million**.

Exhibit D-1 below sets out the cost of construction for the PCEP in both Base Year 2015 and YOE dollars. The data is presented in the FTA's Standard Cost Categories.

Exhibit D-1 – PCEP Capital Costs

STANDARD COST CATEGORIES (COSTS IN X\$000)	Base Year (2015) Dollars	YOE Dollars
10 GUIDEWAY & TRACK ELEMENTS	13,373	14,257
20 STATIONS, STOPS, TERMINALS, INTERMODAL	0	0
30 SUPPORT FACILITIES: YARDS, SHOPS, ADMIN. BLDGS	2,124	2,265
40 SITEWORK & SPECIAL CONDITIONS	240,001	255,253
50 SYSTEMS	476,697	504,812
60 ROW, LAND, EXISTING IMPROVEMENTS	36,615	37,316
70 VEHICLES	577,400	630,535
80 PROFESSIONAL SERVICES (applies to Cats. 10-50)	353,409	368,084
90 UNALLOCATED CONTINGENCY	150,353	162,620
100 FINANCE CHARGES	4,822	5,110
Total Project Cost (10 - 100)	1,854,794	1,980,253

Cost Estimating Methodology

The PCEP capital cost estimate was updated in 2014 based on the 2008 35% design documents, as well as taking into account infrastructure upgrades, CBOSS, and new understanding of the project. The capital cost estimate was primarily a bottoms-up estimate, using detailed labor, material, equipment and productivity inputs. As new information has become available, the estimate has been updated. The capital cost estimate for the PCEP is \$1.98B comprised of electrification and vehicles.

Exhibit D-2 – Total PCEP Budget

Description of Work	Budget (in YOE USD thousands)
Electrification Work	1,316,125
Vehicles Total	664,127
PCEP Total	1,980,253

Both electrification and vehicles include the design-build contracts, agency costs, required projects, contingency, and other costs.

The costs associated with the electrification design-build (including overhead catenary, traction power, signals, grade crossings, communications, design, environmental mitigation and Transit America Services Inc. (TASI) force account) is taken directly from the final negotiated design-build contract, and shown in the table below. The balance of the electrification portion of the project includes agency costs (including environmental mitigations, real estate, utilities, management oversight, Railroad Protective Liability Insurance, required projects, and TASI Support), as well as contingency and finance charges. **Exhibit D-3** provides a high level summary of the electrification costs.

Exhibit D-3 – Electrification Infrastructure Budget

Description of Work	Budget (in YOE USD thousands)
10 GUIDEWAY & TRACK ELEMENTS	14,257
20 STATIONS, STOPS, TERMINALS, INTERMODAL	-
30 SUPPORT FACILITIES: YARDS, SHOPS, ADMIN. BLDGS	18
40 SITEWORK & SPECIAL CONDITIONS	255,253

50 SYSTEMS	504,812
60 ROW, LAND, EXISTING IMPROVEMENTS	37,316
70 VEHICLES	4,541
80 PROFESSIONAL SERVICES (applies to Cats. 10-50)	362,827
90 UNALLOCATED CONTINGENCY	133,933
100 FINANCE CHARGES	3,168
Total Project Cost (10 - 100)	1,316,125

The management oversight and TASI support costs are based on staffing plans and actual direct and indirect employee costs. Environmental mitigation costs are based on the tasks identified in the EIR, with a combination of conceptual and bottoms-up costs. The costs associated with utility relocations have recently been updated based on discussions with local utilities. Real estate costs are based on 2014 plans depicting specific locations required for foundations, as well as easements required to maintain proper electrical clearances.

The vehicle (EMUs) cost is taken directly from the final negotiated vehicle contract, and shown in **Exhibit D-4**. Similar to electrification, management oversight and TASI support costs are based on staffing plans and actual direct and indirect employee costs.

Exhibit D-4 – EMUs Budget⁶

Description of Work	Budget (in YOE USD thousands)
10 GUIDEWAY & TRACK ELEMENTS	-
20 STATIONS, STOPS, TERMINALS, INTERMODAL	-
30 SUPPORT FACILITIES: YARDS, SHOPS, ADMIN. BLDGS	2,247
40 SITEWORK & SPECIAL CONDITIONS	-
50 SYSTEMS	-
60 ROW, LAND, EXISTING IMPROVEMENTS	-
70 VEHICLES	625,994
80 PROFESSIONAL SERVICES (applies to Cats. 10-50)	5,257

⁶ The Authority is not providing funds for procurement of vehicles.

90 UNALLOCATED CONTINGENCY	28,687
100 FINANCE CHARGES	1,942
Total Project Cost (10 - 100)	664,127

E. Material Changes

Streets and Highways Code section 2704.08, subdivision (d)(1)(E) requires inclusion of a report describing any material changes from the plan submitted pursuant to subdivision (c) for this corridor or usable segment thereof.

In 2012, the Legislature passed SB 1029 appropriating \$600 million of Prop 1A proceeds from S&H Code section 2704.04 for the PCEP without a subdivision (c) Funding Plan. As there was no Funding Plan developed under subdivision (c) prior to the Legislature's appropriation, there are no material changes to report.

F. Terms and Conditions of Agreements

Streets and Highways Code section 2704.08, subdivision (d)(1)(F) requires a description of the terms and conditions associated with any agreement proposed to be entered into by the authority and any other party for the construction or operation of passenger train service along the corridor or usable segment thereof.

The Authority has entered into agreements with the PCJPB to support and implement the improvements necessary to fund, construct, and begin operating the blended system in the Peninsula Corridor. The PCJPB has executed the actual design-build contracts for the PCEP. The sections below describes some of the key terms and conditions of agreements governing the planning, construction, and operation of improved and electrified service over the Corridor, as described elsewhere in this Funding Plan.

Interagency Agreements

The Authority entered into a MOU in 2012 with eight other parties in the Bay Area to fund improvements in the Corridor. A supplementary seven party MOU was subsequently entered into in 2016. The Authority also entered into an additional MOU in 2013 with the JPB for the planning, environmental review, design, and ultimate construction of the improvements (2013 MOU). These MOUs describe the terms and conditions of the agreements entered into by the Authority and Caltrain for the construction and operation of passenger service in the Corridor. These MOUs also describe some of the terms and conditions of further agreements planned to be entered into by the Authority and Caltrain as improvements in the Corridor advance.

2012 MOU

In 2012, the Authority and eight other public entities entered an MOU to implement an early investment strategy to support the blended system in the Corridor. The key terms and conditions of the 2012 MOU are summarized below.

Exhibit F-1. 2012 Memorandum of Understanding – Key Terms and Conditions

2012 Memorandum of Understanding	
Key Elements	Key Terms
Parties to the Agreement	<ul style="list-style-type: none">• California High-Speed Rail Authority (Authority)• Peninsula Corridor Joint Powers Board / Caltrain (JPB or Caltrain)• Metropolitan Transportation Commission (MTC)• San Francisco County Transportation Authority (SFCTA)• San Mateo County Transportation Authority (SamTrans)

2012 Memorandum of Understanding

Key Elements

Key Terms

	<ul style="list-style-type: none">• Santa Clara Valley Transportation Authority (VTA)• City of San Jose• City and County of San Francisco (CCSF)• Transbay Joint Powers Authority (TJPA)
Purpose of Agreement	The parties will jointly support and pursue implementation of statewide high speed rail that utilizes a blended system and operational model on the Peninsula Corridor, running from Transbay Transit Center in San Francisco to milepost 51.4 at the Tamien Station in San Jose. *
Scope of Projects	<p>The parties will describe, identify and work to fully fund an interrelated program of projects including the following:</p> <ul style="list-style-type: none">• Electrification Infrastructure Project• Advanced Signal System Project• Downtown Extension to the Transbay Transit Center (the Prop 1A designated northern terminus of high-speed rail)• New high-speed rail stations at San Jose Diridon Station and a Millbrae BART/Caltrain Station with a connection to San Francisco International Airport• Core Capacity project of needed upgrades to stations, tunnels, bridges, potential passing tracks and other track modifications and rail crossing improvements, including improvements and selected grade separations required to accommodate the mixed traffic capacity requirements of high-speed rail service and commuter rail services.

2012 Memorandum of Understanding	
Key Elements	Key Terms
Funding Responsibilities	<p>The Authority and appropriate parties will obtain funding using mutually agreed strategies and notify each other if funding for the program is constrained.</p> <p>The following are the key funding plan components:</p> <p>Authority Funding Commitments</p> <ul style="list-style-type: none"> • \$600 million in Prop 1A funds • \$106 million in Prop 1A “connectivity” funds <p>Other Funding Commitments</p> <ul style="list-style-type: none"> • Variety of local, state, and federal funding sources to be obtained by the funding partners (described in Section B above based on updated information since 2012)
Environmental Clearance Responsibilities	<p>Caltrain has environmentally cleared the PCEP under CEQA, including updating the Caltrain Environmental Assessment/Final EIR completed in 2009</p>

2013 MOU

The Authority entered into the 2013 MOU with the JPB for the planning, environmental review, design, and ultimate construction of the improvements.

Exhibit F-2 2013 Memorandum of Understanding – Key Terms and Conditions

2013 Memorandum of Understanding	
Key Elements	Key Terms
Parties to the Agreement	<ul style="list-style-type: none"> • California High-Speed Rail Authority (Authority) • Peninsula Corridor Joint Powers Board / Caltrain (JPB or Caltrain)
Purpose of Agreement	<p>To form a new partnership for the planning, environmental review, design and construction of improvements in the Peninsula Corridor using the blended system (as previously defined).</p>
Scope of Projects	<ul style="list-style-type: none"> • Corridor electrification (as described in 2012 MOU) • CBOSS

2013 Memorandum of Understanding	
Key Elements	Key Terms
	<ul style="list-style-type: none"> • Accommodation of high-speed rail service
Environmental Clearance Responsibilities	JPB will be lead agency for all aspects of the CalMod program. The Authority will be lead agency for environmental clearance of blended system projects.
Delivery Responsibilities	<ul style="list-style-type: none"> • JPB is the lead agency for implementation, final completion and delivery of the PCEP and CBOSS • JPB is the lead agency for all aspects of the Corridor electrification project, including environmental clearance and arranging for design, construction, and implementation. • Authority will assist to facilitate funding, environmental review, and project delivery. • The parties will develop construction and implementation plans designed to preserve freight service in the Corridor.
Operational Responsibilities	The blended system will be developed while JPB rail service remains operational. JPB owns the Peninsula Corridor and will operate the commuter rail service on it.
Additional terms	<ul style="list-style-type: none"> • To terminate previously entered-into agreements (2004 MOU and 2009 MOU) • Authority to include 2012 and 2013 MOUs in its Business Plan • To secure \$600 million of Prop 1A funds and \$106 million of Prop 1A connectivity funds under Senate Bill 1029 to enable PCEP and CBOSS to proceed • Assure compliance with statutory and regulatory reporting requirements and deadlines from funding agencies • JPB will independently support interests of the communities along the Peninsula Corridor through environmental, planning, design and construction.

Seven-Party Supplement to the 2012 MOU

In August 2016, the Authority and six parties – MTC, SFCTA, SMCTA, VTA, the City of San Jose, and the CCSF – entered into a Supplement to the 2012 MOU in order to fully fund the PCEP based on updated cost estimates.

Exhibit F-3 Seven-Party Supplement to the 2012 MOU – Key Terms and Conditions

Seven-Party Supplement to the 2012 MOU

Key Elements	Key Terms
Parties to the Agreement	<ul style="list-style-type: none"> • California High-Speed Rail Authority (Authority) • Metropolitan Transportation Commission (MTC) • Peninsula Corridor Joint Powers Board (JPB) • San Francisco County Transportation Authority (SFCTA) • San Mateo County Transportation Authority (SMCTA) • Santa Clara Valley Transportation Authority (VTA) • City and County of San Francisco (CCSF)
Purpose of Agreement	<ul style="list-style-type: none"> • The parties will jointly support and pursue implementation of statewide high speed rail that utilizes a blended system and operational model on the Peninsula Corridor, running from Transbay Transit Center in San Francisco to milepost 51.4 at the Tamien Station in San Jose. • The parties to the Supplement commit to make funding available to fully fund the PCEP. • Supplemental MOU follows actual bids received and a 2014 cost estimate to update the 2008 cost estimate on which the 2012 Nine-Party MOU funding strategy for the PCEP was based.
Funding Responsibilities	<ul style="list-style-type: none"> • SMCTA will contribute an additional \$20 million • VTA will contribute an additional \$20 million • SFCTA and/or the CCSF will contribute an additional \$20 million • MTC will program \$28.4 million from Regional Measures 1 and 2 • JPB will contribute \$9 million from funding provided by formula to Caltrain through the LCTOP • The Authority will contribute an additional \$113 million • This funding is in addition to funding commitments previously made by these parties.
Removal of Funding	<ul style="list-style-type: none"> • The parties to the Supplement also agreed that, with the additional funding sources, \$125 million in FTA funds identified in the 2012 Early Investment Strategy funding plan will no longer be needed for the PCEP, and will instead be programmed by the MTC to the JPB to advance critical Caltrain state of good repair improvements through MTC's established regional Transit Capital Priorities process.
Other Funding	<ul style="list-style-type: none"> • The Parties to the Supplement also support the PCJPB's efforts to obtain \$647 million from FTA's Core Capacity Grant Program for the PCEP as a regional priority. The \$647 million would help provide

Seven-Party Supplement to the 2012 MOU

Key Elements	Key Terms
	funding needed for the PCEP, as well as provide funding to support a larger contingency set-aside for the PCEP program.
Other key terms	<ul style="list-style-type: none"> If overall program costs require a financial commitment that is below the funding plan of \$1.980 billion, funding commitments from the parties to the Supplement will be reduced proportionally according to their respective additional shares as stated in the Supplement. In the event the contract awards reflect a financial commitment that is above the funding plan of \$1.980 billion, or if the FTA Core Capacity funds are awarded at less than \$647 million, the parties to the Supplement will discuss with all parties to the 2012 Nine-Party MOU how to secure additional funding beyond what is presently identified, and/or discuss project scope adjustments to match to funding availability.

Agreement Regarding Commitments Toward Peninsula Corridor Electrification Project

In August 2016, the Authority Board approved Agenda Item 2 and Resolution 16-21 that provides further detail to the 7 Party Supplement with regard to funding arrangements from the Authority to Caltrain.

Exhibit F-4. Agreement Regarding Commitments Toward Peninsula Corridor Electrification Project – Key Terms and Conditions

Agreement Regarding Commitments Toward Peninsula Corridor Electrification Project	
Key Elements	Key Terms
Parties to the Agreement	<ul style="list-style-type: none"> California High-Speed Rail Authority (Authority) Peninsula Corridor Joint Powers Board / Caltrain (JPB or Caltrain)
Purpose of Agreement	<ul style="list-style-type: none"> For the parties to reaffirm and further the Partnership Principles and Action Plan pertinent to implementation of the Early Investment Projects and implementation of the Blended System service according to a set of stated principles.
Funding Responsibilities	<ul style="list-style-type: none"> The Authority will provide \$600 Million of Proposition 1A funding to the JPB to be used to cover eligible costs related to the implementation of the PCEP as contemplated by the 2012 Nine-Party MOU, Proposition 1A and SB 1029, provided the prerequisite requirements and intent of SB 1029 and related governing legislation

Agreement Regarding Commitments Toward Peninsula Corridor Electrification Project

Key Elements	Key Terms
	<p>are satisfied.</p> <ul style="list-style-type: none"> • Following execution of the contract with the PCEP contractor, \$600 million in Proposition 1A funding, as well as an additional \$113 million of funds available from Cap-and-Trade and/or other sources, shall be made available to the JPB on a reimbursement basis as contemplated by the 2012 Nine-Party MOU and SB 1029. • The parties recognize it is in the best interest of all parties involved in the funding of the project to understand and agree on cash-flow requirements and to identify all sources of funding, including federal, local and other state sources that can meet those needs. • JPB commits to working with regional and federal funding partners to obtain funding on a timely basis to address cash flow needs to avoid sole reliance on state funding. Pending availability of Proposition 1A funds, funding derived from other sources will be made available to JPB through the Authority to enable the State's share of PCEP cash flow requirements to be met. • The estimated cash flow funding required from the State for the 2016-2017 fiscal year is \$117,460,000 with the understanding that July 1, 2016 constitutes the effective date for the commencement of the cash flow funding payments from the State. On an annual basis thereafter JPB will provide the Authority with the estimated cash flow funding needed to ensure requisite progress and ultimate completion of PCEP.
<p>Partnership Principles</p>	<ul style="list-style-type: none"> • The \$600 million in Proposition 1A funds will be dedicated to PCEP between the 4th and King Street Station in San Francisco to Tamien Station in San Jose, and will be implemented by PCJPB in a manner consistent with Proposition 1A and applicable legislation. • It is the shared goal of the parties to enable PCEP to be constructed in a manner that obviates the necessity for the Authority to have to make material changes to the PCEP infrastructure during the Authority's future construction of the Blended System. • Blended System operations in the Corridor will consist primarily of a two-track system substantially within the existing JPB right-of-way. • The JPB and the Authority will collaborate to develop Blended System operations plans that comport with all applicable statutory and regulatory requirements. • The Authority and the JPB will continue to work cooperatively on

Agreement Regarding Commitments Toward Peninsula Corridor Electrification Project

Key Elements	Key Terms
	<ul style="list-style-type: none">additional improvements necessary to facilitate their respective operations in accordance with the provisions of SB1029 and the Authority's business plans.The JPB will make its best efforts to complete the PCEP in amounts less than budgeted.

Project Management and Funding Agreement

In the coming months, the Authority and PCJPB will enter into a Project Management and Funding Agreement (PMFA) as required in SB 1029. The PMFA will spell out the Authority's and PCJPB's rights and responsibilities in the corridor in more detail and will require the PCJPB to report to the Authority on a quarterly basis to ensure that all bond-funded activities are within the scope and cost outlined in the agreement. The PMFA will be submitted to the Department of Finance for approval.

Construction Agreements

On July 7, 2016 the Caltrain Board of Directors approved \$1.25 billion in contracts to begin work on the PCEP. The contract for design and construction of the corridor's electrification infrastructure was awarded to Balfour Beatty Infrastructure, Inc. The contract for the manufacture of high-performance electric trains was awarded to Stadler US, Inc.

Exhibit F-6. DB Contract - Electrification – Terms and Conditions

Design-Build Contract	
Key Elements	Key Terms
Parties to the Agreement	<ul style="list-style-type: none">JPB/CaltrainBalfour Beatty Infrastructure, Inc.
Scope of Services	<ul style="list-style-type: none">The project involves modernizing the Caltrain passenger rail service by converting from diesel powered locomotives to electrical power and upgrading the Caltrain right-of-way which would enable potential future operations of California High Speed Rail service on the same corridor.The contract documents include commercial and technical provisions. Commercial provisions and certain technical requirements are prescriptive. The technical drawings and specifications set forth design concepts and baseline requirements for the project. These technical drawings and specifications are preliminary in nature and to

Design-Build Contract	
Key Elements	Key Terms
	<p>be developed to 100% Issued-for-Construction documents, sealed by the Engineer of Record. The Contractor shall assume full responsibility and liability with respect to final design, construction, installation, testing and commissioning of the electrification project in accordance with the requirements of the Contract Documents.</p> <ul style="list-style-type: none"> • LNTP activities will include, but are not limited to, utility and geotechnical investigations, design development, and advancing certain critical procurements and contracts in support of construction. The Final Notice to Proceed will authorize all remaining scope of work activities including, but not limited to, final design, construction, resting and integration with a new electrified vehicle and existing diesel fleet of vehicles. This work will include new substations and overhead catenary wiring systems to electrify over 50 miles of the rail corridor at 25 kV AC, and necessary modifications to existing rail signaling systems to accommodate electrification. The DB services for electrification of the railroad between San Jose and San Francisco are for a not to exceed amount of \$696,610,558. Limited-Notice-to-Proceed - \$108,482,000 and Notice-to-Proceed - \$588,128,588. • The term of the contract, irrespective of the Contractor's warranty obligations, is 1450 calendar days. • Date of overall substantial completion: 1330 calendar days after date of issuance of LNTP. Date of final acceptance: 120 calendar days after overall substantial completion.

Design-Build Contract	
Key Elements	Key Terms
Caltrain's Role	<ul style="list-style-type: none"> • Caltrain will supply the following items and services as part of the new SCADA System: • Technical review of Contractor's designs. • Coordination of Contractor's activities with Caltrain's rail operations. • Participation in factory and field acceptance tests. • Communication circuits between interface locations and to corporate network equipment; connection of communications to modular distribution termination facilities and fiber nodes. • Conduct oversight testing at JPB discretion with Contractor support, as needed. • Support testing conducted by Contractor, as needed. • Facilitate systems integration with the EMU Contractor, CBOSS Contractor and the Rail Operations Control System (ROCs) Contractor.
Contractor's Role	<ul style="list-style-type: none"> • The Contractor's obligations include, but are not limited to, the responsibilities in the following list and those required to meet all requirements described in the Technical Provisions of the contract: • System engineering and project management. • Software analysis and programming. • Coordination of all Contractor activities to minimize interference with the concurrent work of other contractors along with the JPB's and Operating Railroad of Record's own forces when the Contractor's activities overlap the other contractors' activities. JPB may, at its sole discretion, assist in resolving disputes between contractors. • Supply, configuration, and integration of Substation Gateway, intelligent end device (IEDs), Remote Terminal Unit (RTU), human machine interface (HMI), peripherals, networking devices, signal and power cabling (except as noted being supplied by others), the interconnection of all Contractor-supplied equipment plus cabling to the termination panels where field communications lines will be terminated. • Operating system software and application software for all Substation Gateways, IEDs, RTUs, HMI, networking devices, and all other devices. • Provision of source code for all software produced specifically for the Contract. • Provision of source code or installation images sufficient to, together with the source code, regenerate complete, working copies of any

Design-Build Contract	
Key Elements	Key Terms
	<p>system supplied under this contract.</p> <ul style="list-style-type: none"> • Configuration of all hardware and software for all Substation Gateways, RTUs, HMI, networking devices, IEDs, and all other devices. • Communication hardware and software interfaces to Contractor-supplied monitoring and control system equipment to allow the Substation SCADA system to communicate to the Traction Power devices located in the traction power facilities and the Office SCADA system. Where that interface to the Fiber Optic Communications System (FOCS) is not located at the substation, wayside power cubicle, or other field SCADA equipment location, the Contractor is responsible to design and install the necessary compatible branch circuits to connect to the existing FOCS splice enclosures or design new splice enclosures to break in to the existing FOCS cables, with prior written approval by the JPB, at locations required by the Contractor's design. • Shipment of JPB-supplied equipment, if any, to the Contractor's test facilities, and subsequent return shipment to the JPB with the SCADA System shipment. • Delivery of all equipment, installation, and startup for all sites. • Power distribution within Contractor-supplied equipment and between equipment enclosures. • Tests and inspections. • Maintenance of all hardware and software up to the availability test period. • Availability of service for all hardware and software, as installed, and the availability of standby parts for a 10-year period from the date of system acceptance. • Notification of field updates to all hardware and software for a 5-year period. • Instruction manuals, drawings, and all related documentation for diagnostics, maintenance, reference, and operations, including electronic copies for JPB-generated enhancements in the future.
Liquidated Damages	<p>There will be an assessment in the amount of \$1,000 per five-minute increment, or portion thereof, of interruption or delay greater than five minutes per train up to a cumulative daily maximum of \$50,000 for all trains. Contractor shall pay specified liquidated damage amounts, for</p>

Design-Build Contract	
Key Elements	Key Terms
	<p>each calendar day of delay to the Contract Completion Milestone Date for which the Contractor is responsible.</p> <p>The liquidated damages amounts are independent of each other and are cumulative but not incurred simultaneously.</p> <p>Liquidated damages for late completion are calculated against each established Contract Completion Milestone Date, as that date may be extended by the JPB, and shall be the only damages available to the JPB with regard to delayed project completion. JPB capped the total, cumulative amount of liquidated damages for delay that the JPB may assess under the Contract at \$3,600,000.</p>

Exhibit F-7. EMU Contract – Terms and Conditions⁷

Design-Build Contract	
Key Elements	Key Terms
Parties to the Agreement	<ul style="list-style-type: none"> JPB Stadler US, Inc. (Rolling Stock)
Purpose of Agreement	<ul style="list-style-type: none"> Procurement of 96 electric multiple unit vehicles for a not to exceed amount of \$550,899,459. The EMUs will consist of both cab and non-cab units configured as sixteen six-car trainsets. Power will be obtained from the overhead contact system (OCS) via roof mounted pantographs which will power the axle-mounted traction motors. The EMUs will replace a portion of the existing diesel locomotives and passenger cars currently in use by Caltrain.
Scope of Services	<ul style="list-style-type: none"> The criteria and procedures described in the contract are specifically intended to apply to trainsets operated at speeds up to 125 mph. In accordance with requirements in § 238.111, the equipment is subject to the prerevenue service acceptance testing. Pursuant to that section, a test plan is required for passenger equipment that has

⁷ Prop 1A funds will only be used for the electrification piece of PCEP and not the purchase of EMUs.

Design-Build Contract

Key Elements

Key Terms

not been used in revenue service in the United States. Although the criteria and procedures are generally applied to the applicable individual structures of the trainset undergoing analysis, the overall intent of § 238.111 is to result in a cohesive design in which all parts function appropriately together. FRA notes that with respect to a trainset utilizing a crash energy management (CEM) design, testing of the components incorporated with any CEM system may also be performed as part of a prerevenue service acceptance testing program.

- These trainsets may require similar treatment under American Public Transportation Association (APTA) standards, such as APTA SS-C&S-016-99, Rev. 1 (updated 3/2004), Standard for Row to-Row Seating in Commuter Rail Cars, and the contract addresses these standards where appropriate.
- All designs, engineering, manufacturing, operations, materials, equipment, parts and labor required to properly, timely and to the satisfaction of JPB, provide the completed new vehicles and provide all other items of work indicated or referenced in the Contract Documents, including all alterations, amendments or extensions thereto made by Change Order; successfully complete all required tests and all reliability periods; remedy all defects which occur during, at least, the two (2) year warranty period for each of the new EMUs; and complete all necessary repairs and modifications resulting from the tests, the reliability periods and warranties as required by the Contract Documents.
- LNTP Scope of Work: initial work necessary to advance the contract within the scope of budgetary availability.
- Full Notice to Proceed Scope of Work: all remaining scope of work activities including the procurement of the base order of 96 vehicles, in accordance with the terms of the Contract. All work will be completed in full compliance with FTA requirements.

Design-Build Contract	
Key Elements	Key Terms
Roles & Responsibilities	<ul style="list-style-type: none"> JPB may, at its option, monitor any or all Contractor activities, review any or all designs, and inspect and test any or all equipment. Stadler is responsible for delivery of a complete and properly functioning fleet of EMUs, and for all necessary resources and expertise to provide specified Maintenance Services for both the new EMUs and existing diesel rail vehicles if the Option is exercised by the JPB, all in accordance with the respective contract requirements. Stadler will perform all necessary activities required under the respective contracts including, but not limited to, management, administration, planning, design, documentation, manufacturing/assembly, service, quality control/assurance, systems integration, safety, scheduling, cost control, coordination, outreach, training, testing, commissioning, and warranty.
Liquidated Damages	<p>The Contractor understands that time is of the essence, and that the JPB will suffer significant damages if the schedule is not met. Because of the difficulty of determining at the time of contracting the actual damages to JPB resulting from Contractor's delayed performance, the parties agreed that the JPB may assess liquidated damages in the amounts set forth below:</p> <ul style="list-style-type: none"> \$6,359 per calendar day for late delivery of the 1st trainset, \$2,186 per calendar day for late conditional acceptance of each trainset including the 1st trainset. <p>The total amount for liquidated damages shall not exceed ten percent (10%) of the Total Base Order Price. JPB may deduct the sum of liquidated damages from payments or other amounts due under this Contract.</p>

Federal Funding

In February 2016, the Obama Administration allocated \$72 million in prior-year funding to the project and asked Congress for an additional \$125 million in the 2017 Federal Budget through the FTA Core Capacity Grant Program. These funds are part of a larger \$647 million request for a FFGA that is currently in the Engineering Phase and the FFGA is expected in early 2017. Contracts for the electrification project are structured so that full authorization to proceed with construction is issued following the approval of the FFGA by the FTA.

California High-Speed Rail Delivery Model Overview

The delivery model for Phase 1 of the California High-Speed Rail System is described in the Authority's 2016 Business Plan. It was developed based on best practices and industry feedback. After completion of the Valley to Valley Line and upon the commencement of high-speed service along the Peninsula Corridor it is contemplated that an operator running pursuant to the authority of the California High-Speed Rail Authority will pay to Caltrain an access fee for the right to operate the service. The details of a future agreement will specify the exact terms of compensation based on access and usage.

