INSPECTOR GENERAL

California Department of Transportation

Airspace Program (Part II):

Audit of the California Department of Transportation's Administration of Its Statewide Airspace Program

Independent Office of Audits and Investigations

Bryan Beyer, Inspector General
Matt Espenshade, Chief Deputy

February 2026
24A.PROG07

For questions or assistance concerning the contents of this report, please contact (916) 323-7111 or email ioai.reports@dot.ca.gov. Alternative format reports available upon request.

Cover: Photograph taken by the State Fire Marshal's Office, documenting a violation found during an inspection of an airspace property on November 21, 2023.

February 12, 2026

Dina El-Tawansy
Director
California Department of Transportation
1120 N Street
Sacramento, CA 95814

Final Report — Airspace Program (Part II): Audit of the California Department of Transportation's Administration of Its Statewide Airspace Program

Dear Ms. El-Tawansy:

The Independent Office of Audits and Investigations (IOAI) completed its audit of the California Department of Transportation's (Caltrans) administration of its statewide Airspace Program. This report is the second in a series of reports regarding Caltrans' administration of properties it controls, known as *airspaces*, located underneath state highways.

Enclosed is our final report, which includes your response to the draft report. The final report is a matter of public record and will be posted on IOAI's website.

A Corrective Action Plan (CAP) addressing the recommendations is due April 13, 2026. Please send the CAP to ioai.reports@dot.ca.gov. Thereafter, IOAI will collaborate with Caltrans twice a year to assess the corrective actions taken on audit recommendations.

If you have any questions regarding this report, please contact our office at (916) 323-7111.

Sincerely,

Bryan Beyer, CIG
Inspector General

cc: Cory Binns, Chief Deputy Director
Donna Berry, Deputy Director, Project Delivery
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Tiaira Moering-Hill, Deputy Division Chief, Right of Way and Land Surveys
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Tables, Figures, and Photos

Selected Terms and Acronyms in Report

Terms/Acronyms	Definition
Agent	Right of Way Agent
Airspace/Property/Site	*Airspace*, *property*, and *site* refer to areas above or below state highways. Caltrans is authorized to lease these areas to private and public entities.
Caltrans	California Department of Transportation
Commission	California Transportation Commission
Consumer Price Index	Data published by the Bureau of Labor and Statistics and used to calculate rate increases when the lease agreement does not specify lease rate escalation percentage.
District	Caltrans' twelve district offices are responsible for initiating, administering, and managing airspace leases.
Headquarters	Division of Right of Way at Caltrans Headquarters
I-10	Interstate 10 (the segment of that interstate highway that traverses Los Angeles)
Lessee/Tenant	Also known as a *tenant*, a *lessee* is the person to whom a lease is made. The lessee is responsible for adhering to the terms and conditions of the agreement.
Manual	*Right of Way Manual*
ROWMIS	Right of Way Management Information System
RWPMS	Right of Way Property Management System
Senior Agent	Senior Right of Way Agent
Tenancy	The period of a tenant's occupancy or possession of the rental property.

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Summary

The fire that broke out at an airspace site underneath Interstate 10 in Los Angeles, California, on November 11, 2023, prompted our review of Caltrans' Airspace Program. Our first report, published on May 30, 2024, focused on the Interstate 10 airspace site in Los Angeles where the fire occurred and identified numerous issues with Caltrans' oversight and lease management practices.

Our current report addresses Caltrans' oversight of the statewide program. We found a multitude of deficiencies in Caltrans' lease management practices; these deficiencies were similar in nature to those detailed in our first report. Specifically, we found the following:

- Caltrans violated state law when, after several tenants' leases had expired, district offices improperly entered into or extended these airspace leases instead of holding public auctions. In one instance, Caltrans ignored the results of a public auction it had conducted for an airspace property and, without legal authority, executed a new, month-to-month rental agreement after negotiating directly with the existing tenant.

- Caltrans failed to perform annual inspections for 11 of the 13 leased properties we reviewed, missing between one and 29 years of inspection activity. These failures increased the risk to public safety. For three of the 13 properties we reviewed, the State Fire Marshal found and reported significant, potentially dangerous violations—conditions like those that contributed to the Los Angeles fire on November 11, 2023. However, neither Caltrans nor the tenants properly resolved the State Fire Marshal's concerns. This left the potentially dangerous conditions largely unaddressed for up to 22 months, from November 2023 to at least August 2025, which marked the last update we received.

- Caltrans did not always apply the financial terms of its lease agreements for 12 of the 13 properties we reviewed. In addition, Caltrans did not always include in its airspace leases a clause requiring periodic adjustments to a tenant's monthly rate. These practices resulted in Caltrans' underbilling these tenants by approximately $680,000. Of this amount, about $455,000 in underbilling occurred in leases with private entities. This underbilling may have violated the State's Constitutional prohibition against gifting public funds.

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Introduction

Background

Pursuant to Government Code, section 14461, and at the request of the director of Caltrans, the Independent Office of Audits and Investigations (IOAI) initiated audits of Caltrans' Airspace Program.

On November 11, 2023, a large fire broke out underneath Interstate 10 in Los Angeles, California. The fire reportedly began in one of Caltrans' airspaces, which are plots of land generally found underneath freeways. Caltrans is authorized to lease airspaces to public and private entities. After the fire, the Governor directed Caltrans to perform a comprehensive review of its Airspace Program. Toward that end, when announcing the results of Caltrans' initial assessment of its Airspace Program in November 2023, the director of Caltrans stated that he asked the inspector general to conduct an independent audit of the program. Among the statements in the announcement, the director highlighted the importance of safety, making the following declaration:

> Safety is Caltrans' top priority. The department is conducting this urgent safety review of our leased Airspace properties across the state to assure the public that these spaces pose no threat to their safety or the integrity of our state's critical infrastructure. Caltrans independent Inspector General's audit of the Airspace program — initiated at our request — will also provide further transparency and build public trust and confidence.

IOAI published the Airspace Program audit report (Part I) on May 30, 2024, focusing on the reported source of the fire: the airspace site located at and around 14th and Lawrence Streets in Los Angeles. As part of this review, IOAI reported that Caltrans had not conducted the required annual inspections, had not rectified numerous safety and other lease violations, and had not collected or assessed nearly $800,000 in rent payments and related charges.

Airspace Program audit report (Part II) focuses on 13 properties located across four districts, having lease durations ranging from six to 32 years. Among the 13 properties reviewed, 10 consisted of leases with private entities and the remaining three consisted of leases with public entities. In our sample of 13 properties, we reviewed 19 Airspace Program leases that Caltrans categorized as Parking and Open Storage. For this review, we judgmentally selected eight of the 38 leases Caltrans deemed at risk after the November 2023 fire and selected five additional leases judgmentally and randomly. See Table 1 on the following page for details.

Table 1: Details on the 13 Properties Selected for Review

Property	District	Use Category	Start Date	End Date	Lease Duration
A	3	Parking	12/1/2015	Active	10 years
B	3	Parking	12/1/2017	Active	8 years
C	3	Open Storage	7/1/2005	Active	20 years
D	4	Open Storage	5/1/2017	4/29/2024	7 years
E	4	Open Storage	10/1/2014	5/30/2024	10 years
F	4	Open Storage	6/1/2017	Active	8 years
G	4	Open Storage	5/1/2019	Active	6 years
H	7	Parking	11/1/2009	Active	16 years
I	7	Parking	8/1/2013	4/5/2024	11 years
J	7	Parking	5/1/2013	Active	12 years
K	11	Parking	3/1/2015	Active	10 years
L	11	Parking	8/1/1997	Active	28 years
M	11	Open Storage	11/1/1992	11/30/2024	32 years

Source: IOAI analysis of Caltrans' airspace lease agreements, as of June 30, 2025.

Caltrans updated the *Right of Way Manual* (Manual) in January 2025. However, we assessed Caltrans' oversight of the 13 properties according to the policy and guidance established at the start of each lease.

Overview of the Airspace Program

The Streets and Highways Code authorizes Caltrans to lease the use of airspace property—the areas above or below state highways—to private or public entities in accordance with procedures prescribed by the Commission and by various sections of the Code of Federal Regulations. Caltrans' Headquarters manages the statewide Airspace Program and is responsible for developing policies and procedures governing all aspects of airspace leases. Under Headquarters' guidance, the 12 district offices are responsible for initiating, administering, and managing all airspace leases in their respective districts.

