



An Update:

# Using Federal Economic Stimulus Funds for Transportation

MAC TAYLOR • LEGISLATIVE ANALYST • NOVEMBER 23, 2009



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## EXECUTIVE SUMMARY

The American Recovery and Reinvestment Act (ARRA) provides California with about \$3.7 billion in one-time funding for transportation programs, based on formulas. In order to create jobs and stimulate the economy, ARRA focuses on funding “shovel-ready” projects that can begin construction quickly. The federal act also provides funds for various transportation purposes on a discretionary, competitive basis.

We reviewed the progress of the California Department of Transportation (Caltrans), local road agencies, and transit operators in their use of ARRA funds in the months since the enactment of the federal stimulus programs and found the following:

- *Caltrans* has made good progress in the use of almost \$1 billion made available to the department, already putting out to bid contracts for 92 percent of the funds.
- *Local road agencies* have been slower to use their obligated ARRA transportation funds, with contracts for only one-third of their funds out to bid.
- The progress of *transit system operators* is unclear due to a lack of complete information. From the data we were able to compile, however, the operators appear to be making good progress.

The state is competing for discretionary grants, but the amount the state will ultimately receive is not yet fully known. We also found that complete information on the job creation impact of ARRA's transportation programs is not yet available.

We recommend that the Legislature hold oversight hearings on the use of ARRA transportation funds. This would help the Legislature determine if any actions are necessary to ensure that California meets various ARRA deadlines. In addition, the information we recommend be provided in oversight hearings would inform future legislative decisions about providing state funding for transportation programs.

AN LAO REPORT

In February 2009, Congress enacted and President Obama signed into law ARRA to stimulate the economy. The act provides \$787 billion in funding for various purposes, including \$46.7 billion for transportation nationwide. These funds are made available to states and other recipient agencies via a combination of formula-based programs and discretionary grant programs.

California will receive about \$3.7 billion from ARRA's formula-based transportation programs. These provide funding based on various factors, including population and the size of each state's transportation systems and various measures of

their use (such as vehicle miles traveled). California's share of funding includes about \$2.6 billion for highways and roads (certain transit and rail-related projects are also eligible for these funds), and about \$1.1 billion for transit programs. The amount of funding that California will receive from discretionary programs is not yet fully known. This report provides an update focusing mainly on the implementation and use of the \$3.7 billion in highway and transit formula funds that the state has already begun receiving. We also comment on the available evidence about the effect of these expenditures in terms of stimulating California's economy.

## BACKGROUND

### Major Features of ARRA Funds for Transportation

**Focus on Shovel-Ready Projects.** As summarized in Figure 1, ARRA has several requirements to ensure that transportation funds are spent in a timely manner in order to create jobs and stimulate the economy. By establishing short timelines,

the act focuses on funding shovel-ready projects—projects that are fully (or near fully) designed and developed and are ready to proceed to construction.

**Matching Funds Not Required.** The ARRA transportation funds also differ from regularly provided federal funding in another way. Federal

**Figure 1**

#### **American Recovery and Reinvestment Act (ARRA) Establishes Timelines on the Use of Transportation Funds**

##### **Highway/Road Formula Funds**

- Each state must obligate 35 percent of the total funds received by the state by June 30, 2009.
- Each state's total share of funds must be obligated by March 2, 2010. Any funds not obligated by this date will be redistributed to other states that have used all their ARRA highway/road funds.
- Any funds that are redistributed must be obligated by September 30, 2010.
- Funds that have been obligated are available for expenditure until September 30, 2015.

##### **Transit Formula Funds**

- Each recipient must obligate 50 percent of the total funds received by September 1, 2009.
- The balance of the recipients total share of funds must be obligated by March 5, 2010. Any funds not obligated by this date will be redistributed to other entities that have obligated all their ARRA transit funds.
- Any funds that are redistributed must be obligated by September 30, 2010.
- Funds that have been obligated are available for expenditure until September 30, 2015.

transportation programs usually require states or local governments to provide funds as a “match” for each project, generally from 5 percent to 12 percent of the project’s cost. The ARRA, however, does not require any matching funds. This, in theory, allows recipients to use ARRA dollars to get projects under construction quickly without having to come up with any matching funds from other sources.