Appendix I – Anticipated Timing of Receipt of Funds

PCEP FUNDING PLAN—FOR PLANNING PURPOSES ONLY								11/7/2016
	FY16 and Prior	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	Total
2036 Electrification Cost (Estimated)	68,806	296,516	366,412	323,667	197,406	61,772	1,547	1,316,125
<i>Nine-Party MOU Funding</i>								
FTA Formula Funds (Prior Grants)	15,677							15,677
Prop 1A	-	87,227	209,960	194,303	108,710	-	-	600,000
Prop 1B PTMISEA	8,000							8,000
Carl Moyer	-	4,000	4,000	4,000	4,000	4,000	-	20,000
JPB Prior Local Funds	9,019							9,019
JPB Members	36,110	29,869	16,673	22,255				104,908
San Mateo	13,035	5,960	4,907	5,518				29,419
San Francisco*	10,040	13,139	6,880	11,230				41,279
Santa Clara	13,035	10,750	4,907	5,518				34,209
Bridge Tolls	-	10,809						10,809
<i>Seven-Party Supplemental Funding</i>								
HSR/State Non 1A funding	-	22,600	26,240	18,920	26,920	18,320		113,000
Bridge Tolls—RM1	-	8,400						8,400
<i>Potential Funding</i>								
FTA Core Capacity	-	133,611	109,539	84,389	57,776	39,452	1,547	426,313
Total Funding	68,806	296,516	366,412	323,667	197,406	61,772	1,547	1,316,125
	FY16 and Prior	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	Total
2061 EMUs Cost (Estimated)	15,445	100,174	74,255	99,968	162,985	190,460	20,841	664,127
<i>Nine-Party MOU Funding</i>								
FTA Formula Funds (MTC)**	5,234	22,620	56,880	70,857	96,014	61,875	1,521	315,000
JPB Members	10,211	9,038						19,249
San Mateo	4,925	6,918						11,844
San Francisco	0,590	-						0,590
Santa Clara	4,925	2,120						7,045
<i>Seven-Party Supplemental Funding</i>								
Caltrain (LETO)	-	13,540	13,500	13,500	13,500	13,360	1,500	69,000
San Mateo	-	1,940	1,800	1,800	1,800	1,660	-	9,000
San Francisco	-	3,900	3,900	3,900	3,900	3,900	0,500	20,000
Santa Clara	-	3,900	3,900	3,900	3,900	3,900	0,500	20,000
Transit Inter-city Rail Capital Program (TRCP)	-	8,753			11,247	3,900	0,500	20,000
RM1 and RM2	-	20,191						20,191
<i>Potential Funding</i>								
FTA Core Capacity	-	25,932	3,875	15,611	42,224	115,225	17,820	220,687
Total Funding	15,445	100,174	74,255	99,968	162,985	190,460	20,841	664,127
PCEP Funding Total	84,251	396,690	440,667	423,635	360,391	252,232	22,387	1,980,253
PCEP Cost Total	84,251	396,690	440,667	423,635	360,391	252,232	22,387	1,980,253

Notes

*Prior SF Funding includes \$4M CMAQ transfer to JPB

**\$3.25M in FY16 5337 funds and \$22.62 in FY17 5337 funds transferred to South San Francisco Station Project and Replaced with Local Funds

Appendix II – Source and Reference Documents

<u>Source and Reference Documents</u>	
2-Party Memorandum of Understanding dated 2013	Link
7 Party MOU and Funding Agreement	Link
9-Party Memorandum of Understanding dated 2012	Link
Caltrain Final Environmental Impact Report (Final EIR)	Link
Caltrain FEIR Appendix I, Ridership Technical Memorandum	Link
Caltrain Short Range Transit Plan	Link
High Speed Rail Authority, 2012 Business Plan	Link
High Speed Rail Authority, 2014 Business Plan	Link
High Speed Rail Authority, 2016 Business Plan	Link
July 2016 Monthly Progress Report	Link
Peninsula Corridor Electrification Project Quarterly Update #7	Link

EXHIBIT 2

JUL-02-2012 11:08 From: SENATOR () TIAN

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To: 650 370

P.2/22

Diane E. Sawyer-Ang

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June 8, 2012

Honorable Joe Simitian
Room 2080, State CapitolHonorable Mark DeSaulnier
Room 5035, State Capitol

HIGH-SPEED RAIL - #1211030

Dear Senators Simitian and DeSaulnier:

You have asked whether the revised business plan adopted by the High-Speed Rail Authority on April 12, 2012, for the high-speed rail project complies with Proposition 1A.

Proposition 1A, approved by the voters in November 2008, enacted the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (Ch. 20 (commencing with Sec. 2704), Div. 3, S.& H.C.,¹ hereafter the bond act) and authorizes the issuance of \$9.95 billion in general obligation bonds for high-speed rail and related purposes. The bond act provides funds to initiate the construction of a high-speed train system (subd. (a), Sec. 2704.04), but acknowledges that additional funds are required to construct the system beyond what is provided in the bond act (Sec. 2704.07). The High-Speed Rail Authority (hereafter the authority) is charged with implementing the high-speed rail system under the bond act (subd. (b), Sec. 2704.01, Sec. 2704.07).

On April 12, 2012, the authority adopted the California High-Speed Rail Program Revised 2012 Business Plan (hereafter revised business plan) pursuant to Section 185033 of

¹ All further section references are to the Streets and Highways Code, unless otherwise specified.

Honorable Joe Simitlan and Honorable Mark DeSaulnier --- Request #1211030 --- Page 2

the Public Utilities Code.² The revised business plan sets forth the authority's implementation strategy for the high-speed rail system and is a revision of previous business plans, including a draft plan dated November 1, 2011.

In considering the question presented, we will review the key elements of the revised business plan in the context of the requirements of the bond act. We will also review for consistency with the bond act the initial segment proposed for construction in the revised business plan and the associated proposed appropriations for the 2012-13 fiscal year, as well as the proposed future expenditures of bond act funds under several memoranda of understanding (hereafter MOUs) between the authority and regional agencies that are referenced in the revised business plan.³

I. The Bond Act

The bond act authorizes the issuance of a total of \$9.95 billion in general obligation bonds, of which \$9 billion is for high-speed rail purposes (Sec. 2704.06; hereafter Proposition 1A HSR funds). The remaining \$950 million is to be allocated, by formula, to existing operators of conventional passenger rail services (commuter and intercity rail and rail transit) in order to provide or improve connectivity of those services to the high-speed rail system (hereafter HSR system), or for other capital improvements to those conventional services, including capacity enhancements and safety improvements (para. (1), subd. (a), and subd. (d), Sec. 2704.095; hereafter Proposition 1A connectivity funds). Both categories of Proposition 1A bond funds are required to be appropriated by the Legislature before they may be allocated (Secs. 2706 and 2709.095).

II. Summary of the Revised Business Plan

Under the revised business plan of the authority, implementation of the HSR system is proposed to occur on a phased basis, with construction of various segments as funding permits. As outlined in the revised business plan, the initial 130 miles of construction with currently available funds is to begin between the vicinity of Madera and Bakersfield in the central valley, which segment would be used by conventional passenger

² Preparation of a business plan is not a requirement of the bond act, but rather is required by the authority's enabling legislation (Div. 19.5 (commencing with Sec. 185000), P.U.C.).

³ An analysis of the legal issues associated with the high-speed rail project is heavily dependent on facts. In that regard, we have relied upon the revised business plan and other publicly available documents. In some cases, we have asked the authority to further explain certain matters, and indicate in the opinion where we have done so and the information we are relying upon in our analysis. We do not have the ability to independently confirm the accuracy of this information. Accordingly, to the extent the underlying facts and assumptions relating to the project change, the associated legal analysis also could be subject to change.

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train services on an interim basis upon completion (Step 1, revised business plan, pp. 2-10 and 2-11; hereafter initial 130-mile segment). As additional high-speed rail segments are completed, high-speed train service would be implemented first between Merced, Palmdale, and the San Fernando Valley area of Los Angeles on the initial operating section (hereafter IOS), with connections to other locations offered on conventional passenger train services (Step 2, revised business plan, p. 2-11). At a later date, the revised business plan proposes to offer high-speed train service from San Francisco Transbay Terminal to the San Fernando Valley using a combination of new high-speed rail alignments and the upgraded and extended Caltrain corridor between San Francisco and San Jose, on which a "blended" rail system would be implemented serving both electrified conventional Caltrain commuter trains and high-speed trains on the same tracks (Step 3, revised business plan, pp. 2-11 and 2-12). Subsequent construction would extend high-speed train service from the San Fernando Valley to Los Angeles Union Station and to Anaheim (Step 4, revised business plan, p. 2-12).⁴

The revised business plan also refers to three MOUs between the authority and regional agencies in the Bay Area, southern California, and the central valley (hereafter, respectively, the Bay Area MOU, the southern California MOU, and the central valley MOU), which are designed to identify and implement other early investments of bond act funds in these regions (revised business plan, pp. 2-7 to 2-9).

In connection with the adoption of the revised business plan, the Department of Finance submitted an April finance letter requesting, among other things, the appropriation of \$3.241 billion in federal funds and \$2.609 billion in Proposition 1A HSR funds for construction of the initial 130-mile segment in the central valley, plus \$812 million in Proposition 1A connectivity funds for projects throughout the state.

⁴ The draft revised business plan originally proposed to serve Los Angeles-Anaheim via connecting conventional trains, but the authority board, as we understand it, approved an amendment to the revised business plan, prior to adoption on April 12, 2012, to include high-speed train service to Anaheim, likely via a blended system concept, with details to be determined (see "HSRA commits to one-seat ride for Anaheim" http://www.cahighspeedrail.ca.gov/pr_04122012_Anahaim.aspx [as of May 8, 2012]). Future steps under the revised business plan could include additional enhancements to the system plus additional phases, including Sacramento-Merced and Los Angeles-Riverside-San Diego (Steps 4 and 5, revised business plan, p. 2-12).

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III. Analysis of the Revised Business Plan

A. Construction Priority for the Phase 1 Corridor

Under the bond act, Phase 1 of the high-speed rail project is identified as the "corridor of the high-speed train system between San Francisco Transbay Terminal and Los Angeles Union Station and Anaheim" (para. (2), subd. (b), Sec. 2704.04). Use of bond proceeds for capital costs in corridors other than the Phase 1 corridor is authorized only if the authority makes a finding, among other things, that expenditure of bond proceeds in those other corridors would advance the construction of the system and would not have an adverse impact on the construction of the Phase 1 corridor (para. (3), subd. (b), Sec. 2704.04). Therefore, the bond act requires priority to be given to construction of the Phase 1 corridor.

Both the initial 130-mile segment to be constructed in the central valley, as well as the IOS between Merced and Palmdale/San Fernando Valley, are within the Phase 1 corridor. The route from San Francisco to San Jose, the subject of the Bay Area MOU and a candidate for blended operation, is also within the Phase 1 corridor. However, we are unable to determine whether the projects that are the subject of the southern California MOU would be solely within the Phase 1 corridor because those projects, as discussed further below, have yet to be defined. With that exception, it is our opinion that the revised business plan is consistent with the requirement in the bond act to give priority to construction of the Phase 1 corridor.

The definition of the Phase 1 corridor also includes three specific stations, San Francisco Transbay Terminal, Los Angeles Union Station, and Anaheim (para. (2), subd. (b), Sec. 2704.04). The revised business plan proposes to serve all three of these stations with high-speed trains when phases of the project are completed to those locations.

San Francisco Transbay Terminal is not currently served by any trains. However, construction by a local agency is currently underway with federal funds, including federal high-speed rail funds, and local funds to provide a below-grade rail station for an anticipated future 1.3-mile rail extension to be used by Caltrain commuter trains and high-speed trains.⁵ The revised business plan, according to the authority, includes funding for that extension in the high-speed rail cost estimates. Los Angeles Union Station would be served by high-speed trains upon completion of the phase of the project that extends the new high-speed rail line from the San Fernando Valley to that station. Anaheim was initially excluded from high-speed train service in the draft revised business plan that went to the board of the authority, but was added back to the plan by the board.⁶ Anaheim would most likely be served under a

⁵ The Transbay Terminal, referenced in the bond act, is now frequently referred to as the Transbay Center (see <http://transbaycenter.org/project/program-overview> [as of May 23, 2012]).

⁶ See footnote 4.

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blended corridor shared with conventional trains, or possibly by a new high-speed alignment, in a manner that is yet to be determined (revised business plan, pp. 2-12 and 3-12). Based on the information available to us, it is our opinion that the revised business plan conforms to the bond act relative to including these three stations in Phase 1 of the project.

B. Design Characteristics

The bond act contains certain design characteristics for the HSR system. These are included in Section 2704.09, which reads as follows:

"2704.09. The high-speed train system to be constructed pursuant to this chapter shall be designed to achieve the following characteristics:

"(a) Electric trains that are capable of sustained maximum revenue operating speeds of no less than 200 miles per hour.

"(b) Maximum nonstop service travel times for each corridor that shall not exceed the following:

"(1) San Francisco-Los Angeles Union Station: two hours, 40 minutes.

"(2) Oakland-Los Angeles Union Station: two hours, 40 minutes.

"(3) San Francisco-San Jose: 30 minutes.

"(4) San Jose-Los Angeles: two hours, 10 minutes.

"(5) San Diego-Los Angeles: one hour, 20 minutes.

"(6) Inland Empire-Los Angeles: 30 minutes.

"(7) Sacramento-Los Angeles: two hours, 20 minutes.

"(c) Achievable operating headway (time between successive trains) shall be five minutes or less.

"(d) The total number of stations to be served by high-speed trains for all of the corridors described in subdivision (b) of Section 2704.04 shall not exceed 24. There shall be no station between the Gilroy station and the Merced station.

"(e) Trains shall have the capability to transition intermediate stations, or to bypass those stations, at mainline operating speed.

"(f) For each corridor described in subdivision (b), passengers shall have the capability of traveling from any station on that corridor to any other station on that corridor without being required to change trains.

"(g) In order to reduce impacts on communities and the environment, the alignment for the high-speed train system shall follow existing transportation or utility corridors to the extent feasible and shall be financially viable, as determined by the authority.

"(h) Stations shall be located in areas with good access to local mass transit or other modes of transportation.

"(i) The high-speed train system shall be planned and constructed in a manner that minimizes urban sprawl and impacts on the natural environment.

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"(j) Preserving wildlife corridors and mitigating impacts to wildlife movement, where feasible as determined by the authority, in order to limit the extent to which the system may present an additional barrier to wildlife's natural movement."

Therefore, the HSR system to be constructed pursuant to the bond act is to be designed to achieve these characteristics.

In considering whether the HSR system envisioned by the revised business plan would comply with these design characteristics, we focus our analysis on elements of the plan that propose to implement a blended system on certain segments, accommodating both high-speed trains and conventional trains. We are not aware of any facts that would prevent compliance with the design characteristics with respect to the new high-speed rail alignments proposed for construction. A blended system, however, presents additional challenges because of the need to accommodate both high-speed trains and conventional trains on existing, albeit upgraded, rail corridors. This results in potential impacts on the capacity of the corridors to, among other things, efficiently handle both types of train services and on the ability to meet required travel times.

With that in mind, we will review the requirements to achieve certain maximum nonstop service travel times, an operating headway (time between successive trains) of five minutes or less, and transitioning or bypass of intermediate stations at mainline operating speed, (subds. (b), (c), and (e), Sec. 2704.09).⁷

1. Maximum Travel Times

Under the bond act, the HSR system is required to be designed to achieve certain maximum nonstop service travel times for specified corridor segments, including two hours, 40 minutes for San Francisco-Los Angeles, 30 minutes for San Francisco-San Jose, and two hours, 10 minutes for San Jose-Los Angeles (paras. (1), (3), and (4), subd. (b), Sec. 2704.09).⁸ This design characteristic describes the capabilities of the fastest service that could be offered,

⁷ We do not discuss the other design characteristics in Section 2704.09, either because we are not aware of any facts that would prevent compliance by the HSR system with those characteristics (subds. (a), (d), and (f), Sec. 2704.09, regarding use of electric trains capable of sustained maximum revenue operating speeds of no less than 200 miles per hour, limits to the number of stations, and ability of passengers traveling on each of several specified corridors to travel to any other station on the same corridor without being required to change trains), or because the characteristics are stated broadly and provide little basis for assessing compliance (subds. (g), (h), (i), and (j), Sec. 2704.09, regarding using existing transportation corridors, station mass transit access, minimizing urban sprawl and environmental impacts, and preserving wildlife corridors). We also do not discuss future phases of the project beyond Phase 1 because the revised business plan is primarily concerned with implementing Phase 1.

⁸ We limit our analysis to the segments that are in Phase 1 of the project.

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namely the level of service offered if trains ran nonstop. Train service with intermediate stops would take longer.

With respect to the San Jose-Los Angeles segment, which, when completed, would operate entirely on a new high-speed rail alignment, we are not aware of any facts indicating that the required 2 hour, 10 minute nonstop travel time is not achievable. With respect to the San Francisco-San Jose segment, which under the revised business plan is proposed to be constructed as a blended system rather than on a new high-speed rail alignment, and by extension, the overall San Francisco-Los Angeles segment, which would incorporate the blended segment, compliance with the bond act is not clear. We reviewed with the authority the results of the LTK study for the Caltrain Joint Powers Board entitled "Caltrain/California HSR Blended Operations Analysis" (March 2012) (hereafter LTK Study) which identified somewhat longer high-speed train running times for several operating scenarios between San Francisco and San Jose, namely 45, 43, and 37 minutes (LTK Study, pp. 46-50). In addition, these running times were based on the current Caltrain station, located at 4th and King Streets, being the San Francisco terminus, rather than the more remote Transbay Terminal (LTK Study, p. 15).

The authority advised us that the revised business plan assumes a design that can meet the required travel times for the San Francisco-San Jose segment, and by extension, the San Francisco-Los Angeles segment, even with blended operation and the service extension to the Transbay Terminal. The LTK study, per the authority, was conducted to determine the conceptual feasibility of a blended system rather than to explore the universe of operational options. We are not able to independently verify the authority's assertion that the required travel times can be met under the blended system.

2. Operating Headways

Under the bond act, the HSR system is also required to be designed to achieve an operating headway (time between successive trains) of five minutes or less (subd. (c), Sec. 2704.09).

As with the previous analysis of the maximum nonstop service travel times, we are not aware of any facts indicating that the San Jose-Los Angeles segment, on a new high-speed rail alignment, would be unable to achieve the required operating headway (12 trains per hour per direction), and focus our attention on the proposed blended segments of the HSR system.

With respect to the San Francisco-San Jose segment, the LTK Study identifies three operating scenarios, none of which exceeds six commuter trains and four high-speed trains per hour, per direction, suggesting that the capacity of a blended system on the required segment may fall short of achieving the required operating headway. We were advised that the authority expects to meet the design characteristic of 12 trains per hour under the design proposed by the revised business plan, with the design being agnostic with regard to the mix of trains (commuter vs. high-speed) that will ultimately be accommodated between San Francisco and San Jose.

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It could be argued that this design characteristic in the bond act speaks only to the operating headway for high-speed trains, rather than all trains, given that the design characteristics in Section 2704.09 relate to "the high-speed train system to be constructed pursuant to this chapter." If so, this design characteristic is likely to be met, if at all, only on a theoretical level, rather than on an operational level, to the extent the revised business plan relies on a blended operations concept. On the other hand, the bond act also contemplates the potential use of newly constructed alignments by passenger train services other than the high-speed train service as long as there will not be any unreimbursed operating or maintenance cost to the authority (para. (3), subd. (f), Sec. 2704.08). To the extent those other passenger train services would be accommodated on a newly constructed line, they would consume a portion of the line's carrying capacity and potentially limit the number of high-speed trains that can be operated. Because the bond act appears to contemplate shared operations, suggesting that the operating headway requirement is not intended to be met with high-speed trains alone, it appears reasonable to interpret this design characteristic in a manner that requires 12 trains per hour to be accommodated, regardless of the type of train.

Because decisions on the number and mix of trains that will actually operate on any of the lines, new construction as well as blended, have yet to be made, we lack the facts necessary to determine if this 12-train standard can be met with respect to the San Francisco-San Jose and San Francisco-Los Angeles segments.

This design characteristic would also apply to the Los Angeles-Anaheim segment, but we have no information to evaluate whether that segment could meet this design characteristic, as the blended concept has not been fully developed for that segment by the authority and affected regional agencies.

3. Transitioning or Bypass of Intermediate Stations

Under the bond act, the HSR system is required to be designed for trains to have the capability to transition intermediate stations, or to bypass those stations, at mainline operating speed (subd. (e), Sec. 2704.09). As with the other design characteristics, we are not aware of any facts indicating that the San Jose-Los Angeles segment, on a new high-speed rail alignment, will be unable to meet this requirement.

The authority advised us that compliance with this requirement on a blended system is a function of an appropriately designed configuration of passing tracks, and that the revised business plan assumes a design that can meet this requirement for the San Francisco-San Jose segment. As with the design characteristics relating to the maximum travel times and operating headways, we are not able to verify the authority's assertions in this regard. Similarly, we have no information to evaluate whether the Los Angeles-Anaheim segment could meet this characteristic, as the blended concept has not been fully developed for that segment by the authority and affected regional agencies.

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4. The Full-Build Option

Finally, if the blended system proposed by the revised business plan would not meet every design characteristic of the HSR system required by the bond act, it may nonetheless be possible for the revised business plan to be in compliance with the bond act if the revised business plan continues to include a "full-build" option for the blended segments, wherein the blended system components to be constructed with Proposition 1A HSR funds would be merely an interim step toward completion of a full HSR system. On the other hand, if the full-build option for the blended segments is not a part of the revised business plan, we think the blended system itself, as the ultimate system in those segments, would need to meet the design characteristics or risk being vulnerable to challenge.

In that regard, our review of the revised business plan suggests that the full-build option is retained by the plan as a future option. On page 2-12, the revised business plan states: "Under a Full Build scenario, dedicated high-speed rail infrastructure would be extended from San Jose to San Francisco's Transbay Transit Center and from Los Angeles to Anaheim." On page 3-12, the revised business plan states: "If a decision is made in the future to construct the Phase 1 Full Build system, this would involve constructing fully dedicated high-speed rail infrastructure between San Jose and San Francisco and between Los Angeles and Anaheim." We are unable to determine, however, whether the infrastructure to be constructed with Proposition 1A HSR funds to implement the blended system could reasonably be considered an initial step of a full-build scenario, or whether the full-build scenario would necessarily require completely separate infrastructure for the affected segments. We think that in order for Proposition 1A HSR funds to be used on blended system infrastructure as part of a plan that includes a full-build scenario, the blended system infrastructure would, as a rule, need to be a part of the infrastructure needed for the full-build system.

In short, with respect to the three design characteristics discussed above, namely maximum travel times, operating headways, and transitioning or bypass of intermediate stations, we lack the facts necessary to independently assess whether those design characteristics can be achieved for the blended segments of the HSR system proposed in the revised business plan. While we have been informed by the authority that those design characteristics can be met under a blended system, questions may be raised as to whether the revised business plan is consistent with the requirements of the bond act in that regard.

With respect to the full-build option contained in the revised business plan, we think that such an option is likely to meet the design characteristics contained in the bond act. However, if a full-build option is chosen and a blended system cannot meet the design requirements of the bond act, we think that Proposition 1A HSR funds may be used on the blended system infrastructure only if that infrastructure forms part of the full-build system. We are unable to determine from the revised business plan whether the blended system infrastructure to be constructed with Proposition 1A HSR funds would satisfy this condition.

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IV. Proposed Fiscal Year 2012-13 Appropriations

We next review, for consistency with the bond act, the proposal in the revised business plan and in the April finance letter for appropriations of Proposition 1A bond funds and federal funds to start construction of the HSR system with the initial 130-mile segment in the central valley.

As discussed earlier, the bond act authorizes the issuance of \$9 billion⁹ in general obligation bonds to initiate construction of a HSR system (subd. (a), Sec. 2704.04), but acknowledges that additional funds are required beyond that amount to construct the system (Sec. 2704.07). The bond act does not require all funds to complete the system to be available before construction may begin, but provides for the proceeds of the bond act to be appropriated by the Legislature (Sec. 2704.06) for either a corridor or a usable segment of the HSR system (Sec. 2704.08). "Corridor" is defined as a portion of the HSR system as described in Section 2704.04 (subd. (f), Sec. 2704.01). That section describes various "corridors," including the Phase 1 corridor between San Francisco Transbay Terminal, Los Angeles Union Station, and Anaheim. "Usable segment" is defined to mean "a portion of a corridor that includes at least two stations" (subd. (g), Sec. 2704.01).

As preconditions for the appropriation and expenditure of bond funds, the bond act establishes two reporting requirements. The first requires the authority, prior to submitting an initial request for an appropriation of such funds to the Legislature and the Governor, to submit a detailed funding plan, with specified elements for either a corridor or usable segment, to the Director of Finance, designated legislative committees, and the peer review group¹⁰ (subd. (c), Sec. 2704.08; hereafter the first funding plan). The second requires the authority, prior to committing appropriated bond funds for expenditure, to submit a second detailed funding plan for a corridor or usable segment (subd. (d), Sec. 2704.08; hereafter the second funding plan). The first funding plan requires no action or response by the Legislature or Governor or any recipient of that plan. However, the second funding plan requires review by the Director of Finance and his or her finding that the plan is likely to be successfully implemented as proposed before the authority may enter into commitments to expend the bond funds (Ibid.). The second funding plan also requires inclusion of a report prepared by one or more financial services firms or other similar entities (para. (2), subd. (d), Sec. 2704.08). Further, the second funding plan is required to describe any material changes from the first funding plan. This suggests that such changes are permissible (subpara. (E), para. (1), subd. (d), Sec. 2704.08).

⁹ The bond act generally requires matching funds on a dollar-for-dollar basis from other available funds (subd. (a), Sec. 2704.08).

¹⁰ The authority is required to establish an independent peer review group to review "the planning, engineering, financing, and other elements of the authority's plans," and to analyze, among other things, the funding plan for each corridor (subd. (a), Sec. 185035, P.U.C.).

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In the revised business plan and in the first funding plan,¹¹ the authority has identified an appropriation from Proposition 1A HSR funds and federal high-speed rail funds to begin construction of the HSR system in California. As discussed earlier, the authority proposes to construct the initial 130-mile segment of high-speed rail line in the central valley, with available state and federal funding.¹² In addition, the revised business plan describes the Merced-Palmdale-San Fernando Valley segment as the IOS, which would, when completed, be used to operate the authority's first commercial high-speed train service. The IOS would incorporate the initial 130-mile segment now proposed for construction. Unlike the initial 130-mile segment, the authority does not have firm funding identified to complete the IOS, other than the portion of the \$9 billion in Proposition 1A HSR funds that would remain available after funding of the initial 130-mile segment.

The authority projects in the revised business plan that high-speed train service will be able to viably operate on the IOS.¹³ However, the initial 130-mile segment by itself is not proposed to be used for high-speed train service until the later completion of the IOS. As we understand it, the initial 130-mile segment, under the revised business plan, will accommodate conventional passenger train service such as the state-funded Amtrak San Joaquin service, which is diesel-operated and, unlike high-speed rail, does not require electrification. Therefore, the authority is proposing to construct the initial 130-mile segment without electrification and the advanced signaling system necessary for operation of high-speed trains, until such time as the initial 130-mile segment is incorporated into the IOS. The track and structures would otherwise be constructed to HSR system standards.

As discussed above, the bond act requires the authority to identify a corridor or usable segment in which the business plan proposes to invest bond proceeds (subd. (c), Sec. 2704.8). Under the revised business plan, neither the initial 130-mile segment nor the

¹¹ The funding plan is related to the business plan in that the funding plan incorporates the business plan by reference. Both a draft business plan and a funding plan were submitted to the Legislature on November 3, 2011. The business plan was subsequently revised in the form of the revised business plan adopted by the authority on April 12, 2012. It is our understanding that the authority does not plan to further revise the funding plan.

¹² According to the April finance letter submitted to the Legislature by the Department of Finance, the administration is seeking appropriations of \$3.241 billion in federal high-speed rail funds and \$2.609 billion in Proposition 1A HSR funds for the 2012-13 fiscal year for the initial 130-mile segment.

¹³ The revised business plan identifies Merced-San Fernando Valley as the full build out of the IOS, but suggests that the shorter, included segment of Merced-Palmdale may receive consideration for high-speed passenger train service as an interim step. The plan identifies the portion of the IOS from Bakersfield to Palmdale as a high priority for construction after the initial 130-mile segment because it would close a gap in the state's existing passenger rail network (Step 2, revised business plan, p. 2-11).

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IOS is specifically described as a "usable segment." Because the administration is seeking construction funding only for the initial 130-mile segment, we now examine whether it would qualify under the requirements of the bond act as a "usable segment."

It could be argued that "usable segment" means that the segment is to be used by high-speed trains immediately upon its completion. However, the word "usable" is not specifically defined. We think that, by itself, a short segment with only two stations, the minimum number that qualifies under the definition, is unlikely to be usable by an operating, commercially viable high-speed train service. For example, the IOS between Merced and Palmdale/San Fernando Valley under the revised business plan would include five or six stations.

Moreover, while it is clear that eventually the HSR system is to be used by electrified high-speed trains (subd. (a), Sec. 2704.09), there are several provisions of the bond act that contemplate use of newly constructed high-speed rail line segments for passenger train service, as distinguished from high-speed train service, (see para. (3), subd. (f), Sec. 2704.08, referring to "the utility of those corridors or usable segments thereof for passenger train services other than the high-speed train service"; see subpara. (1), para. (2), subd. (c), Sec. 2704.08, referring to "one or more passenger service providers ... using the tracks or stations for passenger train service"; and see subpara. (C), para. (2), subd. (d), Sec. 2704.08, referring to "one or more passenger train providers ... using the tracks or stations for passenger train service"). Thus, with respect to the service that may be expected to operate on a line that is constructed with Proposition 1A HSR funds, the bond act makes a distinction between "high-speed train operation" and "passenger train service," where the latter term, in our view, can apply to conventional passenger train service such as that operated by Amtrak. Therefore, we do not think "usable" in the context of "usable segment" necessarily means "usable by high-speed trains." Rather, it appears sufficient for the initial usable segment to be usable by a passenger train service, such as the state-funded conventional San Joaquin passenger train service operated by Amtrak. Based on the foregoing, we think that operation of a conventional passenger train service on the track and structures constructed for high-speed rail is contemplated and authorized by the bond act as an interim measure until further progress is made on construction of the HSR system that will allow operation of a commercially viable high-speed train service.

It is our understanding that the initial 130-mile segment, as proposed to be constructed by the authority, would include two stations, Fresno and Kings/Tulare, and that it would be designed to be used on an interim basis by the Amtrak San Joaquin conventional passenger train service until additional segments of the HSR system are constructed and the operation of a commercially viable high-speed train service can be implemented.

Accordingly, it is our opinion that the initial 130-mile segment would qualify as a "usable segment" under the bond act.

We now examine whether the requirements of the bond act have been met relative to the appropriation and expenditure of bond act funds for construction of the initial 130-mile segment.

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As a preliminary matter, the requirement in subdivision (c) of Section 2704.08 to approve and submit the first funding plan is imposed solely on the authority. It does not impose a limitation on the Legislature's ability to appropriate funds. The Legislature's plenary power includes the general power and responsibility to appropriate funds for the support of state government and to provide for the control, allocation, and expenditure of the funds (Sec. 12, Art. IV, and Sec. 7, Art. XVI, Cal. Const.; *Meyer v. Riley* (1934) 2 Cal.2d 39, 43). Under the separation of powers doctrine, which is derived from the California Constitution, the powers of the government are divided into three branches. Persons charged with the exercise of one power may not exercise either of the others except as permitted by the Constitution (Sec. 3, Art. III, Cal. Const.). The power of appropriation also includes the power to withhold appropriations (*Carmel Valley Fire Protection Dist. v. State* (2001) 25 Cal.4th 287, 300). Under the separation of powers doctrine, the legislative power may not be delegated to the courts, nor may the courts interfere with the legislative process. (*Schaezlein v. Cabaniss* (1902) 135 Cal. 466, 467; see, for example, *Santa Clara County v. Superior Court in and for Santa Clara County* (1949) 33 Cal.2d 552, 559). Accordingly, under these principles, a court may not enjoin the Legislature from appropriating funds and, therefore, regardless of whether the authority submits a funding plan or an associated request for bond act appropriations, we think that the Legislature is free to appropriate or not appropriate bond act funds, consistent with the purposes of the bond act, as it determines best serves the needs of the state.¹⁴

Subdivision (c) of Section 2704.08 specifies 11 items that are to be included, identified, or certified to in the first funding plan (subparas. (A) to (K), incl., para. (2), subd. (c), Sec. 2704.08).¹⁵ Those items are as follows:

"2704.08. ...