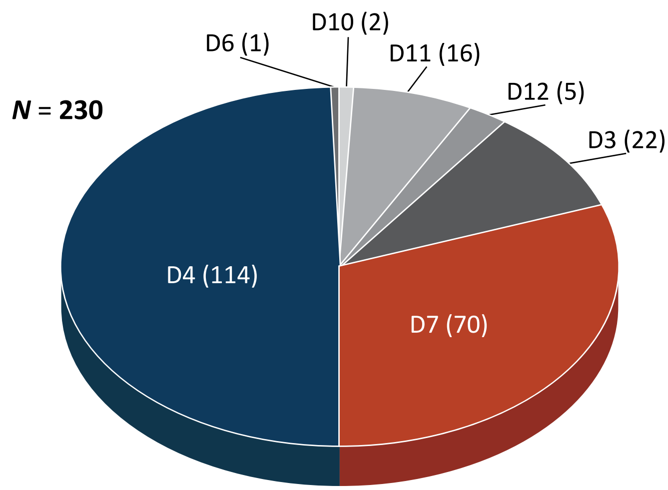
The district's offices are responsible for drafting and negotiating airspace leases through auction or direct negotiation, conducting inspections of leased properties, ensuring that tenants make rent payments, and filing notices of unlawful detainer in court for eviction, if warranted. Caltrans' Manual provides guidance and contains templates with the required provisions for the several types of airspace leases, including the following:

- **Parking and Open Storage Agreement** – Used when the airspace site is already improved. The lease term is normally two years but can be five years, depending on the lessee's need. This type of lease is usually awarded through a competitive bid process.

- **Non-Developmental Agreement** – Similar to the Parking and Open Storage agreement. However, the lease term is longer than five years but not more than 15 years. This agreement is usually the result of direct negotiations and requires the Commission's approval.
- **Developmental Agreement** – Long-term developmental use for more than five years (including options) involving major construction. Usually the result of direct negotiations.
- **Three-Year Directly Negotiated Non-Developmental Agreement** – Used when there is only one potential lessee and the site has been unsuccessfully bid. The lease term cannot exceed three years.

As of March 31, 2025, Caltrans' records show that the department managed 230 Parking and Open Storage properties across seven districts. Figure 1 presents the distribution of these properties among the seven districts. District 4 accounted for 50 percent of the sites, District 7 accounted for 30 percent, District 3 accounted for 10 percent, and District 11 accounted for 7 percent, with these four districts collectively representing 97 percent of all Parking and Open Storage properties statewide.

Figure 1: Parking and Open Storage Airspace Property, by District



Source: IOAI analysis of Caltrans' Airspace quarterly report data, FY 2024-25, third quarter.

Caltrans leases airspace to private and public entities, following procedures outlined by the Commission. Caltrans is authorized to independently award leases to private entities through a competitive bidding process. However, competitively bid leases with a lease duration of more than five years require Commission approval.

Caltrans can directly negotiate leases in certain circumstances, such as when an occupant of an adjacent landlocked site is the only possible tenant or when Caltrans can show that direct negotiation is in the best interest of the State. Caltrans does not need the Commission's approval for directly negotiated leases up to three years. However, Caltrans must obtain the Commission's approval for directly negotiated leases exceeding three years, unless Caltrans is negotiating with a public entity.

Overview of Caltrans' Process for Inspection and Oversight of Airspace Properties

Each district airspace office is responsible for the security and maintenance of leased airspace sites in its area. Caltrans' Right-of-Way Agents (agents) are responsible for regularly inspecting sites to ensure that lessees are maintaining sites according to the terms of their respective leases. The Manual requires agents to inspect developed leased sites quarterly and inspect non-developed lease sites annually. Caltrans' Manual further states that lessees are in default of the lease if (1) they have violated any of the lease provisions, and (2) Caltrans has given them proper notice and an opportunity to correct the problem. A *default* is an omission or failure by the lessee to meet a provision of the lease. Typical defaults include the following:

- Delinquent account
- Insurance certificate not current
- Failure to maintain site to current standards
- Current use not authorized
- Subleasing the site without proper approvals

Caltrans' Manual recommends that its agents notify lessees in writing by certified mail when agents determine that lessees have violated their lease agreements. The notification should include the type of violation the agents found, the remedial actions the lessee must take, and the number of days for the lessee to take the necessary actions, typically ranging between three and 30 days.

During an inspection, if an agent discovers that a condition of the property violates a term of the lease and that the condition is curable (correctable), the Manual recommends that the agent give the lessee a 30-day notice to correct the problem. If the condition poses a more serious public safety concern—if, for example, the condition is the presence of flammable materials—the agent has the option to give the lessee a three-day notice to correct the deficiency instead of a 30-day notice. If the tenant does not correct the condition within the time afforded in the notice, the agent must declare the tenant in default and then issue the tenant a three-day notice to vacate the property. If the lessee has not vacated the property at the end of the three days, Caltrans can, in consultation with its legal team, begin eviction proceedings through an unlawful detainer action.

Caltrans maintained its airspace inventory in the Right of Way Property Management System (RWPMS) until May 2024, when it transitioned to the Right of Way Management Information System (ROWMIS) and discontinued using the RWPMS.

The RWPMS stored key information about each airspace site, including lease use type, start and end dates, vacate date, billing rate, and billing and payment history. Agents were responsible for keeping the RWPMS current with all the relevant airspace lease data. The January 2025 Manual update now requires agents to enter airspace lease information into ROWMIS.

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Audit Results

Finding 1. Caltrans Circumvented the State's Competitive Bidding Laws and the California Transportation Commission's Guidelines When It Improperly Entered Into or Extended Several Airspace Leases

Caltrans' authority to lease the use of areas above or below state highways is codified in the Streets and Highways Code, Section 104.12. In part, this law specifies the following:

> The leases shall be made in accordance with procedures to be prescribed by the commission, except that, in the case of leases with private entities, the leases **shall only be made after competitive bidding** unless the commission finds, by unanimous vote, that in certain cases competitive bidding would not be in the best interests of the state.[Emphasis added.]

The Commission's Procedure for Leasing Airspace to Private Entities[1] generally reiterates the competitive bidding language in the Streets and Highways Code. Regarding the department's entering into certain types of nonbid leases with private entities, however, the resolution limits the durations of such leases to periods of up to three years. The department's Manual also acknowledges lease limits and a bid process in its description of a Parking and Open Storage Agreement as a "short term, nondevelopmental use for up to five years with no options or extension. Usually the result of an open bid process." The department's Manual cautions its staff on the importance of competitive bidding:

> Failure to complete a bid auction and engaging in direct negotiation may result in conflict with [the Commission's] regulation and jeopardize the Department's authorization to enter into other agreements without [the Commission's] approval.

However, we believe that the district's leasing practices were not always competitive and, in some cases, conflicted with the department's policies, the Commission's regulations, and state law.

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[1] Procedure for Leasing Airspace to Private Entities, Resolution G-25-14 (dated January 30-31, 2025), establishes the current framework.

Caltrans ignored the results of a public auction it held for an airspace property and, in the following year, negotiated directly with the tenant who had won the auction, entering into a new agreement—without legal authority—that gave the tenant a far more favorable deal.

On February 28, 2019, Caltrans' District 4 held a public auction for a 58,000 square-foot property located in Richmond. Two private individuals participated in the auction and submitted bids to lease the property. Bidding for the property started at $2,500 per month and closed at $5,800 per month. The winning bidder was the existing tenant, who already occupied the site under an expired rental agreement of $2,390 per month. On May 14, 2019, the tenant signed a new lease agreement for a term of 15 years and began to pay the new rate of $5,800 per month.[2]

However, on April 27, 2020, after nearly one year of paying the new lease's rate, the tenant emailed Caltrans expressing concerns over COVID-19[3] and his ability to continue with the existing arrangement. The tenant stated that he had recently received a copy of the lease agreement and did not plan to sign it, even though he had done so the previous year. In the email, he declared that he would "let the property move back into a holdover status at the former rent of $2,390 [per] month," meaning that without his signature, his lease agreement would revert to his previous month-to-month tenancy at the previous rate. He also suggested that he had overpaid for the property and requested that Caltrans consider applying the amount he claimed to have overpaid to his future rent. On May 1, 2020—just four days later—the district seemingly agreed to the tenant's proposal and entered a new monthly rate of $2,500 per month for that property into the department's billing system and, in an even more dramatic step, retroactively credited the tenant $3,300 per month for his payments during the preceding year, for a total credit of $39,600.

