Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Tuesday, May 17, 2016
10:00 a.m. State Capitol - Room 112

Part A

Consultant: Farra Bracht

VOTE-ONLY ISSUES

DISCUSSION / VOTE ISSUES

Public Comment

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Issues Proposed for Vote-Only

2600 California Transportation Commission

Issue 1: Amendment to and Addition of Various Budget Bill Items (May Revision)

Governor's Proposal: The May Revision proposes to shift funding authority for program support from Proposition 1B Bond funds to the State Highway Account to align commission funding with current workload. The California Transportation Commission's current appropriation allocations no longer align with the commission's workload. In recent years, the commission experienced a changing workload without a corresponding change to its mix of funding sources. The current State Highway Account budget authority is less than the commission's program needs and, conversely, their Proposition 1B authority is too high. Based on historical usage and current workload tracking efforts, funding authority shifts are necessary to closer align the commission's workload with the appropriate fund source.

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

2660 Department of Transportation

Issue 1: Technical Adjustments (May Revision)

Governor's Proposal: The May Revision requests technical adjustments be made to various budget items resulting in a total reduction of $243,431,000. In developing the 2016-17 Governor's budget, there were several items that were adjusted incorrectly due to a misunderstanding regarding how to reflect these changes. The request includes changes to the following items:

Decrease Item 2660-302-0042 by $243,430,000.
Decrease Item 2660-102-0890 by $3,471,000.
Increase Item 2660-302-0890 by $3,471,000.
Decrease reimbursements for item 2660-005-0042 by $1,000.
Decrease reimbursements for Item 2660-302-0042 by $200 million.
Increase reimbursements for Item 2660-301-0046 by $200 million.

Additionally for Item 2660-001-0042, it is requested that funding be shifted between various programs and reimbursements for the capital outlay support and administration programs be increased by $8.1 million while the Operations and Distributed Administration programs be decreased by $8.1 million.

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

Issue 2: Lease-Revenue Bond Financing (May Revision)

Governor's Proposal: The May Revision requests that Item 2660-001-0042 be decreased by $943,000 to reflect reduced lease-rental payment for Caltrans' San Diego office due to the refinancing of the original lease revenue bonds.

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

Issue 3: District 7 Express Lane Maintenance (May Revision)

Governor's Proposal: The May Revision requests a permanent increase of $2,377,000 ($1,145,000 in Personal Services and $1,232,000 in Operating Expenses) in reimbursement funding to support the maintenance of Interstate 10 and Interstate 110 express lanes. The 13.56-mile Interstate 10 express lanes were opened to traffic in February 2013 between Alameda Street in downtown Los Angeles and the 605 Freeway. The 11.05-mile Interstate 110 express lanes were opened to traffic along the Harbor Freeway in November 2012 between Adams Boulevard and State Route 91 Freeway.

This request includes operating expenses to rent specialized equipment to support the maintenance of Interstate 10 and the Interstate 110 express lanes. The increased level of service for these express lanes will be managed with existing staff. The High Occupancy Toll features are operated by Los Angeles County Metropolitan Transportation Authority. Tolls on the express lanes are calculated using congestion pricing. They are designed to keep traffic on the express lanes flowing smoothly, resulting in a more reliable travel time. Tolls on the express lanes are based on real-time traffic conditions and the cost varies according to the level of freeway congestion. The Los Angeles County Metropolitan Transportation Authority will fully reimburse Caltrans for the safety and maintenance of the express lanes with toll revenues.

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

Issue 4: Reappropriation of Bond Funds (May Revision)

Governor's Proposal: The May Revision requests the Budget Act of 2010 High-Speed Rail Passenger Train Bond funds ($25 million Proposition 1A) be reappropriated to extend the liquidation period for the completion of three positive train control (PTC) projects administered by the Southern California Regional Rail Authority (Metrolink) from June 30, 2016 to June 30, 2017. This is for project completion of current contracts only—two local assistance projects and one capital outlay project. It had been anticipated that these projects could be completed by June 30, 2016, but delays associated with the complexity, the need to coordinate with the Federal Communications Commission, and provide interoperability have resulted in project delays.

In addition, the Administration requests a technical change that was inadvertently omitted from the proposed Governor's budget. It is requested that language be added to Item 2660-494 to reappropriate funds from the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition IB) funds that are being used for projects on State Route 99.

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

Issue 5: Federal Bridge Load Rating (May Revision)

Governor's Proposal: The May Revision requests federal reimbursement authority of $4,640,000 ($3,653,000 in personal services for 26 permanent positions, $237,000 in operating expenses and a one-time augmentation of $750,000 to contribute to a national software update). Caltrans currently has 17 limited-term positions for state bridge load rating work that expire on June 30, 2016 and nine limited-term positions for local bridge load rating work that expire on June 30, 2017.

The staffing request is expected to complete the initial bridge load rating of 11,300 state and local bridges by fiscal year 2021-22 to satisfy the requirements in the 2011 corrective action plan with the Federal Highway Administration. The current workload covers the work to rate the state's bridges built prior to 1978 - 11,300 or about half of the state's inventory of 24,000. All bridges in California (and nationwide) need load rating and all bridges built after 1978 will require load rating once the initial stage of this effort is complete.

Staff Comment. The Legislative Analyst's Office (LAO) has recommended that the Legislature adopt budget bill language requiring Caltrans to report to the Legislature by March 1, 2017 with detailed information regarding is efforts to complete bridge load ratings. Specifically, the report should provide (1) an explanation of the delays in completing bridge load ratings, (2) an accounting of how much of the previously provided resources were spent, (3) an update on the number of bridge load ratings completed, and (4) updated workload estimates for completing bridge load ratings of bridges built prior to 1978 as well as estimated workload associated with bridges built since 1978.

Staff Recommendation: Approve as proposed and adopt the budget bill language recommended by the LAO to better enable the Legislature to evaluate the need for ongoing positions and funding for this workload.

Vote:

2720 BOARD OF PILOT COMMISSIONERS FOR THE BAYS OF SAN FRANCISCO, SAN PABLO, AND SUISUN

Issue 1: Increased Operation and Training Costs (April Finance Letter)

The April Finance Letter requests a total budget augmentation of $298,000 from the Board of Pilot Commissioners' Special Fund for the Board of Pilot Commissioners (BOPC) for the Bays of San Francisco, San Pablo, and Suisun. This includes a one-time budget augmentation of $185,000 for increased rent ($35,000) and costs associated with testing and training new pilots ($150,000) to maintain a full roster of trainees. The increased rent cost is to pay for the last three months of the 2016-17 fiscal year, after the current lease expires. (Funding for future rental costs rental costs will be requested when rental expense information is available from the Department of General Services.) The funding for the testing and training for new pilots will help BOPC to maintain up to the maximum number of licensed pilots which is 60. Currently there are 54 licensed pilots and up to 188 are anticipating retiring by the end of 2018. This would provide funding to test and train an additional eight trainees. The total request also includes an ongoing budget augmentation of $113,000 to finance statutorily required maritime pilot/trainee medical assessments ($100,000) conducted by the University of California, San Francisco, School of Medicine and annual audits by the State Controller's Office to ensure compliance with current auditing standards ($13,000).

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

2720 DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

Issue 1: California Highway Patrol Enhanced Radio System: Replace Towers and Vaults and Technical Adjustment to Budget Bill Language (previously heard on April 14, 2016)

The April Finance Letter requests $445,000 Motor Vehicle Account (MVA) for the acquisition of property at Sawtooth Ridge (outside of Needles, CA) for Phase 1 of California Highway Patrol Enhanced Radio System (CHPERS). When this project was first approved in 2009, it was anticipated that a new tower and vault would be completed at the existing Sacramento Mountain radio tower site, thereby providing CHP with the dual-band coverage that is required by CHPERS. However, after several years of negotiating, it was determined that an on-site replacement would not be possible, and the 2015-16 reappropriation of CHPERS Phase 1 noted that nearby peaks would be analyzed for alternate sites. Since then, the Department of General Services has identified a nearby abandoned telecommunications site, Sawtooth Ridge. Sawtooth Ridge is a good replacement for Sacramento Mountain as both sites provide appropriate radio coverage to Eastern San Bernardino County, as well as line-of-sight access to the CHP Needles Area Office for microwave transmissions.