"(c) ...

"(2) The plan shall include, identify, or certify to all of the following:

"(A) The corridor, or usable segment thereof, in which the authority is proposing to invest bond proceeds.

"(B) A description of the expected terms and conditions associated with any lease agreement or franchise agreement proposed to be entered into by the authority and any other party for the construction or operation of passenger train service along the corridor or usable segment thereof.

¹⁴ In addition, subdivision (i) of Section 2704.08 provides that no failure to comply with any of the provisions in Section 2704.08 shall affect the validity of the bonds issued under the bond act.

¹⁵ All further subparagraph references are to those of paragraph (2) of subdivision (c) of Section 2704.08.

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"(C) The estimated full cost of constructing the corridor or usable segment thereof, including an estimate of cost escalation during construction and appropriate reserves for contingencies.

"(D) The sources of all funds to be invested in the corridor, or usable segment thereof, and the anticipated time of receipt of those funds based on expected commitments, authorizations, agreements, allocations, or other means.

"(E) The projected ridership and operating revenue estimate based on projected high-speed passenger train operations on the corridor or usable segment.

"(F) All known or foreseeable risks associated with the construction and operation of high-speed passenger train service along the corridor or usable segment thereof and the process and actions the authority will undertake to manage those risks.

"(G) Construction of the corridor or usable segment thereof can be completed as proposed in the plan.

"(H) The corridor or usable segment thereof would be suitable and ready for high-speed train operation.

"(I) One or more passenger service providers can begin using the tracks or stations for passenger train service.

"(J) The planned passenger service by the authority in the corridor or usable segment thereof will not require a local, state, or federal operating subsidy.

"(K) The authority has completed all necessary project level environmental clearances necessary to proceed to construction.

* * * *

With respect to whether the authority's revised business plan and funding plan meet these requirements, we think the authority would not need to provide particular information pursuant to subparagraphs (B) and (E) because it is not proposing, at this time, to enter into lease or franchise agreements with other parties or to operate high-speed train service on the initial 130-mile segment. For subparagraphs (A), (C), (D), (F), and (G), we think the November 3, 2011, funding plan covering the initial 130-mile segment, as well as the IOS identified in that funding plan, contains the reporting and certification elements required by the bond act for inclusion in the first funding plan, and would be sufficient even if limited just to the initial 130-mile segment itself.¹⁶ We also think subparagraph (I) would be

¹⁶ In the reporting and certification elements of the funding plan, the authority purports to have met all requirements relative to the construction it proposes to undertake. We are unable to assess whether all requirements have, in fact, been met, in part because certain
(continued...)

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satisfied because the initial 130-mile segment is to be designed to accommodate the conventional Amtrak San Joaquin service as an interim use of the new alignment, and that subparagraph (J) would be satisfied because the interim service would not be a service sponsored by the authority as other entities would be responsible for funding its operation.

We now turn to the remaining subparagraphs (H) and (K). With respect to subparagraph (H), the question is whether the new alignment constructed for the initial 130-mile segment meets the requirement of being "suitable and ready for high-speed train operation." This relates to whether it is sufficient, at this point in the life of the project, for the track and structures to be constructed to high-speed rail standards, with electrification and other elements to be deferred to a later date when they will be needed for operation of high-speed train service.

Ultimately, a court, in determining the answer to a question of this nature, would likely look to the bond act as a whole, rather than focusing on a single provision (*Select Base Materials, Inc. v. Board of Equalization* (1959) 51 Cal.2d 640, 645). Statutes must be given a reasonable interpretation and construed with reference to the object sought to be accomplished, so as to promote rather than defeat the general purpose or policy of the statute (*Freedland v. Greco* (1955) 45 Cal.2d 462, 467-468). Thus, where a statute is susceptible of two constructions, the one that will lead to the more reasonable result will be followed (*Metropolitan Water Dist. of Southern Cal. v. Adams* (1948) 32 Cal.2d 620, 630-631).

A high-speed train service requires both the advanced track and structures (essentially full grade separation and minimum curvature) as well as electrification and other elements if it is to meet the 200 miles per hour speed identified in the bond act (subd. (a), Sec. 2704.09). The initial 130-mile segment, as proposed, will be "suitable and ready" for high-speed train service as regards the track and structures, but will lack those other elements. Because, in our view, the bond act authorizes interim use of a facility constructed with bond act funds by a conventional diesel-operated passenger train service, imposing a requirement to construct the usable segment with features that may not be needed for a number of years, such as electrification, could be determined to be an unreasonable result. Moreover, because it could be many years before these features could be put to use, including them immediately could lead to degradation of the electric catenary lines and related facilities and result in a waste of government funds. Therefore, we do not think that the "suitable and ready" provisions require these features to be included in the proposed construction of the initial 130-mile segment."

(...continued)

provisions do not involve objective facts. For example, we have no ability to assess whether the cost estimates to construct a new high-speed rail alignment are accurate, or whether risks of the project have been appropriately identified and mitigated.

"Alternatively, the authority could potentially revise its funding plans to incorporate the other elements necessary for operation of the new alignment, but defer awarding contracts to complete that work until those elements are actually needed. Nothing in the bond act requires

(continued...)

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Finally, subparagraph (K) requires the authority to certify that it has completed all necessary project-level environmental clearances necessary to proceed to construction of the usable segment. It is our understanding that these clearances have not yet been fully obtained for the initial 130-mile segment. Until that occurs, the authority would be unable to make the required certification under subparagraph (K), and thus the first funding plan would not meet the requirements of the bond act for the authority to request an initial appropriation for construction funds.¹⁸

With respect to the second funding plan, we think the authority may only commit appropriated bond proceeds for capital purposes if the requisite finding by the Director of Finance has been made. However, we are not in a position to determine the adequacy of such a second funding plan because it has not yet been submitted by the authority, and is not required to be submitted until the authority wishes to proceed to committing those appropriated funds. In addition, we cannot assume that the second funding plan will be in all respects similar to the first funding plan, because the authority is allowed to make material changes, as discussed above, as long as the changes are disclosed.

V. Analysis of the MOUs

The MOUs are referenced in the revised business plan (revised business plan pp. 2-7 to 2-9). As they propose future expenditures of bond act funds, we now review the proposed uses of bond act funds under the MOUs for consistency with the requirements of the bond act.

A. Proposition 1A High-Speed Rail Funds

The MOUs, as we understand them, propose expenditure of \$1.1 billion of Proposition 1A HSR funds (\$600 million under the Bay Area MOU; \$500 million under the southern California MOU).¹⁹

1. Bay Area MOU

The Bay Area MOU proposes to use \$600 million in Proposition 1A HSR funds (and \$106 million in Proposition 1A connectivity funds) to electrify, and provide an upgraded

(...continued)

that a corridor or usable segment be completed prior to commencing construction on a separate corridor or usable segment.

¹⁸ On May 3, 2012, the authority certified the project-level environmental impact report for the Merced-Fresno portion of the high-speed rail project, which corresponds to a portion of the initial 130-mile segment.

¹⁹ For the Bay Area MOU, see http://www.mtc.ca.gov/news/current_topics/3-12/HSR_MOU.pdf [as of May 29, 2012]. For the southern California MOU, see <http://www.cahighspeedrail.ca.gov/assets/0/152/232/365/39293e88-8cb2-45e6-be99-025b1c5eba4d.pdf> [as of May 29, 2012].

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signaling system for, the Caltrain route between San Francisco and San Jose, to be matched on at least a dollar-for-dollar basis with other funds, as part of the required investment needed to implement the blended system proposed by the revised business plan. The Bay Area MOU, as we understand it, does not include the 1.3-mile future extension from the existing San Francisco Caltrain station to the Transbay Terminal, and also does not include the additional passing tracks identified by the revised business plan to accommodate high-speed trains. Until future segments of the HSR system are constructed, the improvements proposed under the Bay Area MOU would be used, upon completion, by the Caltrain conventional train service.

Based on our analysis of the initial 130-mile segment in the central valley, as discussed earlier, we think expenditures of Proposition 1A HSR funds pursuant to the Bay Area MOU would need to be associated, at a minimum, with a usable segment pursuant to the requirements of the bond act.²⁰ The improvements proposed under the Bay Area MOU, when completed, would not be required under the bond act to be immediately used for high-speed train service but could, in the interim, be used by a conventional passenger train service. Under the blended system, both conventional and high-speed train services would use the improvements in the future after high-speed train service is implemented, and the use of the improvements would not be temporary. Electrification and advanced signals would be implemented immediately, to be used by electrified operation of the Caltrain conventional commuter train service, while additional passing tracks would be deferred until needed for high-speed train operations.

In our view, the segment in question under the Bay Area MOU would meet the requirements under the bond act for a usable segment, as the improvements would be undertaken on a segment that, according to the revised business plan, will have at least two stations, Millbrae and San Jose (subd. (g), Sec. 2704.01), and upon completion, the improvements will be used by a passenger train service. The nature of the improvements, namely electrification of the line and an advanced signaling system, are both required for high-speed train operation.

However, the Caltrain electrification proposal also includes another element, acquisition of new commuter rail rolling stock (electric multiple units, or EMUs). Because this rolling stock is not needed for high-speed rail, we think it would be inappropriate to use Proposition 1A HSR funds for that purpose. The authority advised us that it considers Caltrain EMU rolling stock to be ineligible for Proposition 1A HSR funds, and that this part of the Bay Area MOU would need to be funded from other resources, including Proposition 1A connectivity funds.

²⁰ The proposed expenditures of Proposition 1A HSR funds would also be subject to the requirements for funding plans (subs. (c) and (d), Sec. 2704.08). However, neither the revised business plan nor the April finance letter proposes appropriations for these purposes at this time.

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Thus, to the extent the Bay Area MOU funds eligible projects with Proposition 1A HSR funds, and sufficient matching funds (at least 50 percent) are provided, we think the San Francisco-San Jose segment qualifies as a usable segment under the bond act.

2. Southern California MOU

As discussed earlier, a precise project list has yet to be developed for the southern California MOU, and we are unable to determine which projects are proposed for funding or even if the projects would all be located within the Phase 1 corridor of the HSR system.²⁾ Thus, we are unable to say whether the projects that will ultimately be selected would be consistent with the requirements of the bond act for expenditure of Proposition 1A HSR funds.

In addition, unlike the initial 130-mile segment or the San Francisco-San Jose segment, we are unable at this time to identify a "usable segment" on which Proposition 1A HSR funds would be spent under the southern California MOU. South of Palmdale, the authority proposes to construct a new high-speed rail alignment to Los Angeles Union Station, rather than to use a blended system shared with commuter rail. To the extent improvements to the existing commuter rail tracks are contemplated by the southern California MOU, these would not be the tracks to be eventually used by the high-speed trains. Further, although grade-separating the existing commuter rail corridor from streets and highways, and providing capacity within the same right-of-way for future construction of parallel high-speed rail tracks, could be justified as needed for high-speed rail, we are unable to identify an interim service using the finished product of the MOU because existing commuter rail service operates on existing tracks. In that regard, it is not clear that these improvements will comply with the requirements of the bond act that bond proceeds be invested in a usable segment. In any case, until the projects are defined, we do not have enough information to evaluate the proposed expenditures of Proposition 1A HSR funds under the southern California MOU for consistency with the bond act.

Between Los Angeles and Anaheim, to the extent a blended system is employed, it may be possible to identify a usable segment under the bond act because this phase, when completed, would consist of at least two stations (Los Angeles and Anaheim) and can be anticipated to be used by existing passenger rail services in that corridor. However, consistent with other parts of this opinion, we are unable to make a determination in that

²⁾ As discussed earlier, an expenditure of Proposition 1A HSR funds on a corridor other than the Phase 1 corridor requires a finding of the authority that expenditure of bond proceeds for capital costs in other corridors would advance construction of the system, would be consistent with the criteria contained in subdivision (f) of Section 2704.08, and would not have an adverse impact on the construction of Phase 1 of the HSR system (see paras. (2) and (3), subd. (b), Sec. 2704.04).

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regard as the blended concept for Los Angeles-Anaheim has not been fully developed for that segment by the authority and affected regional agencies.

3. Central Valley MOU

While the central valley MOU is still under development and thus the specifics cannot be analyzed here, it is our understanding that it will not propose expenditure of Proposition 1A HSR funds to improve existing conventional rail systems north of Merced, but will rely solely on Proposition 1A connectivity funds, as discussed below.

B. Proposition 1A Connectivity Funds

As discussed earlier, expenditure of the \$950 million in Proposition 1A connectivity funds is governed by Section 2704.095, for allocation on a formula basis to various existing operators of conventional rail services. Two subdivisions speak to the purposes for which these funds are to be used.

First, paragraph (1) of subdivision (a) of Section 2704.095 provides that the funds "... shall be allocated to eligible recipients for capital improvements to intercity and commuter rail lines and urban rail systems that provide direct connectivity to the high-speed train system and its facilities, or that are part of the construction of the high-speed train system ... or that provide capacity enhancements and safety improvements." A later sentence refers to "eligible purposes described in subdivision (d)."

Second, subdivision (d) of Section 2704.095 provides that funds shall be "used to pay or reimburse the costs of projects to provide or improve connectivity with the high-speed train system or for the rehabilitation or modernization of, or safety improvements to, tracks utilized for public passenger rail service, signals, structures, facilities, and rolling stock."

Therefore, the authorized uses of the connectivity funds are relatively broad. The funds may be used for capital improvements that become part of the HSR system, capital improvements that provide or improve the connectivity of conventional rail systems with the HSR system, or various other rail capital improvements not directly related to the HSR system. There is no requirement that the improvements undertaken be associated with any particular corridor of the HSR system. Of the \$950 million in connectivity funds, the Department of Finance has proposed the appropriation of \$812 million during the 2012-13 fiscal year as part of an April finance letter relative to high-speed rail appropriations.

Based on the foregoing, we think that the proposed expenditures of Proposition 1A connectivity funds for rail capital purposes under the three MOUs are likely to be in compliance with the bond act.

VI. Summary

Based on the foregoing, we conclude all of the following:

(1) The revised business plan complies with the requirement of the bond act to give priority to construction of Phase 1 of the HSR system. With respect to the plan's compliance with the design characteristics contained in the bond act, our analysis focuses on those elements of the plan that are part of a proposed blended system that would

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accommodate both high-speed trains and conventional commuter trains between San Francisco and San Jose. In this regard, we think the plan raises questions as to whether the HSR system can meet three of the bond act's design characteristics established in Section 2704.09 of the Streets and Highways Code. For two of the three characteristics (maximum travel times and transitioning or bypass of intermediate stations), we have been advised by the authority that the blended system design proposed by the revised business plan will be able to meet those requirements, but we lack the facts necessary to independently assess those claims. For the third characteristic (achievable train headways of five minutes), we have been advised by the authority that the blended system design proposed by the revised business plan will be able to meet this requirement for all trains that are operating between San Francisco and San Jose, but not necessarily with high-speed trains alone. We think it is reasonable to conclude that this design characteristic is met as long as the proposed design is able to achieve five-minute headways through the use of both commuter and high-speed trains. As with the other design characteristics, however, we cannot verify the authority's assertion that the design characteristic is achievable under the revised business plan. Even if the proposed blended system cannot meet these design characteristics, to the extent the business plan continues to retain a "full-build" option for the San Francisco-San Jose segment and the blended system infrastructure forms a part of that full-build option, it is reasonable to conclude that the revised business plan complies with the bond act's design characteristics.

(2) We do not have enough information about the proposed blended system for the Los Angeles-Anaheim segment to make a determination whether that segment would meet the design characteristics required by the bond act.

(3) The construction of the initial 130-mile segment in the central valley complies with the bond act requirement to commence construction with a usable segment. With respect to other requirements relative to the first (preappropriation) funding plan for the HSR system, we think those requirements have generally been met, except that the authority is unable to certify completion of all project level environmental clearances necessary to proceed to construction.

(4) The proposed expenditures under the Bay Area MOU for the San Francisco-San Jose segment would likely comply with the bond act's requirement that bond proceeds be invested in a usable segment, but the proposed expenditures are subject to the same questions regarding design characteristics and the use of the blended system infrastructure expressed in (1) above. Additionally, Proposition 1A HSR funds may not be used to acquire electrified commuter rail rolling stock. These concerns do not extend to proposed expenditures from Proposition 1A connectivity funds, which we think the revised business plan proposes to use appropriately.

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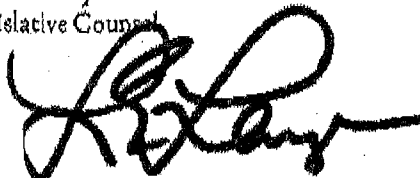
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(5) We do not have enough information on the southern California MOU to determine whether the proposed expenditures of Proposition 1A HSR funds are consistent with the bond act, because the particular projects and their locations have yet to be determined. We also lack sufficient information to assess the central valley MOU in this regard.

Very truly yours,

Diane F. Boyer-Vine
Legislative CounselBy
L. Erik Lange
Deputy Legislative Counsel

LEL:jrp

EXHIBIT 3

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PROPOSITION 1 HIGH SPEED RAIL BONDS.

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HIGH SPEED RAIL BONDS. LEGISLATIVE INITIATIVE AMENDMENT.

OFFICIAL TITLE AND SUMMARY

PREPARED BY THE ATTORNEY GENERAL

HIGH SPEED RAIL BONDS. LEGISLATIVE INITIATIVE AMENDMENT.

- Provides \$9 billion for building a new high-speed railroad between San Francisco and Los Angeles.
- Funds rail expansion to other locations if money becomes available.
- Provides \$950 million for connections to the high-speed railroad and for repairing, modernizing and improving passenger rail service, including tracks, signals, structures, facilities and rolling stock.
- Total funding provided is \$9.95 billion from general obligation bonds.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- State costs of about \$19.4 billion over 30 years to pay off both principal (\$9.95 billion) and interest (\$9.5 billion) costs of the bonds. Payments of about \$647 million per year.
- Additional unknown costs, probably in excess of \$1 billion a year, to operate and maintain a high-speed rail system. The costs would be at least partially offset by passenger fare revenues, depending on ridership.

FINAL VOTES CAST BY THE LEGISLATURE ON SB 1856 (PROPOSITION 1)

Senate:

Ayes 27

Noes 6

Assembly:

Ayes 59

Noes 16

ANALYSIS BY THE LEGISLATIVE ANALYST BACKGROUND

Urban, Commuter, and Intercity Rail. California is served by various types of passenger rail services that include urban, commuter, and intercity rail services. Urban and commuter rail services primarily serve local and regional transportation needs. Examples include services provided by Bay Area Rapid Transit in the San Francisco Bay Area, Sacramento Regional Transit light rail, Metrolink in Southern California, and the San Diego Trolley. These services are generally planned by local or regional governments and are funded with a combination of local, state, and federal monies.

Intercity rail services primarily serve business or recreational travelers over longer distances between cities as well as between regions in California and other parts of the country. Currently, the state funds and contracts with Amtrak to provide intercity rail service, with trains that travel at maximum speeds of up to about 90 miles per hour. There are intercity rail services in three corridors: the Capitol Corridor service from San Jose to Auburn, the San Joaquin service

from Oakland to Bakersfield, and the Pacific Surfliner service from San Diego to San Luis Obispo. None of the existing state-funded intercity rail services provide train service between northern California and southern California.

High-Speed Rail. Currently California does not have a high-speed intercity passenger rail system that provides service at sustained speeds of 200 miles per hour or greater. In 1996, the state created the California High-Speed Rail Authority (the authority) to develop an intercity rail system that can operate at speeds of 200 miles per hour or faster to connect the major metropolitan areas of California, and provide service between northern California and southern California.

Over the past 12 years, the authority has spent about \$60 million for pre-construction activities, such as environmental studies and planning, related to the development of a high-speed rail system. The proposed system would use electric trains and connect the major metropolitan areas of San Francisco, Sacramento,

through the Central Valley, into Los Angeles, Orange County, the Inland Empire (San Bernardino and Riverside Counties), and San Diego. The authority estimated in 2006 that the total cost to develop and construct the entire high-speed rail system would be about \$45 billion. While the authority plans to fund the construction of the proposed system with a combination of federal, private, local, and state monies, no funding has yet been provided.

PROPOSAL

This measure authorizes the state to sell \$9.95 billion in general obligation bonds to fund (1) pre-construction activities and construction of a high-speed passenger rail system in California, and (2) capital improvements to passenger rail systems that expand capacity and/or enable train riders to connect to the high-speed rail system. The bond funds would be available when appropriated by the Legislature. General obligation bonds are backed by the state, meaning that the state is required to pay the principal and interest costs on these bonds.

For more information regarding general obligation bonds, please refer to the section of this ballot pamphlet entitled "An Overview of State Bond Debt."

The High-Speed Rail System. Of the total amount, \$9 billion would be used, together with any available federal monies and funds from other sources, to develop and construct a segment of the high-speed train system from the San Francisco Transbay Terminal to Los Angeles Union Station. The bond proceeds from this measure may be used to acquire right-of-way, trains, and related equipment, and to construct tracks, structures, power systems, and stations. However, bond proceeds may be used to provide only up to one-half of the total cost of construction of tracks and stations. The measure requires the authority to seek private and other public funds to cover the remaining costs.

After construction of the San Francisco to Los Angeles segment is fully funded, any remaining bond funds may then be used to plan and construct any of the following additional segments:

- Oakland to San Jose
- Sacramento to Merced
- Los Angeles to Inland Empire (San Bernardino and Riverside Counties)
- Inland Empire to San Diego
- Los Angeles to Irvine

Other Passenger Rail Systems. The remaining \$950 million in bond funds would be available to fund capital projects that improve other passenger rail systems in order to enhance these systems' capacity and/or allow riders to connect to the high-speed rail system. Of the \$950 million, \$190 million is designated to improve the state's intercity rail services. The remaining \$760 million would be used for other passenger rail services including urban and commuter rail.

FISCAL EFFECT

Bond Costs. The costs of these bonds would depend on interest rates in effect at the time they are sold and the time period over which they are repaid. The state would make principal and interest payments from the state's General Fund over a period of about 30 years. If the bonds are sold at an average interest rate of 5 percent, the cost would be about \$19.4 billion to pay off both principal (\$9.95 billion) and interest (\$9.5 billion). The average repayment for principal and interest would be about \$647 million per year.

Operating Costs. When constructed, the high-speed rail system will incur unknown ongoing maintenance and operation costs, probably in excess of \$1 billion a year. Depending on the level of ridership, these costs would be at least partially offset by revenue from fares paid by passengers.

★ ARGUMENT IN FAVOR OF PROPOSITION 1 ★

Proposition 1 will bring Californians a safe, convenient, affordable, and reliable alternative to soaring gasoline prices, freeway congestion, rising airfares, plummeting airline service, and fewer flights available.

It will reduce California's dependence on foreign oil and reduce greenhouse gases that cause global warming.

Proposition 1 is a \$9.95 billion bond measure for an 800-mile High-Speed Train network that will relieve 70 million passenger trips a year that now clog California's highways and airports—**WITHOUT RAISING TAXES.**

California will be the first state in the country to benefit from environmentally preferred High-Speed Trains common today in Europe and Asia. Proposition 1 will bring California:

—Electric-powered High-Speed Trains running up to 220 miles an hour on modern track safely separated from other traffic generally along existing rail corridors.

—Routes linking downtown stations in SAN DIEGO, LOS ANGELES, FRESNO, SAN JOSE, SAN FRANCISCO, and SACRAMENTO, with stops in communities in between.

—High-Speed Train service to major cities in ORANGE COUNTY, the INLAND EMPIRE, the SAN JOAQUIN VALLEY, and the SOUTH BAY.

—Nearly a billion dollars to beef up commuter rail systems that connect to High-Speed Trains.

Proposition 1 will save time and money. Travel from Los Angeles to San Francisco in about 2½ hours for about \$50 a person. With gasoline prices today, a driver of a 20-miles-per-gallon car would spend about \$87 and six hours on such a trip.

Ten years of study and planning have gone into PREPARING FOR construction, financing, and operation of a California bullet train network modeled on popular, reliable, and successful systems in Europe and Asia. Their record shows that High-Speed Trains deliver, both in service and economy.

Air travelers spend more time on the ground than in the air today. Proposition 1 will create a new transportation choice that improves conditions at our major airports. There's no room for more runways. High-Speed Trains can relieve that demand.

Electric-powered High-Speed Trains will remove over 12 billion pounds of CO₂ and greenhouse gases, equal to the pollution of nearly 1 million cars. And High-Speed Trains require one-third the energy of air travel and one-fifth the energy of auto travel.

Proposition 1 will protect taxpayer interests:

—Two independent ridership and revenue forecasts by outside experts were subject to tough peer review.

—Existing High-Speed Train system operators are directly involved in oversight of the design of California's system.

—The new system will be subject to legal and financial oversight by the Governor, the Legislature, the Attorney General, and an independent outside expert.

—Proposition 1 bond funds will provide a match for AT LEAST ANOTHER 9 billion dollars in federal funding and private investment.

Vote Yes on Proposition 1 to IMPROVE MOBILITY and inject new vitality into California's economy by creating nearly 160,000 construction-related jobs and 450,000 permanent jobs in related industries like tourism. These are American jobs that cannot be outsourced.

Vote Yes on Proposition 1.

www.californiahighspeedtrains.com

MICHAEL TURNIPSEED, Executive Director
Kern County Taxpayers Association
GLEN CRAIG, Commissioner (Ret.)
California Highway Patrol
JIM EARP, Executive Director
California Alliance for Jobs

★ REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 1 ★

No on 1: A POLITICAL BOONDOGGLE.

Politicians who can't solve our budget crisis, fix health care or our schools, put Proposition 1 on the ballot. Even they admit the train is likely to cost at least \$40 billion dollars so this is just a "partial payment" by taxpayers, with NO guarantee it will ever get finished.

The project has already wasted \$58 million on consultants, studies, European travel, and glossy brochures. Prop. 1 allows the bureaucrats and politicians to *spend billions more without ever laying one inch of track.* California taxpayers would be on the hook for that money *even if the project were shut down.*

The special interests backing Proposition 1 are notorious for their *cost overruns.* They stand to make billions off this scam.

No on 1: WILL COST TAXPAYERS \$19,200,000,000.

Politicians admit that principal and interest payments will cost California taxpayers \$640 million dollars every year for 30 years.

How do the politicians plan on paying for this? NEW TAXES or cuts to critical programs like our schools? *Don't be misled—taxpayers are on the hook for the whole \$19,200,000,000.*

No on 1: EXPAND EXISTING TRANSIT SYSTEMS INSTEAD.

Californians' problem is not getting from San Francisco to Los Angeles, it's getting into work each day.

Investing the same amount of money in regional transit and highway congestion relief would reduce pollution and our reliance on foreign oil.

NO ON PROP 1: NO accountability, NO congestion relief for suffering commuters, and TAXPAYERS CAN'T AFFORD IT!

HON. TOM McCLINTOCK, State Senator
JON COUPAL, President
Howard Jarvis Taxpayers Association
RICHARD TOLMACH, President
California Rail Foundation

★ **ARGUMENT AGAINST PROPOSITION 1** ★

NO on Prop. 1: \$20 Billion Cost for Taxpayers

Prop. 1 is a boondoggle that will cost taxpayers nearly \$20 billion dollars in principal and interest.

Taxpayers will foot this bill—it's not "free money." According to the measure (Article 3, Section 2704.10) "... the full faith and credit of the State of California is hereby pledged for the punctual payment of both principal of, and interest on, the bonds" This measure will take \$20 billion dollars out of the general fund over the life of the bonds. That's over \$2,000 for an average family of four!

NO on Prop. 1: California Taxpayers Can't Afford Higher Budget Deficits

With our budget crisis, billions in red ink, pending cuts to health care, the poor, parks, and schools, now is NOT THE TIME to add another \$20 billion in state debt and interest. The state already has over \$100 BILLION DOLLARS in voter-approved bonds and our bond rating is already among the worst in the nation and this could lower it even further.

NO on Prop. 1—Better Uses for Taxpayer Dollars

California has higher priorities than this \$20 BILLION DOLLAR boondoggle.

What would \$20 billion buy?

- 22,000 new teachers, firefighters, or law enforcement personnel for 10 years.
- Health care for all children in the state for many years.
- Update and improve California's water system to provide a reliable supply of safe, clean water.
- Upgrade and expand existing transportation systems including roads and transit throughout California, *which would really reduce traffic and emissions.*

NO on Prop. 1—No Accountability

Politicians and bureaucrats will control the money. There is not ONE citizen member on the new "finance committee." They are all politicians and bureaucrats.

There are no reporting requirements so the public can see how the money is spent.

No independent, outside audit is required.

NO on Prop. 1—An Open Taxpayer Checkbook

The total cost is estimated to be over \$40 billion and some experts expect it to reach \$100 billion (\$10,000 for the average family of four).

Section 1(d) says the bond funds are "... intended to encourage the federal government and the private sector to make a significant contribution toward the construction"

NOTE THE WORD "ENCOURAGED"—that's bureaucratic language for "we will spend taxpayer money regardless of whether we ever get a penny from the private sector or the federal government."

In fact, \$58 million in taxpayer money has ALREADY been spent on this project and not ONE FOOT of track has been laid. Now they want us to trust them with \$10 BILLION more.

NO on Prop. 1—Promoted by Special Interests for Special Interests

The Association for California High Speed Trains is promoting this boondoggle. Their Board represents out-of-state special interests (France, Pennsylvania, New Jersey, Maryland, New York City, Texas, and Illinois), many of whom stand to make millions if this measure passes.

Please Join Us in Voting "NO" on Prop. 1

Log on, learn more, and read it for yourself: www.DerailHSR.com.

HON. TOM McCLINTOCK, State Senator

JON COUPAL, President

Howard Jarvis Taxpayers Association

HON. BOB DUTTON, State Senator

★ **REBUTTAL TO ARGUMENT AGAINST PROPOSITION 1** ★

California's high-speed rail network requires NO TAX INCREASE and is subject to strict fiscal controls and oversight.