On September 15, 2020, the district and the tenant executed a new rental agreement, confirming the changes that had taken place on May 1, 2020. Specifically, the term of the new agreement changed from a fixed period of 15 years to an indefinite period on a month-to-month basis. In addition, the district reduced the property's monthly rate of $5,800 per month to $2,500 per month and backdated the agreement's starting date to the preceding year—to May 1, 2019—effectively ignoring the results of the auction. The district also eliminated from the new agreement the standard contractual clause for future annual rate increases of 4 percent.

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[2] Although the tenant signed a copy of the lease agreement in May 2019 and stated in an October 2019 letter to the City of Richmond that the tenant had entered into a long-term lease with Caltrans, Caltrans did not have a record of a version of the lease with its signature. When we asked Caltrans for an explanation, the senior agent told us that a lease agreement reflecting the auction results was never executed.

[3] Although the tenant references concern over COVID-19, there were no relief mechanisms in place that would have entitled him to a restructuring of an active lease.

This method of negotiating and the terms in this new agreement conflict with the department's policies, the Commission's regulations, and state law. We question whether the district had the legal authority to ignore the results of a public auction and execute a new, month-to-month rental agreement after negotiating directly with the existing tenant, as it did in this instance.

When we spoke to the senior agent who agreed to make these changes in the new agreement, the agent explained that he had spoken to the second bidder after the auction and had determined that the second bidder had not intended to occupy the airspace and was only present at the auction to bid up the price.[4] The agent elaborated further, asserting that the second bidder only wanted to sublet the space, and that after the agent had told the second bidder that Caltrans would not allow him to sublet, the second bidder had lost interest in the airspace.[5]

However, since the auction was completed at the time the agent learned of this, the second bidder's plan to use the property for subletting would be irrelevant: he lost the auction. Regardless of the second bidder's intentions, however, the district did not appear to have sufficient reason to invalidate the results of the auction after the fact. The winning bidder—the existing tenant—was under no obligation to participate in the auction nor continue bidding against his competitor; the existing tenant could have stopped bidding at any time if he thought the price of the property was becoming too high. Instead, he incrementally raised his bid amount during the auction nine times. Furthermore, it is unclear why the agent, one year later (and only after the tenant contacted him by email) acted upon the second bidder's intentions. If the district had knowledge of impropriety that invalidated the auction results, the district should have acted immediately, either by holding a new auction or by leaving the site vacant until it could hold one. Instead, the district improperly negotiated with the existing tenant—without any competition—and restructured a new agreement.

Caltrans did not always hold public auctions in leasing airspace sites to private entities; instead, Caltrans negotiated directly with some private entities, a practice that conflicted with state law and the Commission's procedures.

As we have seen, state law generally favors a competitive process when private entities lease airspace properties; state law also requires the Commission to set more restrictive rules. This criterion has been

[4] For context, all bidders for this property were required to attend the auction in person with a cashier's check in the amount of $3,500 for deposit and complete a registration form. Given that the second bidder completed these steps and actively submitted nine separate bids on this property during the auction, we find the senior agent's rationale—that the second bidder was present only to raise the price—unconvincing.

[5] We are perplexed by the senior agent's position, since the district allowed the existing tenant to sublet—albeit without approval from the Federal Highway Administration—one-third of the property.

in place for decades. Although the Commission allowed Caltrans to negotiate directly with private entities for leases restricted to durations of three years or less, we found that Caltrans did not always follow the Commission's restriction, and by extension, state law. Specifically, we found that Caltrans negotiated directly with private entities for leases beyond the scope of the Commission's procedures in six of the 10 properties we reviewed (spanning three of the four districts in our sample), equating to 60 percent of the properties leased to private entities in our sample.

In the preceding section, we described a lease for an airspace in District 4 that was directly negotiated for a fifteen-year period; a second example is a lease for an airspace in Los Angeles, in Caltrans' District 7. In this instance, the district entered into a five-year Parking and Open Storage lease in 2009 following a public auction with a private entity; the original lease did not include an option to extend. According to the Commission, "If the executed agreement does not contain a specific provision for extension, Caltrans must re-auction the site prior to the lease's expiration." The text box at the bottom of this page provides the complete statement.

Nevertheless, instead of holding a new auction, the district negotiated directly with the tenant to extend the lease on three separate occasions, adding a total of ten additional years through amendments. The district gave the tenant the first extension in 2012, when it directly negotiated a two-year term with the tenant. The district added the second extension in 2013, when it directly negotiated with the tenant for an additional five-year term. The district extended the lease again in 2021, when it negotiated directly with the tenant a third time and for a three-year term. When we asked Caltrans' senior agent currently responsible for overseeing this lease why the district had not conducted a public auction, the senior agent stated they could not speak to any lease agreements executed prior to 2020, when their predecessor had retired.

The Commission staff's complete statement: "Lease extensions are permitted only when an option to extend was explicitly included in the original advertisement, auction, and executed lease agreement. The lease must specify the number of additional years available for extension, and those terms must have been clearly stated during the original bidding process. If the executed agreement does not contain a specific provision for extension, Caltrans must re-auction the site prior to the lease's expiration. Although Item 2.3 of the resolution could be misinterpreted by those unfamiliar with its intent as allowing lease extensions of up to three years, this provision was specifically included to eliminate the need for a public auction for short-term leases required for highway maintenance, operations, and construction. Using Item 2.3 outside of this context would circumvent both the legal requirement for public auction and the intent of the Commission's resolution, which requires Commission approval for non-auctioned leases that are determined to be in the best interest of the state." —*Commission staff correspondence with IOAI, August 27, 2025*

Our third and fourth examples, both leases for properties in Los Angeles, started in 2013 as five-year Parking and Open Storage leases with no extension options. When the leases expired in 2018, the district negotiated directly with the tenants to extend the terms through lease amendments rather than place the properties for auction. The district added three years to one tenant's lease and added two years to the other tenant's lease. Again, the senior agent did not explain why the district had not conducted a public auction.

Our fifth example is a lease for an airspace in San Diego, in Caltrans' District 11. The original lease started in August 1997 as a result of direct negotiation. It was a nonbid, short-term, six-month lease with one six-month extension, for a total duration of one year. Then the district negotiated directly with its tenant on four more occasions. The first occasion took place after the lease expired and the tenant had remained in possession of the property on a month-to-month basis for nearly two years. Instead of holding a public auction, the district negotiated directly with the tenant in May 2000 to enter into a three-year lease. When this lease expired, the district continued the tenancy on a holdover status, meaning the tenant remained in possession of the property, paying the same rate on a month-to-month basis, until April 2015, a period of 12 years. In May 2015, the district again negotiated directly with the tenant, this time entering into a five-year lease that included two additional five-year extension options, for a total period of 15 years. The five-year lease expired in April 2020, and the district continued the lease on a holdover status for 12 months. In May 2021, the district negotiated directly with the tenant to exercise the first five-year option, which would have ended in April 2026. In March 2025, before the first extension had concluded, the district again negotiated directly with the tenant to exercise the second extension, which runs through April 2030. We believe the terms of this agreement fell well outside of the department's authority.

The sixth example is also a lease for an airspace in San Diego. Like the lease in the previous example, this contract started as a nonbid short-term, six-month lease—though this lease began in 1992—with one six-month extension, for a total duration of one year. Upon the lease's expiration, the tenant in this example also held possession of the property on a month-to-month basis for more than two years. Then in 1996, instead of holding a public auction, the district negotiated directly with the tenant and entered into a 10-year lease with the tenant. Caltrans asked for the Commission's approval, but there was no record of Caltrans' having received it. However, when that lease expired, the tenant again remained in possession of the property on a month-to-month basis until November 2024—a period of almost 19 years—when the tenant finally vacated the property.

When Caltrans negotiates directly with private entities to extend the durations of their leases, Caltrans circumvents potential involvement from other prospective tenants and limits competition. Without holding public auctions, Caltrans cannot be sure it is getting a fair market rate for its properties and, in turn, may not be getting the best deal in the interest of the State. The Commission, in its most recent resolution (G-25-14), dated January 30-31, 2025, has addressed some of the potential problems we have described above. First, the Commission now limits Caltrans to executing short-term (a maximum of three years), nonbid, non-developmental airspace leases for construction projects. Any extension of these types of airspace leases would then require unanimous approval by the Commission. Second, the Commission now limits Caltrans to executing short-term, nonbid airspace leases for up to a period of six months for noncomplex and non-developmental use. Again, any extension of these types of airspace leases would require unanimous approval by the Commission. Lastly, the Commission now authorizes Caltrans to use a Letter of Understanding and Offer and Proposal format for the awarding of long-term airspace leases in cases where competitive bidding is not employed. These airspace leases require unanimous approval by the Commission and shall not be granted through any other means. The airspace leases in the properties we reviewed occurred long before this version of the Commission's framework; however, this recent version should prevent some of the problems we found from recurring.