***Extensive Reporting for Accountability.*** In addition, ARRA contains extensive reporting requirements. From the time a project is selected (a process known as certification) through the completion of the project, the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA) require regular reports on the progress of each project. In addition, recipients of ARRA transportation funds are also required to report on the use of funds to the House of Representatives Committee on Transportation and Infrastructure (T&I Committee). The reports call for information about projects that is not typically required for federally funded projects, such as progress in advertising and awarding contracts, and staffing levels of contractors who are working on the projects.

Because California’s share of the formula-based highway and road funds flow through Caltrans, all reports are compiled by Caltrans before being submitted to FHWA and the T&I Committee. In contrast, nearly all the funding for transit goes directly to regional agencies and local transit operators. Thus, transit recipients report directly to the federal government and are not required to report project status to the state.

## **Federal Funding Process Involves Several Steps**

In March 2009, FHWA and FTA apportioned federal economic stimulus funds to recipient states and local agencies. (Apportionment is the federal process for determining how much is available to each recipient and then making those funds available.) After funds were apportioned, states and local agencies must take a series of steps described below to use the funds on eligible projects. (Eligible projects must [1] be included in the appropriate federal transportation program, if applicable, [2] have completed the federal environmental review process, and [3] meet other federal guidelines.) These steps are:

- ***Certification.*** Fund recipients (states, local agencies, and transit operators) must first identify and certify with the respective federal agencies a list of qualifying projects that the recipient plans to fund.
- ***Obligation.*** In order to obligate, or commit, federal funds to a specific project, a project must be fully designed (unless the project uses a design-build procurement process), have completed environmental review and rights-of-way certification, and be ready to proceed to construction. For highway and road projects, obligation requests are processed through Caltrans. For transit projects, obligation requests are made directly to FTA.
- ***Contract Advertisement.*** Once funding has been obligated, the project sponsor is authorized to advertise the project and

accept bids from interested contractors. Large to medium projects are typically advertised for about 60 to 80 days, while smaller projects are usually advertised for about 30 days.

- **Contract Award.** Once the advertisement period has ended, bids are evaluated and a contractor is selected to build the project (usually the lowest priced bidder). Selecting a contractor can take as little as one day for small projects and up to one month or more for medium and large projects. Typically once work begins on a project, the contractor will receive progress payments. In general, it isn't until after the award of a contract that the stimulus impact of ARRA funds on job creation and retention would ordinarily be felt.

### State Legislation Allocates Mix Of Highway and Road Funds

The \$2.6 billion that ARRA provides to California for highways and roads can fund improvements and repairs to the state's highways as well as projects on certain major local roads. Under ARRA, the state must allocate at least 30 percent of these funds to county and regional transportation agencies for projects they select (mainly local road projects). The remaining funds are available to fund projects selected by the state (typically state highway projects). In March 2009, the Legislature enacted Chapter 21, Statutes of 2009 (ABX3 20, Bass), to direct the use of funds as described below.

**Large Portion of Funds Allocated to Local Agencies.** Chapter 21 provided a greater share of the \$2.6 billion of stimulus funds to local govern-

ments than is required by ARRA. Figure 2 shows the allocation of funds under Chapter 21. If local agencies do not use their funds in a timely manner, they are to be redistributed within the region or the state. In order to monitor local agencies' progress on the use of funds, Chapter 21 requires regional and county transportation agencies to report to Caltrans the amount of funds that would not be obligated by February 1, 2010. Any funds that a local agency does not plan to have obligated by February 1 are to be redistributed by Caltrans for other projects. While Chapter 21 does not specify a deadline for this report, Caltrans has asked local agencies to submit their ARRA-related documents, including obligation requests, by December 15, 2009.