It's simple and fair—Once completed THE USERS OF THE SYSTEM PAY FOR THE SYSTEM. That's why taxpayer watchdog groups support Proposition 1.

Electric High-Speed Trains will give Californians a *real* alternative to skyrocketing gasoline prices and dependence on foreign oil while reducing greenhouse gases that cause global warming. Building high-speed rail is cheaper than expanding highways, airports, and runways to meet California's population growth.

Gridlock, hassles of flying and long-distance auto travel have become very onerous. Proposition 1 will save time. Travel intercity downtown to downtown throughout California on High-Speed Trains faster than automobile or air travel—AT A CHEAPER COST!

California's transportation system is out-of-date and deteriorating. We need options to poorly maintained roads, jammed runways and congested highways. Californians need what most of the civilized world has—high-speed rail. We've fallen so far behind other states and nations that our crumbling infrastructure threatens our economy.

A 220-mile-an-hour statewide rail system will give Californians a faster, environmentally friendly alternative for travel and commerce.

Proposition 1 is endorsed by law enforcement experts, business leaders, environmentalists, and Californians looking for safe, affordable, and reliable transportation.

Signers of the ballot argument against Proposition 1 are habitual opponents of transportation improvements in California. Their claims are wrong.

Californians need to invest in a new, modern, effective mode of transportation.

Vote Yes on Proposition 1.

www.californiahighspeedtrains.com

MICHAEL TURNIPSEED, Executive Director

Kern County Taxpayers Association

JIM EARP, Executive Director

California Alliance for Jobs

TIMOTHY McCALLION, Chair of the Board of Directors

Los Angeles Area Chamber of Commerce

QUICK-REFERENCE GUIDE

PROP 1 HIGH SPEED RAIL BONDS. LEGISLATIVE INITIATIVE AMENDMENT.

SUMMARY

Put on the Ballot by the Legislature

This act provides for the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century. For the purpose of reducing traffic on the state's highways and roadways, upgrading commuter transportation, improving people's ability to get safely from city to city, alleviating congestion at airports, reducing air pollution, and providing for California's growing population, shall the state build a high-speed train system and improve existing passenger rail lines serving the state's major population centers by creating a rail trust fund that will issue bonds totaling \$9.95 billion, paid from existing state funds at an average cost of six hundred and forty-seven million dollars (\$647 million) per year over the 30-year life of the bonds, with all expenditures subject to an independent audit? Fiscal Impact: State cost of \$19.4 billion over 30 years to pay both principal and interest costs of the bonds. Payments would average about \$647 million per year. Unknown operation and maintenance costs, probably over \$1 billion annually; at least partially offset by passenger fares.

WHAT YOUR VOTE MEANS

YES A YES vote on this measure means: The state could sell \$9.95 billion in general obligation bonds, to plan and to partially fund the construction of a high-speed rail system in California, and to make capital improvements to state and local rail services.

NO A NO vote on this measure means: The state could not sell \$9.95 billion in general obligation bonds for these purposes.

ARGUMENTS

PRO California's transportation system is broken: skyrocketing gasoline prices, gridlocked freeways, and airports. High-speed trains are the new transportation option that reduces greenhouse gases that cause global warming and dependence on foreign oil. High-speed trains are cheaper than building new highways, airports, and runways to meet population growth without NEW TAXES.

CON This political boondoggle will cost taxpayers \$19,200,000,000 in principal and interest. We need that money for schools, healthcare, and public safety. The bureaucrats could waste billions of taxpayer dollars before we see one inch of track. During California's biggest budget crisis we can't afford to spend billions on a pipedream.

FOR ADDITIONAL INFORMATION

FOR
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PROP 2 STANDARDS FOR CONFINING FARM ANIMALS. INITIATIVE STATUTE.

SUMMARY

Put on the Ballot by Petition Signatures

Requires that certain farm animals be allowed, for the majority of every day, to fully extend their limbs or wings, lie down, stand up and turn around. Limited exceptions apply. Fiscal Impact: Potential unknown decrease in state and local tax revenues from farm businesses, possibly in the range of several million dollars annually. Potential minor local and state enforcement and prosecution costs, partly offset by increased fine revenue.

WHAT YOUR VOTE MEANS

YES A YES vote on this measure means: Beginning in 2015, state law would prohibit, with certain exceptions, the confinement on a farm of pregnant pigs, calves raised for veal, and egg-laying hens in a manner that does not allow them to turn around freely, lie down, stand up, and fully extend their limbs.

NO A NO vote on this measure means: State law would not contain prohibitions specifically concerning the confinement of pregnant pigs, calves raised for veal, and egg-laying hens.

ARGUMENTS

PRO YES on Prop. 2 protects animals, consumers, family farmers, and our environment. Animals deserve humane treatment. Denying them space to turn around or stretch their limbs is cruel and wrong. Supporters: Humane Society of the United States, California Veterinary Medical Association, Consumer Federation of America, Center for Food Safety.
www.YesOnProp2.org

CON Proposition 2 is too RISKY. Californians enjoy safe, local, affordable eggs. A UC Davis study says Proposition 2 eliminates California egg production. Instead, our eggs will come from out-of-state and Mexico. Public health experts oppose Proposition 2 because it THREATENS increased human exposure to Salmonella and Bird Flu. Vote No.

FOR ADDITIONAL INFORMATION

FOR
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TEXT OF PROPOSED LAWS

PROPOSITION 1

This law proposed by Senate Bill 1856 of the 2001–2002 Regular Session (Chapter 697, Statutes of 2002) and amended by Assembly Bill 713 of the 2005–2006 Regular Session (Chapter 44, Statutes of 2006) is submitted to the people in accordance with the provisions of Article XVI of the California Constitution.

This proposed law adds sections to the Streets and Highways Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SEC. 2. Chapter 20 (commencing with Section 2704) is added to Division 3 of the Streets and Highways Code, to read:

CHAPTER 20. SAFE, RELIABLE HIGH-SPEED PASSENGER TRAIN BOND ACT FOR THE 21ST CENTURY

Article 1. General Provisions

2704. This chapter shall be known and may be cited as the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century.

2704.01. As used in this chapter, the following terms have the following meanings:

(a) "Committee" means the High-Speed Passenger Train Finance Committee created pursuant to Section 2704.12.

(b) "Authority" means the High-Speed Rail Authority created pursuant to Section 185020 of the Public Utilities Code.

(c) "Fund" means the High-Speed Passenger Train Bond Fund created pursuant to Section 2704.05.

(d) "High-speed train" means a passenger train capable of sustained revenue operating speeds of at least 200 miles per hour where conditions permit those speeds.

(e) "High-speed train system" means a system with high-speed trains and includes, but is not limited to, the following components: right-of-way, track, power system, rolling stock, stations, and associated facilities.

Article 2. High-Speed Passenger Train Financing Program

2704.04. (a) It is the intent of the Legislature by enacting this chapter and of the people of California by approving the bond measure pursuant to this chapter to initiate the construction of a high-speed train network consistent with the authority's Final Business Plan of June 2000.

(b) (1) Nine billion dollars (\$9,000,000,000) of the proceeds of bonds authorized pursuant to this chapter, as well as federal funds and other revenues made available to the authority, to the extent consistent with federal and other fund source conditions, shall be used for planning and eligible capital costs, as defined in subdivision (c), for the segment of the high-speed train system between San Francisco Transbay Terminal and Los Angeles Union Station. Once construction of the San Francisco-Los Angeles segment is fully funded, all remaining funds described in this subdivision shall be used for planning and eligible capital costs, as defined in subdivision (c), for the following additional high-speed train segments without preference to order:

- (A) Oakland-San Jose.
- (B) Sacramento-Merced.
- (C) Los Angeles-Inland Empire.
- (D) Inland Empire-San Diego.
- (E) Los Angeles-Irvine.

(2) Revenues generated by operations above and beyond operating and maintenance costs shall be used to fund construction of the high-speed train system.

(c) Capital costs eligible to be paid from proceeds of bonds authorized for high-speed train purposes pursuant to this chapter include all activities necessary for acquisition of right-of-way, construction of tracks, structures, power systems, and stations, purchase of rolling stock and related equipment, and other related capital facilities and equipment.

(d) Proceeds of bonds authorized pursuant to this chapter shall not be used for any operating or maintenance costs of trains or facilities.

(e) The State Auditor shall perform periodic audits of the authority's use of proceeds of bonds authorized pursuant to this chapter for consistency with the requirements of this chapter.

2704.05. The proceeds of bonds issued and sold pursuant to this chapter shall be deposited in the High-Speed Passenger Train Bond Fund, which is hereby created.

2704.06. Nine billion dollars (\$9,000,000,000) of the money in the fund, upon appropriation by the Legislature, shall be available, without regard to

fiscal years, for planning and construction of a high-speed train system in this state, consistent with the authority's Final Business Plan of June 2000, as subsequently modified pursuant to environmental studies conducted by the authority.

2704.07. The authority shall pursue and obtain other private and public funds, including, but not limited to, federal funds, funds from revenue bonds, and local funds, to augment the proceeds of this chapter.

2704.08. Proceeds of bonds authorized for high-speed train purposes pursuant to this chapter shall not be used for more than one-half of the total cost of construction of track and station costs of each segment of the high-speed train system.

2704.09. The high-speed train system to be constructed pursuant to this chapter shall have the following characteristics:

(a) Electric trains that are capable of sustained maximum revenue operating speeds of no less than 200 miles per hour.

(b) Maximum express service travel times for each corridor that shall not exceed the following:

- (1) San Francisco-Los Angeles Union Station: two hours, 42 minutes.
- (2) Oakland-Los Angeles Union Station: two hours, 42 minutes.
- (3) San Francisco-San Jose: 31 minutes.
- (4) San Jose-Los Angeles: two hours, 14 minutes.
- (5) San Diego-Los Angeles: one hour.
- (6) Inland Empire-Los Angeles: 29 minutes.
- (7) Sacramento-Los Angeles: two hours, 22 minutes.
- (8) Sacramento-San Jose: one hour, 12 minutes.

(c) Achievable operating headway (time between successive trains) shall be five minutes or less.

(d) The total number of stations to be served by high-speed trains for all of the segments described in subdivision (b) of Section 2704.04 shall not exceed 24.

(e) Trains shall have the capability to transition intermediate stations, or to bypass those stations, at mainline operating speed.

(f) For each corridor described in subdivision (b), passengers shall have the capability of travelling from any station on that corridor to any other station on that corridor without being required to change trains.

(g) In order to reduce impacts on communities and the environment, the alignment for the high-speed train system shall follow existing transportation or utility corridors to the extent possible.

(h) Stations shall be located in areas with good access to local mass transit or other modes of transportation.

(i) The high-speed train system shall be planned and constructed in a manner that minimizes urban sprawl and impacts on the natural environment.

(j) Preserving wildlife corridors and mitigating impacts to wildlife movement where feasible in order to limit the extent to which the system may present an additional barrier to wildlife's natural movement.

2704.095. (a) (1) Of the proceeds of bonds authorized pursuant to this chapter, nine hundred fifty million dollars (\$950,000,000) shall be allocated to eligible recipients for capital improvements to intercity and commuter rail lines and urban rail systems to provide connectivity to the high-speed train system as that system is described in subdivision (b) of Section 2704.04 and to provide capacity enhancements and safety improvements. Funds under this section shall be available upon appropriation by the Legislature in the Annual Budget act for the eligible purposes described in subdivision (d).

(2) Twenty percent (one hundred ninety million dollars (\$190,000,000)) of the amount authorized by this section shall be allocated for intercity rail to the Department of Transportation, for state-supported intercity rail lines that provide regularly scheduled service and use public funds to operate and maintain rail facilities, rights-of-way, and equipment. A minimum of 25 percent of the amount available under this paragraph (forty-seven million five hundred thousand dollars (\$47,500,000)) shall be allocated to each of the state's three intercity rail corridors.

The California Transportation Commission shall allocate the available funds to eligible recipients consistent with this section and shall develop guidelines to implement the requirements of this section. The guidelines shall include provisions for the administration of funds, including, but not limited to, the authority of the intercity corridor operators to loan these funds by mutual agreement between intercity rail corridors.

(3) Eighty percent (seven hundred sixty million dollars (\$760,000,000)) of the amount authorized by this section shall be allocated to eligible recipients, except intercity rail, as described in subdivision (c) based upon a percentage amount calculated to incorporate all of the following:

(A) One-third of the eligible recipient's percentage share of statewide track miles.

(B) One-third of the eligible recipient's percentage share of statewide annual vehicle miles.

(C) One-third of the eligible recipient's percentage share of statewide annual passenger trips.

The California Transportation Commission shall allocate the available funds to eligible recipients consistent with this section and shall develop guidelines to implement the requirements of this section.

(b) For the purposes of this section, the following terms have the following meanings:

(1) "Track miles" means the miles of track used by a public agency or joint powers authority for regular passenger rail service.

(2) "Vehicle miles" means the total miles traveled, commencing with pullout from the maintenance depot, by all locomotives and cars operated in a train consist for passenger rail service by a public agency or joint powers authority.

(3) "Passenger trips" means the annual unlinked passenger boardings reported by a public agency or joint powers authority for regular passenger rail service.

(4) "Statewide" when used to modify the terms in paragraphs (A), (B), and (C) of paragraph (3) of subdivision (a) means the combined total of those amounts for all eligible recipients.

(c) Eligible recipients for funding under paragraph (3) of subdivision (a) shall be public agencies and joint powers authorities that operate regularly scheduled passenger rail service in the following categories:

(1) Commuter rail.

(2) Light rail.

(3) Heavy rail.

(4) Cable car.

(d) Funds allocated pursuant to this section shall be used for connectivity with the high-speed train system or for the rehabilitation or modernization of, or safety improvements to, tracks utilized for public passenger rail service, signals, structures, facilities, and rolling stock.

(e) Eligible recipients may use the funds for any eligible rail element set forth in subdivision (d).

(f) In order to be eligible for funding under this section, an eligible recipient under paragraph (3) of subdivision (a) shall provide matching funds in an amount not less than the total amount allocated to the recipient under this section.

(g) An eligible recipient of funding under paragraph (3) of subdivision (a) shall certify that it has met its matching funds requirement, and all other requirements of this section, by resolution of its governing board, subject to verification by the California Transportation Commission.

(h) Funds made available to an eligible recipient under paragraph (3) of subdivision (a) shall supplement existing local, state, or federal revenues being used for maintenance or rehabilitation of the passenger rail system. Eligible recipients of funding under paragraph (3) of subdivision (a) shall maintain their existing commitment of local, state, or federal funds for these purposes in order to remain eligible for allocation and expenditure of the additional funding made available by this section.

(i) In order to receive any allocation under this section, an eligible recipient under paragraph (3) of subdivision (a) shall annually expend from existing local, state, or federal revenues being used for the maintenance or rehabilitation of the passenger rail system in an amount not less than the annual average of its expenditures from local revenues for those purposes during the 1998–99, 1999–2000, and 2000–01 fiscal years.

(j) Funds allocated pursuant to this section to the Southern California Regional Rail Authority for eligible projects within its service area shall be apportioned each fiscal year in accordance with memorandums of understanding to be executed between the Southern California Regional Rail Authority and its member agencies. The memorandum or memorandums of understanding shall take into account the passenger service needs of the Southern California Regional Rail Authority and of the member agencies, revenue attributable to member agencies, and separate contributions to the Southern California Regional Rail Authority from the member agencies.

Article 3. Fiscal Provisions

2704.10. Bonds in the total amount of nine billion nine hundred fifty million dollars (\$9,950,000,000), exclusive of refunding bonds, or so much thereof as is necessary, may be issued and sold to provide a fund to be used for carrying out the purposes expressed in this chapter and to be used to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section

16724.5 of the Government Code. The bonds, when sold, shall be and constitute a valid and binding obligation of the State of California, and the full faith and credit of the State of California is hereby pledged for the punctual payment of both principal of, and interest on, the bonds as the principal and interest become due and payable.

2704.11. (a) Except as provided in subdivision (b), the bonds authorized by this chapter shall be prepared, executed, issued, sold, paid, and redeemed as provided in the State General Obligation Bond Law, Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code, and all of the provisions of that law apply to the bonds and to this chapter and are hereby incorporated in this chapter as though set forth in full in this chapter.

(b) Notwithstanding any provision of the State General Obligation Bond Law, each issue of bonds authorized by the committee shall have a final maturity of not more than 30 years.

2704.12. (a) Solely for the purpose of authorizing the issuance and sale, pursuant to the State General Obligation Bond Law, of the bonds authorized by this chapter, the High-Speed Passenger Train Finance Committee is hereby created. For purposes of this chapter, the High-Speed Passenger Train Finance Committee is "the committee" as that term is used in the State General Obligation Bond Law. The committee consists of the Treasurer, the Director of Finance, the Controller, the Secretary of the Business, Transportation and Housing Agency, and the chairperson of the authority, or their designated representatives. The Treasurer shall serve as chairperson of the committee. A majority of the committee may act for the committee.

(b) For purposes of the State General Obligation Bond Law, the authority is designated the "board."

2704.13. The committee shall determine whether or not it is necessary or desirable to issue bonds authorized pursuant to this chapter in order to carry out the actions specified in Sections 2704.06 and 2704.095 and, if so, the amount of bonds to be issued and sold. Successive issues of bonds may be issued and sold to carry out those actions progressively, and it is not necessary that all of the bonds authorized be issued and sold at any one time. The committee shall consider program funding needs, revenue projections, financial market conditions, and other necessary factors in determining the shortest feasible term for the bonds to be issued.

2704.14. There shall be collected each year and in the same manner and at the same time as other state revenue is collected, in addition to the ordinary revenues of the state, a sum in an amount required to pay the principal of, and interest on, the bonds each year. It is the duty of all officers charged by law with any duty in regard to the collection of the revenue to do and perform each and every act which is necessary to collect that additional sum.

2704.15. Notwithstanding Section 13340 of the Government Code, there is hereby appropriated from the General Fund in the State Treasury, for the purposes of this chapter, an amount equal to that sum annually necessary to pay the principal of, and interest on, bonds issued and sold pursuant to this chapter, as the principal and interest become due and payable.

2704.16. The board may request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for purposes of this chapter. The amount of the request shall not exceed the amount of the unsold bonds which the committee has, by resolution, authorized to be sold for the purpose of this chapter, less any amount borrowed pursuant to Section 2701.17. The board shall execute such documents as required by the Pooled Money Investment Board to obtain and repay the loan. Any amount loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.

2704.17. For the purpose of carrying out this chapter, the Director of Finance may authorize the withdrawal from the General Fund of an amount or amounts not to exceed the amount of unsold bonds which have been authorized by the committee to be sold for the purpose of carrying out this chapter, less any amount borrowed pursuant to Section 2704.16. Any amount withdrawn shall be deposited in the fund. Any money made available under this section shall be returned to the General Fund, plus the interest that the amounts would have earned in the Pooled Money Investment Account, from the sale of bonds for the purpose of carrying out this chapter.

2704.18. All money deposited in the fund which is derived from premium and accrued interest on bonds sold shall be reserved in the fund and shall be available for transfer to the General Fund as a credit to expenditures for bond interest.

2704.19. The bonds may be refunded in accordance with Article 6 (commencing with Section 16780) of the State General Obligation Bond Law. Approval by the electors of the state for the issuance of bonds shall include

approval of the issuance of any bonds issued to refund any bonds originally issued or any previously issued refunding bonds.

2704.20. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this chapter are not "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is not subject to the limitations imposed by that article.

2704.21. Notwithstanding any provision of the State General Obligation Bond Law with regard to the proceeds from the sale of bonds authorized by this chapter that are subject to investment under Article 4 (commencing with Section 16470) of Chapter 3 of Part 2 of Division 4 of Title 2 of the Government Code, the Treasurer may maintain a separate account for investment earnings, order the payment of those earnings to comply with any rebate requirement applicable under federal law, and may otherwise direct the use and investment of those proceeds so as to maintain the tax-exempt status of those bonds and to obtain any other advantage under federal law on behalf of the funds of this state.

PROPOSITION 2

This initiative measure is submitted to the people in accordance with the provisions of Article II, Section 8, of the California Constitution.

This initiative measure adds sections to the Health and Safety Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. SHORT TITLE

This act shall be known and may be cited as the Prevention of Farm Animal Cruelty Act.

SECTION 2. PURPOSE

The purpose of this act is to prohibit the cruel confinement of farm animals in a manner that does not allow them to turn around freely, lie down, stand up, and fully extend their limbs.

SECTION 3. FARM ANIMAL CRUELTY PROVISIONS

Chapter 13.8 (commencing with Section 25990) is added to Division 20 of the Health and Safety Code, to read:

CHAPTER 13.8. FARM ANIMAL CRUELTY

25990. *PROHIBITIONS. In addition to other applicable provisions of law, a person shall not tether or confine any covered animal, on a farm, for all or the majority of any day, in a manner that prevents such animal from:*

- (a) *Lying down, standing up, and fully extending his or her limbs; and*
- (b) *Turning around freely.*

25991. *DEFINITIONS. For the purposes of this chapter, the following terms have the following meanings:*

(a) *"Calf raised for veal" means any calf of the bovine species kept for the purpose of producing the food product described as veal.*

(b) *"Covered animal" means any pig during pregnancy, calf raised for veal, or egg-laying hen who is kept on a farm.*

(c) *"Egg-laying hen" means any female domesticated chicken, turkey, duck, goose, or guinea fowl kept for the purpose of egg production.*

(d) *"Enclosure" means any cage, crate, or other structure (including what is commonly described as a "gestation crate" for pigs; a "veal crate" for calves; or a "battery cage" for egg-laying hens) used to confine a covered animal.*

(e) *"Farm" means the land, building, support facilities, and other equipment that are wholly or partially used for the commercial production of animals or animal products used for food or fiber; and does not include live animal markets.*

(f) *"Fully extending his or her limbs" means fully extending all limbs without touching the side of an enclosure, including, in the case of egg-laying hens, fully spreading both wings without touching the side of an enclosure or other egg-laying hens.*

(g) *"Person" means any individual, firm, partnership, joint venture, association, limited liability company, corporation, estate, trust, receiver, or syndicate.*

(h) *"Pig during pregnancy" means any pregnant pig of the porcine species kept for the primary purpose of breeding.*

(i) *"Turning around freely" means turning in a complete circle without any impediment, including a tether, and without touching the side of an enclosure.*

25992. *EXCEPTIONS. This chapter shall not apply:*

(a) *During scientific or agricultural research.*

(b) *During examination, testing, individual treatment or operation for veterinary purposes.*

(c) *During transportation.*

(d) *During rodeo exhibitions, state or county fair exhibitions, 4-H programs, and similar exhibitions.*

(e) *During the slaughter of a covered animal in accordance with the provisions of Chapter 6 (commencing with Section 19501) of Part 3 of Division 9 of the Food and Agricultural Code, relating to humane methods of slaughter, and other applicable law and regulations.*

(f) *To a pig during the seven-day period prior to the pig's expected date of giving birth.*

25993. *ENFORCEMENT. Any person who violates any of the provisions of this chapter is guilty of a misdemeanor, and upon conviction thereof shall be punished by a fine not to exceed one thousand dollars (\$1,000) or by imprisonment in the county jail for a period not to exceed 180 days or by both such fine and imprisonment.*

25994. CONSTRUCTION OF CHAPTER.

The provisions of this chapter are in addition to, and not in lieu of, any other laws protecting animal welfare, including the California Penal Code. This chapter shall not be construed to limit any state law or regulations protecting the welfare of animals, nor shall anything in this chapter prevent a local governing body from adopting and enforcing its own animal welfare laws and regulations.

SECTION 4. SEVERABILITY

If any provision of this act, or the application thereof to any person or circumstances, is held invalid or unconstitutional, that invalidity or unconstitutionality shall not affect other provisions or applications of this act that can be given effect without the invalid or unconstitutional provision or application, and to this end the provisions of this act are severable.

SECTION 5. EFFECTIVE DATES

The provisions of Sections 25990, 25991, 25992, 25993, and 25994 shall become operative on January 1, 2015.

PROPOSITION 3

This initiative measure is submitted to the people in accordance with the provisions of Article II, Section 8, of the California Constitution.

This initiative measure adds sections to the Health and Safety Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. Part 6.1 (commencing with Section 1179.50) is added to Division 1 of the Health and Safety Code, to read:

PART 6.1. CHILDREN'S HOSPITAL BOND ACT OF 2008

CHAPTER 1. GENERAL PROVISIONS

1179.50. (a) *This part shall be known and may be cited as the Children's Hospital Bond Act of 2008.*

(b) *California's network of regional children's hospitals provide vital health care services to children facing life-threatening illness or injury. Over one million times each year, children are cared for at these hospitals without regard to their family's ability to pay.*

(c) *Children's hospitals also provide specialized treatment and care that has increased the survival of children suffering from serious diseases and illnesses such as childhood leukemia, cancer, heart defects, diabetes, sickle cell anemia, and cystic fibrosis.*

(d) *Children's hospitals also provide essential training for pediatricians, pediatric specialists and others who treat children, and they conduct critically important medical research that benefits all of California's children.*

(e) *However, the burden of providing uncompensated care and the increasing costs of health care seriously impair our children's hospitals' ability to modernize and expand their facilities and to purchase the latest medical technologies and special medical equipment necessary to take care of sick children.*

(f) *Therefore, the people desire to provide a steady and ready source of funds for capital improvement programs for children's hospitals to improve the health, welfare, and safety of California's children.*

1179.51. *As used in this part, the following terms have the following meanings:*

EXHIBIT 4

GOVERNOR'S BUDGET



MAY REVISION 2008-09

INTRODUCTION

California's structural budget deficit persists. Slower rates of economic growth, softening state revenues and increased costs have widened California's budget gap. In January, the projected deficit for 2008-09 was \$14.5 billion. Left unaddressed, the projected gap would grow to \$24.3 billion based on updated revenue projections, revised caseload estimates and higher costs. The single largest factor contributing to the increase in the projected budget gap is a \$6.0 billion decrease in estimated General Fund revenues. Other factors include increased program costs, higher estimates of growth and costs of living adjustments, and erosion of savings due to delays in the adoption of reduction proposals. (See Figure INT-01).

Figure INT-01

Defining the Budget Gap

(Dollars in Millions)

Governor's Budget	-\$14,479
Reserve	-2,009
Adjustments Since Governor's Budget	-7,789
Total Size of Problem	-\$24,277

INTRODUCTION

A productive Special Session of the Legislature made a down payment to address the budget deficit; now, the remaining budget gap is \$17.2 billion.

The Governor's January Budget proposed difficult but necessary changes to address the state's structural budget deficit. Specifically, it proposed spending restraint, including an average 10-percent reduction in the budget of almost every program, while protecting essential state services and the sale of authorized Economic Recovery Bonds to provide additional revenues. It also proposed budget reform to provide necessary tools to bring spending and revenues into alignment and to ensure the state does not spend beyond its means in future years. See Figure INT-02 below.

Figure INT-02
How to Close the Budget Gap
(Dollars in Millions)

Projected Shortfall			-\$24,277
Solutions:	<u>Revenue</u>	<u>Expenditures</u>	<u>Total</u>
Special Session	\$3,559	\$3,484	\$7,043
Proposed Solutions	\$8,130	\$9,104	\$17,234
Total	\$11,689	\$12,588	\$24,277

The May Revision proposes a combination of spending reductions and revenue solutions to address the budget gap and to provide for a responsible reserve of \$2 billion, and it does so without raising taxes. It proposes \$12.6 billion in expenditure reductions across state government. While it retains the vast majority of 10-percent across-the-board reductions proposed in January, the May Revision makes some important adjustments to address the larger deficit while protecting education and public safety. The May Revision fully funds the Proposition 98 guarantee and provides a modest increase in total funding for education in the budget year. It reflects approximately \$300 million in savings in the California Department of Corrections and Rehabilitation's budget without the early release of inmates. It also includes funds to keep all of the state's parks open, increasing fees where feasible to offset General Fund costs. The May Revision also makes additional difficult choices to reduce spending, including proposing \$627 million in additional

reductions to health and human services programs. Without comprehensive health care reform that infuses the health care system with additional, stable sources of funding, these services will unfortunately continue to be significantly impacted by California's broken and volatile budget system.

BUDGET REFORM

California's fiscal strength and security hinges on fixing our broken budget system.

In his State of the State speech, Governor Schwarzenegger proposed a constitutional amendment, the Budget Stabilization Act (BSA), to address two shortcomings in the state budget process: volatile revenues and over-spending. The BSA would prevent spending temporary increases in revenues on ongoing programs and give the state mechanisms to avoid future budget crises. It calls for the creation of the Revenue Stabilization Fund (RSF) where revenues above a reasonable, long-term average rate of growth will be deposited. Moneys in the RSF will only be available for transfers to the General Fund to bring revenues up to the long-term average in years with below-average revenue growth, such as 2008-09. The May Revision proposes to capitalize the RSF in 2008-09 and thus provide \$5.1 billion to the General Fund.

In addition to the proposed Budget Stabilization Act, Governor Schwarzenegger will issue an Executive Order to establish a bipartisan commission of legislative and gubernatorial appointees to modernize the state's tax laws and better reflect the current economy. The Tax Modernization Commission will be charged with recommending ways to stabilize California's revenues, to bring our tax system into better alignment with our modern economy and to improve the state's economic competitiveness.

IMPROVED PERFORMANCE OF THE LOTTERY

The California Lottery is an underperformer when compared to the other 40 states with lotteries. Per capita average sales in 2006 of all other states was \$189, and the average of the ten most populous states was \$225. In contrast, California's only had \$88 in average per capita sales. Clearly, there is room for a greater return on this public asset. The underperformance of the California Lottery stems from numerous restraints on its operation. The May Revision proposes to improve the performance of the state's lottery by providing operational flexibility similar to lotteries in most other states. The May Revision proposes to securitize future revenues resulting from the improved performance of the lottery to fund the RSF. This would be done in a manner similar to the Tobacco Securitization Act, which authorized the issuance of bonds against future tobacco settlement revenues. It is anticipated that the proposed bonds will

INTRODUCTION

yield \$5.1 billion in revenue for the state budget in 2008-09 and a total of \$15 billion by 2010-11, after providing education the \$1.2 billion in annual funding from the lottery that it currently receives.