At least one-quarter of the Parking and Open Storage leases for airspaces statewide had expired—some for even decades—and had presumably become month-to-month tenancies; this practice may be illegal and greatly reduces open competition in the rental market.

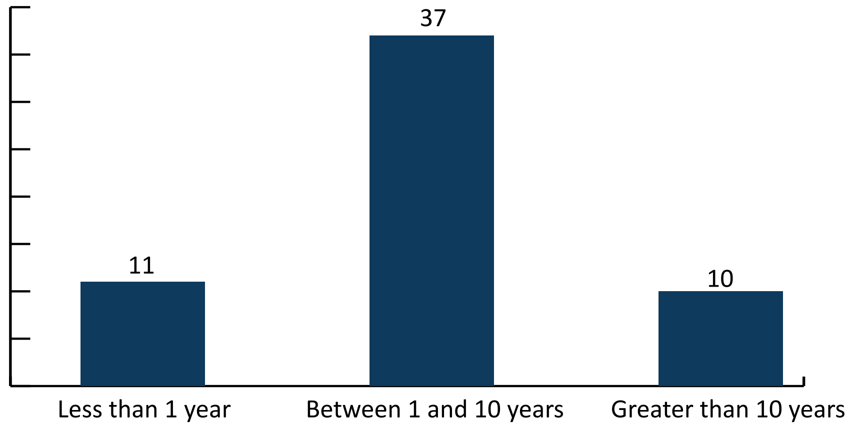
Generally, as part of any standard Parking and Open Storage lease agreement, Caltrans includes a clause for "holding over," a condition that occurs when a lease agreement expires but the tenant remains in possession of the property. This clause usually allows a tenant to remain in possession of the property on a month-to-month basis while being subject to every other term of the original lease agreement. Presumably, this arrangement allows Caltrans some flexibility in the short term while it arranges a public auction. However, we found that Caltrans used the practice of holding over expired leases to retain the status quo for years. We also question the legality of holding over these leases, given the Commission's resolution.

After analyzing Caltrans' data, we determined that at least 58 of the 230 (25 percent) Parking and Open Storage airspace leases statewide had expired and tenants were presumably in possession of the properties in a holdover condition (as of March 31, 2025).[6] As Figure 2 shows, 11 leases

[6]As of March 31, 2025, Caltrans' data indicated that 79 of the 230 (34 percent) Parking and Open Storage leases had expired. To gain assurance of the reliability of this data, we attempted to review supporting documentation for the 79 leases listed as expired. Toward that end, we reviewed the most current lease or extension documents for 78 of those leases (Caltrans was unable to locate the appropriate documentation for the remaining lease). From this effort, we found that 58 of the 78 leases were, in fact, expired; the remaining 20 were either still active or were terminated. However, since we did not test the 151 leases that Caltrans' system indicated were still active, we cannot conclude whether those leases were properly reflected as current in the system. Therefore, we can only conclude that at least 58 of the 230 leases, or 25 percent, had expired as of March 31, 2025.

had been expired for less than one year; 37 leases had been expired for between one and 10 years; and 10 leases had been expired for more than 10 years, with the longest having been expired for 36 years and counting. Unfortunately, by allowing tenants to hold over for extended periods, Caltrans reduced competition in the rental market and, as we describe in Finding 3, neglected the financial interests of the State.

Figure 2: Number of Expired Leases, by Duration of Expired Status



Source: IOAI analysis of Caltrans' Airspace quarterly report data, FY 2024-25, third quarter.

Moreover, we question whether the department had—or continues to have—the legal authority to include holdover clauses in its airspace lease agreements. According to the Commission, the usage of a holdover clause is not allowed under its resolution. Specifically, Commission staff told us that "Resolution G-25-14 does not allow for 'holdover' leases, regardless of the type of airspace lease. Writing a clause in the airspace lease to allow the tenant to remain on the property does not follow the resolution." Commission staff also pointed out that previous iterations of the airspace resolution did not allow for holdover clauses, either.

Given the Commission's stance, Caltrans' use of the holdover clause is problematic. In our sample of 13 properties, we reviewed 19 lease agreements, 17 of which included a holdover clause—a substantial 89 percent.[7] The only two agreements lacking this clause were short-term leases of six months; however, the tenants in each instance still held over—even without the clause—once their leases had expired. This high rate of inclusion suggests that Caltrans' usage of holdover clauses is likely widespread across all airspace leases. Given the Commission's stance, however, it is important for Caltrans to reassess its use of this clause in both current and future lease agreements.

[7] For the 13 properties included in our review sample, 20 lease agreements had been executed. However, Caltrans was unable to provide documentation for one agreement; therefore, our review covered 19 lease agreements.

Recommendations

To address the concerns raised in our audit, we recommend Caltrans do the following:

1.1 Identify all expired leases that have entered into a holdover period and immediately place those properties for auction, or if the circumstances and terms are consistent with the Commission's Resolution, directly negotiate a new lease with the respective tenants.

1.2 Develop a tracking process to notify management when leases are nearing expiration and take the necessary steps to ensure that those properties are subject to an auction in accordance with the law and the Commission's Resolution.

1.3 Unless expressly authorized by the Commission, ensure that future lease agreements do not include a holdover clause allowing tenants to remain on the property when their leases expire.

1.4 Integrate a management-level approval and justification process when district staff decide to directly negotiate with a prospective tenant.

Finding 2. Caltrans' Inspection and Monitoring Practices Failed to Adequately Protect the Public from the Storage of Potentially Dangerous Materials at Certain Airspaces

Caltrans' Manual specifies the responsibilities for inspecting leased airspace sites. Inspection of all nondeveloped airspace sites is required annually, and inspection of developed sites is required quarterly. The Division of Right of Way in each district must perform these inspections and record in diary entries all of its oversight activities, such as conducting site visits, sending letters and notifications to lessees, and photographing the sites. Caltrans' purpose in providing inspections is to ensure that tenants are maintaining sites in compliance with the terms and conditions of their lease agreements, to ensure the protection of the properties, and to enhance public safety.

The Manual also sets forth its process for holding lessees accountable if they do not comply with the terms and conditions of their lease agreements. In general, the Manual suggests that when agents conduct inspections and find adverse conditions, they should provide a written letter (or notice) to the lessee describing the identified conditions. The letter should direct the lessee to correct the adverse conditions within a certain period. Depending on the severity of the condition, that period can range from three to 30 days. The Manual suggests that if the lessee has not corrected the problem within the specified period, the agent must provide another notice to the lessee, stating that the lessee is in default of the lease and must vacate the property, typically within three days from the date of the notice of default. If the lessee has not vacated the property after being served the notice of default, the Manual recommends that Caltrans pursue appropriate legal remedies, such as filing lawsuits for breach of contract (to terminate the contract and to recover any applicable monetary damages) or for unlawful detainer (to evict the tenant), or both.

Caltrans failed to perform required annual inspections of its airspace properties, and this failure increased the risk to public safety.

Of the 13 leased properties we reviewed, Caltrans failed to perform annual inspections for 11 properties, missing between one and 29 years of inspection activity, as shown by Table 2 on page 19 and Figure 3 on page 20. In the most egregious case, Caltrans did not record any inspection-related activity for 29 of the 32 years that a tenant occupied a property; Caltrans recorded its first inspection in the twenty-fifth year of occupancy—in 2017—and reported no problems identified during that year's inspection nor during the inspections it conducted in the other two years. At another property, Caltrans did not record any inspection-related activity for 20 of the 28 years of a tenant's occupancy; the inspections Caltrans conducted during the remaining eight years reported no problems. Although Caltrans did not report any problems for these two properties when it eventually conducted its inspections, the long absence of any meaningful oversight increased the risk that potentially dangerous materials may have been stored on the properties without detection.

We found evidence of Caltrans' having performed at least one inspection each year at only two of the 13 leased properties (properties A and B of our sample), but we also found that Caltrans did not always use the correct inspection form, unfortunately limiting the value of those efforts. Starting in 2022, the Manual requires Right of Way agents to document site inspections using the form *Exhibit 15-EX-15* for quarterly inspections of developed sites and the form *Exhibit 15-EX-16* for annual inspections of nondeveloped sites. Therefore, as evidence of a Right of Way agent's site inspection conducted before 2022, we accepted diary entries noting that an inspection was completed, and we accepted photographs of the site or any written inspection report. For inspections conducted in 2022 and later, however, we only considered written reports using Exhibit 15-EX-15 as appropriate documentation for quarterly inspections of developed sites. For nondeveloped sites, we considered written reports using Exhibit 15-EX-16, Parking and Open Storage Inspection Report, and the Parcel Inspection Report appropriate documentation for annual inspections. These forms help agents look for and document conditions that affect public safety. The agent told us he was not aware that he had used the incorrect form.