Sawtooth Ridge is currently in a section (640 acres) owned by Burlington Northern Santa Fe (BNSF). Most tower sites are leased to CHP; however, BNSF prefers to sell the state the full 640 acres. While this would be more land than necessary (approximately 23 acres for the site and access road), due to the remote desert location, and with offsetting savings in regards to surveying and negotiating, acquiring the full 640 acres is only marginally more expensive than the 23 acres. Further, the excess land can serve a role in environmental mitigation as the whole section is desert tortoise habitat. The total cost of the Sawtooth Ridge tower and vault replacement component of CHPERS Phase 1 is estimated at $7,044,000 MVA, with the $995,000 for preliminary plans and working drawings from existing authority, and $5,604,000 for construction anticipated for the 2017-18 fiscal year. This appropriation is necessary to move forward with the Sawtooth land purchase, as part of the project to address deteriorating radio communications and to improve radio interoperability among various public safety agencies.

Also, the April Finance Letter makes a technical adjustment to the budget bill language proposed in January and adds the word "acquisition" to the project title for Item 2720-310-0044, Schedule 1.

Staff Comment: According to the Department of Finance (DOF) funding was not included in the project budget to include a measurement of conservation potential for the full 640 acres. The land is within the habitat of the desert tortoise, and in a site visit in late April 2016, several tortoises were encountered. The Endangered Species Act would either restrict development of the remainder acreage or require mitigation in order to protect endangered or threatened species. In addition, with the discovery of tortoises at the site, a significant portion of the remaining acreage may already be needed for mitigation in order to meet the CEQA requirements for the project.

Staff Recommendation: Approve the April Finance Letter and adopt the following supplemental reporting language:

> *The California Highway Patrol (CHP) shall report to the appropriate fiscal committees of the Legislature, the Legislative Analyst's Office, and the Department of Finance no later than January 1, 2019 on the feasibility of a conservation easement with a state, federal, or nonprofit conservation organization for the remainder property acquired for the CHP Enhanced Radio System Tower Replacement project at Sawtooth Ridge and any mitigation lands required by the analysis conducted pursuant to the California Environmental Quality Act. The report should include a discussion of how future maintenance would be conducted at Sawtooth Ridge so as to not affect the ecological integrity of the area.*

Also, approve the technical adjustment to the budget bill language.

Vote:

Issue 2: Capital Outlay: Advanced Planning and Site Selection and Area Office Replacements (previously heard on April 14, 2016)

The Governor's budget provides about $31.1 million from the MVA to fund site acquisition and preliminary plans for new CHP offices in Hayward, Ventura, and El Centro. These three facilities were identified through the site selection process and advanced planning funding provided in 2014-15. Also included in this amount is the Administration's request in an April Finance Letter to substitute the Quincy Replacement Facility (proposal would revert $27.6 million to the MVA), approved in 2014-15, with the San Bernardino Area Office Replacement project. The budget also includes $800,000 from the MVA for advanced planning and site selection to identify three additional offices to replace as part of the Administration's ongoing office replacement plan. The budget does not identify the specific area offices that would be replaced.

The proposals are described in more detail below.

- **Hayward Area Office.** $15 million to fund the acquisition and preliminary plans for the Hayward area office replacement project. The proposed facility would be 43,518 square feet, or roughly four times the size of the existing 11,033 square foot office that was built in 1971. The Administration plans to request funding to construct the facility as part of the 2017-18 budget, at an estimated cost of $38.1 million, for a total project cost of $53.1 million.

- **Ventura Area Office.** $5.6 million to fund the acquisition and preliminary plans for the Ventura area office replacement project. The proposed facility would be 40,534 square feet, or over three times the size of the existing 12,469 square foot office that was built in 1976. The Administration plans to request funding to construct the facility as part of the 2017-18 budget, at an estimated cost of $37.1 million, for a total project cost of $42.7 million.

- **El Centro Area Office.** $4.3 million to fund acquisition and preliminary plans for the El Centro area office replacement project. The proposed facility would be 33,550 square feet, or about seven times the size of the existing 4,575 square foot facility that was built in 1966. The Administration plans to request $30.4 million in MVA funding to construct the facility as part of the 2017-18 budget—for a total project cost of $34.7 million.

- **San Bernardino Area Office.** $5.4 million for the acquisition and performance criteria phases of the San Bernardino Area Office Replacement project. The proposed facility would be 43,552 square feet, or over three times the size of the existing 12,253 square foot office that was built in 1973. The Administration plans to request $33.1 million in MVA funding to construct the facility as part of the 2017-18 budget, for a total project cost of $38.5 million. The San Bernardino project proposal is a replacement for the Quincy project, which was approved in 2014-15, but has been delayed because of difficulties in acquiring an appropriate site. As a result, this proposal includes the reversion of $27.6 million to the MVA.

In addition, the proposal includes provisional budget language to allow the Department of Finance to provide an augmentation from the MVA of up $2 million for CHP to enter into purchase options, should an option be necessary to secure a property.

Staff Recommendation: Approve funding for site acquisition and preliminary plans for new CHP offices in Hayward, Ventura, and El Centro. Approve the substitution of the Quincy Replacement Facility with the San Bernardino Area Office Replacement project. Also, approve $800,000 from the MVA for advanced planning and site selection activities and the provisional budget language.

Vote:

2740 DEPARTMENT OF MOTOR VEHICLES

Issue 1: Capital Outlay: Field Office Replacements (previously heard on April 14, 2016)

The Governor's budget requests a total of $5.6 million from the MVA for various phases of four DMV field office replacement projects. Specifically:

- $4.3 million is for the design phase of the three DMV office replacement projects (Inglewood, Santa Maria, and Delano) approved by the Legislature in the current year.

- $1.3 million is for preliminary plans to initiate a fourth DMV field office replacement project in San Diego. The proposed facility is 18,540 square feet, will be built on the same site as the existing field office, and will replace a 15,467 two–story office built in 1961.

Staff Comment and Recommendation: Staff has no concerns. Approve as budgeted.

Vote:

Issue 2: REAL ID Implementation (previously heard on April 14, 2016)

Governor's Proposal: The Governor's April Finance Letter requests $4.6 million MVA and 70 positions on an ongoing basis to begin the process of implementing AB 1465 (Gordon), Chapter 708, Statutes of 2015. AB 1465 authorizes DMV to require proof of residency for all original driver license and identification (DL/ID) card applications beginning July 1, 2016.

The proposal also requests that budget bill language be added to allow the Administration to increase this item when necessary to support activities associated with federal REAL ID compliance. No augmentation could be made any sooner than 30 days after the Joint Legislative Budget Committee has been notified in writing.

Background: Congress enacted and the President signed H.R. 1268-"Real ID Act of 2005" on May 11, 2005, which is designed to improve the security of driver's licenses and identification cards issued by individual states. The act includes certain minimum document and license issuance requirements, and it provides that only persons with legal presence status can be issued a DL/ID card. A state, however, can issue a DL/ID card to an undocumented immigrant, providing the license meets certain appearance requirements and clearly states that it cannot be used for any other official purpose.

DMV receives approximately 1.5 million original DL/ID card applications annually and does not require proof of residency for the issuance of a card; however, that will change with the implementation of AB 1465. Currently the only DLs that mandate proof of residency are for what is commonly referred to as "AB 60 applicants". AB 60 (Alejo), Chapter 524, Statutes of 2013, requires DMV to issue an original driver's license to an applicant who is unable to demonstrate proof of legal presence in the United States, if that person meets all other qualifications for licensure and provides satisfactory proof of identity and California residency. An AB 60 driver's license is valid only for driving purposes and cannot be used for identification or federal purposes.