**Figure 2**  
**State Implementation of ARRA Highway and Road Funds**

(Dollars in Millions)

Recipient	Amount	Percentage
Local agencies	\$1,606	62.5%
Caltrans	964	37.5
<b>Totals</b>	<b>\$2,570</b>	<b>100%</b>

**State's Share to Be Spent Mainly on Highway Repairs.** Chapter 21 requires that the \$964 million in ARRA funds made available to Caltrans be used mainly for highway repair projects in the State Highway Operation and Protection Program (SHOPP). (The SHOPP is the state's program that funds highway repairs and rehabilitation.) This is because the SHOPP has many projects that are shovel-ready, including \$800 million worth of projects we identified that could be advanced to provide economic stimulus (please see our December 2008 report,

*Advancing Transportation Projects to Stimulate the Economy*). In addition, Chapter 21 allows the department to use up to \$310 million of its ARRA funds to provide interim cash flow to begin

construction on certain non-SHOPP projects in the state’s Proposition 1B programs. These funds would eventually be repaid and used for projects in the SHOPP.

## PROGRESS TO DATE ON THE USE OF FUNDS

California’s progress to date in the use of ARRA transportation funds—specifically, regarding how quickly ARRA fund recipients in the state are moving through the federal funding process and using the stimulus dollars—is mixed overall. As described below, Caltrans is moving quickly to use its ARRA funds, while local road agencies are experiencing some delays. The progress of transit system operators is unclear due to a lack of complete information but, from the data we were able to compile, the operators appear to be making good progress.

### State Progresses on Highway Projects

#### *Overall Progress on Use of Highway Funds.*

Figure 3 shows Caltrans’ overall progress in each major step of using federal ARRA funds for highway projects based on data available as of mid-November 2009.

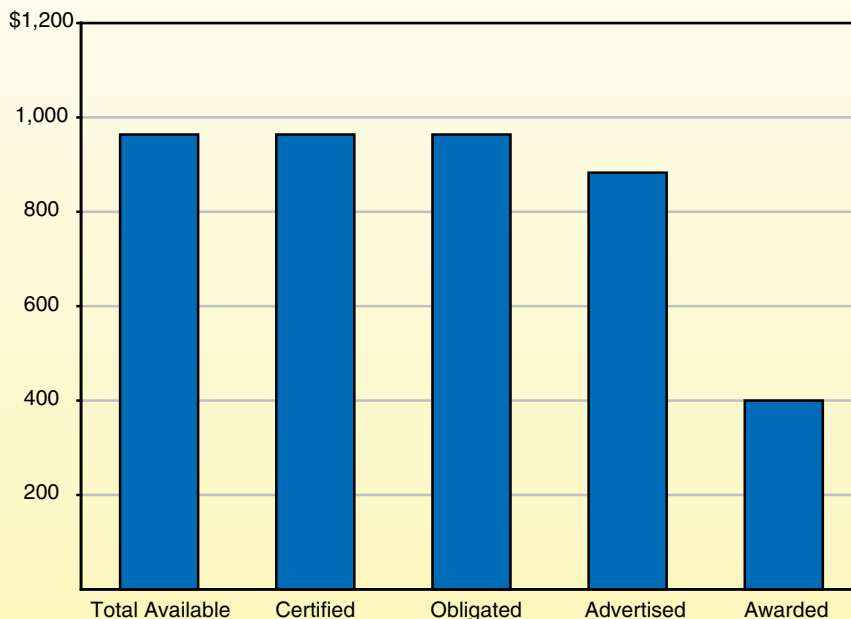
#### *Project Certifications Essentially Complete.*

As Figure 3 shows, Caltrans has certified to FHWA the selection of projects for its \$964 million in ARRA highway funds. Caltrans staff indicates that the department has also certified

additional projects for its share of funds so that projects will be ready to go quickly in the event that some contracts are awarded below their estimated cost. As required by Chapter 21, Caltrans is funding mainly small- and medium-sized highway repair projects and a few larger Proposition 1B projects with its share of ARRA funds. In total, Caltrans has certified the following types of highway projects:

**Figure 3**  
**Caltrans’ Progress on Use of ARRA Highway Funds**

(In Millions)





- \$512 million for roadway reconstruction, rehabilitation, and resurfacing.
- \$271 million for new roadway capacity.
- \$128 million for bridge replacement and rehabilitation.
- \$84 million for operational and safety improvements.
- \$38 million for transportation enhancements (such as bicycle lanes, pedestrian facilities, and landscaping).