FAIL-SAFE MECHANISM FOR RSF CAPITALIZATION

To ensure that the RSF has a sufficient balance to transfer \$5.1 billion to the General Fund in 2008-09, the May Revision includes a fail-safe mechanism that is similar to the mechanism established by Chapter 10, Statutes of 1983, which was signed into law by Governor Deukmejian. Under this mechanism, next year, the Director of the Department of Finance will determine whether the RSF has a sufficient balance for transfer to bring General Fund revenues up to the long-term average of General Fund revenue growth. If the RSF balance is insufficient, temporary a one-cent (\$.01) sales tax increase will be triggered. The triggered increase would remain in effect until the RSF has reached the targeted fund balance (15 percent of General Fund tax revenues) or until June 30, 2011, whichever occurs first. After this temporary mechanism is no longer in effect, Californians will receive tax rebates that in the aggregate will be equal to the amount of revenues collected under the temporary mechanism.

CONCLUSION

In summary, the Governor's May Revision responsibly addresses the state's structural budget deficit through a combination of necessary spending reductions and new revenue through better utilization of state assets. The proposed May Revision, coupled with the Budget Stabilization Act and the Tax Modernization Commission, will ensure that California not only closes its immediate budget gap without a tax increase, but it has the necessary mechanisms to prevent future budget crises.

SUMMARY CHARTS

This section provides various statewide budget charts and tables.

Figure SUM-01
2008-09 May Revision
General Fund Budget Summary
(Dollars in Millions)

	2007-08	2008-09
Prior Year Balance	\$4,096	\$1,743
Revenues and Transfers	\$101,190	\$102,987
Total Resources Available	\$105,286	\$104,730
Non-Proposition 98 Expenditures	\$61,716	\$60,436
Proposition 98 Expenditures	\$41,827	\$41,400
Total Expenditures	\$103,543	\$101,836
Fund Balance	\$1,743	\$2,894
Reserve for Liquidation of Encumbrances	\$885	\$885
Special Fund for Economic Uncertainties	\$858	\$2,009
Budget Stabilization Account ^{1/}	-	-
Total Available Reserve	\$858	\$2,009

^{1/} In 2007-08, includes the transfer of \$1,494 million from Budget Stabilization Account back to the General Fund under Control Section 35.60.

In 2008-09, reflects the suspension of Proposition 58 transfer to the Budget Stabilization Account.

Figure SUM-02
2008-09 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2007-08
Personal Income Tax	\$53,733	\$1,449	\$55,182	-\$389
Sales Tax	27,361	6,214	33,575	1,099
Corporation Tax	11,039	-	11,039	904
Highway Users Taxes	-	3,383	3,383	-18
Motor Vehicle Fees	28	5,938	5,966	637
Insurance Tax	2,029	-	2,029	-142
Liquor Tax	341	-	341	7
Tobacco Taxes	114	934	1,048	3
Other	8,342	8,136	16,478	1,163
Total	\$102,987	\$26,054	\$129,041	\$3,264

Note: Numbers may not add due to rounding.

Figure Sum-03
2008-09 Total Expenditures by Agency
(Dollars in Millions)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Bond Funds</u>	<u>Totals</u>
Legislative, Judicial, Executive	\$3,792	\$2,127	\$473	\$6,392
State and Consumer Services	566	865	86	1,517
Business, Transportation & Housing	1,635	6,988	4,214	12,837
Resources	1,624	2,331	2,234	6,189
Environmental Protection	88	1,154	397	1,639
Health and Human Services	29,800	8,112	150	38,062
Corrections and Rehabilitation	10,139	22	-	10,161
K-12 Education	41,145	155	4,427	45,727
Higher Education	11,758	46	2,436	14,240
Labor and Workforce Development	97	334	-	431
General Government	1,192	5,933	31	7,156
Total	\$101,836	\$28,067	\$14,448	\$144,351

Note: Numbers may not add due to rounding.

Figure Sum-04
General Fund Expenditures by Agency
(Dollars in Millions)

	<u>2007-08</u>	<u>2008-09</u>	<u>Change</u>	<u>-%</u>
Legislative, Judicial, Executive	\$3,920	\$3,792	-\$128	-3.3%
State and Consumer Services	598	566	-32	-5.4%
Business, Transportation & Housing	1,502	1,635	133	8.9%
Resources	1,877	1,624	-253	-13.5%
Environmental Protection	89	88	-1	-1.1%
Health and Human Services	29,726	29,800	74	0.2%
Corrections and Rehabilitation	10,173	10,139	-34	-0.3%
K-12 Education	42,507	41,145	-1,362	-3.2%
Higher Education	11,819	11,758	-61	-0.5%
Labor and Workforce Development	105	97	-8	-7.6%
General Government	1,227	1,192	-35	-2.9%
Total	\$103,543	\$101,836	-\$1,707	-1.6%

Note: Numbers may not add due to rounding.

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ECONOMIC OUTLOOK

Two years into the housing slump, the national and California economies began to face additional headwinds—falling home prices, tight credit conditions, dysfunctional financial markets, and soaring food and energy prices. These headwinds took a toll: The housing downturn worsened. Labor markets weakened. And, at the end of 2007, consumers began to lose confidence in the economy.

In the mid-2000s, low interest rates, easy credit, and questionable lending practices sharply increased the demand for housing, leading to accelerating home prices, increased home building, and strong consumer spending. But this sizable economic stimulus depended on rising home prices, and when declining home affordability put a cap on home prices, the stimulus evaporated. Uncertainty about how far home values would decline depressed home sales and building. Consumers were pinched as their home equity fell.

Declining home prices and jumps in subprime mortgage rates have led to record mortgage delinquencies and home foreclosures in California. Home values may decrease further before real estate markets and home building return to normal. Until then, the housing sector will be a significant drag on economic growth in the state.

The most significant differences between the May Revision forecast and the Governor's Budget forecast are lower real GDP growth, weaker California job growth, and smaller gains in California personal income in 2008 and 2009.

ECONOMIC OUTLOOK

The outlook for the national economy is for slow growth in 2008, moderate growth in 2009, and near-trend growth in 2010:

- Real GDP is projected to grow 1.2 percent in 2008, 1.7 percent in 2009, and 3 percent in 2010, as compared to 2.2 percent in 2007.
- Nonfarm payroll employment is forecast to increase 0.2 percent in 2008, 0.4 percent in 2009, and 1.2 percent in 2010, as compared to 1.1 percent in 2007.

The outlook for the California economy is for little growth in 2008 followed by slow growth in 2009 and moderate growth in 2010:

- Personal income is projected to grow 4.5 percent in 2008, 4.1 percent in 2009, and 5.1 percent in 2010, as compared to 5.9 percent in 2007.
- Nonfarm payroll employment is forecast to fall 0.2 percent in 2008, and then grow by 0.6 percent in 2009 and 1.4 percent in 2010, as compared to 0.7 percent in 2007.

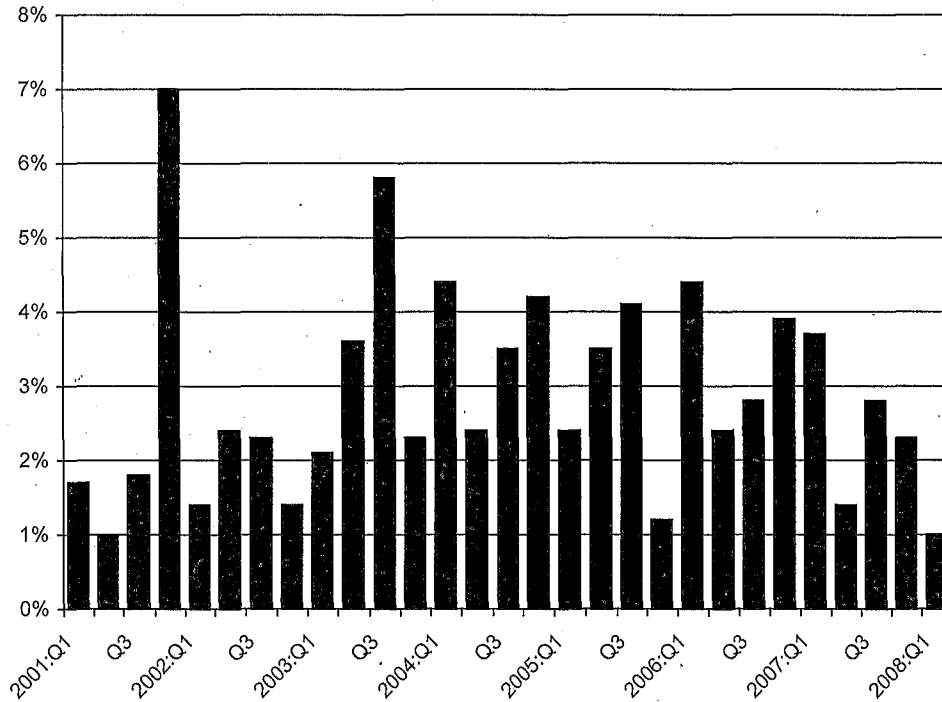
THE NATION

Real GDP grew only 0.6 percent in the first quarter of 2008. The weakness was concentrated in residential construction, which fell 27 percent at an annualized rate. Residential construction has been a significant drag on the national economy for eight consecutive quarters, and there is little indication that the end to the decline is near. New and existing home sales continue to fall. Inventories of homes available for sale remain large. The number of new homes being built is still declining. The subprime mortgage debacle and subsequent financial market turmoil, waves of home foreclosures, and credit tightening appear to have reinforced the housing slump.

More troubling, consumer spending increased by just 1 percent in the first quarter—its slowest quarterly rate in nearly seven years (Figure ECO-01). Granted, it is only one quarter, and consumers have bounced back from a quarter of weak spending a number of times in the past seven years. However, the retrenchment by consumers is consistent with sharp declines in consumer confidence surveys in the last three months to levels that historically have been associated with recessions. Consumer spending is being squeezed by slower job growth, falling home prices, higher energy and food prices, high consumer debt levels, and the falling dollar.

Elsewhere in the GDP report, business investment in structures and equipment and software fell in the first quarter. Government spending increased modestly. But what

Figure ECO-01
U.S. Real Consumer Spending
Year-over-Year Growth



Source: U.S. Bureau of Economic Analysis

kept real GDP from falling in the first quarter was an increase in inventory investment of \$20 billion by businesses, which most likely was not intended.

National labor markets weakened in the first four months of 2008. Nonfarm payroll employment fell each month, with the losses averaging 65,000 per month. In comparison, nonfarm payroll employment rose with an average monthly gain of 94,000 in the first four months of 2007. The national unemployment rate averaged about 5 percent in the first four months of 2008. A year ago, it averaged 4.5 percent in the first four months.

Energy and food prices shot up in the first three months of 2008, with the average price for regular-grade gasoline reaching \$3.60 per gallon and the crude oil spot price \$116 per barrel by the end of April. A year earlier, regular gasoline sold for \$2.97 and the crude oil spot price was \$59 per barrel. The average cost of food at home in the first quarter of 2008 was 5.2 percent higher than a year earlier. A year earlier, this measure of inflation was 2.7 percent. The increase in food and energy prices, coming at a time when the

ECONOMIC OUTLOOK

economy has decelerated appreciably, puts the Federal Reserve in a difficult position. In an effort to give the economy a boost, the central bank has eased monetary policy on seven occasions in the last eight months, lowering their target for federal funds from 5.25 percent to 2 percent. Believing that the committee was risking higher inflation, some members of the Federal Reserve monetary policy committee have dissented on the last three votes to ease policy.

CALIFORNIA

Growth in nonfarm payroll employment slowed in California in 2007, with employment peaking in the third quarter and then slipping in the fourth quarter. The state lost jobs again in the first quarter of 2008, although to a lesser extent than the nation.

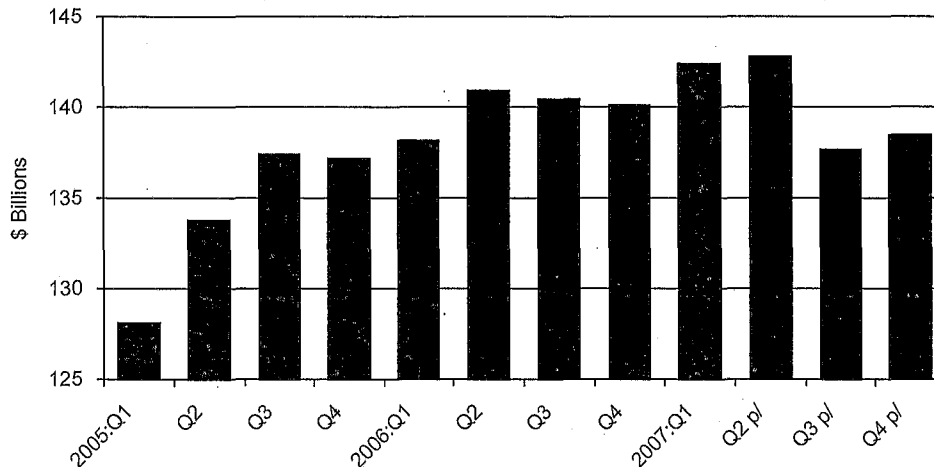
The annual average of nonfarm payroll employment increased by 102,900, or 0.7 percent in 2007, down from 259,000, or 1.7 percent, in 2006. Eight of the 11 major industry sectors saw employment grow in 2007. Educational and health services, government, leisure and hospitality, and trade, transportation, and utilities posted the biggest gains in jobs. Together, construction, financial activities, and manufacturing lost nearly 95,000 jobs. The San Francisco Bay Area economy had the strongest job growth of the major regional economies. The state's unemployment rate averaged 5.4 percent in 2007 and was 5.9 percent in the first three months of 2008.

California personal income grew by an estimated 5.9 percent in 2007, slightly lower than the 6.5-percent gain in 2006. Taxable sales, however, peaked in the second quarter of 2007 and were down 3 percent from the peak in the fourth quarter of 2007 (Figure ECO-02). New vehicle registrations fell again in 2007, likely playing a role in the slowdown of taxable sales.

Made-in-California exports grew by 5 percent to a new record level of \$134.2 billion in 2007; however, high-tech exports fell 1.9 percent. In 2006, total exports increased by 9.4 percent. Leading export destinations (in order) were Mexico, Canada, Japan, mainland China, South Korea, Taiwan, Germany, the United Kingdom, Hong Kong, and Singapore. Exports to these markets expanded, except for Mexico, Singapore, and Japan.

California home building and residential real estate markets slowed considerably in 2007. The number of single-family residential units permitted fell 37 percent in 2007, after falling by 30 percent in 2006. In the first quarter of 2008, they were down 61 percent from a year ago. Existing single-family detached home sales fell 26 percent in 2007. The median price fell 16 percent from December 2006 to December 2007.

Figure ECO-02
California Taxable Sales
Seasonally Adjusted



Source: California State Board of Equalization; p/ preliminary estimate

Figure ECO-03
Selected U.S. Economic Indicators

	2007 (Est.)	2008 (Projected)	2009 (Projected)
Real gross domestic product, (2000 dollar) (Percent change)	2.2	1.2	1.7
Personal consumption expenditures	2.9	1.4	1.4
Gross private domestic investment	-4.9	-8.4	1.0
Government purchases of goods and services	2.0	1.8	0.2
GDP deflator (2000=100) (Percent change)	2.7	2.0	2.0
GDP, (Current dollar) (Percent change)	4.9	3.2	3.8
Federal funds rate (Percent)	5.02	2.02	2.09
Personal income (Percent change)	6.2	4.2	3.6
Corporate profits before taxes (Percent change)	3.9	-14.7	18.0
Nonfarm wage and salary employment (Millions)	137.6	137.9	138.4
(Percent change)	1.1	0.2	0.4
Unemployment rate (Percent)	4.6	5.3	5.8
Housing starts (Millions)	1.34	0.91	1.13
(Percent change)	-25.8	-32.2	24.1
New car and light truck sales (Millions)	16.1	14.9	15.2
(Percent change)	-2.4	-7.5	1.9
Consumer price index (1982-84=100)	207.3	213.5	218.2
(Percent change)	2.9	3.0	2.2

Forecast based on data available as of April 2008.
Percent changes calculated from unrounded data.

THE FORECAST

The struggling housing sector will continue to weigh on the state and national economies in the next two years, but economic growth should begin to improve late this year or in the first half of 2009 (Figure ECO-03 and Figure ECO-04).

Figure ECO-04
Selected California Economic Indicators

	2007	Percent change	Projected		2009	Percent change
			2008	Percent change		
Personal income (\$ billions)	1,521.3	5.9%	1,589.0	4.5%	1,654.8	4.1%
Nonfarm W&S employment (thousands)	15,170.0	0.7%	15,140.4	-0.2%	15,225.9	0.6%
Natural resources and mining	25.8	3.0%	26.4	2.3%	27.4	3.9%
Construction	891.6	-4.5%	812.7	-8.9%	819.1	0.8%
Manufacturing	1,460.2	-1.9%	1,424.5	-2.4%	1,385.5	-2.7%
High technology	377.8	-0.9%	368.1	-2.6%	354.5	-3.7%
Trade, transportation, & utilities	2,911.0	1.1%	2,928.2	0.6%	2,948.4	0.7%
Information	471.6	1.2%	454.5	-3.6%	454.2	-0.1%
Financial activities	906.2	-3.1%	868.1	-4.2%	849.6	-2.1%
Professional and business services	2,265.4	1.1%	2,293.8	1.3%	2,337.5	1.9%
High technology	304.5	3.8%	316.9	4.1%	329.4	3.9%
Educational and health services	1,668.6	3.4%	1,702.6	2.0%	1,727.7	1.5%
Leisure and hospitality	1,559.8	2.7%	1,594.0	2.2%	1,634.3	2.5%
Other services	512.4	1.1%	516.4	0.8%	520.7	0.8%
Government	2,497.4	1.8%	2,519.2	0.9%	2,521.5	0.1%
Unemployment rate	5.4%		6.4%		6.6%	
Housing permits (thousands of units)	112	-31.5%	70	-37.5%	96	37.6%
Consumer price index (1982-84=100)	217.4	3.3%	224.7	3.4%	231.3	2.9%

Forecast based on data available as of April 2008.
Percent changes calculated from unrounded data.

REVENUE ESTIMATES

General Fund revenues are expected to be \$101.190 billion in 2007-08 and \$102.987 billion in 2008-09. This represents a decrease of \$40 million in 2007-08 and an increase of \$83 million in 2008-09 compared to the Governor's January Budget. These revenues include \$11.7 billion in revenue solutions proposed to close the budget gap – \$3.3 billion in 2007-08 from the sale of authorized Economic Recovery Bonds, \$1.9 billion from a change in accrual accounting, \$5.1 billion of lottery proceeds in 2008-09 from the proposed fund transfer from the Revenue Stabilization Fund to the General Fund, and \$1.4 billion in other initiatives. In the absence of these revenue solutions, 2007-08 revenues would be \$97.7 billion and 2008-09 revenues would be \$94.8 billion. Thus, revenues would grow by 2.4 percent in 2007-08 and decline by 3.0 percent in 2008-09.

Figure REV-01 displays the forecast changes between Governor's Budget and May Revision.

PERSONAL INCOME TAX

The personal income tax forecast has been increased by \$1.407 billion in 2007-08 and decreased by \$2.725 billion in 2008-09. The 2007-08 increase is due to strong payments, primarily tied to 2007 tax year liabilities. The reduction in 2008-09 is due to a lowered forecast of personal income and capital gains. This forecast estimates that capital gains income will decline by 18 percent in 2008 and grow by 3 percent in 2009. Capital growth rates reflect weakness in 2008 real estate prices and sales, and a lower forecast for stock market gains. Personal income reductions reflect softness in U.S. and California economic growth.

Figure REV-01
General Fund Revenue Forecast
Reconciliation with the 2008-09 Governor's Budget
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change Between Forecasts	
<u>Fiscal 06-07</u>				
Personal Income Tax	\$51,943	\$51,941	-\$2	0.0%
Sales & Use Tax	27,445	27,445	\$0	0.0%
Corporation Tax	11,158	11,158	\$0	0.0%
Insurance Tax	2,178	2,178	\$0	0.0%
Alcoholic Beverage	334	334	\$0	0.0%
Cigarette	115	115	\$0	0.0%
Other Revenues	2,261	2,261	\$0	0.0%
Transfers	-19	-19	\$0	0.0%
Total	\$95,415	\$95,413	-\$2	0.0%
<u>Fiscal 07-08</u>				
Personal Income Tax	\$52,681	\$54,088	\$1,407	2.7%
Sales & Use Tax	27,689	27,100	-\$589	-2.1%
Corporation Tax	10,675	10,135	-\$540	-5.1%
Insurance Tax	2,075	2,171	\$96	4.6%
Alcoholic Beverage	334	334	\$0	0.0%
Cigarette	116	114	-\$2	-1.7%
Other Revenues	6,440	6,036	-\$404	-6.3%
Transfers	1,220	1,212	-\$8	-0.7%
Total	\$101,230	\$101,190	-\$40	0.0%
Change from Fiscal 06-07	\$5,815	\$5,777		
% Change from Fiscal 06-07	6.1%	6.1%		
<u>Fiscal 08-09</u>				
Personal Income Tax	\$56,458	\$53,733	-\$2,725	-4.8%
Sales & Use Tax	29,215	27,361	-\$1,854	-6.3%
Corporation Tax	11,937	11,039	-\$898	-7.5%
Insurance Tax	2,276	2,029	-\$247	-10.9%
Alcoholic Beverage	341	341	\$0	0.0%
Cigarette	119	114	-\$5	-4.2%
Other Revenues	2,501	2,534	\$33	1.3%
Transfers	57	5,836	\$5,779	10138.6%
Total	\$102,904	\$102,987	\$83	0.1%
Change from Fiscal 07-08	\$1,674	\$1,797		
% Change from Fiscal 07-08	1.7%	1.8%		
Three-Year Total			\$41	

SALES AND USE TAX

The sales and use tax forecast has been reduced by \$589 million in the current year and \$1.854 billion in the budget year. Through April, sales tax receipts are \$646 million below the Governor's Budget estimate.

The current year reduction is due primarily to the effects of a soft housing market on taxable sales. The budget year reduction is due to a reduced forecast for disposable income and housing permits, and increased "spillover" from the General Fund.

"Spillover" is the transfer of gasoline and diesel fuel sales tax revenues from the General Fund to the Public Transportation Account (PTA) and the Mass Transportation Fund (MTF). The May Revision increases the forecast for 2008-09 spillover transfers from \$909 million to \$1.177 billion due to significantly higher gas prices in 2008.

CORPORATION TAX

The Corporation tax forecast has been decreased by \$540 million for the current year and \$898 million for the budget year. The current year has been reduced by \$715 million for weakness in cash receipts, and increased by \$175 million for a change in accrual accounting. For the budget year, the Corporation tax forecast has been reduced by \$1.083 billion for weaker corporate profits, reduced by \$175 million for a change in accrual accounting, and increased by \$360 million for a change in the due date for Limited Liability Companies (LLC) fee payments.

INSURANCE TAX

The Insurance tax forecast has been increased by \$96 million in the current year and decreased by \$247 million in the budget year. The current year increase and budget year decrease are in part due to a delay in refunds from a Board of Equalization ruling (BOE). BOE ruled that the gross premiums tax be calculated on a cash basis, rather than the accrual method used by the Department of Insurance.

OTHER REVENUES AND TRANSFERS

With the recent withdrawal of the state's sale advisor for the EdFund transaction, tightening of the Wall Street credit market, as well as potential changes in the student lending industry, the sale of the EdFund is being postponed. It is anticipated that a

REVENUE ESTIMATES

sale will be pursued and completed in 2009-10. This reduces 2007-08 revenues by \$500 million.

The state's lottery is an underperforming asset because of numerous restraints on its operation. The May Revision proposes to place a measure on the November 2008 ballot to modernize the state's lottery, providing operational flexibility similar to lotteries in most other states. With this modernization in place, it is anticipated that bonds can be issued against increased lottery revenues to capitalize the Revenue Stabilization Fund (RSF) proposed to be created as a part of the Governor's Budget Reform proposal. When capitalized, the RSF would be available to provide \$5.122 billion in revenue for the state budget in 2008-09.

To provide for a prudent reserve, the May Revision proposes a total of \$75 million of transfers and \$574 million of loans from various special funds.

LEGISLATIVE, JUDICIAL, AND EXECUTIVE

Governmental bodies classified under the Legislative, Judicial, and Executive section of the Governor's Budget are either independent entities under the California Constitution or departments with a recognized need to operate outside of the administrative oversight and control of an agency secretary. Constitutionally established bodies include the Legislature, Judicial Branch, Governor's Office, and Constitutional Officers. This section also includes such independent entities as the Inspector General, the Office of Emergency Services, the Office of Homeland Security, and the California State Lottery.

JUDICIAL BRANCH

The May Revision includes an increase of \$1.7 million General Fund, to be transferred to the Court Facilities Trust Fund, to fund the operations and maintenance costs of 11 trial court facilities expected to transfer to state responsibility following the enactment of Chapter 9, Statutes of 2008. This funding is needed to provide for facility operational costs for additional court facilities that will transfer to the state.

OFFICE OF EMERGENCY SERVICES

The May Revision proposes to utilize \$3.5 million federal funds for critical Office of Emergency Services (OES) communications proposals previously proposed to be funded with General Fund. This proposal reflects the Office of Homeland Security's

determination that activities in the Operational Area Satellite Information System (OASIS) and Critical Communications budget change proposals can be funded with federal funds.

EMERGENCY RESPONSE INITIATIVE

The Governor remains committed to rapidly responding to emergencies and disasters that will occur in California. For this reason, the May Revision continues to propose the Emergency Response Initiative, formerly known as the Wildland Firefighting Initiative, to enhance the emergency response capabilities of the California Department of Forestry and Fire Protection (CAL FIRE), the Office of Emergency Services (OES), and the Military Department.

The significant changes since the Governor's Budget are the following:

- The surcharge, paid by those who hold insurance on all residential and commercial property statewide, will be set at two levels based on differing risk: 1.40 percent on those structures in areas designated as high-hazard zones in terms of earthquake, fire, or flood, as determined by OES and CAL FIRE risk maps, and 0.75 percent on those structures in low-hazard zones. These zones will be designated by zip code. Since homeowners, on average, pay \$900 per year to insure their home, a 1.40-percent surcharge would result in an average cost of \$12.60 per household in a high-risk zip code, and a .75-percent surcharge would result in an average cost of \$6.75 per household in a low-risk zip code to fund this initiative.
- The OES, rather than the California Department of Insurance, will be the entity responsible for administering the Emergency Response Account.
- Due to delayed implementation, this surcharge is expected to generate approximately \$69.3 million in the Emergency Response Account in 2008-09 as compared to the \$104.9 million proposed in the Governor's Budget. In order to immediately enhance the state's firefighting capabilities, the May Revision proposes a \$30 million loan to the Emergency Response Account from the Restitution Fund, to be repaid in equal annual installments, by no later than June 30, 2012.

Additional enhancements proposed in the Governor's Budget will be phased in and fully funded in 2009-10. These investments will be phased-in due to the lower projected revenues in the budget year. The revenue generated, plus the borrowed resources from the Restitution Fund, will fund the following critical needs for CAL FIRE and the OES in 2008-09:

CAL FIRE

- \$28.9 million for 1,100 seasonal firefighters to staff all 336 state fire engines with full four-member crews during peak and transition fire seasons.
- \$49.1 million to backfill CAL FIRE's General Fund budget-balancing reduction to its firefighting protection budget.

OFFICE OF EMERGENCY SERVICES

- \$1.9 million to backfill the OES' General Fund budget-balancing reduction to its Fire and Rescue Mutual Aid Response section and its Warning Center/Information Technology/Telecommunications section. Restoring these budget-balancing reductions will ensure the OES can respond to fires and use its Warning Center to notify emergency first responders.
- \$1.3 million to fund the OES' administrative costs to collect the Emergency Response Initiative surcharge from insurance companies statewide.
- \$480,000 to fund the increased maintenance and fuel costs of the OES' existing fleet of fire engines and vehicles.

TRIBAL GAMING REVENUES

The May Revision includes a revised General Fund revenue projection of \$446.7 million in 2008-09 from tribal gaming compacts, which is \$16.3 million more than the estimate included in the Governor's Budget. This change is comprised of two components:

- An increase of \$40 million to the General Fund as a result of addressing the shortfall in the Revenue Sharing Trust Fund with the Indian Gaming Special Distribution Fund, instead of using General Fund gaming compact revenue. This one-time transfer will not create a negative impact on the fund balance given that the fund can support the transfer in addition to planned expenditures.
- A reduction of \$23.7 million in anticipated General Fund revenues due to delay of the effective date of the compact between the State of California and the Sycuan Band of Kumeyaay Indians because of pending ratification by their General Council, which is expected to occur by January 2009.

LOANS AND TRANSFERS FROM SPECIAL FUNDS

The May Revision proposes loans and transfers from various special funds to provide one-time funding to the General Fund to help close the budget gap. For funds within this agency, the total loans and transfers are \$43 million and \$2 million, respectively. A loan or transfer was only proposed when there would not be an impact to the programs supported by the fund, no fee increases would be required, and no repayment would be needed prior to 2010-11.

LOANS FROM VARIOUS SPECIAL FUNDS

The May Revision proposes loans totaling \$43 million, including:

- Antiterrorism Fund—\$2 million
- Department of Justice Sexual Habitual Offender Fund—\$1 million
- False Claims Act Fund—\$6 million
- Gambling Control Fund—\$10 million
- California Debt and Investment Advisory Commission Fund—\$2 million
- California Debt Limit Allocation Committee Fund—\$2 million
- Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account—\$10 million
- Tax Credit Allocation Fee Account—\$10 million

TRANSFER FROM THE VICTIM-WITNESS ASSISTANCE FUND

The May Revision also proposes a transfer of \$2 million from the Victim-Witness Assistance Fund. With this transfer, there will be a fund balance of \$2.4 million at the end of 2008-09.

STATE AND CONSUMER SERVICES

The State and Consumer Services Agency's (SCSA) mission is to help educate consumers and make government more efficient, effective, and accountable for all California taxpayers. SCSA entities are responsible for civil rights enforcement, consumer protection, and the licensing of 2.4 million Californians in more than 255 different professions. SCSA entities provide oversight and guidance for the procurement of more than \$9 billion worth of goods and services; management and development of state real estate; operation and oversight of two state employee pension funds; collection of state taxes; hiring of state employees; provision of information technology services; adoption of state building standards; and administration of two state museums.

LOANS AND TRANSFERS FROM SPECIAL FUNDS

The May Revision proposes loans and transfers from various special funds to provide one-time funding to the General Fund to help close the budget gap. For funds within this agency, the total loans and transfers are \$186.5 million and \$50 million, respectively. The majority of the funds considered for a transfer or loan had projected reserves of at least \$5 million in 2008-09. In addition, a loan or transfer was only proposed when there would be no impact to the programs supported by the fund, when a fee increase would not be required, and when no repayment would be needed prior to 2010-11.