Existing state law generally requires applicants to submit satisfactory proof of legal presence status under federal law, such as a birth certificate or approved immigration documents. Applications for the issuance or renewal of a DL/ID card must contain a section for the applicant's social security number (SSN). DMV is prohibited from accepting an application without a verified SSN unless the application was submitted with documents establishing legal presence and the Department of Homeland Security (DHS) verifies that the person is in the country legally, but not authorized to work. However, REAL ID standards go beyond these requirements. Initially compliance with REAL ID standards was to take effect January 15, 2013. However, federal DHS has determined that 21 states meet REAL ID Act standards, but the remaining states, including California, have been granted a deferment until October 1, 2020.

Staff Comment and Recommendation: Staff has no concerns. Approve as proposed.

Vote:

Issues Proposed for Discussion/Vote

2660 DEPARTMENT OF TRANSPORTATION

Issue 1: Governor's Transportation Funding Package

Proposal: The Governor's transportation funding package is a ten-year, $36 billion plan designed to address the funding gap in existing transportation needs. The plan includes the early repayment of $879 million of loans. (Earlier this year, AB 113 (Committee on Budget), Chapter 2, Statutes of 2016), took early action and adopted part of the Governor's proposal by repaying $173 million in Traffic Congestion Relief Program loans.)

Background: On June 16, 2015 the Governor called for a special legislative session on transportation. Specifically, he called on the Legislature to provide a permanent and sustainable increase in funding for transportation in part to (1) maintain and repair the state's transportation infrastructure and (2) to complement local efforts to repair and improve transportation infrastructure. As part of this special session, last fall, the Governor proposed a transportation funding plan. This proposal is generally reflected in the Governor's proposed budget for 2016–17.

The Administration attributes the following benefits to its plan.

- ***State Highway and Bridge Repair.*** $15.5 billion to improve highway conditions to 90 percent in "good condition", fix 200 highway bridges, and improve existing graffiti abatement and litter removal efforts.
- ***Local Streets and Roads.*** $11.3 billion that would benefit cities and counties through a formulaic allocation.
- ***Transit and Rail.*** $4.3 billion in additional transit funding, which could leverage a total of $13.8 billion in transit and rail projects.
- ***Trade Corridors.*** $211 million to fund projects along the state's major trade corridors.

The plan provides funding of about $3.6 billion annually for state and local transportation infrastructure from the following sources. Revenue would phase in during 2016-17 and 2017-18 and provide a permanent ongoing increase thereafter.

- ***Road Improvement Charge***. A $65 per vehicle charge (including hybrids and electric vehicles). Raises $20 billion over ten years.
- ***Increased Gasoline Excise Tax***. Increase and stabilize the existing tax on gasoline to $.36 per gallon, this would be adjusted for inflation. Over ten years, raises $5 billion.
- ***Increased Diesel Excise Tax.*** Increase the current rate to $0.24 per gallon, an $0.11 increase, to generate $5 billion over ten years.
- ***Greenhouse Gas Reduction Funds.*** $5 billion for the Transit and Intercity Rail Program ($4 billion) and the Low Carbon Road Program ($1 billion).
- ***Caltrans Reforms.*** Cost saving reforms that generate over $1 billion in savings over ten years that can be redirected to roads.

Repays existing loans early with General Fund, redirecting the funding as follows:

- $132 million for highway maintenance and rehabilitation.
- $265 million for the Transit and Intercity Rail Capital Program.
- $334 million for the Trade Corridor Investment Fund Program.
- $148 million to complete or reimburse projects programmed in the Traffic Congestion Relief Program of 2000.

The Governor's plan includes the following reforms.

- ***Extension of Public-Private Partnership Authority.*** The Governor's proposal would extend the statutory authority for public-private partnerships for new transportation projects until 2027.
- ***Specific Performance Measures***. The Governor's proposal includes specific performance measures against which Caltrans will be held accountable for the investment of new transportation funding.
- ***Streamlined Environmental Process.*** The Governor's proposal includes project streamlining provisions such as a limited California Environmental Quality Act (CEQA) exemption; advancing project environmental mitigation to get more project buy-in early and reduce late challenges; and the extension of federal delegation for Caltrans to complete federal and state environmental review concurrently.
- ***Procurement Authority.*** The Governor's proposal authorizes Caltrans to utilize a procurement method, known as Construction Manager/General Contractor (CMGC), for double the amount of projects it is authorized for use today. CMGC is a process in which the design and construction management elements of projects are brought together so projects can be executed more quickly and delivered sooner.
- ***Dedicated New Transportation Revenue to Transportation Purposes.*** The Governor's proposal includes a constitutional amendment to ensure new transportation revenue is dedicated to transportation purposes. The Legislature would not be able to redirect the new revenues to non-transportation purposes.

The Administration estimates that its proposal would increase costs to the average motorist by about $0.25 per day or $7 per month.

Staff Comment: The subcommittee may wish to have the Administration's funding plan considered as part of the legislative special session on transportation.

Staff Recommendation: Reject the Governor's transportation funding plan without prejudice and direct the proposal for consideration in the special session on transportation.

Vote:

Issue 2 : Capital Outlay Support Budget

Proposal: The Administration proposes a net increase of $32.5 million from various funding sources and a decrease of 94 full-time equivalent (FTE) positions from the Governor's January budget for the capital outlay support (COS) program. This establishes a new total level of FTEs for the COS program of 9,512 FTEs that includes 8,161 state positions, 404 personnel years (PY) of cash overtime, and 947 PY equivalents for architectural and engineering (A&E) contracts. (Additionally the Administration requests an increase of $155.5 million and 877 FTEs to implement the Governor's transportation package which was discussed in the previous issue.)

The proposal also includes budget bill language (shown below) to exempt local State Transportation Improvement (STIP) projects deprogrammed from the 2016 STIP from the full cost recovery due to reduction in revenues from the price-based excise tax. The California Transportation Commission has calculated that $754 million of projects must be taken out of the current STIP plan to reflect the decline in available state funding for transportation. The budget bill language is provided to exempt some of these projects from state cost-recovery and also provide authority for Caltrans to increase COS staffing if funding is found to put some or all of these projects back into the STIP.

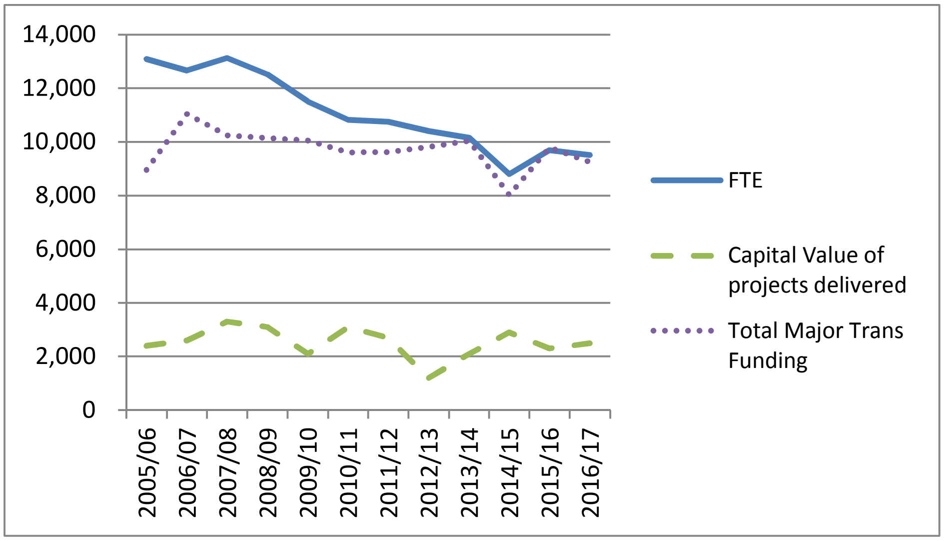
<u>Proposed Budget Bill Language</u>

17. Of the funds appropriated in Program 1835010-Capital Outlay Support, the Department of Transportation shall exempt Local SB 45 STIP projects deprogrammed from the 2016 STIP from the full cost recovery as outlined in its Indirect Cost Recovery Plan. The Department of Transportation will charge for functional overhead only for these projects.