Table 2: Caltrans Regularly Failed to Conduct Its Annual Inspections as Required

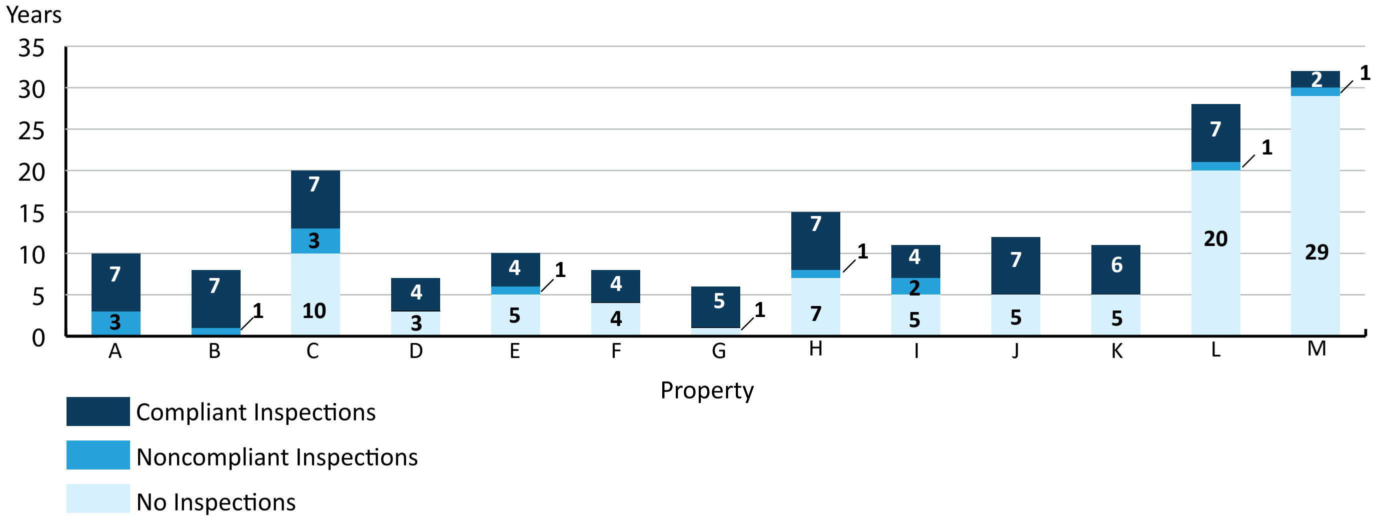
Property	A	B	C	D*	E*	F	G	H	I	J	K	L	M*
Lease Begins	2015	2017	2005	2017	2014	2017	2019	2009	2013	2013	2015	1997	1992
Rental Year 1	🔍	🔍	–	🔍	–	–	🔍	–	–	🔍	–	–	–
Rental Year 2	🔍	🔍	–	–	–	–	–	–	🔍	–	🔍	–	–
Rental Year 3	🔍	🔍	–	🔍	🔍	–	🔍	🔍	🔍	🔍	🔍	–	–
Rental Year 4	🔍	🔍	🔍	–	–	–	🔍	–	🔍	–	🔍	–	–
Rental Year 5	🔍	🔍	🔍	🔍	🔍	🔍	🔍	–	–	🔍	–	🔍	–
Rental Year 6	🔍	X**	–	–	–	🔍	🔍	🔍	–	–	–	–	–
Rental Year 7	X	🔍	–	🔍	–	🔍		🔍	–	🔍	🔍	–	–
Rental Year 8	X	🔍	–		🔍	🔍		🔍	🔍	–	–	–	–
Rental Year 9	X		–		🔍			🔍	X	🔍	–	–	–
Rental Year 10	🔍		–		X			–	–	🔍	🔍	–	–
Rental Year 11			–					–	X	🔍	🔍	–	–
Rental Year 12			🔍					🔍		–		–	–
Rental Year 13			🔍					X				🔍	–
Rental Year 14			🔍					–				–	–
Rental Year 15			🔍					🔍				–	–
Rental Year 16			🔍									–	–
Rental Year 17			X									–	–
Rental Year 18			–									–	–
Rental Year 19			X									🔍	–
Rental Year 20			X									🔍	–
Rental Year 21												🔍	–
Rental Year 22												–	–
Rental Year 23												–	–
Rental Year 24												–	–
Rental Year 25												🔍	🔍
Rental Year 26												–	–
Rental Year 27												X	–
Rental Year 28												🔍	–
Rental Year 29													🔍
Rental Year 30													–
Rental Year 31													–
Rental Year 32													X

Table key:

🔍 Inspection was conducted and documented according to the *Right of Way Manual* requirements.
X Inspection was conducted but documentation did not comply with the *Right of Way Manual* requirements.
– No inspection records.
* Lease was terminated before June 30, 2025.
** Lease B is a developmental site that required quarterly inspections. For the 6th year, there was only one site inspection documented using the appropriate form.

Source: IOAI analysis of Caltrans' inspection records through June 30, 2025.

Figure 3. Inspection Status, by Property, For the Length of the Property's Lease



Source: IOAI analysis of Caltrans' inspection records through June 30, 2025.

Caltrans did not take adequate corrective actions after it became aware of serious lease violations; conditions like these contributed to the fire at an airspace in Los Angeles in November 2023.

A massive fire broke out at an airspace under Interstate 10 in Los Angeles in November 2023. In May 2024, we issued an audit report of the department's handling of the airspace; the report detailed several concerns regarding the department's administration and oversight of the property, especially concerning the presence of flammable materials on the property. Immediately after the fire and following our report, Caltrans and the State Fire Marshal performed additional inspections and site visits at airspaces statewide, attempting to identify and address other potentially dangerous storage conditions. Of the 13 properties we reviewed for this report, the State Fire Marshal found and reported significant and potentially dangerous conditions at three properties. However, neither Caltrans nor the tenants of these three properties properly resolved the conditions that the State Fire Marshal identified. This left the safety issues largely unaddressed for as many as 22 months, from November 2023 to at least August 2025, which marked the last update we received. All of the lapses in addressing safety concerns occurred after the fire in Los Angeles.

For example, the State Fire Marshal found during a November 2023 inspection that a tenant had been storing combustible and flammable materials at an airspace property in Los Angeles, in Caltrans' District 7. The State Fire Marshal took several photographs and issued a failing report to the district. The district, in turn, did not provide written notice to the tenant to correct the dangerous storage conditions. Instead, the senior agent told us that the district sent an email to the tenant directing the tenant to make corrections within 30 days. The State Fire Marshal returned the following month, in December 2023, and found that the conditions had not improved. However, the district took no additional action. The State Fire Marshal returned once again, in February 2024, and identified additional dangerous materials. Once again, the district took no action. In July 2024, district staff performed their own inspection and took photographs, but they reported no violations.

Separately, we also visited the site in July 2024 and, unlike Caltrans' district staff, observed the dangerous materials that the State Fire Marshal had reported. During our visit, we saw stacks of wooden pallets and a large number of closely spaced inoperable vehicles and car parts, as Photo 1 shows. The State Fire Marshal returned for a fourth time, in August 2024, and once again found that conditions had not improved. And once again, the district took no action. The State Fire Marshal returned for a fifth inspection, in November 2024, and presumably found that conditions had improved since the inspector reported no violations. Caltrans performed its most recent inspection in July 2025 and noted no violations. On August 20, 2025, the district issued the tenant a 90-day notice to vacate because the lease was on a month-to-month basis. However, the senior agent did not provide a direct answer when we asked why the district had not taken immediate actions when the tenant failed multiple State Fire Marshal inspections. In this instance, the district's seemingly slow response to the potentially dangerous conditions, especially after the November 2023 fire, was concerning.