**Caltrans Getting Projects Under Way**

**Around the State.** We also examined the federally required reports to determine how expeditiously recipient agencies are advertising and awarding contracts for highway and road work. Our review found that, with regard to its share of funds, Caltrans has been able to put many projects out to bid quickly. As shown in Figure 3, Caltrans has put a total of \$883 million (or 92 percent) of its ARRA funds out to bid. This includes the award of 52 contracts of about \$400 million in ARRA funds. Contracts have been awarded in locations across California, as shown in Figure 4. An additional 18 projects involving \$483 million in ARRA funds have been advertised, but not yet awarded. Because it typically takes about 60 to 90 days from advertisement to the award of a contract for highway projects, it is reasonable to expect that these advertised contracts will be awarded and construction begun by January 2010.

**Why Is Caltrans Succeeding in Moving**

**Ahead?** Caltrans has been able to move relatively quickly with ARRA money mainly because it has a “shelf” of highway repair and reconstruction projects in the SHOPP that are ready to be

constructed, but have not been funded due to the limited state funding that has been available. (Please see our *Analysis of the 2008-09 Budget Bill*, page A-32.) In addition, Caltrans has extensive experience with using federal funds and meeting the various requirements that accompany the use of those funds. Based on discussions with departmental staff, familiarity with the federal process also appears to have assisted Caltrans in getting projects under way quickly.

**Caltrans Benefitting From Competitive Bidding Environment.**

Discussions with Caltrans staff indicate that the state is also benefitting from a highly competitive bidding environment. For instance, Caltrans currently receives, on average, seven to eight bids per project that it advertises. This increased competition results in lower prices for awarded contracts. In July 2009, Caltrans reports that it received bids an average of 33 percent below the department’s project cost estimates. As a result, the department will be able to construct more transportation projects than first estimated. In anticipation of such

**Figure 4**  
**Regional Distribution of ARRA Contracts Awarded by Caltrans**

(Dollars in Millions)

Region of California	Number of Projects	Amount of ARRA Funds
Northern	6	\$61
Bay Area	7	50
Sacramento/Tahoe	9	93
Central Valley	11	47
Central Coast	3	15
Los Angeles/Ventura/Orange County	6	27
Inland Empire/Eastern	8	16
San Diego/Imperial	2	91
<b>Totals</b>	<b>52</b>	<b>\$399</b>

potential savings, Caltrans has identified an additional group of projects that now will be able to proceed using ARRA funds.

**Local Agencies Slow to Use Obligated Funds for Transportation**

Figure 5 shows local agencies’ overall progress in moving through the federal funding process as of mid-November 2009. Their progress on specific steps in the use of ARRA funds is described below.

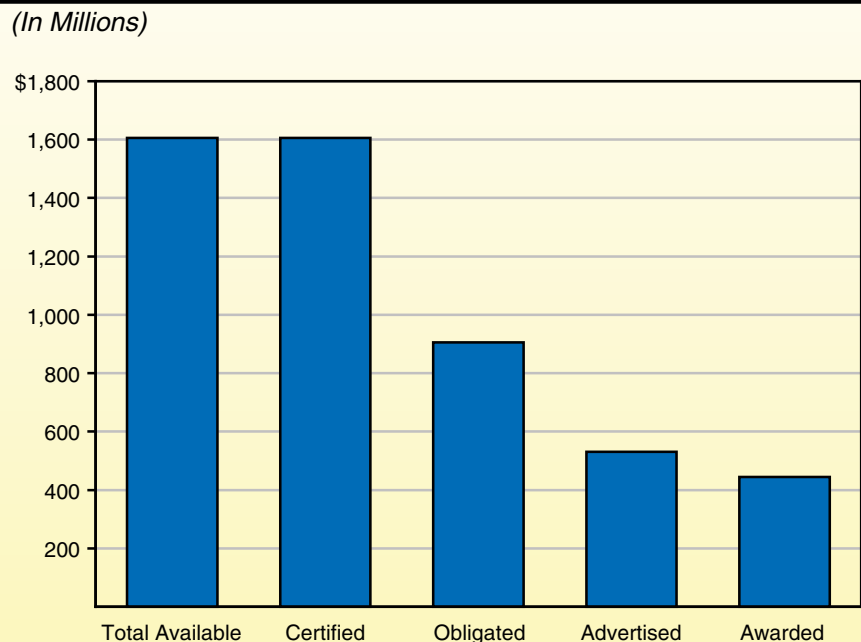
**Certification Essentially Complete.** Local agencies have certified to FHWA the selection of about \$1.6 billion in projects for use of their ARRA funds. The types of projects selected by local agencies include:

- Just over \$1 billion for 549 projects to reconstruct, rehabilitate, and resurface roadways.
- \$301 million for 7 projects to build new roadway capacity.
- \$156 million for 68 projects that would improve roadway operations and safety.
- \$87 million for 109 projects that provide transportation enhancements (such as bicycle lanes, pedestrian facilities, and landscaping).

- \$50 million for 10 transit and rail-related projects (certain transit, rail, and grade separation projects that are eligible for this funding).
- \$13 million to replace and rehabilitate 11 bridges.

**Local Agencies Slow to Advertise and Award Contracts With Obligated Funds.** As mentioned above, Chapter 21 directed a large portion of California’s ARRA road funds to local agencies. However, our review shows that even though they have obligated over half of their ARRA money, local agencies have generally been slow to get projects under way using the obligated funds. As shown in Figure 5, local agencies have put a total of about \$530 million (or 33 percent) of their ARRA road funds out to bid. This includes contracts awarded for \$444 million, and

**Figure 5**  
**California’s Progress on Use of ARRA Local Road Funds**



\$87 million in ARRA funded work advertised, but not yet awarded. The contracts awarded include one very large project (for high occupancy vehicle lanes on I-405 in Los Angeles) that will use about \$190 million in ARRA funds (accounting for about 40 percent of all local ARRA dollars awarded), and various smaller projects using \$254 million in ARRA funds.

***Slow Progress Likely Due to Various Factors.*** We contacted a number of local agencies throughout the state to attempt to determine what factors are slowing progress in the use of ARRA funds. The information provided in these discussions, while not necessarily representative of all local agencies, points to several potential reasons:

- ***Some Projects Were Not Truly Shovel-Ready.*** Multiple local agencies indicated that some of the projects they have planned to fund with ARRA dollars were not fully designed and/or did not have a completed federal environmental review at the time that ARRA funds became available. Design and environmental review must be completed before funds can be obligated.
- ***Lack of Experience in Using Federal Funds.*** Unlike Caltrans, many cities and counties do not frequently receive federal transportation funds. Consequently, these agencies must spend extra time relearning a complex federal process each time they spend federal dollars on a transportation project. This situation is contributing to confusion about which types of projects are eligible for ARRA funding, the process for getting a project into the federal program, and how to obtain a

federal environmental review, among other problems.

- ***No Requirement to Advertise Contracts Quickly After Obligation.*** After a local agency has obligated the funds for a project, it is the responsibility of that agency to advertise and then award the construction contract. (For small-to medium-sized road projects this typically takes about 30 to 60 days.) However, once funds have been obligated, there is no requirement that the project be put out to bid quickly. In fact, discussions with Caltrans staff indicate that local project sponsors typically have at least one year to advertise and award a contract before the obligation becomes inactive. These agencies are in compliance with ARRA time requirements, but are clearly not in line with federal or state policy goals to create an immediate economic stimulus. Local agencies indicated that, at least in some instances, the delays reflect the preferences of the local agencies, such as concerns about constructing during winter weather or the ability of their staff to handle increased workload.

***Caltrans Not Responsible for Local Delays.***

Based on our discussions, it appears that Caltrans is not responsible for local agencies' slow progress. In fact, almost all agencies we talked to indicated that Caltrans has been quick to provide technical assistance and to process requests to obligate funds and certify environmental reviews for local projects. Similarly, Caltrans reports that it is processing all ARRA-related requests expeditiously and there are currently no backlogs in responding to local requests for ARRA-funded

projects. Because advertising and awarding contracts for local projects are the responsibilities of the local sponsors, Caltrans has no ability to speed up the process and get these projects out to bid and under construction.

### **Information Incomplete but Suggests Transit Operators Are Spending Funds**

As mentioned earlier, California receives roughly \$1.1 billion in formula transit funding under ARRA. Nearly all of this funding is being distributed directly to the regional agencies and local operators in the state, including \$968 million for bus, rail and related capital assistance, and \$66 million for light and commuter rail systems. Caltrans is directly administering only \$34 million for use in nonurbanized areas. The ARRA initially required all of the transit funding to be used for capital expenditures. Congress subsequently adopted language to allow transit operators to use up to 10 percent of their allocations for operating expenditures.

#### ***Complete Information Difficult to Obtain.***

As direct recipients of ARRA funds, transit agencies report directly to FTA as well as the T&I Committee, with the two reports each requiring slightly different information. The recipients are not required to provide information to any state-level entity concerning the use of their funds. Consequently, it is difficult to comprehensively track the state's progress in the use of ARRA transit funding. For instance, Caltrans indicates that it only tracks the use by recipients for the \$34 million it directly administers. The FTA tracks projects submitted for funding, but its reports indicate only the date at which funds are obligated and when the money is subsequently spent. Recipients are not required to report to FTA when contracts are advertised or awarded.

The information provided to the T&I Committee, in contrast, must include these details. However, the committee's Web site only summarizes each recipient's progress in the aggregate for all of its projects, including the amounts of funding obligated, advertised, and awarded each month. This summary does not include information on the progress of individual projects.

Because the reports to Congress potentially could provide us with more detailed information, we contacted the T&I Committee to request copies of the reports submitted by individual California recipients. However, we were unable to obtain this information at the time this report was prepared. Thus, our analysis relied upon the summary information available on the committee's Web site. We also directly contacted 28 of the largest operators throughout the state for copies of their reports to the T&I Committee. We received project-specific information from 22 of these operators, comprising roughly \$705 million (66 percent) of all transit funds distributed to the state. Based on the information described above, we were able to draw the following conclusions.

***Transit Operators Appear on Track With Use of Funds.*** According to the FTA, recipients in the state are making significant progress toward obligating their transit funding. As of September 10, \$988 million (93 percent) of the transit dollars received by California operators have been obligated. At this rate, the state should have no problem meeting the ARRA requirement to obligate all transit funds by March, 2010. Of the funds obligated, the T&I Committee's summary report shows that, as of September 30, \$498 million worth of projects have been advertised to bid. This indicates the state's operators have put out to bid nearly 47 percent of the total funding in less than six months. Given their progress so

far, it appears likely that the state's ARRA transit grant recipients will be able to spend all of their funds by the 2015 deadline.

**Funds Used for a Variety of Purposes.** From the operators who provided project-specific information, we were able to roughly ascertain the types of projects being funded by ARRA. Specifically, these recipients plan to use 32 percent of their funding (\$222 million) for operating and maintenance expenses. This includes spending \$161 million on preventive maintenance, such as bus and railcar repairs to extend the equipment's useful life, and an additional \$61 million (roughly 8 percent of total funds received) on operating expenditures, such as paying for various contracted services. The remaining funding (68 percent) will be used for a wide range of capital expenditures. These capital projects can be divided roughly into three categories:

- New construction projects, or projects that add capacity to existing systems such as extending train lines or building new terminals.
- New or replacement rolling stock, such as buses and train cars.
- Rehabilitation of current infrastructure and rolling stock as well as service upgrades, such as new information technology or farebox collection systems.

Because respondents reported the total costs of each project from all funding sources—including ARRA and non-ARRA funds—we were unable to determine the exact amount of stimulus funding used for each category. The data available on the T&I Committee Web site indicate that transit operators in general plan to spend ARRA money for similar purposes.

## California Competing for Discretionary Grants

In addition to the various types of transportation funding programs discussed above that are allocated among states by formula, ARRA also created several new programs to provide transportation grants on a discretionary, or competitive, basis. The state's status in competing for these funds is briefly described below.

**High-Speed Rail Funding Applications Submitted.** The ARRA provides \$8 billion under the High-Speed Intercity Passenger Rail Program to fund two categories of rail projects:

- First, the applications for shovel-ready, intercity passenger rail projects were due from the states in August. California's \$1.1 billion application included a request for \$400 million for the Transbay Terminal and \$744 million for 37 projects related to the state's intercity rail program.
- Second, applications for high-speed rail development programs, in which projects are not immediately ready for construction but could be quickly, were due in October. The state's High-Speed Rail Authority (HSRA) applied for more than \$4.7 billion in funding for this second category and has indicated that it plans to use the federal dollars to match state bond dollars for high-speed rail development and construction.

The Federal Railroad Administration expects to announce grant selection as early as January 2010.

**California Applied for TIGER Grants.** The ARRA also provides \$1.5 billion nationwide for Grants for Transportation Investment Generating Economic Recovery (known as TIGER grants) for

transportation projects that would have a significant national economic impact. While the grants will be awarded on a competitive basis, ARRA limits the amount that any one state can receive to \$300 million. Eligible entities in California, such as Caltrans, regional governments, transit operators, and port authorities, have submitted applications for TIGER grants totaling at least \$2.3 billion for a variety of roadway, port, and rail projects. At the time we prepared this report, however, the U.S. Department of Transportation was still evaluating applications and selecting projects. Thus, the amount that will be provided for these projects in California is not yet known.

**California Operators Awarded Transit Discretionary Grants.** The ARRA provides \$750 million nationwide for Capital Investment Grants and

\$100 million for energy consumption reduction grants to transit operators on a competitive basis. The Capital Investment Grants were awarded in July to 11 recipients across the country. Los Angeles County Metropolitan Transportation Authority (LACMTA) received an award for \$66.7 million to partially fund the construction of a rail line extension from Union Station to East Los Angeles, the only award to a California agency. The FTA awarded the energy consumption reduction grants in September to 43 recipients across the country. Four California operators were awarded grants totaling \$17.5 million, including \$6.4 million for Alameda-Contra Costa Transit, \$4.6 million for the City of Santa Clarita, \$4.5 million for LACMTA, and \$2 million to the North County Transit District in San Diego County.

## ECONOMIC STIMULUS STILL UNKNOWN

### Stimulus From Highway Spending Unclear, but Should Be Significant

**ARRA Jobs Reports Not Yet Providing Complete Information.** As noted above, ARRA requires recipients of highway and road funds to report each month on the number of jobs associated with each project. While these reports are currently available, the information reported to date does not appear to be consistent or complete. For example, it is not clear whether the job counts are being reported on a consistent basis for each contractor. The U.S. Government Accountability Office noted recently that questions have been raised about the quality of the data in the ARRA reports. However, some information is available that permits us to provide some initial comments on the potential impact of these activities on the state's economy. We outline this information below.

**Past Estimates Indicate Many Jobs Related to Highway Spending.** While we do not have a complete accounting of the ARRA transportation program's economic impacts, some general estimates on the number of jobs related to highway spending are available. The FHWA recently estimated that \$1 billion spent on highway infrastructure supports about 15,000 jobs directly, and about another 15,000 jobs indirectly. While we have not reviewed in detail FHWA's methodology for developing these estimates, we believe based on our past analysis of transportation spending that these projections are a reasonable rule of thumb to use in evaluating the success of the ARRA programs. Thus, based on FHWA's estimates, the nearly \$1 billion in ARRA funds allocated to Caltrans for state highway projects could potentially, directly create or retain about 15,000 jobs.

## Most Stimulus From Local Road Spending Has Not Yet Materialized

***Contracts Must Be Awarded Before Stimulus Will Be Felt.*** Similar to the highway program, the ARRA jobs report for local road projects have not yet provided the information necessary to determine the number of jobs created or retained by funding these projects. In any event, the slow progress in the award of construction contracts means that these projects are not yet providing much, if any, economic stimulus to California's economy. While local road projects could potentially support many jobs in California's construction sector and related industries, this impact will not be fully felt until these local projects move forward.

## Magnitude of Stimulus From Transit Spending Is Unclear

***Some Economic Stimulus Benefits to California May Be Delayed or Limited.*** At this time, it is very difficult to ascertain the magnitude of

the economic effect of ARRA transit spending on the state. The number of fund recipients, lack of a centralized data source on these projects, and the lack of project-by-project details make it difficult to accurately determine the impact of ARRA transit funding on California. Additionally, the choice of projects made by local operators could greatly affect the timing and extent of any benefit to the state's economy. For example, to the extent that the federal economic stimulus funds are being used for the purchase of new rolling stock, the potential benefits to the state's economy may be delayed. This is because procurement of new buses and rail cars can often take several years, and the new equipment may be manufactured outside the state. Similarly, other purchases made by transit operators from out-of-state vendors and manufacturers, such as for computer software, spare parts, or other equipment, may have a limited stimulus effect for the California economy.

# LEGISLATIVE HEARINGS WOULD INCREASE OVERSIGHT

In summary, our review found that local agencies, which control the largest portion of transportation stimulus funds, have been relatively slow to use obligated ARRA funds to get their road projects under way. However, the reasons for this are unclear. In addition, our assessment of the state's progress in using ARRA transit funds is hampered by a lack of complete information. Lastly, discretionary grant programs created by ARRA are still in various stages of development and project selection, so information on the funding available to California from these programs is not yet fully known.

***Legislature Should Hold Oversight Hearings.*** In light of these unanswered questions, we

recommend that the Legislature conduct oversight hearings on the state's progress in using ARRA funding for transportation and the economic stimulus resulting from the expenditures of those funds. This would help the Legislature to be better informed of the progress and use of ARRA funds for transportation, and how the federal money is helping California's transportation programs. Specifically, the Legislature should have agencies that are receiving ARRA funds report on the following matters:

- ***Why Local Agencies Are Not Using ARRA Funds More Quickly.*** Local agencies should report on any problems that are holding up the use of ARRA funds.

Specifically, local agencies should explain why contracts are not being advertised and awarded more quickly for projects. In addition, local agencies should report on how they will get on track to meet the February 1, 2010 deadline established in Chapter 21 for them to obligate funds. For instance, local agencies should explain what steps they are taking to get projects ready to go in order to meet both the federal and state deadlines.

- ***How Caltrans Plans to Redistribute Unobligated Funds.*** As noted above, Chapter 21 directs Caltrans to redistribute ARRA funds that local agencies will not obligate by February 1, 2010. This gives the state about only one month to commit these funds to alternative projects prior to the funds becoming unavailable under ARRA on March 2, 2010. In light of these upcoming deadlines, Caltrans should report on its efforts to monitor the progress of local agencies and its plan for redistributing these funds in the event that the ARRA funds allocated to local agencies for road projects are not on track to be used. In particular, the department should report on whether it would fund additional SHOPP projects with the redistributed funds, given Caltrans' reports of a remaining \$270 million backlog in such projects that are now unfunded but shovel-ready.
- ***How Transit Operators Are Progressing With Their Projects.*** Given the difficulty of obtaining data regarding the use of ARRA funds for transit, the Legislature should request that these recipients report on a number of issues. Specifi-

cally, transit operators should be asked to provide project-specific information that describes what projects are being funded with federal economic stimulus funds and how the funding would impact transit services in the state. In addition, transit agencies should be requested to report on how much of the stimulus funding is being used for operating and maintenance expenses. This information would assist the Legislature in making future decisions involving state funding of transit capital and operations.

- ***How High-Speed Rail Funds Would Be Used.*** The Legislature should direct the HSRA to provide an update on the projects that would be funded with ARRA funds. To the extent the funding will be used for rail projects along the planned high-speed corridor, the authority should identify the benefits that would be realized as a result of the projects in the interim period before the entire high-speed train system would be completed. Further explanation of the authority's planned expenditure of these federal funds would enable the Legislature to allocate future state funding for the project more effectively.

The oversight hearings that we propose would allow the Legislature to become better informed about the progress in using ARRA funds for transportation projects. This would help to ensure that the state meets the ARRA deadlines as well as the overall policy goal of stimulating the state's economy. Lastly, understanding how ARRA funds are being spent in the state would help inform future legislative decisions concerning how much state funding to provide for transportation programs.