18. Notwithstanding any other provision of law, should the California Transportation Commission or Legislature take action that will support re-programming of projects removed from the State Transportation Improvement Plan, the Director of Finance may increase the expenditure authority for additional staffing for Program 1835010-Captial Outlay Support after notifying the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committees in each house of the Legislature that consider appropriations not later than 30 days prior to the effective date of the approval.

Background and Detail: Capital outlay is the funding mechanism for construction contracts and right-of-way acquisition on projects that preserve and improve the state highway system. The COS program provides the funding and resources necessary to develop and deliver the projects to construction, as well as administer and oversee the projects once they are in construction. The COS program also provides oversight, or independent quality assurance, of projects developed by local entities on the state highway system. The total level of full-time equivalent positions for COS has decreased significantly since its peak in 2007-08, as shown in the figure below.

Capital Outlay Support Full-Time Equivalents Decreasing Over Time



Positions are based on full-time equivalents (FTE).

Efforts to Align Investments and Resources. Caltrans has made efforts to better align its COS resources with the amount of funding that is available for transportation projects. As the figure above shows, staffing levels have generally declined as the amount of funding available for transportation projects has declined. In addition, IT systems have given Caltrans better tools to manage its resources. Project Resourcing and Schedule Management (PRSM) contains resource-loaded workplans for all active projects which are the basis for COS workload estimates. Also, Caltrans has delegated full authority to districts for final processing of construction contracts to improve project delivery and streamline decision-making. Position changes for the COS budget request are shown below.

Capital Outlay Support Program Workload Changes (FTEs)

Workload Categories	**Jan. 10 2016-17**	**May Revise 2016-17**	**Change From Jan 10**
State Highway Operation and Protection Program	4,712	5,215	503
Overhead and Corporate	1,840	1,840	0
State Transportation Improvement Program	1,131	964	(167)
Partnership (Includes Measure/Locally Funded)	1,133	1,016	(117)
Toll Bridge Seismic Retrofit Program	291	158	(133)
Real Property Services	97	103	6
Proposition 1B Bond	297	98	(199)
American Recovery and Reinvestment Act	2	0	(2)
Traffic Congestion Relief Program	22	55	33
High Speed Rail	41	51	10
West Mission Bay Drive Bridge	1	0	(1)
Geotechnical Borehole Mitigation	12	33	21
Materials Engineering & Testing Services	27	27	0
FAST Act	0	10	(10)
Total Capital Outlay Support Workload	**9,606**	**9,512**	**(94)**

Legislative Analyst's Comment: The LAO has concerns that the proposed budget bill language as currently written, might (1) not achieve the intentions of the Administration and (2) may have broader unintended consequences.

Staff Comment: As transportation funding has declined, COS workload has declined. Caltrans is making concerted efforts to better manage the COS program so that resources are better aligned with workload. This spring, Caltrans regularly met with legislative staff to further their understanding of its processes. The COS request has taken into consideration reduced workload stemming from the reduction of funding available for transportation projects and the needs for staff resources to complete projects that are currently underway. The LAO has reached agreement with Caltrans and the Department of Finance on clarifying the proposed budget bill language.

Staff Recommendation: Consistent with the staff recommendation to discuss the Governor's Transportation Funding Plan in the legislative special session on transportation, staff recommends the committee only approve the baseline capital outlay support request of a net increase of $32.5 million and a decrease of 94 full-time equivalent (FTE) positions. Staff also recommends adoption of the following modified budget bill language.

> *17. Of the funds appropriated in Program 1835010—Capital Outlay Support, the Department of Transportation shall exempt Local SB 45 STIP projects deprogrammed from the 2016 STIP from the full cost recovery as outlined in its Indirect Cost Recovery Plan if local agencies continue those projects with other funds. The Department of Transportation will not charge for administrative overhead for the portion of the project's funding that was originally planned to come from the STIP before the project was deprogrammed.*
>
> *18. Notwithstanding any other provision of law, should the California Transportation Commission reprogram projects removed from the 2016 STIP, the Director of Finance may increase the expenditure authority for additional staffing for Program 1835010—Capital Outlay Support to support the reprogrammed projects not sooner than 30 days after notification in writing is made to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committees in each house of the Legislature that consider appropriations and the state budget. The notification shall include a list of the reprogrammed projects and the additional staffing required for each project.*

Vote:

Issue 3: Construction and Maintenance Zone Enforcement Funding

Governor's Proposal: The Administration proposes to shift approximately $50 million in reimbursement authority from the State Highway Account (SHA) to the Motor Vehicle Account (MVA) for the California Highway Patrol (CHP) to provide a presence at Caltrans' work zones. Under the Construction Zone Enhanced Enforcement Program (COZEEP) and the Maintenance Zone Enhanced Enforcement Program (MAZEEP) CHP provides a presence at Caltrans' work zones.

Background: Traffic on California highways has been observed to exceed the posted speed limit in construction and maintenance work zones. These elevated speeds increase the risk of injury and death to workers and vehicle occupants as well as cause property damage. To reduce these travel speeds and potential for traffic accidents within a work zone in selected locations, Caltrans currently employs the CHP to enforce the posted work zone speed limits using COZEEP and MAZEEP.

As part of estimating the total cost of a construction project, a Caltrans project engineer makes an assessment of the need for COZEEP on every project that requires a contractor to close traffic lanes using cones or other channelizing devices and to provide COZEEP in specified situations, such as all daytime or nighttime temporary closures of all lanes in the same direction of travel. The estimate of COZEEP hours takes into account CHP operating policies, such as the CHP memorandum of understanding that requires a minimum payment of four hours per officer, hourly costs for the project location, and an allowance for mileage. In the case of MAZEEP, the maintenance area superintendent assesses the need and makes the request for MAZEEP services. These two programs have been proven to be effective in reducing traffic speeds and increasing safety.

LAO Comments. The LAO recommends that the Legislature reject the proposed fund shift. While the proposal is somewhat unclear, it appears that the responsibility for determining when enforcement services are needed would be retained by Caltrans. If this is the case, then decisions about the use of these services would no longer be linked to their costs. Under this approach, Caltrans would no longer face the fiscal constraints that currently incentivize the department to use enforcement services only when warranted. Because Caltrans has the necessary information to determine when enforcement services are needed, it also would not appear to make sense to shift the responsibility for determining when enforcement services are needed to CHP. Under the proposed shift, it could also be difficult for Caltrans to fully account for the cost of construction projects, since the enforcement costs related to projects would no longer be within Caltrans' budget. In addition, the Governor's proposal shifts additional costs to the MVA at a time when it faces insolvency.

Staff Comment. While the Administration's proposal may create minor administrative efficiencies, it would result in the estimates of highway construction project costs not fully accounting for all of the costs of Caltrans delivering highway projects. It is also possible that Caltrans' demand for these service would increase if they are no longer responsible for bearing the cost of the services. Moreover, shifting the funding source from SHA to MVA puts greater pressure on the MVA which is currently facing insolvency and the Administration has already proposed a $10 increase in vehicle registration fees to address this problem.

Staff Recommendation: Reject the Governor's proposal.

Vote:

Issue 4: Fixing America's Surface Transportation Act Federal Grants (May Revision)

Governor's Proposal: The May Revision requests to add provisional language to the budget act to allow the California Transportation Commission (CTC) to allocated new federal funds associated with the Nationally Significant Freight and Highway Projects program and formula funding as follows.