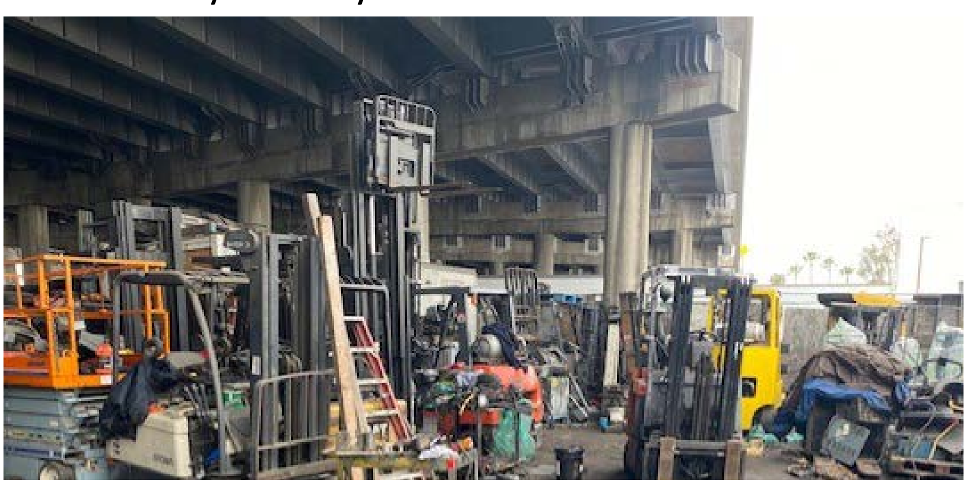
Photo 1. Los Angeles airspace property showing inoperable and damaged cars under the freeway along with metal pieces and car parts

Source: Still image taken from IOAI video footage made July 24, 2024.

In November 2023, following the fire, the State Fire Marshal inspected and reported on another airspace in Los Angeles after it found stacks of tires, piles of trash, and wooden pallets (items similar to those that caught fire underneath Interstate 10). The State Fire Marshal reported multiple violations in that airspace requiring corrective action, including those violations documented in the State Fire Marshal's inspection photograph that we use on the cover of this report. Despite these findings, the district did not issue a formal written notice ordering the tenant to remove the items nor did the district provide any notice that the tenant had potentially violated the terms of the lease. The district followed up several months later, in January 2024, by performing its own inspection. The district reported mostly satisfactory conditions at the site and did not issue any corrective actions. The inspection's two unsatisfactory marks noted that there were no tags on fire extinguishers and that the asphalt was in poor condition. Photo 2 below is one of Caltrans' photographs of the airspace property, documenting its inspection.

The State Fire Marshal inspected the property again in April 2024 and found the same conditions it reported in its previous inspection. The district again did nothing; in fact, when we asked about its inaction, staff told us that they had not asked the tenant to correct the problems because the tenant was being uncooperative. The State Fire Marshal returned in July 2024 and found that the conditions had improved but not enough to receive a passing result. The district performed its most recent inspection in July 2025, and although the inspection noted that the site was in poor condition, the district again took no action. When we asked the senior agent why the district had not taken immediate action to evict the tenant for failing multiple State Fire Marshal inspections, the agent did not provide a direct response. Instead, the agent told us that the tenant was preparing to vacate at the end of the year when the lease expires; the agent did not believe it was necessary to initiate legal action.

Photo 2. Los Angeles airspace property under I-10 during Caltrans' inspection that found mostly satisfactory conditions and issued no corrective action



Source: Caltrans' Parking and Open Storage inspection, January 11, 2024.

Also in November 2023, after the fire, the State Fire Marshal inspected and reported on the third airspace property, located in Oakland, in Caltrans' District 4. The State Marshal found that a tenant, which happened to be a lumber company, was storing large stacks of lumber underneath Interstate 880. District 4 had visited the site the week before and photographed conditions in November 2023, as Photos 3 and 4 below show, but the photographs are unaccompanied by an inspection report. The State Fire Marshal ordered the tenant to remove the lumber, but the district disagreed, even lobbying for Caltrans to ignore the finding. Caltrans' headquarters overruled the district, and the district eventually terminated the lease agreement, effective May 2024.

The tenant moved the lumber from under the freeway to a nearby space (that the tenant happened to rent from the Port of Oakland). We visited the site in August 2024 and observed that the lumber had been removed from the airspace and was not located underneath the freeway. However, we found various Google images, dated November 2024 and February 2025, suggesting that the tenant may have encroached on the property by moving the lumber back underneath the freeway. We visited the site again in March 2025 and observed that the lumber was, in fact, stored underneath the freeway, as Photo 5 shows on the following page. When we brought this situation to the district's attention in August 2025, we found that staff were seemingly unaware of it. Subsequently, the district asked the former tenant to cease using the property and told us it will place fencing to secure the property and prevent the former tenant from using it.

Photos 3 and 4. Oakland airspace underneath I-880 containing wood materials on November 14, 2023

Source: Caltrans photographs with no accompanying inspection report, dated November 14, 2023.

Photo 5. Oakland airspace underneath I-880 containing wood materials on March 13, 2025

Source: IOAI photograph, March 13, 2025.

Recommendations

To address the concerns raised in our audit, we recommend Caltrans do the following:

2.1 Develop a tracking process for safety violations identified in internal and external inspections, including notifying higher-level managers and appropriate legal staff, when tenants fail to address such problems.

2.2 Ensure that timely and decisive administrative or legal actions are pursued to protect public safety and the transportation system.

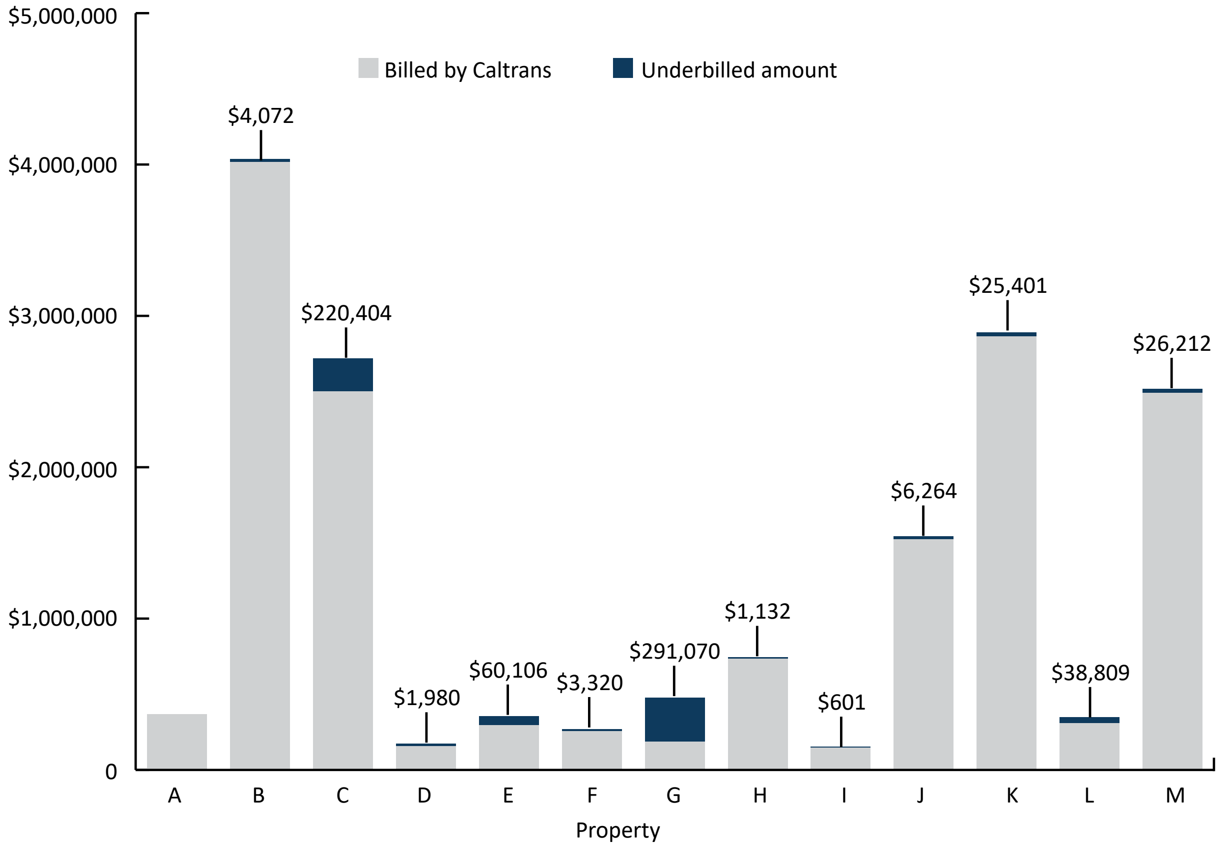
Finding 3. Caltrans Did Not Always Enforce the Financial Terms of Its Lease Agreements; Its Underbilling of Several Tenants Calls into Question the Fairness of Its Billing Practices

Caltrans' Manual requires Caltrans to periodically adjust lease rates. Since 1998, the Manual requires that the lease rate, at minimum, be equal to the Consumer Price Index (CPI) for the area and also requires that the lease rate be adjusted annually. The Manual prohibits adjusted base rents from falling below the lease rate from the date the lease was executed and prohibits the rate adjustment from being less than the previous year's rate. These two prohibitions to adjusting the lease rate down endure throughout subsequent iterations of the Manual. Starting in 2021, the Manual allows for an alternative method of periodically adjusting the lease rate to include an annual lease rate escalator clause, which bases the rate on the average CPI of the preceding three years.

Caltrans generally included a clause in airspace leases that required it to increase a tenant's monthly rate each year (or in some cases, every other year). For example, in our sample of 13 properties, we found most often in the rental agreements a rent escalation clause of 3 or 4 percent or a rent escalation rate based on the annual consumer price index. Significantly, this clause remained in effect even when a tenant stayed beyond its original lease term in a holdover or month-to-month tenancy. Including this clause allows Caltrans to maintain rent levels that reflect fair market value if or when tenants remain in possession of the properties for long periods.

However, as we show in Figure 4 on the following page, we found that Caltrans did not always apply the relative escalation rate to the lease for 12 of the 13 properties we reviewed, resulting in Caltrans' underbilling these tenants approximately $680,000 over the duration of their rental agreements, or by about 4 percent of their total billings. Of this amount, about $455,000 was related to leases with private entities, which in our opinion, conflicted with the State's Constitutional prohibition against gifting public funds. Had Caltrans billed the tenants properly, the funds would have been deposited in the State Highway Account and made available for other transportation projects. Instead, the funds remained with the tenants.

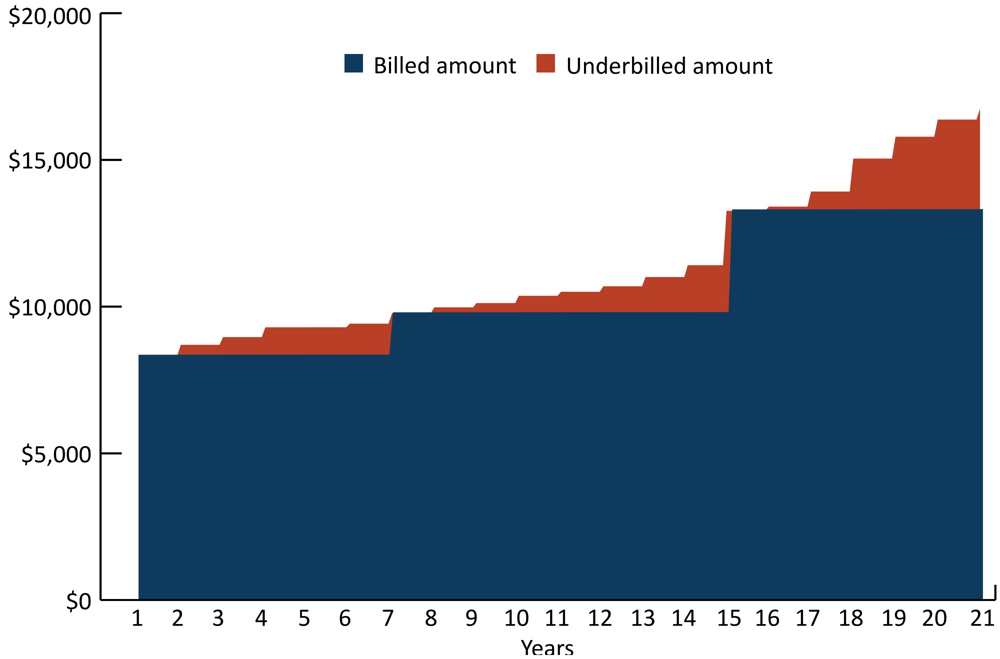
Figure 4. Caltrans Underbilled 12 of the 13 Reviewed Properties by Not Applying the Correct Monthly Rate According to Their Respective Rental Agreements and Caltrans' *Right of Way Manual* Requirements



Source: IOAI Analysis of Caltrans' lease data.

For example, Caltrans underbilled a public entity (Property C of our sample) by more than $220,000 over a period of about 20 years by not applying the proper increase in the tenant's rental rate. In Figure 5 on the following page, the red area reflects the additional amount the district should have billed the tenant had the district followed the terms of the lease. However, as illustrated by the sharp rises in years 7 and 15, the district did increase the rent on two occasions.

Figure 5. Caltrans' District 3 Underbilled a Public Entity More Than $220,000 Over a 20-Year Period by Not Applying the Appropriate Billing Rate in Compliance With the Rental Agreement and Caltrans' *Right of Way Manual* Requirements

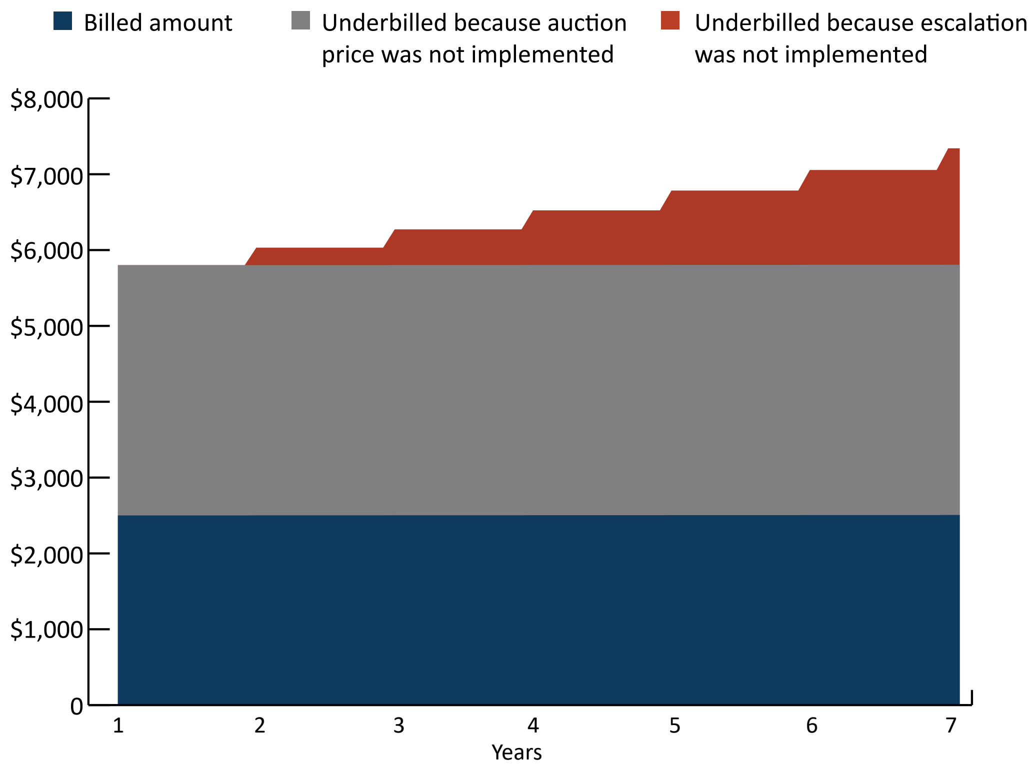


Source: IOAI analysis of Caltrans' lease data.

In another example, which we present in Figure 6 on the following page, the district underbilled a private entity (Property G of our sample) a total of $291,070—$244,200 of which resulted from not appropriately applying the monthly rate as determined by a public auction and $46,870 from not properly increasing the monthly rate, as required in the rental agreement, for nearly seven years. As we previously discussed, the district held a public auction for this property, and the winning bidder, who happened to be the existing tenant, paid the agreed-upon rate for a period of one year. The tenant then requested a lower rate, and the district agreed, retroactively credited the tenant for overpaying and re-negotiated a new rental agreement at a significantly lower rate (from $5,800 per month to $2,500 per month).

This reduction, which we have concluded was improper, resulted in this tenant "saving" $244,200 over the seven-year period of the tenancy. The district exacerbated the matter by also failing to increase the tenant's monthly rate each year. This failure to increase the rate resulted in an additional "savings" of $46,870. Since this tenant was a private individual, we have opined that the district's actions conflict with the State Constitution's prohibition against gifting public funds. The amount the district billed is represented as a solid blue area, with no rises over time. The solid gray area of the chart represents the amount the district underbilled as result of ignoring the auction results, and the red area represents the underbilling due to ignoring the escalation rate.