LOANS FROM THE DEPARTMENT OF CONSUMER AFFAIRS

BOARDS AND BUREAUS – \$126.5 MILLION

The following 13 Board and Bureau funds within the Department of Consumer Affairs include a proposed loan to the General Fund to be repaid in 2011-12 or later:

- State Board of Barbering and Cosmetology Fund – \$10 million
- Psychology Fund – \$2.5 million
- Accountancy Fund – \$16 million
- Contractors' License Fund – \$13 million
- Contingent Fund of the Medical Board of California – \$6 million
- Board of Registered Nursing Fund – \$2 million
- Pharmacy Board Contingent Fund – \$1 million
- Professional Engineers' and Land Surveyors' Fund – \$4 million
- Behavioral Science Examiners Fund – \$3 million
- Vocational Nursing and Psychiatric Technicians Fund – \$1 million
- Occupational Therapy Fund – \$3 million
- Vehicle Inspection and Repair Fund – \$25 million
- High Polluter Repair or Removal Account – \$40 million

LOAN FROM THE DEPARTMENT OF GENERAL SERVICES

The May Revision proposes a \$60 million loan from the Public School Planning, Design, and Construction Review Revolving Fund to the General Fund to be repaid after 2011-12.

TRANSFER FROM THE RESTITUTION FUND

The May Revision proposes a one-time transfer of \$50 million from the Restitution Fund to the General Fund. This transfer along with a \$30 million loan to the Emergency Response Account will result in a revised fund balance of more than \$44 million at the end of 2008-09.

BUSINESS, TRANSPORTATION, AND HOUSING

The Business, Transportation and Housing Agency oversees programs that promote the state's business and economic climate, transportation infrastructure, affordable housing, and patient's rights. The Agency also promotes public safety through the California Highway Patrol and the Department of Alcoholic Beverage Control. The majority of funding is derived from special fund revenues, federal funds, and the proceeds from Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006.

TRANSPORTATION PROGRAMS

- 2007-08 No Change
- 2008-09 \$126.1 million Other Funds

CAPITAL OUTLAY SUPPORT STAFFING

The Department of Transportation traditionally submits a zero-based request for Capital Outlay workload as part of the May Revision. This request is based on anticipated project allocations by the California Transportation Commission for the upcoming year and associated workload. The May Revision reflects a decrease of \$26.1 million in state special funds and bond funds, reflecting a decrease in workload due to declining gas tax revenues, and being close to peak workload for bond-funded projects. Approximately 89 percent of the decrease will come from a reduction of 247 positions and 11 percent will come from a reduction of 22 contract positions.

**GAS EXCISE TAX REVENUE – EFFECT ON STATE HIGHWAY
OPERATION AND PROTECTION PROGRAM**

Funding for the State Highway Operation and Protection Program (SHOPP) is \$100 million less than proposed in the Governor's Budget due to further declines in projections for gasoline excise tax (per gallon) revenues (gasoline usage year over year also is down). Total excise tax revenues are projected to be \$225 million lower in 2008-09, but \$125 million in carryover funds from 2007-08 will be available to offset part of the shortfall. Total funding for the SHOPP will be approximately \$2.5 billion in 2008-09.

**PUBLIC TRANSPORTATION ACCOUNT,
MASS TRANSPORTATION FUND**

- 2007-08 No Change
- 2008-09 -\$828 million General Fund
- -\$437 million Other Funds

A portion of the revenue in the Public Transportation Account (PTA) is derived from "spillover" sales tax on gasoline. "Spillover" revenues occur when revenue derived from gasoline sales taxes is proportionately higher to revenue derived from all taxable sales pursuant to a statutory formula. These revenues generally reflect higher gas prices. The Governor's Budget projected \$909 million in spillover revenues for 2008-09. The May Revision reflects an increase of \$268 million, for a total of \$1.177 billion. Additionally, revenues from sales taxes on diesel fuel and Proposition 111 sales tax on gasoline are projected to increase from \$434 million to \$558 million. Revenues under Proposition 42 are projected to decrease from \$1.49 billion to \$1.43 billion.

Current law requires specified sales tax revenues on fuel go to the PTA, including half of the spillover sales tax revenues. The remaining half of spillover revenues goes to the Mass Transportation Fund to reimburse the General Fund for transportation-related debt service and loan repayments. The Governor's Budget did not propose any changes to these formulas.

The May Revision proposes to amend current law by funding the State Transit Assistance Program at \$306 million, the same level as the current year. Increased revenue projections for diesel fuel taxes and spillover totaling \$828 million are proposed to offset General Fund expenditures for K-12 home-to-school transportation (\$593 million reflected

in the Education portion of the Budget) and debt service on current and prior year transportation-related General Obligation bonds (\$235 million).

SECRETARY FOR BUSINESS, HOUSING AND TRANSPORTATION

- 2007-08 No Change
- 2008-09 \$2.0 million General Fund

CALIFORNIA PARTNERSHIP FOR THE SAN JOAQUIN VALLEY

The May Revision proposes \$2 million General Fund to be transferred to the California Economic Development Fund, created by Chapter 631, Statutes of 2007, to continue the implementation of the 10-Year San Joaquin Valley Strategic Action Proposal. Funding will sustain a public-private partnership to promote economic development, workforce development, education, transportation, land use and environmental issues. The California Economic Development Fund will allow state funding to complement potential federal, local, and private funds

HIGH-SPEED RAIL AUTHORITY

- 2007-08 No Change
- 2008-09 \$41.2 million Other Funds

In November, voters will have the opportunity to approve a \$9.9 billion bond for high-speed rail. While the Authority's current long-term plans could cost \$40 billion, it is expected that local and federal sources, as well as private investment, will provide the rest of the funding for construction of high speed rail. The High-Speed Rail Authority projects that once train service is operational, it will be self-supporting from fares.

- The May Revision includes \$10 million from the Public Transportation Account to sustain current engineering and project management work and mobilize contract resources for all corridors, prior to the election. The May Revision also proposes to appropriate \$8.2 million from Proposition 116 for additional environmental studies and engineering work on the Fresno-to-Sacramento segment. An additional \$23 million is proposed to be appropriated from the bond fund to continue work after the election.

The Administration will be proposing amendments to the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century to ensure an appropriate balance between

assuring that expenditures of the bond funds will result in operational high-speed rail services and providing the flexibility needed to attract federal and local government, as well as private sector, participation in funding, constructing, and operating the system. The following changes to the bond legislation are being proposed.

- Limit the amount of bond funding that may be used for engineering work, environmental studies needed to obtain permits, and preservation of right-of-way to enable project costs to be more accurately determined and project risk to be reduced before other parties' funds are fully committed. This will help pave the way for public and private partners to participate in the project, while limiting the amount of bond funds at risk.
- Before any construction or equipment purchase contracts can be signed for a portion of the system, there must be a complete funding plan that provides assurance that all funding needed to provide service on that portion of the system is secured.

LOANS FROM SPECIAL FUNDS

- 2007-08 No Change
- 2008-09 -\$288.7 million General Fund

\$288.7 million Other Funds

The May Revision proposes loans from various special funds to provide one-time funding to the General Fund to help close the budget gap. Loans from funds in the BTH Agency total \$288.7 million as noted below. The loans are proposed only from those funds in which the loss of revenue will not result in any impact to the programs supported by the fund, will not require fee increases, and will not need to be repaid prior to 2010-11. Budget Trailer legislation is proposed to provide the State Highway Account authority to borrow from the Pooled Money Investment Account to reduce the need to carry a large cash balance.

TRANSPORTATION LOANS—\$238.1

- State Highway Account, State Transportation Fund—\$200 million
- Local Airport Loan Account—\$14.9 million
- Motor Vehicle Fuel Account—\$8 million

BUSINESS, TRANSPORTATION, AND HOUSING

- Bicycle Transportation Account, State Transportation Fund—\$6 million
- Environmental Enhancement and Mitigation Program Fund—\$4.4 million
- Historic Property Maintenance Fund—\$3 million
- Pedestrian Safety Account, State Transportation Fund—\$1.8 million

OTHER SPECIAL FUND LOANS — \$50.6

- Financial Institutions Fund – \$1.5 million
- State Corporations Fund – \$1.5 million
- Mobilehome Park Revolving Fund – \$2.5 million
- Mobilehome-Manufactured Home Revolving Fund – \$1 million
- Joe Serna, Jr. Farmworker Housing Grant Fund—\$1.2 million
- Housing Rehabilitation Loan Fund—\$12.9 million
- Real Estate Appraisers Regulation Fund—\$16.6 million
- Real Estate Fund—\$12.2 million
- New Motor Vehicle Board Account—\$1.2 million

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RESOURCES

The May Revision proposes an additional \$72.5 million in General Fund savings in the Resources area. These savings will be achieved by shifting funding for Colorado River water management projects and Habitat Conservation Fund projects to bond funds, as well as providing loans and transfers from various special funds to the General Fund. In addition, the May Revision proposes to provide funding for the Department of Parks and Recreation to ensure that all state parks remain open to the public and state beaches are staffed with seasonal lifeguards.

ADDITIONAL GENERAL FUND SAVINGS

The May Revision proposes to shift \$13.5 million from the General Fund to Proposition 84 bond funds for Colorado River water management projects. Existing law committed \$235 million General Fund for various water management projects, including the lining of the All American Canal, to reduce California's annual use of Colorado River water. The Governor's Budget proposed \$13.5 million General Fund for this purpose. This amount represents the remaining balance of the state's commitment toward completion of the projects. Proposition 84 provides \$1 billion for integrated regional water management projects. The Colorado River water management projects are eligible for these funds.

The May Revision also proposes to shift \$20.4 million of the required annual transfer to the Habitat Conservation Fund from the General Fund to Proposition 1E bond funds. Proposition 117, approved by the voters in 1990, requires an annual transfer of \$30 million

RESOURCES

to the Habitat Conservation Fund for the acquisition and restoration of habitat. The Governor's Budget proposed \$20.4 million General Fund toward this purpose, with the remaining amount funded from various other funds. Proposition 1E provides \$290 million for the enhancement of flood protection corridors, including projects that preserve the wildlife value of the properties. These funds are eligible to meet the Habitat Conservation Fund transfer requirement.

PROVIDE FUNDING FOR STATE PARKS

The May Revision proposes \$13.3 million in funding for the Department of Parks and Recreation. The Governor's Budget proposed a \$13.3 million General Fund reduction, which would have resulted in closing 48 state parks and reducing seasonal lifeguards at state beaches by a minimum of 50 percent. This proposal will provide \$11.8 million General Fund and \$1.5 million from increased state park fees to keep parks open. The fee increases will range from \$1 to \$2 at selected state parks where the effect on attendance would be minimal.

LOANS AND TRANSFERS FROM SPECIAL FUNDS

The May Revision proposes loans and transfers from various special funds to provide one-time funding to the General Fund to help close the budget gap. For funds within the Resources Agency, the total loans and transfers are \$30.4 million and \$8.2 million respectively.

LOANS FROM SPECIAL FUNDS — \$30.4 MILLION

- Renewable Resources Trust Fund—\$10.9 million
- Oil Spill Prevention and Administration Fund—\$13.0 million
- Hatchery and Inland Fisheries Fund—\$4.0 million
- California Waterfowl Habitat Preservation Account—\$2.5 million

TRANSFERS FROM SPECIAL FUNDS — \$8.2 MILLION

- Coastal Wetlands Account—\$4.7 million
- Environmental Water Fund—\$2.4 million
- California Water Fund—\$1.1 million

ENVIRONMENTAL PROTECTION

The May Revision proposes an additional \$49.7 million Special Funds to achieve surplus emission reductions from on- and off-road heavy-duty vehicle and equipment projects, as well as funding to support cost recovery litigation and enforcement cases related to hazardous waste sites and illegal disposal.

- 2007-08 No Change
- 2008-09 \$49.7 million

FINANCIAL INCENTIVE PROGRAM FOR SURPLUS EMISSION REDUCTIONS

The Air Resources Board (Air Board) proposes to spend \$48.7 million from the Air Quality Improvement Fund on a one-time basis to fund financing programs, including loans and loan guarantees to assist heavy-duty mobile pollution source fleets affected by the Air Board's new emission control rules. The financing program is intended to leverage state funding at a ratio of seven to one. The program will facilitate early action on regulatory compliance, ensuring critical emission reductions are achieved in an expedited manner.

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HEALTH AND HUMAN SERVICES

The May Revision continues to provide a safety net of essential services and supports for California's most vulnerable residents and targets investments in specific areas to improve the health and safety of Californians. Due to the state's deepening fiscal difficulties, the May Revision includes additional reductions aimed at restoring the state's fiscal balance while maintaining essential services.

DEPARTMENT OF HEALTH CARE SERVICES

- 2007-08 \$31.1 million
- 2008-09 \$342.6 million

MEDI-CAL

CURRENT YEAR

The May Revision reflects total Medi-Cal expenditures of \$36.6 billion (\$14.1 billion General Fund), a decrease of \$353.2 million (an increase of \$12.7 million General Fund) from the Governor's Budget. General Fund expenditures for Medi-Cal have increased by \$427.7 million, or 3.1 percent over the 2006-07 level.

The average monthly Medi-Cal caseload is expected to decrease by 1,200 beneficiaries to 6,636,500 eligibles, which is a decrease of 0.02 percent from the level projected

in the Governor's Budget. This revised caseload is 0.6 percent higher than the 2006-07 caseload.

The net General Fund decrease from the Governor's Budget level includes the following significant adjustments:

- \$16.0 million will be transferred from Medi-Cal to the Genetically Handicapped Persons Program (GHPP) and \$3.4 million to the California Children's Services (CCS) Program to cover current-year cost increases. Treatment costs, especially those for hemophilia, have greatly increased in the GHPP, and CCS continues to experience growth in its treatment and therapy costs (see issue below in the Family Health section for greater detail).
- \$102.7 million decrease due to changes in the timing of the receipt of federal financial participation (FFP) for interim payments to Designated Public Hospitals (DPHs). These payments are initially paid with 50 percent General Fund and 50 percent federal funds. On a quarterly basis, these payments are adjusted to 100 percent federal funding. The Department of Health Care Services (DHCS) will implement system changes in the current year that will allow the adjustment to occur on a weekly basis instead of quarterly.
- \$47.6 million increase to reflect a loss of savings from various proposed current year Budget Balancing Reductions (BBRs) that have not been adopted. These include the elimination of certain optional Medi-Cal benefits, stopping the payment of Medicare Part B premiums for beneficiaries who do not meet their share of cost, and a delay in the implementation of the 10-percent provider rate reduction to July 1, 2008.

BUDGET YEAR

The May Revision includes total Medi-Cal expenditures of \$37.2 billion (\$13.9 billion General Fund), a net total funds increase of \$1,172.5 million (\$315.7 million General Fund) from the Governor's Budget. General Fund expenditures are expected to decrease by \$169.1 million, or 1.2 percent, over the revised 2007-08 level.

The average monthly Medi-Cal caseload is expected to increase from the Governor's Budget by 22,900 beneficiaries, or 0.3 percent, to 6,586,700 eligibles.

The net General Fund increase from the Governor's Budget level includes the following significant adjustments:

- \$13.0 million decrease due to the delayed implementation of Chapter 328, Statutes of 2006 which authorized simultaneous pre-enrollment and application process for uninsured women in the Women, Infants, and Children program into Medi-Cal, allowed presumptive eligibility, and a two-county pilot that would allow Medi-Cal beneficiaries to self-certify their income.
- \$42.0 million decrease by implementing a monthly eligibility requirement for emergency services for undocumented immigrants.
- \$86.7 million decrease by limiting benefits for newly qualified immigrants and immigrants who permanently reside under the color of law (PRUCOL) to the same level as currently provided for undocumented immigrants. Benefits retained include emergency services, pregnancy-related services, long-term care in a nursing facility, and breast and cervical cancer treatment.
- \$31.2 million decrease from the rollback of the allowable income level for persons applying for Section 1931(b), which provides Medi-Cal eligibility to families with low-incomes who meet eligibility requirements. The qualifying level would be lowered to 61 percent of the federal poverty level (FPL) and employment would be defined as the principal wage earner working less than 100 hours a month. Parents with higher incomes who meet the resource and status requirements would be eligible for the medically needy program under Medi-Cal. Savings from this proposal will be phased in and will increase to \$342.5 million in 2011-12.
- \$173.1 million increase due to an erosion of savings from various proposed budget balancing reductions. Adjustments to the savings amount also reflect updated caseload estimates and expenditure data, technical corrections, and a delay in enactment until July 1, 2008.
- \$22.4 million increase to reflect the revised estimate of the August 2008 cost-of-living adjustment to 4.9 percent for Skilled Nursing Facilities (SNFs). More recent data reflect higher-than-anticipated growth in labor costs.
- \$169.8 million increase to fund rate adjustments for Medi-Cal managed health care plans. The amounts of the rate adjustments were derived by utilizing an experience-based, plan-specific methodology that was implemented in 2007-08 and is the minimum amount needed to ensure matching federal funds for the Medi-Cal managed care program.

HEALTH AND HUMAN SERVICES

- \$800,000 increase to fund Screening and Brief Intervention, which will allow medical providers to screen Medi-Cal patients in an emergency department setting for non-dependent substance abuse, provide a brief intervention and, as necessary, refer patients for appropriate services. It is estimated that this change will result in General Fund cost avoidance of \$1.2 million in 2009-10, increasing to \$2.5 million annually thereafter by reducing the number of beneficiaries who progress to the utilization of more expensive drug and alcohol addiction programs. Evaluations of other states, including Washington State, have shown screening and brief intervention to be cost effective.
- \$1.5 million increase to establish the Beneficiary Utilization Review (BUR) Unit. The purpose of the BUR will be to review overuse and abuse of prescription drugs by Medi-Cal beneficiaries. These identified beneficiaries will be assigned to a single primary care physician to ensure that they only get the medical care and services they need. If DHCS determines providers or beneficiaries have been acting in a fraudulent manner, those cases will be referred to the Attorney General or District Attorney offices, respectively. It is anticipated that these efforts will result in substantial savings in unnecessary prescription drug costs.
- \$11.3 million decrease by reducing non-contracted hospital rates. Rates paid to general acute care hospitals for inpatient services will be reduced to the lower of the average regional rate or tertiary rate established by the California Medical Assistance Commission (CMAC) minus five percent or to the non-contracted hospital's interim rate minus 10 percent as enacted by Chapter 3, Statutes of 2008. Hospitals participating in the Selective Provider Contracting Program will be exempt and rural hospitals will remain at their interim rate minus 10 percent consistent with Chapter 3, Statutes of 2008. Similar trailer bill language is proposed for Medi-Cal managed care to reduce the rate of growth in Medi-Cal managed care rates in 2009-10 and thereafter. This proposal is intended to remove the disincentive that exists for contracting with Medi-Cal and to provide cost avoidance related to hospital rates.
- A net increase of \$324,000 for Medi-Cal's fiscal intermediary to hire additional pharmacy consultants to process treatment authorization requests (TARs). These positions will address the backlog in TARs and reduce the need for auto-adjudication, which will result in General Fund savings of \$272,000 in 2008-09, increasing to an annual savings of \$2.3 million.
- \$102.7 million increase attributable to the new interim rate payment process for Designated Public Hospitals (See issue in Current Year section for more detail).

Other Items of Interest:

- Fee for Service Improvements in Medi-Cal—Slowing the rate of growth in health care expenditures is an essential component of efforts to restore the state's fiscal balance and to achieve the coverage for all Californians. The Medi-Cal program is the largest purchaser of health care in California. Medi-Cal spending is concentrated among a small segment of enrollees, the majority of whom have complex chronic medical conditions, coupled with additional conditions, including behavioral health conditions. Five percent of Medi-Cal enrollees incur sixty percent of all fee-for-service (FFS) Medi-Cal expenditures. Two percent of the most expensive enrollees incur more than forty percent of all FFS Medi-Cal benefit expenditures. These statistics underscore the need to look carefully at the health care needs of persons with serious health conditions to assure that the right care is delivered at the right time in the right setting to maximize health outcomes and contain overall costs. Nationally, state Medicaid programs are using a variety of approaches to improve care delivery in their FFS programs. Emphasizing prevention and increased use of primary care services offers the promise of better health outcomes and slower rates of growth in costs. The Administration is committed to working with the Legislature and stakeholders to identify enhancements to the Medi-Cal FFS system that improve health outcomes and slow the overall rate of cost growth.
- DHCS will enter into a competitive bid procurement process to contract with an organization on a pay-for-performance basis in an effort to reduce durable medical equipment (DME) costs. The vendor will be paid only if cost savings are achieved. The maximum payment would be \$1 million, paid on a dollar-for-dollar basis from actual savings. Savings achieved beyond the \$1 million threshold will go to the state.
- Budget trailer bill language is proposed to implement the Public Assistance Reporting Information System (PARIS) pilot project. The purpose of the project is to improve the identification of the subset of Medi-Cal beneficiaries who are also veterans and who may be eligible for duplicative services. The DHCS will implement this project with existing resources beginning in 2008-09.

FAMILY HEALTH ESTIMATES

CURRENT YEAR

The Family Health Program is comprised of the California Children's Services (CCS), the Child Health and Disability Prevention (CHDP) program, and the Genetically Handicapped Persons Program (GHPP). The May Revision includes \$301.9 million

HEALTH AND HUMAN SERVICES

(\$156.3 million General Fund), a net increase of \$20.4 million (\$18.4 million General Fund) from \$281.5 million provided in the Governor's Budget. The change primarily is due to increased costs of treatment for beneficiaries with hemophilia. The General Fund increase from the Governor's Budget level includes the following significant adjustments:

- \$16.0 million will be transferred from Medi-Cal to GHPP to cover a projected funding shortfall from the 2007 Budget Act due to increased treatment costs of hemophilia, which makes up to 90 percent of the costs of the GHPP. The GHPP served approximately 477 beneficiaries with hemophilia in 2007-08. Treatment for hemophilia is expensive and episodes of bleeding for a few beneficiaries can significantly increase health care costs for the program. This funding shortfall will be addressed by transferring funds from Medi-Cal to the GHPP program.
- \$3.4 million will be transferred from Medi-Cal to CCS, which has a projected \$3.7 million General Fund funding shortfall from the 2007 Budget Act (\$2.1 million above the Governor's Budget) in the California Children's Services (CCS) program for caseload growth and increased costs for treatment and therapy services. This funding shortfall will be resolved by transferring funds from Medi-Cal to the CCS program. The remaining \$0.3 million of the shortfall will be funded through savings in the CHDP program.

BUDGET YEAR

The May Revision includes \$313.5 million (\$134.8 million General Fund), a net increase of \$26.1 million (\$25.2 million General Fund) from the \$287.5 million provided in the Governor's Budget. The net General Fund increase from the Governor's Budget level includes the following significant adjustments:

- \$19.5 million increase to cover caseload growth and increased costs of service in GHPP. The May Revision also includes proposals to contain costs in the GHPP, including:
 - Negotiate supplemental rebates from blood factor manufacturers, for increased General Fund revenue of \$250,000 in 2008-09;
 - Statutory change to allow the DHCS to contract directly with pharmacies; and
 - System changes that will allow for improved tracking of blood factor utilization to ensure proper billing for manufacturers' rebates.

- \$6.0 million increase in the CCS program for caseload growth and increased costs for treatment and therapy services.

DEPARTMENT OF PUBLIC HEALTH

- 2007-08 No Change
- 2008-09 \$0.1 million

AIDS DRUG ASSISTANCE PROGRAM

The May Revision includes \$325.3 million to fund the AIDS Drug Assistance Program (ADAP), which is 16.2 percent above the \$280.0 million identified in the Governor's Budget. The ADAP will serve nearly 34,256 clients in 2008-09, approximately 1,400 clients above revised current year caseload estimates.

CIGARETTE AND TOBACCO PRODUCTS SURTAX FUND-PROPOSITION 99

The May Revision projects decreased Proposition 99 revenue of \$7.0 million in 2007-08, and \$15.0 million in 2008-09, for revised total revenues of \$320.0 million in the current and budget years. The projected decrease in Proposition 99 revenue is primarily attributable to larger annual declines in cigarette consumption than had been assumed in the Governor's Budget, based on an analysis of historical consumption data. In addition, the forecast reflects a modest downward adjustment in the 18-to-64 population. The revised 2007-08 projection also incorporates updated data on cash collections.

Due to the decrease in revenues, the May Revision reflects decreases in funding for the California Healthcare for Indigents Program and the Rural Health Services program totaling \$3.0 million in 2007-08 and \$9.8 million in 2008-09. The reductions will not affect funding for the Managed Risk Medical Insurance Program and the Access for Infants and Mothers program. These programs are being adjusted for caseload changes only.

MANAGED RISK MEDICAL INSURANCE BOARD

- 2007-08 \$2.3 million
- 2008-09 \$2.1 million

HEALTHY FAMILIES PROGRAM

CURRENT YEAR

The May Revision projects an overall expenditure increase of \$5.6 million (\$2.3 million General Fund and \$3.3 million other funds), to \$1.1 billion (\$395.8 million General Fund), from the level anticipated in the Governor's Budget. The Healthy Families Program (HFP) is expected to serve a total of 880,999 children by June 30, 2008, a decrease of 27,913, or 3.1 percent, from June 30, 2007. Funding increases are primarily due to an increase in the average statewide capitation rate paid per enrollee. The average statewide rate may vary as enrollees shift among the 21 health plans available to subscribers, as some plans have higher capitation rates than others.

BUDGET YEAR

Between June 2008 and June 2009, enrollment in the HFP is projected to grow from 880,999 children to 935,482 children, a 6.2-percent increase. This is a decrease of 18,770 children compared to the projection at Governor's Budget. The May Revision projects an overall expenditure increase of \$5.8 million (\$2.1 million General Fund), to \$1.1 billion (\$389.9 million General Fund), from the level anticipated in the Governor's Budget. The General Fund increase from the Governor's Budget level includes the following significant adjustments:

- \$4.8 million increase due to the loss of savings associated with the delay of the enactment of the HFP Budget Balancing Reductions.
- \$1.9 million decrease related to delaying implementation of Chapter 328, Statutes 2006. Upon implementation, HFP beneficiaries will be able to self-certify their income at annual eligibility redetermination.

ACCESS FOR INFANTS AND MOTHERS PROGRAM

CURRENT YEAR

The May Revision projects an overall expenditure decrease of \$4.4 million (\$2.5 million federal funds and \$1.9 million Perinatal Insurance Fund) from the level anticipated in the Governor's Budget, to \$130.2 million. This 3.3-percent decrease in total funds is primarily due to a decrease in expected enrollment, offset by an increase in capitation rates. Average monthly enrollment in the Access for Infants and Mothers (AIM) program is expected to be 1,054 women, 8.7 percent lower than the 1,155 originally estimated in the Governor's Budget.

BUDGET YEAR

The May Revision projects an overall expenditure decrease of \$7.2 million (\$3.9 million federal funds and \$3.3 million Perinatal Insurance Fund) from the level anticipated in the Governor's Budget. This decrease of 4.7 percent in total funds is largely due to a decrease in expected enrollment. Average monthly enrollment in the AIM program is expected to be 1,159 women, a decrease of 12.2 percent from the 1,320 originally estimated in the Governor's Budget.

COUNTY HEALTH INITIATIVE MATCHING FUND PROGRAM

The County Health Initiative Matching Fund Program allows county or local public agency funds to be used to match unused federal State Children's Health Insurance Program funds to provide health care for uninsured children in families with incomes up to 300 percent of the federal poverty level. These county programs are frequently referred to as Healthy Kids Programs. Expenditures are expected to decrease by \$90,000 (\$31,000 county funds and \$59,000 federal funds) in 2007-08 and by \$90,000 (\$32,000 county funds and \$58,000 federal funds) in 2008-09 due to updated county caseload and expenditure information.

DEPARTMENT OF DEVELOPMENTAL SERVICES

- 2007-08 -\$110.8 million
- 2008-09 \$67.9 million

DEVELOPMENTAL CENTERS

CURRENT YEAR

At 2,620 residents, the average Developmental Center (DC) population remains unchanged from the Governor's Budget projection.

Agnews Developmental Center Closure – The May Revision includes Budget Bill Language to reappropriate 2007-08 General Fund savings in the Regional Center and Developmental Center budgets to 2008-09 to fund the cost of consumers who will remain at Agnews Developmental Center past the June 30, 2008 closure date. The actual amount required for reappropriation will be based on the number of consumers residing at Agnews Developmental Center after June 30, 2008 and their individual service needs and costs; however, the May Revision includes a \$22 million reappropriation to reflect the

best estimate at this time. The number of consumers residing at Agnews Developmental Center on May 1, 2008 was 157.

It is anticipated that funds appropriated in 2007-08 to provide services in the community for consumers who have not yet moved and funds available for employee costs associated with the closure are available for reappropriation. These funds are being reappropriated to 2008-09 to cover the costs of developmental center services, employee costs associated with closure and regional center placement costs in 2008-09.

BUDGET YEAR

The average DC population is projected to decrease by 45 residents over the Governor's Budget projection, to 2,404 residents to reflect the Budget Balancing Reduction (BBR) which caps the resident population at the Porterville Developmental Center's (DC) Secured Treatment Program (STP). The May Revision includes the following changes:

- Staffing—The May Revision includes a decrease of 70.6 positions attributable to the Governor's Budget BBRs, which reflected a reduction in positions. The May Revision reconciles the position authority, primarily at the Porterville DC, to reflect a decrease of 57 positions due to a capped resident population at the Porterville DC's STP, a decrease of 13 positions at the Porterville DC Office of Protective Services, and a decrease of 0.6 positions in Regional Resource Development Projects.
- Foster Grandparent Program – The May Revision includes a decrease of \$21,000 in federal funds for the Foster Grandparent Program, which receives funds from Senior Corps. For federal fiscal year 2008, the funding allocated by the federal government included a 1.747-percent across-the-board rescission to this grant. California's share of this reduction is \$21,000.
- Other Fund Technical Adjustments – The May Revision includes an increase of \$42,000 in Reimbursements to reflect an adjustment to Other Funds amounts since the Governor's Budget.