Item 2660-302-0890
Provisions:

6. Notwithstanding any other provision of law, the California Transportation Commission (CTC) may allocate up to $60 million from this item to provide the required match to any state-sponsored project receiving a federal grant under the Fostering Advancements in Shipping and Transportation for the Long-term Achievement of National Efficiencies (FASTLANE) grants program authorized by the Federal Fixing America's Surface Transportation Act (FAST Act).

7. Notwithstanding any other provision of law, the California Transportation Commission (CTC) will allocate Nationally Significant Freight Highway Program formula funds to corridor-based projects elected by local agencies and the State.

The May Revision proposes trailer bill language to further the allocation of the formula funds.

Background: On December 4, 2015, President Obama signed into law a new five year, $305 billion surface transportation bill, the "Fixing America's Surface Transportation (FAST) Act," which authorizes funding for existing core highway and transit programs and created two new freight programs funded by the Highway Trust Fund. These include the National Highway Freight Program, from which California will receive an annual average of approximately $582 million over the next five years by formula, and the Nationally Significant Freight and Highway Projects (NSFHP) program that is funded at approximately $900 million per year nationwide and subject to discretionary competitive awards. Prior to the Fixing America's Surface Transportation Act, the U.S. did not have a coordinated freight investment program. By establishing a dedicated, committed funding source, significant advances in public policy created an underlying message to all of the importance of freight movement and freight supporting infrastructure to the California and U.S. economies.

The Trade Corridor Improvement Program was allocated as part of Proposition IB, Statutes of 2006. This created a new program which set aside funding for "trade corridors of national significance", highway, freight rail, port and truck corridor, and border access improvements. The CTC was tasked with allocating the funds in such a way as to address the most urgent needs while balancing the demands of the various ports and proving reasonable geographic balance between the regions while placing emphasis on projects that improve mobility and decrease emissions.

The May Revision request proposes to continue the work of the Trade Corridor Improvement Program by adding provisional language that allows the CTC to allocate formula freight funding made available for corridor-based projects identified in CTC adopted guidelines. Fifty percent of corridor-based programming targets will be selected by local agencies with the balance made available for trade corridor projects nominated by the Caltrans in order to make strategic investments of statewide significance. Directing these formula funds to the Trade Corridor Improvement Program would ensure that funds are targeted to the most critical freight projects.

In addition to the formula funding, the May Revision requests provisional language be added to allow the CTC to allocate federal and state capital funds to match grant funds as necessary in order to take advantage of any FAST LANE grants. Permitting the allocation of up to $120 million in combined state and federal funds to act as a match to FAST LANE grant proposals maximizes flexibility and allows the state to compete for up to $180 million in additional federal funds. This represents 20 percent of the annual FAST LANE grant monies planned to be awarded to the states.

LAO Comments: In light of the ongoing federal funds that the state anticipates receiving from the NSFHP program, it may make sense for the state to develop a new program to focus on freight transportation. However, the Governor's proposal appears to include substantial policy decisions that may not result in the most effective implementation of funds or best meet legislative priorities.

- First, allocating funding by a formula, such as the proposed 50-50 allocation to the state and local agencies may not result in funding the highest priority projects statewide. It could be the case that mix of state and local projects that are the highest priority and most effective does not align with the proposed 50-50 allocation. In addition, the mix of state and local projects that are the highest priority could change over time.

- Second, the proposed legislation would require CTC to develop guidelines based on several administration-developed plans. Administration staff indicates a particular focus of the new program would be to implement the Sustainable Freight Action Plan. However, this plan was only released this month in draft form. Because the plan has only been available for the Legislature to review for a limited time and because the plan is still in draft form, it would be difficult for the Legislature to determine in the next several weeks whether basing the proposed freight program on the Sustainable Freight Action Plan would meet its priorities.

- Third, the proposal includes several other significant policy decisions regarding the new program that are different from the way other state transportation programs are typically structured. For example, the proposed legislation would delegate to the CTC the decision of whether local funds are allocated by either formula-based grants or a competitive process. Determining the process for allocating transportation funds is typically defined in state law by the Legislature and not delegated to the CTC.

The LAO recommends that the Legislature consider the proposed legislation in its policy committee process because it includes significant policy considerations.

Question for Caltrans:

1. How would the proposed trailer bill language ensure that the new program is structured in a way that allocates funding effectively (to the highest priority projects) and meets legislative priorities?

Staff Recommendation: Staff agrees with the LAO recommendation and recommends approval of the proposed budget bill language and rejection of the trailer bill language so that it can be considered through the policy process.

Vote:

2720 DEPARTMENT OF CALIFORNIA HIGHWAY PATROL (CHP)

Issue 1: Commercial Vehicle Federal Conformity Requirements (May Revision)

Governor's Proposal: The May Revision proposes to make a changes in trailer bill language to the California Vehicle Code (VC) to require motor carriers to obtain a United States Department of Transportation (USDOT) number as a condition of being assigned a California carrier identification number (CA number).

Background: In order to comply with the safety performance-based inspection selection system requirements outlined in Section 34501.12 of the California VC, the CHP currently has the regulated authority to assign USDOT numbers to all motor carriers in California who are not subject to Federal Motor Carrier Safety Administration (FMCSA) oversight. CHP attains USDOT numbers utilizing a computerized interaction with the FMCSA. The FMCSA issues USDOT numbers to CHP for assignment to California's motor carriers. The assignment of USDOT numbers facilitates recognition of uploaded commercial vehicle and driver safety performance data for inclusion in the FMCSA's Safety Measurement System (SMS). However, as the result of a United States Congress mandate, the FMCSA system will undergo changes which will preclude the automated interaction between the department and FMCSA, beginning October 1, 2016. Consequently, CHP will no longer have the ability to assign USDOT numbers to California motor carriers beginning on that date.

To ensure continued compliance with the requirements of AB 529 (Lowenthal), Chapter 500, Statutes of 2013, and the basic inspection of terminals (BIT) program's safety performance based inspection selection system, as outlined in Section 34501.12 VC, CHP must continue to ensure all California-based motor carriers are identified and tracked using USDOT numbers in addition to CA numbers. Once collected, the data is entered, identified, and shared utilizing a carrier's associated USDOT number in the FMCSA's Safety Measurement System (SMS).

Staff Comment: The changes proposed in this request would align state law with federal requirements related to obtaining USDOT numbers as contained in the Title 49 of the United States Code of Federal Regulations (CFR). This proposal will ensure every motor carrier conducting transportation in California is included in the FMCSA's SMS and in the safety performance scoring mechanism in use nationwide. This proposal is consistent with the guidance CHP has received from the Federal Motor Carrier Safety Administration. Due to an October 1, 2016, implementation date of United States Congress-mandated Federal Motor Carrier Safety Administration (FMCSA) system change, it is necessary the new statutory requirements become effective prior to the federal system change.

Question for CHP:

1. Will there be state costs associated with this change in the future?

Staff Recommendation: Approve as proposed.

Vote:

2740 DEPARTMENT OF MOTOR VEHICLES

Issue 1: Motor Vehicle Account (MVA) Fund Condition (previously heard on April 14, 2016)

Governor's Proposal: The Administration estimates a MVA operational shortfall of about $310 million in 2016-17 (assuming no new revenue or expenditures). If unaddressed, the ongoing shortfalls would result in the MVA becoming insolvent in 2017-18. In order to help address this problem, the Governor proposes to trailer bill language to increase MVA revenues by increasing the base vehicle registration fee. The Governor also proposes new MVA expenditures as discussed below.

Increased Revenues. The Governor proposes to increase the base vehicle registration fee by $10 (from $46 to $56), effective January 1, 2017, and to index the base registration fee to the Consumer Price Index (CPI), beginning in 2017-18, allowing the fee to automatically increase with inflation, similar to the CHP fee and the driver license fee. The Governor's budget assumes that the increased fee will generate about $80 million in 2016-17, and about $360 million upon full implementation in 2017-18.