Figure 6. Caltrans' District 4 Underbilled a Private Entity Approximately $291,000 Over a Seven-Year Period by Not Applying the Appropriate Billing Rate in Compliance With the Rental Agreement



Source: IOAI analysis of Caltrans' lease data.

Recommendations

To address the concerns raised in our audit, we recommend Caltrans do the following:

3.1 Develop a process to ensure that districts keep track of and apply the appropriate escalation rate to leases according to the terms of the executed agreements.

3.2 Ensure that all future lease agreements have an appropriate escalation rate.

Appendix A. Scope And Methodology

Audit Objective

We conducted this audit to determine whether Caltrans provided adequate oversight of its airspace leases statewide, and we focused on Caltrans leasing practices, inspection activities, management of lease billings and payments, and whether Caltrans notified tenants and ensured they took corrective actions to address dangerous conditions and other lease violations.

Audit Period

Our audit period was from November 1, 1992, through June 30, 2025.

Risk Assessment and Internal Controls

We performed a risk assessment, including identifying and evaluating whether Caltrans properly designed and implemented internal controls significant to our audit objectives. Our evaluation of internal controls focused on Caltrans' process for completing required inspections, its processes for billing and tracking timely payments. We also assessed Caltrans' process for gathering insurance records and issuing written notices for lease violations.

Assessment of Data Reliability

Generally accepted government auditing standards require that we assess the sufficiency and appropriateness of computer processed information if it will be used to materially support our findings, conclusions, or recommendations. In performing this audit, we relied on Caltrans' Right of Way Property Management System (RWPMS) and Right of Way Management Information System (ROWMIS) data to determine the amounts billed from the start of each lease through June 2025. To assess the reliability of Caltrans' billing data, we compared rates from RWPMS and ROWMIS to rates in the lease agreements and our own calculations. We determined Caltrans' billing data to be sufficiently reliable for our audit purposes.

Additionally, we relied on Caltrans' RWPMS payment data to determine whether Caltrans received correct payment amounts on time for 19 leases, from the start of each lease through May 2024. To assess the reliability of Caltrans' payment data, we compared the amounts billed for each of the 19 leases—1,932 transactions—to the recorded payment amounts. The amounts did not reconcile in one transaction because Caltrans billed the tenant the wrong amount and did not correct the billing. Additionally, we haphazardly selected 23 checks and confirmed that the payment amounts were recorded accurately in RWPMS. We determined Caltrans' payment amount data to be sufficiently reliable for our audit purposes. Although Caltrans did not document the date it received check payments, we gained some assurance by confirming that the date of each of the 23 checks was earlier than the due date. Although we determined that Caltrans' payment date data were of undetermined reliability for our audit purposes, there is sufficient evidence to support our overall audit conclusions.

For leases in District 7 that did not have documentation to support inspection activities and insurance records, we relied on diary entry data from Caltrans' RWPMS (September 2012–January 2018) and File Maker Pro (April 2020–June 2022). Due to the lack of source documents, we determined these data were of undetermined reliability for our audit purposes. Although this may impact the precision of the numbers we present in this report, there is sufficient evidence to support our overall audit findings, conclusions, and recommendations.

We also relied on Caltrans' ROWMIS data for Parking and Open Storage leases that had expired agreements and were on holdover statewide as of March 2025. To assess the reliability of these data, we reviewed existing information about the data, interviewed key personnel, and compared the recorded lease expiration dates with those in the most current lease agreements or extension documents. Our review revealed discrepancies, including incorrect or missing expiration dates, active leases, and leases that had been terminated. Because of the discrepancies, we determined that the expiration date data for Parking and Open Storage leases were not sufficiently reliable. Although this may affect the precision of the numbers we present in this report, there is sufficient evidence to support our overall audit findings, conclusions, and recommendations.

Compliance Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

Based on our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives, as detailed in Table 3 on page 31.

Table 3. Objectives and Methods in the Audit Process

Audit Objective	Methods
Objective 1 Review the laws, rules, and regulations governing airspace leases.	Reviewed and evaluated these laws, rules and regulations related to the Airspace Program: • The California Constitution • The Streets and Highways Code • The Code of Federal Regulations • California Transportation Commission Procedures
Objective 2 Determine whether Caltrans provided adequate oversight of the airspace leases, including the performance of any inspections or reviews it was obligated to perform.	Selected 13 properties judgmentally and randomly across four districts to review and determine whether Caltrans provided adequate oversight. **General** • Interviewed key personnel from Caltrans' Headquarters, District 3, District 4, District 7, District 11, and Accounting. • Reviewed lease agreements to identify the terms and conditions relevant to the audit objectives. • Reviewed Caltrans' *Right of Way Manual*. • Reviewed parcel file and diary entries for evidence of property management activities. **Leasing Practices** • Reviewed the lease term (duration), renewals, and extensions to determine whether it was within Caltrans' authority to execute, and if it was beyond Caltrans' authority, whether Caltrans obtained approval from the Commission. **Inspections** • Reviewed all inspection reports available to determine whether Caltrans conducted inspections as required. • Reviewed all available inspection reports from the State Fire Marshal to determine the frequency and issues identified. **Billing and Payment Data** Reviewed and analyzed billing and payment data and determined: • Whether correct monthly payments were received on time. • Whether the billings, including rent increases, were according to lease terms and Caltrans' policy. • Calculated the underbilled amount when Caltrans did not bill and/or did not increase rent according to lease terms and Caltrans' policy. **Insurance** • Reviewed all insurance records available to determine whether insurance coverage was adequate. **Tenant Notices** • Reviewed all available tenant notices to determine whether tenants were notified of the issues identified in the inspection reports. • Reviewed all available notices to determine whether tenants were given proper notice to correct conditions that posed a risk to the traveling public, and other lease agreement violations.

Audit Objective	Methods
Objective 3 Review Caltrans' assessments of its leased airspace properties.	Reviewed Caltrans' assessment of its airspace leases statewide and the reported changes and enhancements to Airspace Program. This included a review of: • California State Transportation Agency's' November 22, 2023, memo titled "Airspace and Telecommunications Licensing Program Review" • California State Transportation Agency's February 6, 2024, memo titled "Initial Findings and Review of Airspace and Telecommunications Licensing Program" • Fiscal Year 2024-25, First Quarter Report, Airspace Program Report to the Commission • Fiscal Year 2024-25, Second Quarter Report, Airspace Program Report to the Commission • Fiscal Year 2024-25, Third Quarter Report, Airspace Program Report to the Commission

Auditee's Response

CALIFORNIA STATE TRANSPORTATION AGENCY GAVIN NEWSOM, GOVERNOR

California Department of Transportation

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February 3, 2026

Mr. Bryan Beyer
Inspector General
Independent Office of Audits and Investigations
P.O. Box 942874, MS-2
Sacramento, CA 94274-0001

Dear Mr. Beyer:

The California Department of Transportation (Caltrans) is responding to the draft audit report of the Airspace Lease Program dated January 20, 2026. Overall, Caltrans agrees with the recommendations outlined in the report. The current proposed actions include the following:

- Develop a "Contract for Delivery" to address holdovers promptly.
- Establish a tracking process for these contracts.
- Work with the California Transportation Commission to review lease holdover clauses.
- Terminate agreements as necessary and legal.
- Clarify signatory delegations.
- Conduct internal and external inspections with follow-up.
- Define escalation processes in future agreements.

Due to the fire that broke out at an airspace site underneath Interstate 10 in Los Angeles, California, on November 11, 2023, an audit of the Caltrans Airspace Program was published on May 30, 2024. As a result, significant changes within the airspace program were initiated, which included the following:

- Weekly "Hot Topics" meetings with districts to address emerging issues.
- Complete restructuring and rewrite the program manual.
- Quarterly progress reports to the Commission.

"Improving lives and communities through transportation."

Mr. Bryan Beyer, Inspector General
February 3, 2026
Page 2

- Comprehensive staff training in three major areas; ongoing resources available on intranet.

Caltrans is eager to implement updates resulting from this 2026 audit.

Caltrans thanks the Independent Office of Audits & Investigations for the time and opportunity they have taken to create this report. If you have any questions, please contact Ben Shelton, Audit Chief - Caltrans Internal Audits Office, at (916) 858-9694 or by email at ben.shelton@dot.ca.gov.

Sincerely,

D. El-Tawansy
Dina El-Tawansy (Feb 3, 2026 21:59:44 PST)

DINA A. EL-TAWANSY
Director

c: Cory Binns, Chief Deputy Director
Donna Berry, Deputy Director, Project Delivery
René Fletcher, Division Chief, Right of Way and Land Surveys
Ben Shelton, Audit Chief, Caltrans Internal Audits Office

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