REGIONAL CENTERS

CURRENT YEAR

Compared to the Governor's Budget, Regional Center community caseload is projected to decrease by 586 consumers, to 221,069 consumers. The May Revision includes a net decrease of \$53.3 million (\$88.8 million General Fund) for Regional Centers to reflect updated caseload and expenditure data. The May Revision reflects increased federal

funds, reimbursements, and Public Transportation Account (PTA) funds of \$35.5 million, which offset the General Fund and thus reduces the General Fund increase from the 2008-09 Governor's Budget. The May Revision reflects the following:

- Early Start/Part C Grant – The May Revision reflects an increase of \$19.8 million federal funds in 2007-08 and a corresponding decrease in General Fund by accelerating the drawdown of Early Start federal grant funds.
- Transportation – The May Revision reflects an increase of \$6.2 million from the PTA funds to reflect updated transportation expenditures.
- Reversion of Current Year Savings – The May Revision reflects General Fund savings of \$88.8 million in 2007-08, in part due to the increased federal funds, reimbursements, and PTA funds totaling \$35.5 million. The savings will be reverted to the General Fund effective June 30, 2008.

BUDGET YEAR

Compared to the Governor's Budget, Regional Center community caseload is projected to decrease by 2,450 consumers, to 229,675 consumers. The May Revision includes a net increase of \$150.4 million (\$45.9 million General Fund), reflecting the following changes:

- Purchase of Services – The May Revision provides a net increase of \$124.5 million (increase of \$8.2 million General Fund) to fund projected Regional Center expenditures for residential and other services. These services include Community Care Facilities, Health Care, Health Facilities, In-Home Respite, and Day Programs. Utilization and costs for services are estimated to increase by 3.8 percent over the Governor's Budget. This is due to funding adjustments and factors such as an increase in the number of consumers dually diagnosed with mental health conditions, an increase in persons diagnosed with autism spectrum disorders, and increased need for support services.
- Operations—The May Revision reflects an increase of \$4.8 million (\$22.8 million General Fund) due to funding adjustments and increased Early Start staffing resulting from projected increased eligibility assessments of approximately 823 cases since the Governor's Budget.
- Early Start/Part C Grant – The May Revision reflects an increase of \$13.9 million federal funds in 2008-09 and a corresponding decrease in General Fund by accelerating the draw down of Early Start federal grant funds.

HEALTH AND HUMAN SERVICES

- Impacts of Reductions in Other Departments – The May Revision includes \$21.1 million (\$14.9 million General Fund) to reflect the impacts of reductions in the Department of Social Services and the Department of Health Care Services.
- Transportation—The May Revision includes a reduction of \$2.6 million in PTA funds based on updated Transportation expenditures.

DEPARTMENT OF MENTAL HEALTH

- 2007-08 -\$0.1 million
- 2008-09 -\$34.7 million

LONG-TERM CARE / STATE HOSPITALS

CURRENT YEAR

The May Revision reflects no change from the 2008-09 Governor's Budget. However, during the 2007-08 Third Extraordinary Special Session, \$12.6 million General Fund was reduced from the Department of Mental Health's (DMH's) budget in March 2008 to account for the fact that caseload for the Sexually Violent Predator (SVP) population was not materializing as projected.

BUDGET YEAR

Funding for long-term care and state hospitals is anticipated to decrease by \$31.1 million General Fund compared to the Governor's Budget. The change is comprised of the following adjustments:

- State Hospital Population:
 - The May Revision reflects a decrease of \$13.3 million General Fund to reflect a lower projected caseload for the SVP population.
 - A decrease of \$24.7 million General Fund to reflect full-year impact of the current year reduction in the state hospital population by 225 patients.
 - A decrease of \$328,000 General Fund associated with Phase IX of the Coalinga State Hospital (CSH) Activation, which was requested in the fall State Hospital Population Estimate. The DMH revised the estimated population at CSH for 2008-09 to 825 patients and subsequently reduced the number of non-level-of-care staff to reflect this change.

- An increase of \$6.7 million General Fund to support a 64-bed expansion at the Salinas Valley Psychiatric Program (SVPP). The expansion includes both the level-of-care and non-level-of-care positions necessary to meet the *Coleman* court's expectation that the facility be fully staffed within four months of the first admission, which will take place on November 30, 2008.
- Forensic Conditional Release Program (CONREP): The May Revision includes an increase of \$0.6 million General Fund to support alternative placements for SVPs. There are currently 11 SVPs who are either scheduled to be released into CONREP and are awaiting placement in the community, or who have filed petitions with the Court for conditional release. The DMH anticipates that alternative placement will be required for a total of 4 SVPs in the budget year.

COMMUNITY MENTAL HEALTH SERVICES

CURRENT YEAR

The May Revision reflects a net increase of \$110.5 million (\$54,000 General Fund decrease and \$110.6 million increase in reimbursements) for community mental health services relative to the Governor's Budget. The adjustments include the following:

- Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program – The May Revision includes an increase of \$113.1 million in reimbursements due to a change from cash-based accounting to accrual-based accounting.
- Healthy Families Program – The May Revision includes a decrease of \$2.6 million (\$54,000 General Fund and \$2.5 million in reimbursements) due to a decrease in forecasted claims for the current year.

BUDGET YEAR

The May Revision includes a net increase of \$24.7 million (\$3.6 million General Fund decrease and \$28.3 million increase in reimbursements) for community mental health services relative to the Governor's Budget. The major adjustments include the following:

- Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program —The May Revision includes an increase of \$31.1 million (\$3.5 million General Fund decrease and \$34.6 million reimbursements increase). This includes the following adjustments:

HEALTH AND HUMAN SERVICES

- A decrease of \$57.2 million (\$27.8 million General Fund and \$29.4 million in reimbursements) due to lower-than-projected EPSDT claims.
- An increase of \$13.4 million in reimbursements due to the change from cash-based accounting to accrual-based accounting.
- An increase of \$17.2 million (\$8.6 million General Fund and \$8.6 million in reimbursements) due to delays in implementing proposed budget balancing reductions (BBR) and adjustments to the BBRs based on the new EPSDT claims information.
- An increase of \$57.7 million (\$15.7 million General Fund and \$42 million in reimbursements) due to the 2005-06 cost settlement. This is an estimated amount because final settlement amounts have not been received for all counties, including Los Angeles.
- Healthy Families Program (HFP)—The May Revision includes a decrease of \$6.4 million (\$171,000 General Fund and \$6.3 million in reimbursements), primarily due to lower than projected HFP claims

DEPARTMENT OF SOCIAL SERVICES

- 2007-08 \$42.6 million
- 2008-09 \$118.0 million

CALWORKS

The 2007-08 average monthly CalWORKs caseload of 460,119 represents an increase of 0.1 percent from 2006-07, and an increase of 1.9 percent from the Governor's Budget estimate. Absent the program changes described below, the average monthly caseload in this program is estimated to be 459,744 in 2008-09, a 0.1 percent decrease over the 2007-08 projection. The proposed changes to CalWORKs are estimated to reduce the 2008-09 caseload projection to 386,871 families, a 16.0 percent decrease from the 2007-08 estimate. Combined federal Temporary Assistance for Needy Families (TANF) Block Grant and state and county maintenance-of-effort expenditures in 2007-08 and 2008-09 are anticipated to be \$6.7 billion.

The May Revision continues to reflect the Administration's January proposals for major CalWORKs reform measures that emphasize work participation and personal responsibility and improve the state's ability to meet federal requirements.

The May Revision also incorporates additional program reductions and transfers necessary to maintain the CalWORKs program within the limits of federal TANF funding and General Fund Maintenance-of-Effort (MOE) requirements. The final federal TANF regulations issued in February 2008 disallowed many of the expenditures that California had been counting towards its MOE requirement. In order to offset this disallowance, the May Revision reflects the exchange of TANF funds for General Fund that is currently expended in other TANF-qualifying programs. This proposal allows California to continue to meet federal MOE requirements without increasing overall state General Fund expenditures. The following programs participate in the TANF-General Fund exchanges:

- CalGrants (\$223 million)
- Probation (\$151.8 million)
- Emergency Assistance Foster Care (\$50.4 million)
- Increased Title XX transfer to Department of Developmental Services (\$22.2 million).

Higher caseloads and costs per case, and an erosion of the savings assumed in the Governor's Budget for certain proposals, will create a TANF shortfall in the CalWORKs program of \$376 million. The following changes are proposed to maintain program expenditures at the level of available TANF and MOE funding:

- Eliminate 2008-09 Cost of Living Adjustment (\$131 million—\$20 million taken in special session, \$111 million additional proposed in May Revision)
- Five percent grant reduction (\$108.2 million).
- Self-Sufficiency Reviews (\$59.7 million; see below for details)
- Eliminate County Pay-for-Performance Incentive (\$40 million)
- Use Unspent Performance and Fraud Incentives funding to offset General Fund (\$20.6 million)
- Implement the Regional Market Rate for Child Care in January 2009 and limit reimbursement rates to the 75th Percentile (\$19.4 million)

- Eliminate the TANF Reserve (\$13.0 million)

In order to move the state closer to meeting federal work participation requirements, the May Revision includes three proposals to benefit the work participation rate calculation:

- Pre-Assistance Employment Readiness System (PAERS) is proposed as a four-month, pre-CalWORKs program for all new or returning CalWORKs participants. The program will be designed to accelerate efforts in assisting applicants to secure employment and avoid entry into CalWORKs and develop a work plan as a condition of eligibility for CalWORKs for those applicants who are unable to secure employment during the PAERS program.
- Institute a face-to-face self-sufficiency review every six months with a county worker for CalWORKs families who are not meeting work requirements. The review will assess what services or resources may be necessary to address barriers that are preventing participation and help remove a family's dependence upon public assistance.
- Transfer \$5 million in TANF to the Boys and Girls Club in order to count an estimated \$88 million in additional expenditures as excess MOE.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PAYMENT PROGRAM

Total General Fund expenditures for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program are \$3.6 billion in 2007-08, representing an increase of \$4.6 million compared to the Governor's Budget. SSI/SSP General Fund expenditures for 2008-09 are \$3.5 billion, a decrease of \$213.4 million from the Governor's Budget. Caseload for the SSI/SSP program is projected at 1,247,575 recipients in 2007-08 and 1,274,000 recipients in 2008-09, a year-to-year caseload growth of 2.1 percent.

The May Revision includes a proposal to retain the January 2009 federal SSI COLA, rather than pass it through to recipients, as part of a package of additional reductions made necessary by the state's current fiscal condition. This will provide additional savings of \$108.8 million General Fund in 2008-09. California's SSI/SSP payment levels for individuals and couples are projected to maintain rankings of second and first in the nation, respectively (Figure HHS-01).

Figure HHS-01

Comparison of Five Highest SSI/SSP Maximum Payments**Monthly Grants for Independent Living Arrangement
as of January 1, 2008**

State	Aged and Disabled	
	Individuals	Couples
Alaska	\$965	\$1,432
California	870	1,524
Connecticut	771	1,144
Massachusetts	766	1,158
New York	724	1,060

In addition, the May Revision proposes to eliminate the Cash Assistance Program for Immigrants. This program, which provides benefits to aged, blind, and disabled legal immigrants, was projected to have an average monthly caseload of 10,300 individuals in 2008-09. Elimination of the program will result in savings of \$111.2 million General Fund in 2008-09.

IN-HOME SUPPORTIVE SERVICES

Total General Fund expenditures for the In-Home Supportive Services (IHSS) program are \$1.7 billion in 2007-08 and \$1.5 billion in 2008-09, including an increase of \$36.5 million in 2007-08 and a decrease of \$110.7 million in 2008-09 compared to the Governor's Budget. Caseload is projected to be 396,612 recipients in 2007-08 and 415,589 in 2008-09. Caseload estimates in 2007-08 and 2008-09 are slightly higher than projected in the Governor's Budget.

The May Revision includes alternative reduction proposals to replace the 18-percent reduction in domestic and related service hours proposed in the Governor's Budget:

- Focus the state buyout program for IHSS recipients whose Medi-Cal share of cost is higher than their IHSS share of cost on persons with the most severe needs. Under this proposal, the state will no longer pay the difference in the share of cost for those IHSS recipients with average functional index scores below 4. This proposal will result in 2008-09 savings of \$27.7 million General Fund.
- Provide IHSS domestic and related services to individuals with the highest levels of need, as measured by a functional index score of 4 or higher. The provision of other

HEALTH AND HUMAN SERVICES

IHSS services to all eligible consumers regardless of their functional index score will not be impacted. This proposal will save \$52.0 million General Fund in 2008-09.

The May Revision also limits state participation in the wages of IHSS workers to the state minimum wage plus \$0.60 per hour for benefits. This would result in savings of \$186.6 million General Fund in 2008-09. The principal reason that the average cost of care for an IHSS recipient has nearly doubled over the past 10 years is wage growth.

CHILD WELFARE SERVICES

The child welfare services system in California provides a continuum of services through various programs, including Child Welfare Services, Child Abuse Prevention, Foster Care, Adoption Assistance, and Adoptions to children who are either at risk of or have suffered abuse and/or neglect. The May Revision includes \$4.0 billion (\$1.5 billion General Fund) to provide assistance payments and services to children and families under these programs. This is a \$60.1 million increase (\$16.5 million General Fund decrease) from the Governor's Budget. The net General Fund decrease is the result of using TANF funds in lieu of General Fund for the Emergency Assistance Foster Care program (\$50 million), offset by the erosion of savings associated with not enacting the Budget Balancing Reduction proposal to reduce rates in the Foster Care, Adoption Assistance, and Kin-Gap programs (\$22.5 million) by 10 percent by March 1, 2008.

In addition, the May Revision includes a \$9.4 million augmentation to pay a federal penalty for failure to meet a performance measure related to the stability of foster care placements noted in the federal Child and Family Services Review. The Department of Social Services is appealing the penalty, but will make the payment to stop the accrual of interest charges pending the appeal.

LOANS AND TRANSFERS FROM SPECIAL FUNDS

The May Revision proposes loans and transfers from various special funds to provide one-time funding to the General Fund to help close the budget gap. For funds within this agency, total loans and transfers are \$25.7 million and \$14.6 million respectively. A loan or transfer was only proposed where the loss of the revenue would not result in any impact to the programs supported by the fund and would not require any fee increases. Loans will be repaid by June 30, 2011.

HEALTH AND HUMAN SERVICES

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

- \$10.0 million loan from the Hospital Building Fund.
- \$12.0 million loan from the California Health Data and Planning Fund.
- \$1.0 million loan from the Registered Nurse Education Fund.

DEPARTMENT OF HEALTH CARE SERVICES

- \$3.0 million transfer from the Emergency Services and Supplemental Payment Fund.
- \$1.0 million transfer from the Private Hospital Supplemental Fund.

DEPARTMENT OF PUBLIC HEALTH

- \$1.1 million loan from the Occupational Lead Poisoning Prevention Account.
- \$1.6 million loan from the Drinking Water Operator Certification Special Account.
- \$2.1 million transfer from the Cancer Research Fund.
- \$8.5 million transfer from the Drinking Water Treatment and Research Fund.

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CORRECTIONS AND REHABILITATION

The May Revision continues the Administration's commitment to public safety and inmate rehabilitation in programs operated by the Department of Corrections and Rehabilitation (CDCR).

- 2007-08 -\$46.8 million
- 2008-09 -\$115.2 million

The May Revision proposes a decrease of \$115.2 million General Fund for the CDCR, including the following:

PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS

The May Revision reflects changes to the CDCR's adult, juvenile and parolee population, as well as other policy, caseload and court-driven adjustments.

NORTHERN CALIFORNIA RE-ENTRY FACILITY

Consistent with the Administration's commitment and current efforts to implement the requirements of Chapter 7, Statutes of 2007, and to comply with the requirements of Chapter 228, Statutes of 2007, the May Revision includes \$11.7 million to activate the state's first secure re-entry facility beginning July 1, 2009.

CORRECTIONS AND REHABILITATION

Chapter 228, Statutes of 2007 authorized the conversion of the former Northern California Women's Facility (NCWF) to a secure reentry facility that will house male offenders for up to 12 months prior to parole. Construction to convert the NCWF is projected to begin in September 2008 and is estimated to be completed in June 2009.

Once construction is completed, the Northern California Re-entry Facility (NCRF) will be a 500-bed secured re-entry facility that will provide programs and services to offenders returning to San Joaquin, Calaveras, and Amador counties. These programs and services will include intensive substance abuse treatment, vocational training and job placement, academic education, housing placement, anger management classes, family counseling, and other targeted services to ease the transition from prison to the community. In addition, the CDCR is engaging in ongoing communication with local stakeholders to ensure that continuity of service will exist once an offender is paroled.

ADULT INMATE/PAROLEE POPULATION/CASELOAD CHANGES

CURRENT YEAR

As a result of successful implementation of parole reforms, increased access to rehabilitation services, implementation of SB 1453, and a decline in new admissions, the institutional Average Daily Population (ADP) is projected to decrease by 2,107 in 2007-08 compared to the Governor's Budget. The May Revision reflects an estimated institutional ADP of 171,886 inmates for the current year.

The projected parolee ADP is 126,456 for the current year. Parole reforms have contributed to a decrease of 2,887 in the parolee population from the level projected in the Governor's Budget.

The net effect of these population changes is a decrease to the General Fund of \$27.9 million and a decrease of \$340,000 to the Inmate Welfare Fund.

BUDGET YEAR

The May Revision also reflects an estimated institutional ADP of 170,641 inmates for the budget year, a decrease of 6,380 from the level projected in the Governor's Budget.

The projected parolee ADP is 122,872 for the budget year. This is a decrease of 10,189 from the level projected in the Governor's Budget. The parole population is expected to continue to decrease due to the effectiveness of parole reforms.

The population changes will reduce costs to the General Fund by \$78.2 million and reduce costs to the Inmate Welfare Fund by \$1.5 million.

WARD/PAROLEE POPULATION/CASELOAD CHANGES

CURRENT YEAR

For 2007-08, the May Revision estimates an average daily population of 2,277, a decrease of 17 wards from the projection in the Governor's Budget. In addition, the average daily juvenile parole population is projected to be 2,426, an increase of 11 parolees from the Governor's Budget projection. The change in population is due to more wards being released to parole than previously anticipated. Given the minimal change in population, there is no funding adjustment proposed.

The Safety and Welfare Remedial Plan in the *Farrell* lawsuit requires females under the jurisdiction of the Division of Juvenile Justice (DJJ) to receive services under a gender-specific rehabilitative model. Because there are few females housed by the DJJ, the Remedial Plan required DJJ to consult with experts in adolescent and young adult female offender treatment to develop and issue a Request for Proposals (RFP) to provide services to females in secure placements outside of DJJ facilities. The DJJ has issued a RFP, but has been unable to secure a viable service provider. The 2007 Budget Act includes \$8.6 million in contract funding for this purpose. Since the DJJ has been unable to secure a viable service provider in the current year and continues to house female offenders, the May Revision reflects a reduction of \$8.6 million General Fund in 2007-08. The DJJ is continuing to search for a service provider but does not anticipate entering into a contract until 2008-09.

General Fund expenditures for juvenile institutions are partially offset by General Fund revenues from the sliding scale fees paid by counties. In 2007-08, these revenues are estimated to be \$12.7 million, an increase of \$346,000 from the revenue expected at the time of the Governor's Budget.

BUDGET YEAR

For 2008-09, the average daily population is projected to be 1,847, an increase of 61 wards from the projection included in the Governor's Budget. This increase in population is due primarily to more "M" and "E" cases, which are juvenile offenders whose offense would have placed them in an adult institution but because of their age are housed in DJJ. Additionally, the average daily parole population is estimated to be 1,971, an increase of eight parolees from the Governor's Budget projections. This increase is due to more

wards being released to parole than previously anticipated. Given the minimal change in population, there is no funding adjustment proposed.

As discussed above, since the DJJ has been unable to secure a viable provider to serve female offenders, the May Revision proposes to reduce funding for the female contract by \$4.3 million General Fund in 2008-09. This is based on the assumption that the DJJ will enter into a contract by January 2009.

In 2008-09, the sliding scale fees paid by counties are estimated to be \$7.5 million, a decrease of \$618,000 compared to the revenue expected at the time of the Governor's Budget.

PRISON MEDICAL CARE RECEIVER

The May Revision proposes an augmentation of \$8.6 million General Fund in 2008-09 to ensure that the Receiver appointed by the court in the *Plata* lawsuit is able to improve the delivery of medical care to inmates. Specifically, the May Revision includes the following adjustments:

- An augmentation of \$12.5 million to establish additional Supervising Registered Nurse II positions to improve nursing care.
- A reduction of \$3.9 million to correct a technical error in the Receiver's Health Care Guarding and Transportation proposal. These resources will provide inmates access to higher levels of care and specialty care outside the institution.

In addition, the Receiver has completed his draft Strategic Plan for the delivery of medical care to inmates. The Receiver has determined that new facilities for medical and mental health care to serve up to 10,000 inmates statewide are required. The Receiver anticipates supervising construction of facilities for his health care expansion program at up to seven sites serving up to 1,500 inmates at each site. Furthermore, the Receiver has determined that it is necessary to upgrade administrative and clinical facilities to provide inmates with appropriate access to health care at each of the CDCR's institutions.

To provide the full authority and funding for these projects, the Administration has withdrawn the trailer bill language included in the Governor's Budget and supports the Receiver's urgency legislation. Because not all of the planned renovations will be able to be financed with lease revenue bonds, \$100 million General Fund is necessary to ensure all facilities can be completed as the Receiver plans.

In summary, this proposed legislation would do the following:

- Appropriate \$6 billion in lease revenue bond authority for projects proposed by the Receiver, for and on behalf of CDCR, including the design and construction of health related facilities and housing for up to 10,000 inmates with medical or mental health care needs, and supporting infrastructure and ancillary facilities, at existing state correctional facilities statewide or at other appropriate state-owned real property. Of this \$6 billion (Public Buildings Construction Fund), it is estimated \$2.5 billion would be expended in fiscal year 2008-09.
- Appropriate \$100 million General Fund and \$900 million lease revenue bond authority to be used by the Receiver, for and on behalf of CDCR, to design and construct health care facility improvements at existing prison facilities statewide. Of the \$100 million General Fund and \$900 million Public Buildings Construction Fund, it is estimated that \$50 million and \$450 million, respectively, would be expended in fiscal year 2008-09.

JUVENILE PROBATION FUNDING

In February 2008, the federal Health and Human Services Agency released updated federal regulations for the Temporary Assistance for Needy Families (TANF) Block Grant. As a result of these new provisions, the requirements to meet the TANF Maintenance of Effort (MOE) requirement are more restrictive. To address the loss of available MOE, the May Revision proposes to replace \$151.8 million General Fund that currently supports the Juvenile Probation Program with TANF Block Grant Funds, and transfer the General Fund to the Department of Social Services.

UPDATE TO BUDGET-BALANCING REDUCTIONS

The Governor's Budget reflected savings of \$17.9 million General Fund in 2007-08 and \$354.3 million in 2008-09 related to Budget-Balancing Reductions for the CDCR. Savings estimates in the Governor's Budget assumed that the proposals would be adopted in the special session and would be implemented by March 1, 2008.

SUMMARY PAROLE

The May Revision includes total savings of \$173.6 million for the Summary Parole proposal, which is an increase \$75.7 million compared to the Governor's Budget.

CORRECTIONS AND REHABILITATION

The net increase in savings is due to \$110 million in corresponding operational and programmatic savings which were not previously identified, offset by a \$34 million erosion related to the change in implementation dates, the revised population impact associated with the spring projections, and the shift of implementation costs from 2007-08 to 2008-09.

The majority of the corresponding savings results from the need for the Department to reconfigure many of the programs that serve its parolee population, the reduced need to provide funding to reimburse local governments for the cost of housing detained and revoked parolees, and projected reductions in Board of Parole Hearings workload.

The decrease in institutional ADP associated with Summary Parole in 2008-09 decreases from 6,249 to 4,774, a reduction of 1,475. This ADP grows to 7,800 in 2009-10.

The decrease in parolee ADP associated with Summary Parole in 2008-09 decreases from 18,522 to 13,517, a reduction of 5,005. This ADP grows to 22,448 in 2009-10.

EARLY RELEASE

Given the effectiveness of parole reforms and rehabilitative efforts to date and the associated savings resulting from the decrease in the inmate population compared to the fall projection, as well as other proposed savings in the CDCR budget, the May Revision Budget achieves approximately \$300 million in CDCR savings without releasing any inmates prior to their anticipated release date.

K THRU 12 EDUCATION

California's school districts, charter schools and county offices of education provide instruction and a variety of programs and support services for pre-Kindergarten through grade twelve (K-12) students. These programs are designed to prepare students with the skills necessary to pursue higher education, obtain fulfilling employment, achieve career goals, and develop as productive citizens. Programs and services provided to more than six million students annually include standards-based instruction, special education, English learner support, career preparatory programs, child care and development, remedial instruction, and adult education.

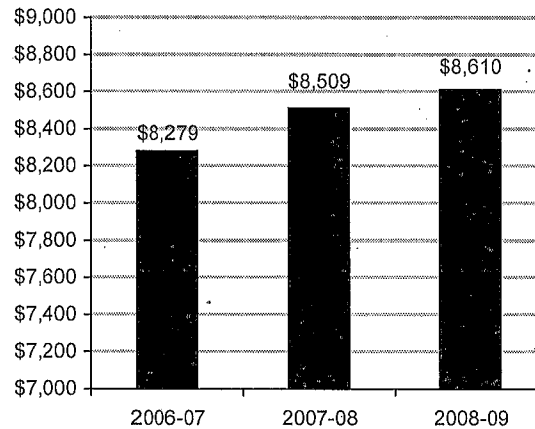
Due to the state's budget shortfall, the Governor's Budget proposed suspension of the minimum Proposition 98 Guarantee and no cost-of-living increases for schools.

The Governor's May Revision proposes \$1.8 billion General Fund in additional funding for K-12 education and community colleges to fully fund the minimum Proposition 98 Guarantee in 2008-09. Total Proposition 98 funding for K-14 education programs will increase year over year by \$193 million. With this additional investment, K-12 Proposition 98 per-pupil funding in the May Revision are \$8,610 in 2008-09, up from \$8,509 in 2007-08 (see Figure K12-01).

CHANGE IN TOTAL K-12 FUNDING

- 2007-08 \$12 million
- 2008-09 \$1,470 million

Figure K12-01
K-12 Proposition 98 Funding
Per Pupil

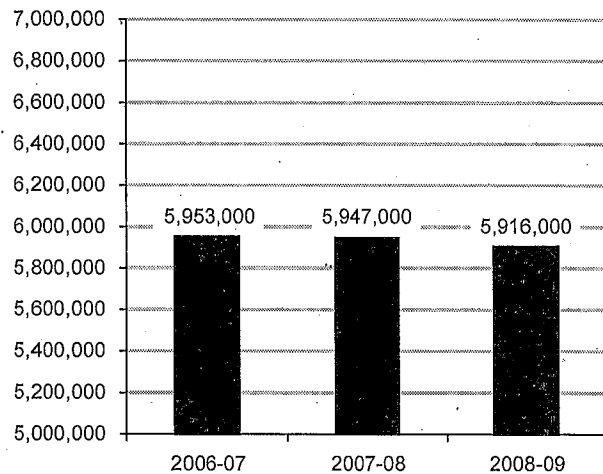


The May Revision to the Governor's Budget projects total revenue for K-12 education programs in 2008-09 to be \$71 billion (\$41.7 billion General Fund). Of this amount, \$67 billion is state, federal and local property tax funding accounted for in the State Budget. This reflects an increase of \$1.5 billion (\$1.7 billion General Fund) over the Governor's Budget. More notable funding changes are described below.

ATTENDANCE

As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public schools is declining (see Figure K12-02). For the 2007-08, K-12 average daily attendance (ADA) is estimated to be 5,947,000, a decrease of 6,400 from the 2006-07 fiscal year. For 2008-09, the Administration estimates K-12 ADA will decrease by an additional 31,000 to

Figure K12-02
K-12 Average Daily Attendance



5,916,000. However, both of these projections are higher than the Governor's Budget ADA estimates of 5,923,000 for 2007-08 and 5,892,000 for 2008-09, reflecting increases of 24,000 and 23,000, respectively.

PER-PUPIL SPENDING

Total per-pupil expenditures from all sources are projected to be \$11,997 in 2007-08 and \$12,000 in 2008-09, including funds provided for prior year settle-up obligations. This is an indicator of the relative level of spending in California for support of K-12 education programs and not the actual level of funding allocated to each school for a pupil.

MAJOR WORKLOAD ADJUSTMENTS

Major workload adjustments include the following:

- **ADA**—The May Revision proposes an \$85.3 million net increase in 2008-09 to reflect the increase in ADA from the Governor's Budget projection. The majority of this amount consists of a \$92.6 million increase in school district and county office of education revenue limit apportionments (general purpose funding for schools) partially offset by \$7.3 million in reductions to categorical programs. Due to an increase in the attendance estimate for 2007-08, there also is a \$50.5 million increase in revenue limit apportionments included in the May Revision for that year.
- **Local Property Tax Adjustments**—The May Revision reflects General Fund increases of \$179.1 million in school district and county office of education revenue limit and special education apportionments in 2007-08 and \$521.3 million in 2008-09, related to school district and county office of education property tax revenues. In general, decreases in local property tax revenues increase the amount of state General Fund costs for revenue limit apportionments.
- **School District Revenue Limits** —\$780 million in workload adjustments for 2008-09 school district revenue limits are included in the figures above related to ADA and Property Tax Adjustments. These adjustments include a \$142 million increase related to higher ADA, a \$519.4 million increase related to lower estimates of property taxes, a \$93.4 million increase to reflect a six-fold increase in unemployment insurance rates, and a \$25.3 million increase for adjustments in PERS contribution rates. The May Revision also reflects workload increases for 2007-08 totaling \$218.3 million including a \$34.6 million net increase related higher ADA, which is significantly offset by lower projections of declining enrollment cost, as well as an increase of \$183.7 million for lower than expected local property tax revenues.

PROPOSITION 98 GUARANTEE

The voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to a multitude of factors including the level of funding in 1986-87, General Fund revenues, per capita personal income and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculations or Tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA1) was adopted to allow for a third funding test in low revenue years. As a result, three calculations or tests determine funding for school districts and community colleges (K-14). The calculation or test that is used depends on how the economy and General Fund revenues grow from year to year (See Figure K12-03).

For fiscal year 2006-07, the Proposition 98 Guarantee was \$55.2 billion, of which the General Fund share was \$41.4 billion. Local property taxes covered the balance.