Increased Expenditures. The Governor's budget includes proposals that would increase MVA expenditures. The major expenditure proposals are discussed in more detail later in this agenda.

Background: The MVA supports the state's activities related to the administration and enforcement of laws regulating the operation or registration of vehicles used on public streets and highways, as well as to mitigate the environmental effects of vehicle emissions. Due to expenditures outpacing revenues, the MVA faced an operational shortfall in 2015-16 of about $300 million, which was addressed through the one-time repayment of $480 million in loans that were previously made from the MVA to the General Fund. Absent corrective actions, the account would again experience an operational shortfall in 2016-17. The figure below shows the current and projected fund balance of the MVA under the Governor's budget proposal.

Motor Vehicle Account Fund Balance Forecast
(as of January 2016, dollars in millions)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
BEGINNING RESERVES	$445	$299	$472	$201	$131	$110	$120
REVENUES AND TRANSFERS							
$10 Fee Increase			$79	$359	$398	$437	$477
Registration Fee	$2,653	$2,710	$2,764	$2,822	$2,882	$2,943	$3,005
Other Fees	$542	$538	$472	$547	$573	$573	$582
Total Fee Revenue	$3,195	$3,248	$3,315	$3,728	$3,853	$3,953	$4,064
General Fund Loan	$0	$480	$0	$0	$0	$0	$0
Transfers To Other Funds	-$69	-$71	-$76	-$80	-$82	-$84	-$85
Total Revenues/Transfers	$3,126	$3,657	$3,239	$3,648	$3,771	$3,869	$3,979
Total Resources	$3,571	$3,956	$3,711	$3,849	$3,902	$3,979	$4,099
EXPENDITURES							
CHP	$1,976	$2,104	$2,160	$2,241	$2,325	$2,412	$2,502
DMV	$1,044	$1,080	$1,054	$1,065	$1,076	$1,086	$1,097
ARB	$121	$124	$124	$126	$129	$132	$134
Other	$97	$67	$85	$87	$89	$90	$92
Cap Outlay/Facilities	$34	$109	$87	$199	$173	$139	$188
Expenditure Total	**$3,272**	**$3,484**	**$3,510**	**$3,718**	**$3,792**	**$3,859**	**$4,013**
Reserve	**$299**	**$472**	**$201**	**$131**	**$110**	**$120**	**$86**

Revenues. The MVA receives most of its revenues from vehicle registration fees. In 2015-16, $3.2 billion in revenues are estimated to be deposited into the MVA, with vehicle registration fees accounting for about $2.3 billion (72 percent), as shown in the figure above. Vehicle registration fees currently total $70 for each registered vehicle, which consists of two components:

- ***Base Registration Fee ($46).*** The state charges a base registration fee of $46, with $43 going to the MVA and $3 going to support certain environmental mitigation programs. The base registration fee was last increased in 2011 by $12 (from $34 to $46).

- ***CHP Fee ($24).*** The state also charges an additional fee of $24 that directly benefits CHP. In 2014, this fee was increased by $1 (from $23 to $24) and was indexed to the CPI.

The MVA also receives revenue from driver license fees. Revenue from these fees fluctuates based on the number of licenses renewed each year. In recent years, such revenue has averaged about $300 million annually, accounting for roughly 10 percent of total MVA revenues. The current driver license fee is $33 and was last increased by $1 in 2014. The driver license fee is also indexed to the CPI. The remaining MVA revenues primarily come from late fees associated with vehicle registration and driver license renewals, identification card fees, and miscellaneous fees for special permits and certificates (such as fees related to the regulation of automobile dealers and driver training schools).

The use of most MVA revenues is limited by the California Constitution to the administration and enforcement of laws regulating the use of vehicles on public highways and roads, as well as certain other transportation uses. However, roughly $70 million of the miscellaneous MVA revenue sources are not limited by constitutional provisions. Because they are available for broader purposes, these revenues are not retained in the MVA, and due to budgetary shortfalls beginning in 2009-10 were transferred to the General Fund.

Expenditures. The MVA primarily provides funding to three state departments—CHP, DMV, and the Air Resources Board—to support the activities authorized in the California Constitution. In recent years, expenditures from the MVA have increased. Some of these increases affect the MVA only in the short run (such as increased limited-term funding to DMV for the implementation of AB 60 (Alejo), Chapter 524, Statutes of 2013). Others create longer-term cost pressures on the MVA that can extend several years. These ongoing cost drivers include:

- ***CHP Officers' Salary Increases.*** The state and the union representing CHP officers negotiated a memorandum-of-understanding (MOU) in 2013 that provides salary increases for CHP officers annually from 2013-14 through 2018-19. The MOU specifies that the increases are determined by calculating the weighted average of the salaries of the state's five largest local police agencies. As a result, CHP officers received average salary increases of five percent a year in both 2013-14 and 2014-15, increasing ongoing MVA costs by $10 million.

- ***CHP Air Fleet Replacement.*** As part of the air fleet replacement plan for CHP's 26 aircraft, the Legislature approved $17 million in 2013-14, $16 million in 2014-15, and $14 million in 2015-16. Under the plan, the funding level for air fleet replacement will remain at $14 million in 2016-17, and decline to $8 million in 2017-18 and remain at that level on an ongoing basis.

- ***CHP Area Office Replacement.*** In 2013-14, the Legislature approved $6.4 million for the Administration's multiyear plan to replace existing CHP area offices. The funding supported the acquisition of land for one new office and the advanced planning to replace five additional offices. For these five offices, the Legislature subsequently approved $32.4 million in 2014-15 for the acquisition of land, $137 million in 2015-16 for the design and construction of these facilities, and funding for advanced planning for up to five additional facilities. The Administration's Five-Year Infrastructure Plan includes estimated capital costs for CHP of $789 million MVA over the next five years.

- ***DMV Field Office Replacement.*** In 2015-16, the Legislature approved $4.7 million to initiate the Administration's multiyear plan to replace existing DMV field offices. The funding supported pre-construction activities to replace three DMV field offices. The Administration's Five-Year Infrastructure Plan includes estimated capital costs for DMV of $496 million MVA over the next five years.

LAO Comments: The LAO finds that the Legislature will need to take steps to address the ongoing shortfall in the MVA and prevent insolvency. While the Governor's approach is one way of addressing the shortfalls in the near term, there are alternatives, and under the Governor's approach, the LAO estimates that the MVA would likely face an operational shortfall in the tens of millions of dollars by 2019-20. Based on this, the LAO recommends the Legislature consider taking actions to ensure that the MVA is sufficiently balanced in both the near and long-term. The Legislature could address such shortfalls by adopting a mix of the following strategies:

- ***Reduce or Limit MVA Expenditures.*** One approach to addressing the shortfalls in the MVA is to reduce expenditures or slow the pace of spending growth. Even a modest reduction to the pace of spending growth could significantly help the MVA's condition in the future. For example, the Legislature could defer the start of new capital projects to replace CHP and DMV facilities, or approve fewer new projects in future years than are included in the 2016 Five-Year Infrastructure Plan.

- ***Increase MVA Revenues.*** As proposed by the Governor, the Legislature could increase the vehicle registration fee. In determining an appropriate fee increase, it will want to consider the potential fiscal impacts on vehicle owners. The Legislature could also choose to increase non–registration MVA fees, such as driver license fees.

- ***Eliminate General Fund Transfer.*** As mentioned earlier, the MVA receives roughly $70 million in miscellaneous revenues that are not limited in their use by the California Constitution. Under existing law, these revenues are transferred to the General Fund, making them unavailable to support MVA expenditures. The Legislature could change state law in order to keep these revenues in the MVA.

Staff Comment. Staff agrees with the LAO comments that the Legislature will need to take actions to ensure the future solvency of the MVA. The Legislature may want to consider approving the vehicle registration fee increases proposed by the Administration and taking other actions to reduce the cost-pressure on the MVA in the future, such as approving fewer new capital outlay projects in future years and taking steps to eliminate the transfer of about $70 million MVA funds to the General Fund.

Staff Recommendation: Approve as proposed the Administration's proposal to increase the vehicle registration fee and the related trailer bill language.

Vote:

Issue 2: Self-Service Terminal Expansion Project (previously heard on April 14, 2016)

Governor's Proposal: The Governor proposes $8 million from the MVA on an ongoing basis to fund existing and increased costs related to self-service terminals. The proposal is part of an overall plan to expand the use of self-service terminals as an alternative for customers who would otherwise handle their transactions in DMV field offices. The DMV plans to increase the number of self-service terminals by 30 to 50—for a total of between 80 and 100 total terminals statewide. These new terminals would be placed in businesses around the state, such as grocery stores or convenience stores, to provide greater access to DMV services.

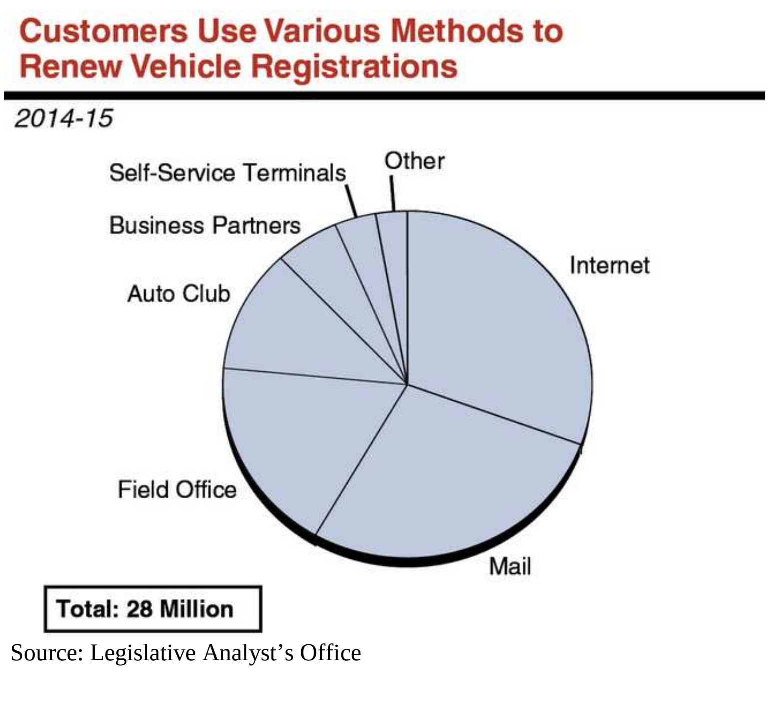
Specifically, the proposed $8 million includes the following:

- $4.4 million to support the existing costs of the $3.75 vendor transaction fee at the current level of 1.2 million self-service terminal transactions. These have historically been paid for from existing resources within DMV's base budget.

- $3.6 million to fund increased costs in 2016-17 from the proposed expansion of self-service terminals. This amount includes funding to pay the $3.75 vendor transaction fee for roughly 1 million additional transactions estimated to occur from the expansion, as well as for the installation and training costs related to the new terminals.

Background: DMV handles about 30 million vehicle registration renewal transactions each year. Customers can renew their registration through one of the several options currently available to them. These include mailing in renewals or coming into field offices or auto clubs, and completing renewals over the internet and through self-service terminals and business partners.

The figure below shows the proportion of registration renewal transactions that were completed in 2014-15 under each service option.

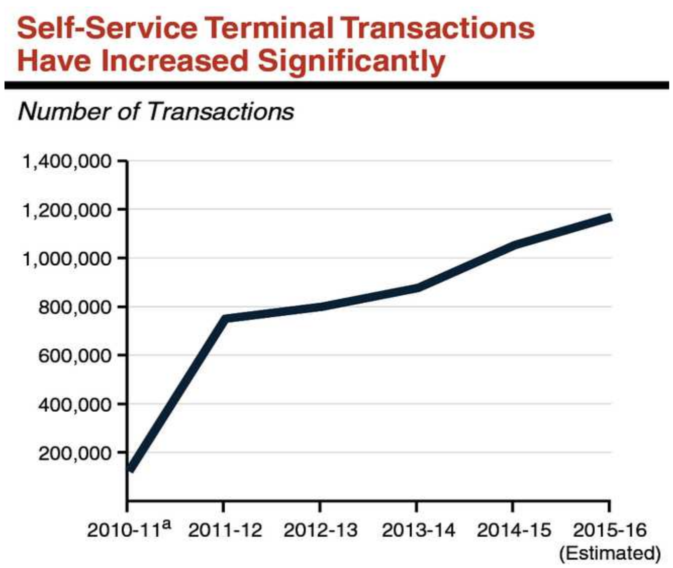


Source: Legislative Analyst's Office

Self-Service Terminals at DMV. Self-service terminals, which allow customers to process their vehicle registration renewal transactions at a kiosk, make up about four percent of total transactions. The DMV's 50 existing self-service terminals are located inside DMV field offices, accept multiple payment methods including cash, and provide a registration card and sticker to the customer upon completion of the renewal. These terminals can be a convenient alternative to DMV field office staff and, according to DMV, can be especially helpful to customers who are paying with cash or those who wait until the deadline to renew their registration.

DMV's costs for self-service terminal transactions includes a reported $5.62 in administrative costs for DMV and a $3.75 service fee that DMV pays to the vendor that provides and maintains the terminals. Under DMV's existing contract for its 50 self-service terminals, the vendor provides the self-service terminals at no initial cost to the state, but charges DMV a $3.75 fee for each transaction completed at a terminal. (In contrast, the average cost for a business partner transaction does not include a service fee as this is paid, on top of the base registration fee, directly by the customer to the business partner.) Based on the expected number of transactions, DMV estimates self–service transactions will cost a total of $11 million in the current year: about $6.6 million in administrative costs and $4.4 million in transaction fee payments to the vendor.

Use of Self-Service Terminals Has Increased Significantly. In October 2010, DMV administratively redirected resources within its base budget to fund the installation of 25 self-service terminals. Subsequently, the department redirected additional resources to double the number of self-service terminals to 50. The figure below shows the number of transactions processed through self-service terminals since they were first implemented. While the total number of transactions processed through self-service terminals is small compared to other service options, use of the terminals has increased significantly during the six years that they have been in operation—from 124,000 transactions in 2010-11 to an estimated 1.2 million transactions in 2015-16.



[a] Reflects partial year of operation. Terminals first installed in October 2010.

Source: Legislative Analyst's Office

Self-Service Terminals Are Cost-Effective. The base registration renewal fee charged to customers is the same regardless of the method the customer chooses to process the renewal. However, DMV's costs to process vehicle registration transactions differ significantly by processing method. Specifically, field office staff transactions are the most costly, with the average field office transaction for a registration renewal costing $23.63. In comparison, transactions processed at self-service terminals have an average cost of about $9.37 per transaction. Internet and mail transactions are the least costly at an average cost of $4.54 and $3.69 respectively.

LAO Comments: The LAO finds that expanding the use of self-service terminals, including to locations outside of DMV field offices and outside of DMV's regular business hours, has merit. Doing so would provide greater access to DMV's customers by providing additional options to complete DMV transactions. In particular, these terminals could assist customers who pay with cash, and those who wait until the deadline to renew their registration—two of the main reasons why customers currently renew their registration in a field office. Because transactions processed through a self-service terminal have lower costs than field office transactions, expanding the use of self-service terminals could also result in operational efficiencies and savings.

The LAO raises two concerns with the Governor's proposal. First, that the DMV has provided little information about its plan to expand self-service terminals, specifically information on the sequencing plan, the location of terminals, and the estimated level of savings from expanding this technology. The LAO finds that the absence of a complete implementation plan makes it difficult for the Legislature to assess the full costs of the proposal, make appropriate adjustments to DMV's budget to account for workload shifted out of field offices, and to ensure that the expansion of self-service terminals meets legislative priorities.