At the time of the Governor's Budget, 2007-08 Proposition 98 appropriations exceeded the minimum guarantee. During the Special Session called by the Governor to address the budget shortfall, the Administration and the Legislature reduced 2007 Budget Act appropriations by \$506.8 million by reducing programs that were not projected to fully expend their appropriations and by replacing ongoing funding with one-time savings from prior year appropriations. As a result of these actions, Proposition 98 General Fund appropriations for 2007-08 are now \$41.8 billion, which is \$802.1 million higher than

Figure K12-03

Proposition 98 Test Calculations

Test 1—Percent of General Fund Revenues

Test 1 is based on a percentage or share of General Fund tax revenues. Historically, school districts and community colleges (K-14) received approximately 40 percent in the 1986-87 fiscal year. As a result of the recent shifts in property taxes to K-14 schools from cities, counties, and special districts, the current rate is approximately 40.96 percent.

Test 2—Adjustments Based on Statewide Income

Test 2 is operative in years with normal to strong General Fund revenue growth. This calculation requires that school districts and community colleges receive at least the same amount of combined state aid and local tax dollars as they received in the prior year; adjusted for enrollment growth and growth in per capita personal income.

Test 3—Adjustment Based on Available Revenues

Test 3 is utilized in low revenue years when General Fund revenues decline or grow slowly. During such years, the funding guarantee is adjusted according to available resources. A low revenue year is defined as one in which General Fund revenue growth per capita lags behind per capita personal income growth more than one-half percentage point. Test 3 was designed so that education is treated no worse in low revenue years than other segments of the state budget.

In years following a Test 3 funding level, the state is required to provide funding to restore what was not allocated the previous year. This is often referred to as a maintenance factor.

the minimum Proposition 98 Guarantee. Total Proposition 98 funding for 2007-08 is \$56.6 billion.

The Proposition 98 Guarantee for 2008-09 is projected to grow to \$56.8 billion of which \$41.4 billion would be from the General Fund. As part of the budget-balancing reductions, the Governor's Budget proposed to suspend Proposition 98 and reduce Proposition 98 General Fund to \$39.6 billion. However, consistent with the priority the Administration has placed on education funding and its continuing efforts to improve the state's education system, the May Revision proposes to restore \$1.8 billion General Fund thereby increasing Proposition 98 General Fund in 2008-09 to the minimum Proposition 98 Guarantee level, with no suspension.

ADJUSTMENTS TO THE BUDGET BALANCING REDUCTIONS

PUBLIC TRANSPORTATION ACCOUNT FUNDING FOR HOME TO SCHOOL TRANSPORTATION

In the Legislative Special Session called to address the budget shortfall, legislation was adopted which authorized up to \$409 million in Proposition 98 General Fund expenditures for the Home-to-School Transportation Program for the 2007-08 fiscal year to be reimbursed from the Public Transportation Account (PTA). Similarly, the May Revision proposes to achieve additional General Fund savings for the 2008-09 fiscal year by adding language to the budget to authorize up to \$592.9 million from the PTA to be used to reimburse the General Fund for the budgeted cost of the Home to School Transportation Program, including Special Education transportation.

SURPLUS RELOCATABLE CLASSROOM PROGRAM FUNDS

In prior years, the state has transferred rental income received from the State Relocatable Classroom Program that was not needed for the program to the General Fund. Subsequently, the State Allocation Board approved a plan to phase out the program since it was no longer meeting its original intent to temporarily assist districts with excessive enrollment growth and unforeseen classroom emergencies, and due to the general condition of the aging fleet of relocatable classrooms. The Office of Public School Construction has now indicated there is \$14 million in excess revenue from the program that is available. As a result, consistent with prior practice, the May Revision proposes to transfer this funding to the General Fund.

ADDITIONAL SAVINGS PROPOSALS COUPLED WITH FLEXIBILITY

DEFERRED MAINTENANCE

The May Revision proposes to shift \$222.6 million Proposition 98 General Fund from deferred maintenance as part of fully restoring the reduction proposed to Special Education. This leaves \$39.6 million for the deferred maintenance program which is proposed to be reserved for hardship projects. In addition, the May Revision provides \$100 million for the Emergency Repair Program established under the Williams settlement.

Coupled with the redirection, the Administration proposes to eliminate the local matching requirement for the deferred maintenance program for the 2008-09 fiscal year.

ADDITIONAL FLEXIBILITY OPTIONS

The May Revision proposes to reauthorize the flexibility provisions that were adopted in 2003-04 to provide greater flexibility for school districts to cope with a constrained budget environment and to help mitigate the need for reductions in workforce. Specifically, the proposals would:

- Reduce reserve requirements for purposes of determining "Negative" and "Qualified" budget status.
- Authorize districts to increase apportionments sufficient to ensure a 2 percent increase from restricted categorical sources.
- Reduce the required 3 percent annual contribution to the districts' restricted reserve for routine maintenance to 2 percent.
- Increase current percentage caps on district transfer authority for AB 825 categorical block grants from 15/20 percent to 20/25 percent.
- Eliminate the local match requirement under the Deferred Maintenance Program.
- Allow districts to move state categorical program carryover or reserve funds from any prior year and from any program to the district's unrestricted general fund, excluding those funds prohibited under federal or state law.

RESTORATION OF CRITICAL PROGRAMS

REVENUE LIMITS

The May Revision provides significant additional resources in general purpose funding by restoring \$841.1 million for school district revenue limits. Specifically, this funding represents the portion of the deficit factor proposed in the Governor's Budget that was in excess of the 2008-09 COLA, as adjusted for revised ADA. This funding is in addition to the \$780 million of workload adjustments detailed previously in the Major Workload Adjustments section, resulting in a total increase of \$1.6 billion in new general purpose funding.

Therefore, the remaining deficit results only from suspending the budget year COLA. Based on the Governor's Budget proposed statutory change to the K-12 COLA factor to the CPI-W index (4.40 percent), the school district revenue limit deficit is estimated to be 4.214 percent.

SPECIAL EDUCATION

The May Revision provides a Proposition 98 General Fund increase of \$234.1 million over the amount previously proposed in the Governor's Budget. These changes include adjustments for reinstating \$189.2 million previously proposed for reduction as a part of budget balancing solutions, and revised figures for local property tax and ADA growth. The proposal also meets the federal maintenance-of-effort requirement for special education programs.

STATE SPECIAL SCHOOLS

The May Revision includes an increase of \$5.1 million Proposition 98 General Fund to help the State Special Schools continue to provide high quality diagnostic services and instruction for students with special needs. The proposal also includes a \$1.2 million augmentation for Home-to-School Transportation costs, in addition to General Fund savings of \$4.1 million overall as a result of shifting these mass transit costs to the Public Transportation Account.

OTHER BUDGET ADJUSTMENTS

CHILD CARE

Subsidized child care services help low-income working families become self-sufficient, contribute to school readiness of younger children, and are essential to support work

participation of CalWORKs families. Services are provided through voucher programs, in which parents select the provider of choice, and through center-based programs that contract directly with the state.

The Governor's Budget provided \$2.48 billion for State Department of Education (SDE) administered child care programs, after necessary budget balancing reductions totaling \$198.9 million were identified. Total funding included \$252.1 million in one-time Proposition 98 sources and \$56.3 million in one-time federal sources to meet Stage 2 and Stage 3 caseload estimates at that time. This is consistent with past practices. Since the Governor's Budget, the following factors have affected child care funding needs, and result in a net increase in funding of \$45.4 million, for a total of \$2.5 billion, including an increase in ongoing Proposition 98 resources of \$41.9 million, for 2008-09:

- The Legislature acted in the Special Session to use a large share of the carryover sources anticipated to meet budget year costs of Stage 2 and 3 child care to help reduce the current year Proposition 98 Guarantee as part of larger budget solutions. Accounting for these actions and revised estimates, carryover sources were reduced by \$193 million. In addition, one-time and ongoing federal funds diminished by \$63.6 million. This resulted in a need for additional resources of \$256.6 million to backfill these losses.
- Caseload costs for Stage 2 and 3 have increased, requiring \$20 million in additional funding.
- A policy change is proposed to fully fund Stage 2 costs without a traditional federal Temporary Assistance for Needy Families (TANF) holdback from the full estimate in the Department of Social Services CalWORKs budget. This requires additional Proposition 98 resources of \$25.5 million and completes the policy change implemented last year to fund Stage 2 from Proposition 98. This also frees up TANF to fund CalWORKs, helps meet the TANF maintenance-of-effort requirement shortfall, and reduces pressure on the General Fund.
- Policy changes are also proposed to help reduce rapidly rising reimbursement rate cost pressure caused by the revised methodology for computing regional market rate limits that was implemented several years ago. This change will help preserve slots in the capped voucher-based Alternative Payment Program, as well as contain costs in voucher-based Stage 2 and Stage 3 programs, while enabling full funding of all caseload in this very constrained budget environment. Specifically, trailer bill revisions are proposed to bench market limits to the 75th percentile based on the new 2007 market survey beginning January 1, 2009, and to conduct the market

survey every two years instead of annually. These actions are fully consistent with federal requirements and provide an average rate limit increase effective January 2009. California's reimbursement rate structure would remain among the most generous in the nation. Conducting the market survey every two years will save several hundred thousand dollars annually, as well.

STUDENT AND TEACHER LONGITUDINAL DATA SYSTEMS

The May Revision continues to fully fund development of the California Longitudinal Pupil Achievement Data System (CalPADS) and California Longitudinal Teacher Integrated Data Education System (CalTIDES) systems. CalPADS will enable tracking of individual student enrollment history and academic performance data over time. CalTIDES will serve as the central state repository for information regarding the teacher workforce for the purpose of developing and reviewing state policy, identifying workforce trends, and providing high-quality program evaluations of the effectiveness of teacher preparation and induction programs. Total funding for these projects is \$10.3 million (\$2.2 million General Fund) in 2008-09.

The May Revision also includes language to authorize the California Technology Assistance Project to provide training for implementing CalPADS. The California Technology Assistance Project promotes the effective use of technology in teaching, learning and school administration. The project currently provides technical assistance to schools and districts based upon local needs in each of 11 regions in California. This proposal would provide necessary training to local education agencies for CalPADS implementation.

The Administration believes that the primary goal of any education data system should be to help improve academic achievement. The focus should be on enabling local education agencies to use the data directly to improve instruction expeditiously. The implementation of CalPADS and CalTIDES, along with assignment of individual student identifiers through the California School Information Services program, is an important first step in making data available for local education agencies. There also is an abundance of education data available in many other forms at all levels of government and in the private sector. Examples range from automated reporting systems, program evaluations, studies, articles, and more. The Administration believes it is necessary to fully implement CalPADS and CalTIDES and analyze the information that is currently available to schools from various sources to improve outcomes before efforts are made to expand these systems or plan new systems.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

The California State Teachers' Retirement System (CalSTRS) administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to administer the State Teachers' Retirement Plan. The State Teachers' Retirement Plan is a defined benefit pension plan that provides retirement, disability, and survivor benefits for teachers and certain other employees of the California public school system. The Plan is comprised of three programs: the Defined Benefit Program, the Defined Benefit Supplement Program, and the Cash Balance Benefit Program. Within the Defined Benefit Program there is also a Supplemental Benefit Maintenance Account (SBMA), which provides annual supplemental payments in quarterly installments to retired teachers whose purchasing power has fallen below 80 percent of the purchasing power of an initial allowance.

Currently, the state makes annual General Fund contributions to the SBMA of 2.5 percent of teacher payroll for purchasing power protection. The 80 percent level of purchasing power is currently not a vested benefit. This means that if the amount in the SBMA is not sufficient to maintain payments keeping retired teachers benefits at the 80 percent level, the benefit may be reduced or employer contributions may be increased.

The Governor's Budget proposed to make the following changes to SBMA:

- Fully vest the SBMA benefit at 80 percent purchasing power protection.
- Reduce the state's contributions to the SBMA from 2.5 percent to 2.2 percent of salary.
- Delay the State's contribution from July 1 and split the contribution into two payments of 1.1 percent, made on November 1 and April 1 each year.
- Pay the \$210 million interest from the \$500 million STRS lawsuit in three installments beginning in 2008-09.

The May Revision will modify the Governor's Budget proposal as follows:

- Increase the benefit from 80 percent to 85 percent while retaining the existing policy where this benefit is not vested.
- Reduce the state's contribution from 2.5 percent to 2.25 percent of salary.
- General Fund savings of \$66 million in 2008-09 and \$16 million in 2009-10 from Governor's Budget.

- Contribute two payments of 1.125 percent each on November 1 and April 1 each year.
- Pay the interest from the STRS lawsuit in four equal payments of \$52.6 million beginning in 2009-10.

PROVIDER ACCOUNTING AND REPORTING INFORMATION SYSTEM

The May Revision includes \$285,000 in one-time federal funds in 2008-09 to rewrite the Provider Accounting and Reporting Information System (PARIS). The PARIS is designed to manage SDE's child care agency contracts and payment processing functions. The rewrite is necessary because the current system is outdated, difficult to maintain, and does not have the capability to share data with other SDE systems.

PERSONNEL MANAGEMENT ASSISTANCE TEAMS

The May Revision proposes that \$3 million in Proposition 98 General Fund be reappropriated to continue funding for the Personnel Management Assistance Teams authorized by Chapter 517, Statutes of 2006. These teams assist school districts establish and maintain effective personnel management, recruitment and hiring processes.

EMERGENCY REPAIR PROGRAM

The May Revision proposes another \$100 million transfer from the Proposition 98 Reversion Account to the Emergency Repair Account in satisfaction of the Williams settlement agreement. This increment of funding for the program will bring total transfers to \$392 million for the purpose of funding school facility emergency repair projects.

LOCAL EDUCATIONAL AGENCY CORRECTIVE ACTION ASSISTANCE

Consistent with actions taken by the State Board of Education to further the intentions of the federal No Child Left Behind Act, the May Revision proposes separate legislation that will appropriate \$45 million federal Title I Set Aside funds to assist local educational agencies in their efforts to improve the academic performance of their students and to meet their federal accountability measures.

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HIGHER EDUCATION

Due to the State's significant budget shortfall, the Governor's Budget proposed to suspend the provisions of the Higher Education Compact (Compact) to help achieve fiscal balance. The May Revision protects education funding and makes additional resources available to the University of California (UC), the California State University (CSU) and the California Community Colleges (CCC) to ensure affordability, preserve quality and maintain essential levels of access. As discussed in the K-12 section, the Proposition 98 guarantee will be met which will provide additional resources for CCC to meet instructional demand and ensure local property tax declines do not impose hardships on the colleges. While the greater budget gap prevents fulfillment of the Compact, additional General Fund resources are provided to UC and CSU to ensure that fees will not increase beyond the levels agreed to in the Compact, to preserve enrollments in high-state-need instructional programs, and to address cost pressures from required implementation of new Teaching Performance Assessment standards pursuant to Chapter 517, Statutes of 2006. Thus, mandatory undergraduate fees will rise by no more than 7.4 percent for UC students and 10 percent for CSU students. CSU fees will remain the lowest in the nation for comparable public four-year comprehensive colleges and UC fees will remain very competitive with other comparable public research universities.

For the Student Aid Commission (CSAC), the Governor's Budget assumed a current year, one-time revenue adjustment of \$500 million related to the sale or other authorized transaction (Transaction) to maximize the value of CSAC's auxiliary organization, EdFund, pursuant to Chapter 182, Statutes of 2007. The state's selected sale advisor has decided

to withdraw its commitment to help prepare the EdFund Transaction. In addition, there have been numerous changes in the student lending industry and credit pressure on Wall Street. Given these conditions, it is necessary to postpone this transaction to maximize the value of this asset. As the student loan guaranty function is not a core function for state government, a sale will continue to be pursued and completed in 2009-10. Therefore, the May Revision reflects a shift of \$500 million in anticipated revenue from the end of the current year to the 2009-10 fiscal year. Additionally, the May Revision reflects conforming state operations adjustments since decoupling of CSAC and EdFund operations will not occur in the budget year.

For CSAC local assistance programs, the \$80 million Cal Grant workload cost placeholder that was included in the Governor's Budget as a contingency in the event UC and CSU raised fees further is no longer necessary and has been deleted from the budget. The May Revision also proposes that approximately 30-percent of projected Cal Grant costs be shifted from General Fund to Temporary Assistance for Needy Families (TANF) reimbursements from the Department of Social Services to help address the state's TANF Maintenance of Effort (MOE) shortfall. Please refer to the Health and Human services section for more details.

Changes to the Community Colleges budget reflect workload adjustments for revised estimates of local property tax revenues, including relief in the current year, increased funding for enrollment growth, and a policy change to provide more flexibility in categorical spending similar to K-12 categorical programs.

TOTAL FUNDING BY SEGMENT

Total funding at the May Revision for Higher Education reflects a year-over-year increase of \$565.6 million (2.8 percent) which is \$155 million greater than comparable figures in January. General Fund and related Proposition 98 expenditures reflect a year-over-year increase of \$14.2 million which is a reduction of \$76 million from comparable figures in January. This is primarily due to the large shift of GF costs to TANF for a portion of Cal Grants. Absent that, this figure would have increased \$146 million or 1.1 percent. Segment-by-segment figures follow:

- Total funding in 2008-09 for UC increases from year to year by \$179.8 million (3.3 percent), with total General Fund essentially flat compared to 2007-08.

- Total funding in 2008-09 for CSU increases from year to year by \$132.8 million (3 percent), with total General Fund essentially flat compared to 2007-08.
- Total funding in 2008-09 for CCC increases from year to year by \$191.8 million (2.2 percent), with total General Fund and Proposition 98 related sources increasing by \$187.9 million (2.9 percent) excluding carryovers, compared to revised 2007-08.
- Total funding in 2008-09 for CSAC (excludes Ed Fund) decreases from year to year by \$30.4 million (-3.5 percent), with total General Fund decreasing by \$261 million (-31 percent) compared to 2007-08.

UNIVERSITY OF CALIFORNIA

- 2007-08 No Change
- 2008-09 \$98.5 million General Fund

BUDGET YEAR

- The May Revision proposes a General Fund increase of \$98.5 million to maintain funding for UC level from year to year and to limit fee increases to the levels agreed to in the Compact. This funding is also intended to preserve enrollment levels in high-state-need instructional programs and provide resources for implementation of the Teaching Performance Assessment standards for teacher preparation programs required to be implemented in 2008-09 pursuant to Chapter 517, Statutes of 2006 that would otherwise have to be absorbed. Thus, the unallocated portion of the reduction to the workload budget level for UC is reduced to \$201.1 million for a revised total reduction of \$233.4 million.

CALIFORNIA STATE UNIVERSITY

- 2007-08 No Change
- 2008-09 \$97.6 million General Fund

BUDGET YEAR

- The May Revision proposes a General Fund increase of \$97.6 million to maintain funding for CSU level from year to year and to limit fee increases to the levels agreed to in the Compact. This funding is also intended to preserve enrollment levels in high-state-need instructional programs and provide resources for implementation of

HIGHER EDUCATION

the Teaching Performance Assessment standards for teacher preparation programs required to be implemented in 2008-09 pursuant to Chapter 517, Statutes of 2006 that would otherwise have to be absorbed. Thus, the unallocated portion of the reduction to the workload budget level for CSU is reduced to \$172.1 million for a revised total reduction of \$215.3 million.

CALIFORNIA STUDENT AID COMMISSION

- 2007-08 No Change
- 2008-09 -\$303 million General Fund

BUDGET YEAR

The May Revision proposes a net General Fund decrease of \$303 million over the level proposed in the Governor's Budget, as noted below:

- \$223 million of Cal Grant costs are proposed to be shifted from General Fund to reimbursements from TANF federal funds available to the Department of Social Services through an interagency agreement. This proposal is necessary to address a significant shortfall in TANF MOE expenditures. Please refer to the Health and Human Services section for more detail on the overall approach to resolving the TANF MOE shortfall.
- \$80 million savings associated with the elimination of the \$80 million Cal Grant workload cost placeholder from the Governor's Budget that was included in the event UC and CSU increased fees beyond the level anticipated for the workload budget. As discussed, further increases by the UC and CSU governing boards are not anticipated.
- A redirection of the \$1.8 million one-time augmentation proposed in January for restoring shared services from the EdFund is proposed. Although the Transaction is delayed, CSAC will have to relocate to a new building due to termination of their current leased space. Funding is needed to address necessary costs including ongoing additional leased space and telephone system costs, and one-time cost for moving and office furnishings. These costs total approximately \$1.8 million and thus offset the costs anticipated for adding 11 new staff, equipment, software and other technology related costs that would have been necessary to replace shared services from EdFund.

- Reappropriation of state operations savings is proposed to be reserved for unanticipated costs related to CSAC's relocation or other unforeseen costs in 2008-09.

The May Revision also proposes the following Student Loan Operating Fund increases to conform to the delay in the EdFund Transaction:

- \$1 million from the Student Loan Operating Fund (SLOF) is proposed for restoration of the six CSAC positions reduced in January that are dedicated to the oversight of EdFund operations. These positions are proposed on a limited-term basis.
- Additionally, the May Revision restores position authority for the remaining 24 EdFund civil service employees on a limited-term basis and restores over \$779 million to reflect continuously appropriated SLOF expenditures (\$96.4 million) and Federal Student Loan Reserve Fund expenditures (\$682.8 million) for EdFund operations in 2008-09.
- Trailer bill legislation is proposed to remove a potential statutory conflict that may impact the Commission's ability to act as a Lender of Last Resort for the Federal Family Education Loan program to address a potential crisis in the student lending markets resulting from changes in federal law and the concurrent general difficulties in the credit market.

CALIFORNIA COMMUNITY COLLEGES

- 2007-08 -\$69 million General Fund and Proposition 98 Related Sources
- 2008-09 \$236.2 million net General Fund and Proposition 98 Related Sources (with carryovers)

CURRENT YEAR

The May Revision proposes the following Proposition 98-related adjustments:

- The May Revision reflects reductions in estimated property tax revenue of \$74.9 million that are offset by increases of \$5.9 million in fee revenue compared to the 2007 Budget Act estimates. Reappropriations totaling \$69 million, including estimated savings of \$47.3 million from 2006-07 community college apportionments, are provided to backfill the resulting deficit to ensure colleges are not adversely affected by the current year shortfall. This amount will become available in the budget year.

BUDGET YEAR

The May Revision proposes significant ongoing budget adjustments for the CCC that will increase total General Fund and Proposition 98-related sources by a net \$236.2 million compared to the Governor's Budget, including an increase of \$167.2 in ongoing Proposition 98 General Fund and \$69 million in one time sources.

The following ongoing Proposition 98 workload adjustments are proposed to conform to revised estimates of local revenues and other workload changes:

- An increase of \$35.5 million for growth in apportionments, bringing the total growth funding in the budget year to \$95.5 million (1.67 percent), sufficient to serve approximately 20,000 additional students.
- An increase of \$572,000 to restore the reduction proposed in the Governor's Budget to the Foster Care Training program which will preserve approximately \$700,000 of federal matching funds for training foster parents in meeting the needs of this vulnerable population.
- An increase of \$138.7 million to offset the reduction in estimated property tax revenues for 2008-09.
- A decrease of \$6.4 million to reflect an increase in estimated offsetting student fee revenues based on more recent current year data.
- A decrease of \$1.8 million to reflect an increase in offsetting oil and mineral revenues of an identical amount.
- An increase of \$717,000 for the Board of Governor's Fee Waiver program administrative costs to reflect updated estimates of student fee waivers.

Policy-related adjustments for the CCC include the following:

- As mentioned, \$69 million is proposed to be reappropriated to backfill the current year deficit caused by the anticipated property tax shortfall. \$47.3 million is carryover savings from 2006-07 and \$21.7 is appropriated from the reversion account.
- Provisional language is proposed to provide colleges flexibility to transfer funds between categorical programs in two programmatic areas. Specifically, this would allow up to 20 percent of funds to be transferred out of a particular program in order to increase other programs by up to 25 percent within each program area. This flexibility would encompass three part-time faculty staff incentive programs

in one and five student services programs in another. Given the necessity to reduce programs costs, this additional flexibility will allow local priority needs to be better addressed.

- \$2.7 million in reimbursements is proposed to reflect an interagency agreement that is being developed between the California Department of Corrections and Rehabilitation and the Chancellor's Office that would provide training for prison staff that play key roles in the rehabilitation process, consistent with strategies authorized by Chapter 7, Statutes of 2007 and the Expert Panel on Adult Offender Reentry and Recidivism Reductions' report to the Legislature in June, 2007. Of this amount, it is anticipated that \$140,000 would be available to support one position for state operations workload and up to \$2.6 million would support local assistance allocations for colleges to provide the training and development services.

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STATEWIDE ISSUES

This section includes issue(s) that affect multiple departments in various major program areas.

2008-09 STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIII B of the California Constitution, the 2008-09 State Appropriations Limit (SAL) is estimated to be \$79.808 billion. The revised limit is the result of applying the growth factor of 4.95 percent. The revised 2008-09 limit is \$70 million above the \$79.738 billion estimated in January. This increase is due to changes in the following factors and shifts in financial responsibility:

- Per Capita Personal Income
 - January Percentage Growth: 4.16
 - May Revision Percentage Growth: 4.29
- State Civilian Population
 - January Percentage Growth: 1.16
 - May Revision Percentage Growth: 1.31
- K-14 Average Daily Attendance
 - January Percentage Growth: -0.21

- May Revision Percentage Growth: -0.37

For SAL purposes, per capita personal income is defined as calendar fourth quarter California personal income, as estimated by the US Bureau of Economic Analysis (BEA), divided by California civilian population, estimated by the California Department of Finance. Since BEA does not release its personal income estimate until April, the Department of Finance uses its own estimate for the Governor's Budget in January. The May Revision reflects the BEA's estimate of California personal income.

The SAL for 2007-08 does not change since it was statutorily established by Control Section 12.00 of the 2007 Budget Act.

STATE CASH MANAGEMENT IMPROVEMENT

The proposal will smooth out General Fund disbursements throughout the fiscal year to better align receipts and disbursements. It will reduce the state's reliance on external borrowing. Effective cash management is one major factor considered by rating agencies in evaluating the state's credit-worthiness. Improving cash management could improve accessibility to the credit markets and reduce borrowing costs on long-term bonds. Under current projections, the state will need at least \$9 billion of external cash flow borrowing in 2008-09. This improved cash management program would result in a reduction in external cash flow borrowing by several billion dollars.

ITEM 9800 – AUGMENTATION FOR EMPLOYEE COMPENSATION

The 2008-09 Governor's Budget proposed \$260.4 million General Fund for 2007-08 and \$230.2 million General Fund for 2008-09 for the Administration's Last, Best, and Final Offer (LBFO) to Bargaining Unit 6, California Correctional Peace Officers Association.

Section 3517.8 (b) of the Government Code (Dills Act) states: "If the Governor and the recognized employee organization reach an impasse in negotiation for a new memorandum of understanding, the state employer may implement any or all of its LBFO. Any proposal in the state employer's LBFO that, if implemented, would conflict with existing statutes or require the expenditure of funds shall be presented to the Legislature for approval and, if approved, shall be controlling without further legislative action, notwithstanding Sections 3517.5, 3517.6, and 3517.7."

Consistent with statutory requirements, the Administration has submitted to the Legislature for its consideration those items of the LBFO which require legislative approval. To date, the Legislature has not approved those items or appropriated funding for the 2007-08 portion of the LBFO. Therefore, the Administration is proposing that funds proposed in the budget to implement the salary increase and other financial provisions of the LBFO be shifted from the specific budget item and placed in the reserve. Funding for the proposed health benefits increase will remain in the budget.

The Administration continues to pursue legislation to implement the LBFO. When the Legislature approves the requested changes, the Administration will implement those provisions of the LBFO.

REIMBURSABLE STATE MANDATES PROGRAM

The May Revision proposes a decrease of \$75 million General Fund to reflect a delay of the third payment of the 15-year payment plan for mandate costs incurred prior to July 1, 2004. Statute requires these costs be fully paid by the 2020-21 fiscal year.

TAX MODERNIZATION COMMISSION

California's tax system was designed decades ago and has not been adjusted to reflect a shift from a manufacturing and agriculture-based economy to an information, service, and technology-based economy. The state's tax system contributes to revenue volatility and to the substantial swings in available resources that the state has experienced during the past decade. California would benefit from an improved and more modern tax system that supports a strong economy, job creation, and provides a more predictable revenue source for essential government services.

As part of budget reform, Governor Schwarzenegger will issue an executive order to establish a bipartisan commission of legislative and gubernatorial appointees to modernize the state's tax laws and better reflect the current economy. The Tax Modernization Commission will make recommendations to assist the state in becoming less susceptible to revenue swings in the future.

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(916) 323-0648

BUDGET PROGRAM AREAS

Revenue Forecasting; Economic
Projections; Demographic Data;
Business, Transportation, and
Housing; Local Government

Mark Hill, PBM* (916) 322-2263

Education

Jéannie Oropeza, PBM (916) 445-0328

Health and Human Services

Michael Wilkening, PBM (916) 445-6423

Corrections and Rehabilitation,
Judicial, Justice, General
Government, State and
Consumer Services

Todd Jerue, PBM (916) 445-8913

Resources, Energy, Environment,
Capital Outlay, Information
Technology Consulting

Karen Finn, PBM (916) 324-0043

Employee Relations, Retirement
Systems, Departmental
Administration, Local Mandates,
Audits and Evaluations

Diana L. Ducay, PBM (916) 445-3274

Budget Planning and Preparation,
Cash Management, Statewide Issues
CALSTARS, FSCU

Veronica Chung-Ng, PBM (916) 445-5332

Financial Information System
for California

Fred Klass, PS** (916) 445-4923

*Program Budget Manager

**Project Sponsor

DECLARATION OF SERVICE

Case Name: **Tos, John, et al. v. California High-Speed Rail Authority (Tos II)**

No.: **34-2016-00204740**

I declare:

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar, at which member's direction this service is made. I am 18 years of age or older and not a party to this matter; my business address is: 455 Golden Gate Avenue, Suite 11000, San Francisco, CA 94102-7004.


On August 30, 2018, I served the attached **REQUEST FOR JUDICIAL NOTICE IN OPPOSITION TO MOTION FOR JUDGEMENT ON THE PLEADINGS** by placing a true copy thereof enclosed in a sealed envelope with the **GOLDEN STATE OVERNIGHT**, addressed as follows:

Michael J. Brady
Ropers, Majeski, Kohn & Bentley -
Redwood City
1001 Marshall St, Suite 500
Redwood City, CA 94063
Email address: mbrady@rmkb.com

Stuart M. Flashman
Attorney at Law
Law Offices of Stuart M. Flashman
5626 Ocean View Drive
Oakland, CA 94618-1533
Email Address: stu@stuflash.com

I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on August 30, 2018, at San Francisco, California.

Susan Chiang
Declarant



Signature