Second, the LAO finds that the proposed $8 million increase is not justified and that DMV has not attempted to account for reduced field office visits associated with the use of self-service terminals. The LAO estimates that if all transactions from existing terminals directly offset the need for field office transactions and DMV was able to make sufficient adjustments to account for the lower field office workload, DMV would save up to $17 million annually. At the projected higher level of transactions under the Governor's proposal, savings could be as much as $29 million. While it is unlikely that DMV could fully capture these savings in the short run, because some of their field office costs are fixed (such as facilities costs), the department could achieve a portion of these savings in the short run, and potentially more in the longer run. Additionally, LAO notes that $4.4 million of the amount requested is already funded from DMV's base budget as a result of various redirections. The LAO also notes that under the Governor's proposal, about two million motorists are estimated to use self-service terminals. However, the costs of the self-service terminal transaction fee would effectively be spread across all registered vehicle owners rather than just those who actually use the terminals.

Finally, the LAO recommends that the Legislature reject the Governor's proposal for $8 million from the MVA to support the costs of existing self-service terminals, as well as those of additional terminals. The LAO notes that DMV could continue to fund the existing self-service terminals and expand the number of terminals without this funding augmentation. The LAO also recommends that the Legislature require DMV to develop a detailed plan on the use and expansion of self-service terminals. In order to ensure the Legislature receives the plan in a timely manner, the LAO recommends adopting budget bill language requiring DMV to submit the plan by January 10, 2017. The language should also specify that DMV shall not proceed with its expansion plan until it is submitted to and reviewed by the Legislature.

Specifically, the plan should include (1) a sequencing strategy (including the approach and timing for increasing functionality of the terminals and how that relates to expanding the number of terminals), (2) DMV's assessment of which locations are good candidates for self-service terminals and the criteria DMV used to determine these locations, and (3) how DMV intends to account for the cost savings generated from the use of self-service terminals and identify the adjustments necessary to reflect a reduction in field office workload. As the Legislature evaluates this plan, it will also want to consider the potential benefits and limitations of passing the cost of self-service terminals on to the customers who benefit from the convenience of using the kiosks, rather than spreading these costs among all registered vehicle owners.

Staff Comments: Staff agrees with the concerns raised by the LAO about the lack of an expansion plan for SSTs. A comprehensive long-term plan would help to ensure that DMV is implementing the most cost-effective and accessible options for processing transactions. Such a plan would help DMV to better prepare for expanding the use of SSTs and enable the Legislature to plan for future budget requests. Because any expansion of automated processing options could potentially significantly reduce the need for staff to process transactions and keep to a minimum expansions of office space that may be needed in the future, such a plan should also consider these factors.

The Legislature would also benefit from receiving information about savings from the use of SSTs so that it can determine whether to redirect staff who are "freed up" when processes are automated or to achieve savings by reducing position authority.

Staff Recommendation: Approved as budgeted and adopt supplemental reporting language to have DMV report the location and utilization of self-service terminals, as well as any costs savings resulting from the diversion of transactions through these terminals.

Vote:

Issue 3: New Motor Voter Program

Governor's Proposal: The Governor proposes $3.9 million General Fund for implementation of AB 1461 (Gonzales), Chapter 729, Statutes 2015.

Specifically, the $3.9 million is for the following:

- $424,000 for 3.7 positions.
- $1.3 million for driver license/ identification card (DL/ID) and change of address forms reprint and/or destruction.
- $1.7 million for imaging machine replacement and maintenance contract and facilities cost for new cabling.
- $457,000 for DMV DL/ID systems software modification and update.

Background: The National Voter Registration Act (NVRA) of 1993 mandated that all 50 states make it easy for U.S. citizens to register to vote when applying for a DL/ID card. This mandate include the requirement to offer the voter registration option to every customer who applies for a DL/ID card. This resulted in revisions to DMV's DL/ID card application, which currently includes a section that asks "Do you wish to register to vote or to update your voter record?" The applicant must indicate that he or she:

1. Is registering to vote for the first time or is requesting a voter registration change (name change or change in political party).
2. Does not wish to register to vote or change the voter registration address.
3. Requests the department to update the voter registration address to a new county.
4. Requests the department to update the voter registration address within the same county.

The DMV mails all completed voter registration forms to local election officials. The department currently provides files to the Secretary of State (SOS) on all DL/ID card holders approaching their 18th birthday. The SOS then follows up by communicating to individuals regarding his or her right to vote. A voter registration affidavit is also enclosed with DL renewal notices. The department assists with online voter registration through the SOS's website by providing the SOS with a copy of a DL/ID card holder's digitized signature in order to complete the online voter registration process.

AB 1461 Requires DMV to Register all Eligible Applicants to Vote (Unless They Decline.) AB 1461 requires the DMV to electronically transmit to the SOS specified information related to voter registration, including the applicant's name, date of birth, address, digitized signature, email address, telephone number, language preference, and other voter registration related information, as well as whether the applicant affirmatively declined to register to vote.

Changes to DMV Processes from AB 1461. The costs that will be incurred by DMV for implementation of AB 1461 are related to the reengineering of current processes, new hardware, software, and equipment, as well as systems programming. Due to the requirement of needing additional customer information, DMV will eliminate the current practice of combining change of addresses for DL/ID cards and vehicle registration (VR) on a single form. Instead, each process (DL/ID and VR) will have separate forms and separate work streams. The change of address forms processed through the mail will now require additional time to key a significant number of new data elements to complete the voter registration portion, adding to the overall transaction time. The current renewal-by-mail process for DL/ID cards involving a tear-off stub will be replaced by a full-page form that contains all necessary elements for renewal of a DL/ID card and construction of a data file for SOS. In order to collect the voter registration information for renewal-by-mail transactions, the department will need to purchase new automated mail processing machines to handle the full-size form and number of data elements. This will create an additional headquarters processing workload for both the operation of the machines and the technician review of forms when the automated system cannot read all data elements.

AB 1461 specifies that DMV shall complete implementation one year after the SOS certifies all of the following:

- The state has a statewide voter registration database that complies with the requirements of the federal Help America Vote Act of 2002.

- The Legislature has appropriated the funds necessary for the SOS and DMV to implement and maintain the California New Motor Voter Program.

- The SOS has adopted regulations to implement the provisions of the bill.

As of February 2016, SOS estimates the earliest date to begin implementation would be July 1, 2016.

Staff Comment: Concerns have been raised that the field office process DMV has implemented for motor voter does not follow best practices and this process does not always ensure the capture of additional voter registration information such as optional questions about party preferences, language preference for election materials, whether one wishes to be a permanent vote-by-mail voter, and whether one wishes to be a poll worker. Trailer bill language may need to be adopted to address this problem.

Staff Recommendation: Reject the Governor's proposal so that this issue goes to Conference Committee which will allow for additional time to consider ways to improve the process.

Vote:

Issue 4: REAL ID Driver License or Identification Card Trailer Bill Language

Governor's Proposal: The May Revision proposes trailer bill language that would amend existing statute to conform with federal REAL ID requirements.

Background: Congress enacted, and the President signed, H.R. 1268-"Real ID Act of 2005" on May 11, 2005, which is designed to improve the security of driver's licenses (DL) and identification (ID) cards issued by individual states. The act includes certain minimum document and license issuance requirements, and it provides that only persons with legal presence status can be issued a DL/ID card.

REAL ID also requires that only one document can be issued per person (so for those individuals that have both a DL and an ID, they will be issued a DL). REAL ID also changes the requirements for the senior ID which, under current state law, expires after 10 years but under REAL ID can be in effect for no more than eight years before it must be renewed.

Staff Comment: The proposed trailer bill changes would not take effect until January 1, 2018. There does not appear to be a reason that these changes need to go through the budget process.

Staff Recommendation: Reject the proposed trailer bill language and direct the Administration to pursue these changes through the policy bill process.

Vote: