Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Jim Beall, Chair
Senator Hannah-Beth Jackson
Senator Jim Nielsen

Thursday, March 13, 2014
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Room: 112

Consultant: Farra Bracht

Agenda

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Overview of Transportation Issues and Financing

Legislative Analyst's Office

Transportation Budget Summary—Selected Funding Sources

(Dollars in Millions)

	Actual 2012–13	Estimated 2013–14	Proposed 2014–15	Change From 2013–14	
				Amount	Percent
Department of Transportation					
General Fund	$83.4	$81.4	$83.0	$1.7	2.0%
Special funds	3,273.0	3,841.2	3,577.2	–264.0	–6.9
Bond funds	3,281.6	2,333.0	822.8	–1,510.2	–64.7
Federal funds	3,593.0	4,892.8	4,781.2	–111.6	–2.3
Local funds	1,470.9	1,582.2	1,594.2	12.0	0.8
Totals	**$11,702.0**	**$12,730.5**	**$10,858.3**	**–$1,872.2**	**–14.7%**
High–Speed Rail Authority					
Bond funds	$45.0	$48.3	$29.3	–$19.0	–39.3%
Federal funds	185.8	571.3	1,110.7	539.4	94.4
Greenhouse Gas Reduction Fund	—	—	250.0	250.0	—
Totals	**$230.8**	**$619.7**	**$1,390.0**	**$770.4**	**124.3%**
California Highway Patrol					
Motor Vehicle Account	$1,703.5	$1,845.0	$1,852.8	$7.8	0.4%
Other special funds	157.5	165.8	170.7	4.9	2.9
Federal funds	17.4	18.9	19.0	0.1	0.7
Totals	**$1,878.4**	**$2,029.7**	**$2,042.6**	**$12.8**	**0.6%**
Department of Motor Vehicles					
Motor Vehicle Account	$831.2	$978.4	$1,027.5	$49.1	5.0%
Other special funds	83.4	46.4	45.8	–0.6	–1.3
Federal funds	0.7	5.1	4.1	–1.1	–20.8
Totals	**$915.4**	**$1,029.9**	**$1,077.3**	**$47.4**	**4.6%**
State Transit Assistance					
Public Transportation Account	$417.5	$389.8	$373.1	–$16.7	–4.3%
Bond funds	752.9	299.0	823.9	525.0	175.6
Totals	**$1,170.4**	**$688.7**	**$1,197.0**	**$508.3**	**73.8%**

INFORMATIONAL ITEMS PROPOSED FOR DISCUSSION

0521 Secretary for Transportation Agency
2600 California Department of Transportation

Agency Overview: The newly-constituted Transportation Agency has been in place since July 1, 2013. The agency includes the following: Department of Transportation (Caltrans), Department of California Highway Patrol (CHP), Department of Motor Vehicles (DMV), and Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun (BOPC). In addition, the agency includes two current stand-alone entities—the High Speed Rail Authority (HSRA) and the California Transportation Commission (CTC). The agency Secretary is the Governor's cabinet member for major policy and program matters involving transportation and oversees the operations of the agency's departments and programs. The agency also administers the California Traffic Safety Program.

Budget Summary: The Governor's Budget proposes expenditures of $100.9 million from a combination of special funds, federal trust funds and reimbursements. Most of the resources ($96.7 million) are for the California Traffic Safety Program. Administrative costs of the agency are $4.2 million in the budget year.

Item 1: Overall Transportation Budget and Transportation Funding Needs
Item 2: Caltrans Reform

Background:

<u>Funding for Transportation</u>
State Funding is Not Keeping Pace. State funding for transportation comes primarily from revenues derived from taxes and fees. The four main state revenue sources are: (1) state gasoline and diesel excise tax, (2) fees on cars and drivers, (3) vehicle weight fees, and (4) the sales tax on diesel fuel. Some of these state revenues, as well as federal revenues, used to support the transportation system have eroded over time as vehicles have become more fuel-efficient or use alternative energy sources not subject to state and local taxes. Thus, the base of these taxes has diminished over time and, as a result, the traditional funding sources have not kept pace with the demands of a growing population and an aging transportation system.

In addition, the state funds transportation projects with general obligation (GO) bonds. The most recent transportation bond approved by the voters—the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Prop 1B)—provided $19.9 billion for a variety of transportation projects. Most of this funding is already committed to projects and will be expended within the next few years as these projects are completed. Moreover, going forward, structural changes at both the federal and state levels may impact the way the state funds transportation projects.

Funding Levels Outpace Transportation System Needs. Both the state's highway system and local roads are in poor condition, according to various studies. The state's highway system is ranked 47th in the nation in overall efficiency and performance, and its urban interstates are ranked as the most congested in the nation. The state ranks 49th in urban interstate pavement condition and 39th in the condition of rural arterial roads. Also, the majority of California's counties now have an average pavement condition rating that is considered at-risk, and projections indicate that by 2022, a quarter of local streets and roads will be in the failed category.

In recent years, various organizations have prepared assessments of the state's transportation system and its needs. In general, these studies have found that the needs are great and the funding to address those needs is inadequate. For example, in 2011, the California Transportation Commission Statewide Transportation System Needs Assessment found that the total cost of all system preservation, system management, and system expansion projects during the ten-year study period was nearly $538.1 billion. Of this total, about 63 percent of the costs are for rehabilitation projects and maintenance costs based on the goal of meeting accepted standards that would bring transportation facilities into a "state of good repair" within the ten-year study period. The remaining costs were for system management and expansion projects.

Recent efforts to improve Caltrans have focused on budgeting, funding, and operations. These efforts include zero-based budgeting (ZBB) reviews of numerous programs, a workgroup focused on funding, and a review of Caltrans' operations.

Efforts to Improve Caltrans

Independent Review of Operations. As part of establishing the new California State Transportation Agency (CalSTA) on July 1, 2013, the Administration contracted with experts from the independent State Smart Transportation Initiative (SSTI) to conduct an expert review of operations within Caltrans. The SSTI has conducted reviews of state departments around the country with an eye on reform that advances environmental sustainability and equitable economic development, while maintaining high standards of governmental efficiency and transparency. The review is intended to build on recent reforms and assess weaknesses and strengths within the department to help make Caltrans more effective.

The SSTI released its report entitled "The California Department of Transportation: SSTI Assessment and Recommendations" in January 2014. The report provides a critical assessment of Caltrans' management and operations. Overall, the report found that Caltrans is significantly out of step with best practices in the transportation field and with the state's policy expectations. This is supported by the finding that Caltrans is oriented toward projects despite the need to shift its primary job to system maintenance and operations. In addition, Caltrans does not support less reliance on auto-mobility. Contributing to this are decisions to have the state vest more funding at the local level, and not thinking about how Caltrans would change to be a partner, rather than a master builder.

The report focuses on three areas for improvement: (1) how the department expresses its mission; (2) what resources are available to achieve that mission; and (3) how the department manages those resources to the greatest effect. Consistent with these, the report makes 46 specific recommendations, in 10 broad areas, as follows:

- Establish a mission, vision, and associated goals that reflect current state law and policy.
- Better match investments to policy goals expressed in statements of mission, vision, and goals.
- Take advantage of the state's new institutional structure to help drive change.
- Align resources to desired goals.
- Reform critical guidance documents and standard operating procedures.
- Strengthen strategic partnerships.
- Focus on freight.
- Communicate more effectively.
- Manage for performance.
- Foster innovation and continuing evolution.

In addition, the report makes four recommendations that it states should be completed within the next six months:

- Caltrans and CalSTA should develop mission, vision, and goal statements that are fully consistent with state planning and policy goals.

- Following the release of new mission, vision, and goal statements, Caltrans and CalSTA should use these, as well as the recommendations in this report, to organize teams to develop implementation actions and performance measures.

- Caltrans and CalSTA should work to ensure the success of CEQA reform rulemaking set up by SB 743 (Steinberg), Chapter 386, Statutes of 2013, specifically in regards to how to improve land use outcomes. SB 743 reforms how transportation-related mitigation associated with new development is measured and implemented to encourage more infill and transit-oriented development.

- Caltrans and CalSTA should modernize state transportation design guidance.

Funding Workgroup. Last year's budget directed CalSTA to work with stakeholders to develop transportation funding priorities and explore long-term funding options. California Transportation Infrastructure Priorities (CTIP) participants include leaders from business, labor, local transportation agencies, state departments, metropolitan planning organizations, environmental groups, and transportation related non-profits, among others. Four subgroups were formed to examine highways, mass transit, local roads, and active transportation.

The CTIP workgroup released its report in February 2014 and offered a set of action items to achieve a vision of California's transportation future centered around the concepts of preservation, innovation, integration, reform, and funding. The report makes both short-term and long-term recommendations. The short-term recommendations are consistent with the actions proposed in the Governor's 2014 budget and include items such as using cap and trade revenues for rail modernization and appropriating the remaining Proposition 1B funds.

Longer-term recommendations are as follows:

- Support efforts to maintain and expand the availability of local funds dedicated to transportation improvements, specifically in support of the Governor's proposal to make it easier for local governments to form Infrastructure Financing Districts (IFDs).

- Explore a voluntary pilot program to study, review, and consider the viability of a mileage-based user fee in California.

- Work with the Legislature to expand the department's use of pricing and express lanes to better manage congestion and the operations of the state highway system while generating new revenues for preservation and other corridor improvements.

- Work with stakeholders to ensure that the State Transportation Improvement Program (STIP) is funding projects that meets a set of performance measures to meet the state's mobility, safety, sustainability, and economic objectives.

- Work to address the recommendations of the California Freight Advisory Committee.

Zero-Base Budgeting Reviews. As part of a Governor's 2013 Executive Order, Caltrans began a multi-year efficiency review that included ZBB. To date, the department has completed ZBB reviews of the following programs: Local Assistance, Planning, Equipment, Storm Water, and Aeronautics. These efforts have resulted in program efficiencies such as position reductions and program streamlining. Also, in last year's budget, the Legislature directed the Legislative Analyst's Office (LAO) and the Department of Finance (DOF) to work together to review Caltrans' direct workload for the Capital Outlay Support (COS) Program.

In July 2014, Caltrans plans to begin ZBB reviews of the Maintenance and Legal programs. In 2015, Caltrans plans to conduct ZBB reviews of Traffic Operations, Mass Transportation/Rail, as well as a second COS review that includes indirect workload, headquarters, and a review of the results from the first COS review. Finally, reviews of the Administrative Program and Program Management are planned for January of 2016.

Staff Comment: The state's transportation system is facing challenges that include the lack of sustainable funding, the failure to prioritize and fund maintenance needs, and a transportation department that is focused on the state's highways, rather than transportation at large. Much work has been done recently to examine Caltrans and opportunities to reform the organization so that it can better address the state's transportation needs.

It will be important to take actions to address these challenges. Specially, in the near term (the next six months) it will be critical that the Legislature provide oversight to ensure that CalSTA and Caltrans are taking steps to implement the recommendations made by SSTI and CTIP. It will also be important for the Legislature to establish itself as a partner in Caltrans' reform efforts and identify opportunities for legislative involvement.

Questions:

For Agency:

1) *Please comment on the overall budget proposal for the department within the Transportation Agency and the shortfall to address funding needs.*

2) *Please provide a brief summary of the findings and recommendations of the SSTI and CTIP reports.*

3) *Please discuss how the agency plans to address the recommendations in these reports in the next six months and one year. Will there be budget changes or proposed legislation in the near future to implement these recommendations? How does the agency plan to engage the Legislature in this process?*

4) *What steps have been taken to implement the four short-term recommendations made by SSTI? Please provide a status update on the progress toward implementing each.*

5) *How do the ZBBs relate to the reform of Caltrans?*

<u>For Caltrans:</u>

1) *Given the CTIP's report's finding that the state needs a single statewide transportation system, what should be Caltrans' role in facilitating regional planning and project development/ delivery?*

2) *Do you anticipate that in the process of redefining Caltrans' role some additional responsibilities will be devolved to the counties? Are there responsibilities that Caltrans is not currently performing that it should be?*

3) *What are likely to be the net resources impacts of restructuring on Caltrans?*

4) *The SSTI report was critical of Caltrans' management. Does Caltrans currently provide management training and, if so, what is the level of resources for this training? Does Caltrans plan to modify its training and possibly increase the level of resources devoted to training in the near future to address the concerns in the SSTI report?*

5) *What is the status and what are the key elements of Caltrans' California Transportation Plan 2040, which seeks to integrate regional planning with a statewide plan?*

6) *What is the status of Caltrans' Freight Mobility Plan? What is being done within the department to ensure that freight and goods movement remain high priorities?*

Staff Recommendation: Informational item. Follow-up at the May Revision hearing on the status of implementation of the four recommendations and CalSTA and Caltrans' future, long-term plans to transform Caltrans from a highway department to a transportation department.

ITEMS PROPOSED FOR VOTE ONLY

2660 Department of Transportation

Department Overview: The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive state system of 50,000 road and highway lane miles and 12,559 state bridges, funds three intercity passenger rail routes, and provides funding for local transportation projects. The Department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and Equipment.

Budget Overview: The Governor's Budget proposed total expenditures of $10.9 billion ($83.0 million General Fund) and 19,543.5 positions. The largest sources of funds for Caltrans come from the State Highway Account, State Transportation Fund, and the Federal Trust Fund. State sources of revenue for the department are state gasoline and diesel excise taxes, the sales tax on diesel fuel, and weight fees. State sources of revenue constitute about $6.1 billion of the total available resources.

Item 1: Continuation of ADA Infrastructure Program (BCP #3)

The Governor's budget requests the permanent redirection of three positions and $507,413 in State Highway Account (SHA) funds from the Capital Outlay Support (COS) Program to the Traffic Operations Program, to continue to develop and implement the Americans with Disabilities Act (ADA) Infrastructure Program initiated in July 2010. The redirection from the COS Program will come from anticipated reductions due to declining workload. This request also includes $1.0 million of SHA funds for five years (through June 30, 2019) to continue existing consultant contracts, as required by the 2010 ADA lawsuit settlement agreement.

Background: The ADA of 1990 is a civil rights statute that prohibits discrimination against people with disabilities. In August 2006, the Californians for Disability Rights, Inc. and the California Council of the Blind filed a class action lawsuit against Caltrans in the United States District Court for the Northern District of California, claiming violations of both federal and state ADA laws as a result of Caltrans' alleged failure to install and/or maintain curbs and sidewalks to allow reasonable access for persons with disabilities.

In 2010, Caltrans reached a settlement which, among other provisions, stipulates that Caltrans will do the following:

- Allocate $1.1 billion for ADA specific projects over a thirty-year compliance period.
- Establish a 30-year program for improving facilities used by pedestrians.
- Ensure design guidance is current with federal and state accessibility guidelines.
- Comply with the grievance resolution process outlined in the settlement.

- Provide guidance on the use and design of temporary routes in work zones.
- Provide training in support of developed guidance.
- Provide annual monitoring reports of Caltrans's progress and actions.

Staff Comment: Caltrans is proposing the three positions to continue to implement the ADA infrastructure program. It is reasonable to propose these positions as permanent due to the longevity of the settlement agreement—30 years.

Staff Recommendation: Approve the permanent redirection of three positions and $507,413 in State Highway Account (SHA) funds and $1.0 million of SHA funds for five years (through June 30, 2019) to continue existing consultant contracts.

Vote:

Item 2: JARC/ New Freedom Permanent Resources (BCP #17)

The Governor's budget proposes to convert three positions and $301,000 ($274,000 in personal services and $27,000 in operating expenses) in federal funds from limited-term to permanent for the Mass Transportation Program to implement and administer Federal Transit Administration (FTA) Sections 5316 Job Access & Reverse Commute (JARC), and 5317 New Freedom (NF) projects through the existing FTA 5310 Enhanced Mobility of Seniors and Individuals with Disabilities and 5311 Formula Grants for Rural Areas programs. The three positions and $301,000 will be redirected from the Capital Outlay Support Program's State Highway Account (SHA) funds from anticipated reductions due to declining workload.

Background. Since 2006-07, these three positions have been re-authorized twice to continue implementation and administration of the JARC and NF projects and will expire on June 30, 2014. The federal Moving Ahead for Progress in the 21st Century (MAP 21)—the new federal transportation reauthorization bill, permanently merged JARC and NF projects and funding into the 5310 and 5311 programs. There are currently 175 open JARC and NF projects statewide. MTP anticipates approximately 50 new projects will be added this current fiscal year.

These federal programs are described below:

- The 5310 program is a capital grant funding program that delivers vehicle and equipment requests to meet the transportation needs of elderly persons and persons with disabilities in areas where public mass transportation services are otherwise inadequate.

- The 5311 program provides apportioned funding for public transit in non-urbanized areas with a population fewer than 50,000.

- The 5316 program is a capital and operations grant program that aims to improve access to transportation services for employment and employment-related activities for low-income individuals. This program was merged with the 5311 program.

- The 5317 program is a capital and operations grant program that aims to provide new public transportation services for Americans with disabilities. It will expand the transportation mobility options available to persons with disabilities beyond requirements of the Americans with Disabilities Act of 1990. This program was merged with the 5310 program.

Staff Comment. The JARC and NF workload is prescribed by MAP 21 and is therefore permanent, and will require permanent staff resources.

Staff Recommendation. Approve the three positions as permanent and the related $301,000 in federal funds.

Vote:

ITEMS PROPOSED FOR DISCUSSION AND VOTE

Item 1: Proposition 1B Capital Needs (BCP #2)

The Governor is requesting $963.5 million in capital funding for projects in nine programs under the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B). This proposal represents a zero-based budget (ZBB) and includes the following (also shown in the table below):

- One program funded through State Transit Assistance (STA), which is the remaining amount estimated to be available for local agency projects—793.1 million.
- Projects in three programs where the project proponent expects to request an allocation of funding in 2014-15—$170.4 million.
- Five programs for which appropriation authority is requested so that project savings from past years may be utilized.

2014-15 Proposition 1B Capital Needs Requests

Fund	2013-14 Request (in thousands)
Public Transportation Modernization, Improvement and Service Enhancement Account—Local Transit	$793,100
Public Transportation Modernization, Improvement and Service Enhancement Account—Intercity Rail	$159,652
Local Bridge Seismic Retrofit Account	$9,991
Traffic Light Synchronization Program	$748
Trade Corridors Improvement Fund	$3
Transportation Facilities Account	$3
State Route 99	$2
Highway Railroad Crossing Safety Account	$1
State Highway Operations and Protection Program	$1
Total	**$963,501**

Background: Proposition 1B was approved by the voters in 2006 and dedicates $19.9 billion over a ten-year period to fund a variety of projects, including the State Transportation Improvement Program (STIP), the State Highway Operations and Protection Program (SHOPP), congestion relief efforts, public transportation, reduction of air pollution, and improved port security. It also provides funding to local agencies for road maintenance and improvements, safety, congestion relief, and seismic safety. Of the total $19.9 billion in general obligation bond funding authorized under Proposition 1B, $12.0 billion is reserved for ten programs funded through Caltrans, and $3.6 billion is dedicated to local transit projects funded through the State Controller's Office (SCO) but administered and overseen by Caltrans, making Caltrans responsible for $15.6 billion in total.

Appropriations are made annually to those programs based on anticipated project funding needs for that year. Through June 30, 2013, approximately $9.5 billion in appropriations had been allocated by the CTC for projects through these ten programs and approximately $2.5 billion had been awarded to local agencies for local transit projects through the Public Transportation, Modernization, Improvement, and Service Enhancement Account (PTMISEA).

Staff Comment: This proposal would appropriate the remainder of the Proposition 1B bond funds and provide Caltrans with the flexibility to adjust the appropriation levels so that all additional available funding can be utilized. The LAO has not raised any concerns with this proposal.

Questions:

1) *Please describe some of the types of projects that have been funded with this program?*

2) *What will likely happen once the funding for this program is completely used up? Are there alternative funding sources for these types of projects?*

Staff Recommendation: Approve $963.5 million in capital funding for projects in nine programs under the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006 (Proposition 1B).

<u>Vote:</u>

Item 2: Proposition 1B Administrative Support (BCP #1)

The Governor's Budget requests 42 two-year and three one-year limited-term positions ($4.4 million in personal services and $2.6 million in operating expenses) to continue administration of the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006 (Proposition 1B). In addition, the proposal includes a request to reduce Caltrans' Administration Program by four positions and $281,000 from the State Highway Account, based on efficiencies identified.

Background. Administration of Proposition 1B involves duties that include: programming, allocation, and monitoring of projects; preparing, executing, and monitoring contracts; performing audits; preparing accountability reports; and preparing and reporting to control agencies, as well as numerous other tasks to implement and manage $15.6 billion in bond-funded transportation projects. All previously approved limited-term positions relating to Proposition 1B are scheduled to expire on June 30, 2014, including 57 two-year, limited-term positions established in 2012-13. This proposal represents a reduction of 12 positions from the currently authorized level of resources for Proposition 1B administration.

Staff Comment. Staff has no concerns with the proposal.

Staff Recommendation. Approve the 42 two-year and three one-year limited-term positions ($4.4 million in personal services and $2.6 million in operating expenses) and reduce Caltrans' Administration Program by four positions and $281,000 from the State Highway Account.

Vote:

Item 3: Early Repayment of General Fund Loans (BCP #6)

The Governor's Budget requests the early repayment of $337 million ($328 million plus $9 million interest) in outstanding General Fund (GF) loans to make funds immediately available for the State Highway Operation and Protection Program (SHOPP) projects and repair and replacement of Traffic Management System (TMS) elements, that will improve the safety, preservation, and operational efficiency of the highways throughout the State.

Caltrans also requests 12 positions and $1,749,000 ($1,640,000 in personal services and $109,000 in operating expenses for a three-year limited-term period to develop Project Initiation Documents (PID). These resources will be offset by a redirection from the Capital Outlay Support Program (COS) State Highway Account (SHA) resources from anticipated reductions due to declining workload.

In conjunction with this request, but as a separate distribution of early loan repayment funds, another $12.1 million will be repaid to various other transportation fund accounts that include approximately $6 million for the Bicycle Transportation Account (BTA) and $1.7 million for the Pedestrian Safety Account (PSA) associated with the Active Transportation Program (ATP); and $4.4 million for the Environmental Enhancement Program Fund (EEMP) to the California Natural Resources Agency (CNRA).

Background and Detail. The Budget Act of 2010 authorized loans totaling $328 million from the Highway Users Tax Account (HUTA) to the GF. To date, approximately $9 million of interest has accrued. Assembly Bill 115 (2010) extended repayments to fiscal year 2020–21.

The SHA is the main funding source for the state's highway transportation programs. The SHA's main revenue source is state excise taxes on gasoline (fuel tax). Revenues generated from excise taxes are used, in part, by the SHOPP to fund highway construction, maintenance, preservation, and improvement projects. The 2011 Statewide Transportation Needs Assessment identified a revenue shortfall for transportation infrastructure projects over a specified period, 2011-2020, due to decreased fuel consumption. The projected cost of statewide transportation system preservation, management, and expansion projects during the study period exceeded revenue projections by almost $300 billion. Based on the California Board of Equalization's fuel consumption reports, the net taxable gasoline gallons have decreased by approximately 233 million gallons from 2009-2012. This reduces the funding available for the state's transportation preservation projects and increases the probability of costly rehabilitation in the future.

The Budget Act of 2008 authorized $12.1 million in loans to the GF from various other transportation funds including the Bicycle Transportation Account (BTA), the Pedestrian Safety Account (PSA), and the Environmental Enhancement Program Fund (EEMP). These loans are currently scheduled to be repaid in FY 2016–17.

The early loan repayments and the activities they would fund are illustrated below:

Programs and Activities Addressed by Early Loan Repayments
(Dollars in Millions)

Program	**Activity**	**Amount**
SHOPP-Operations	Capital Pavement Projects	$110
SHOPP-Operations	Traffic Management System	$100
Highway Maintenance	HM Pavement (Class III roadways)	$27
Cities and Counties	Local Transportation-Related Improvements	$100
Bicycle Transportation Account	Active Transportation	$6
Pedestrian Safety Account	Active Transportation	$2
Natural Resources Agency	Environmental Enhancement Program	$4
Grand Total		**$349**

The $237 million in funds repaid to Caltrans would be used for projects already programmed in the SHOPP. The 12 three-year limited-term positions and $1.7 million are requested to prepare projects needed to backfill the advancement of SHOPP projects. Caltrans proposes transportation system upgrade projects that would require new PIDs for programming as backfill for the advanced SHOPP projects, including additional traffic management system elements, bridge rehabilitation, culvert rehabilitation, and fish passage remediation.

The PIDS will target $232 million in new projects as follows: (1) $78 million for the Traffic Management System; (2) $73 million for Bridge Rehabilitation; and, (3) $81 million for Culverts Rehabilitation/Fish Passage Remediation. Likely delivery of these projects would be by 2017-18, if resources for planning and design were made available in the budget year.

LAO Comment. The LAO finds that repaying the HUTA loan early is a reasonable step that would allow the state to conduct a higher level of maintenance and repairs on the state's highways in the next several years than would otherwise be the case. However, the LAO recommends the following to help ensure the $337 million is used in the most effective manner to address the state's highway needs:

- Require Caltrans to use its IT data system for the state's roads (known as PaveM) to determine the types of projects that are most effective to fund with the $137 million proposed by the Governor for maintenance and SHOPP pavement projects. Specifically, LAO recommends that the Legislature require Caltrans to report at budget subcommittee hearings this spring on the types of projects identified by the department's PaveM system as the most cost–effective and allocate the proposed $137 million accordingly.

- Require Caltrans report at budget subcommittee hearings on the expected benefits from spending $100 million on traffic management systems compared to the benefits of allocating these funds to additional pavement repair projects.

- Consider whether some, or all, of increased funding proposed for the maintenance of local streets and roads should be directed to performing additional repairs on the state's highway system. According to the LAO, cities and counties were held harmless and received their full share of HUTA revenues when funding from the account was loaned to the General Fund.

Staff Comment. The early repayment of outstanding loans to Caltrans; especially for SHOPP and highway maintenance projects; has the two-fold benefit of helping: (1) to pay down the state's wall-of-debt; and, (2) allowing for critical investments in maintaining the state's infrastructure. The Governor's recent Five-Year Infrastructure Plan identified $64.6 billion in deferred maintenance costs statewide with $59 billion of these costs related to Caltrans.

The early transportation loan repayments provide funding for needed maintenance. The Legislature will want to ensure that these funds are being directed to the state's greatest maintenance needs. In addition, while the request in PIDs resources is significant, it may not be unreasonable given the recent zero-basing of the budget and depletion of the shelf of projects after the receipt of federal stimulus funds.

Questions:

1) *Why is more money not being committed to deferred maintenance under this proposal? For example, if all of the $237 million were directed towards pavement projects, what would be the outcome?*

2) *What exactly would be funded with investments in the Traffic Management System and how do the benefits of these investments compare to the benefits of road repairs?*

3) *How does this proposal fit with California's Five-Year Infrastructure Plan? What is the long-term plan to address deferred maintenance?*

4) *How does the department prioritize which pavement to rehabilitate?*

5) *Please respond to the Legislative Analyst's three recommendations: (1) Requiring the use of PaveM for the allocation of the $137 million for pavement repair projects; (2) the benefits of spending $100 million on traffic management system improvements, rather than pavement repair projects; and (3) directing some of the $100 million being repaid to local streets and roads to highway repair projects instead.*

6) *What ongoing level of resources would be required to sustain the department's target level of pavement condition in perpetuity?*

Staff Recommendation. Hold open.

<u>Vote:</u>

Item 4: Devil’s Slide Tunnels (BCP #8)

The Governor’s budget requests the permanent redirection of 16 positions and $1,570,000 ($1,423,000 personal services and $147,000 operating expenses) in SHA funds from the Capital Outlay Support (COS) Program to the Maintenance Program to comply with the safety operating standards for the Devil’s Slide Tunnels. The redirection from the COS Program will come from anticipated reductions due to declining workload.

Background and Detail: State Route 1 between San Francisco and San Mateo County coastal region includes a short segment crossing Devil's Slide, an unstable ocean-facing cliff highly prone to rock falls and slippage. Since 1987, an injunction from an environmental lawsuit suspended work to develop an inland surface bypass. Public comments on the 1995 supplemental environmental report requested further consideration of a tunnel alternative, and consequently a tunnel feasibility study was authorized by the Federal Highway Administration (FHWA). The report, completed in 1996, determined a tunnel alternative to be reasonable and feasible. In November 1996, San Mateo County voters approved Measure T by 74 percent, changing the county's stated preference to construction of tunnels. Environmental documents identified the tunnel as the preferred alternative and, in September 2002, the FHWA authorized the state to proceed with the final design of the tunnel. Construction of the Devil’s Slide tunnels started in January of 2007 and the tunnels opened to the travelling public in April 2013. The final cost of the project was estimated to be $439 million. The entire project was funded with federal emergency relief funds.

Caltrans must comply with standards/provisions set forth by the National Fire Protection Agency (NFPA) to enhance the tunnels’ safety. One provision specifically relates to the Emergency Response Plan which requires 24/7 monitoring and control of the tunnels by a minimum of two tunnel operators at all times.

Specific operation and response actions for the tunnels are developed and deployed cooperatively by Caltrans, the California Highway Patrol, the Metropolitan Transportation Commission, and the affected local city/county and transit agencies, aimed at minimizing congestion and delays. Tunnel operators have four basic tasks with regard to incident response: incident detection; confirmation and gathering information; notification of appropriate response agencies; and response. Caltrans is currently redirecting other tunnel operators as well as mandating overtime for employees from other areas in order to comply with the NFPA mandates.

Staff Comment. These additional resources will help to ensure that the tunnels are monitored as required by the NFPA.

Staff Recommendation. Approve the permanent redirection of 16 positions and $1,570,000 in State Highway Account funds.

<u>Vote:</u>

Item 5: Interstate 15 Express Lanes Operations (BCP #9)

The Governor's Budget requests the permanent redirection of 10 positions and $778,000 ($686,000 for personal services and $92,000 for operating expense) in State Highway Account funds from the Capital Outlay Support (COS) Program to the Maintenance Program to support the full operation and maintenance of the 20-mile Interstate 15 (I-15) Express Lanes. The redirection from the COS Program will come from anticipated reductions due to declining workload.

Background and Detail: The 20-mile, four-lane I-15 Express Lanes between state route (SR) 163 and SR 78 were completed in January 2012. The express lanes were implemented in accordance with Caltrans goals of developing and expanding High Occupancy Vehicle (HOV) lane and Bus Rapid Transit (BRT) networks in San Diego County as an integral part of its congestion relief strategies. The HOV and BRT serve and benefit over 300,000 drivers, passengers, and commercial vehicles, and address the heavily peak-hour congested I-15 corridor.

The I-15 Express Lanes feature four lanes with a moveable barrier for maximum flexibility; multiple access points to the general purpose highway lanes; and direct access ramps for high-frequency BRT service. The moveable barrier concept allows the corridor to accommodate peak directional traffic demand by reconfiguring the lanes from two northbound (NB) and two southbound (SB) lanes to 3 NB and 1 SB lane, or 1 NB and 3 SB lanes.

In 2008-09, eight permanent positions and $809,000 for the operation and maintenance of the first eight-mile segment of the I-15 project was approved. This request stated that upon full completion of the project, additional resources would be required. The requested resources combined with previously approved resources will, during the weekday, reconfigure the 20-mile express lanes twice prior to peak-hour traffic demand beginning July 2014. Two separate maintenance crews would be required to perform these daily operations in coordination with Caltrans' District 11's Transportation Management Center and other support staff, including the CHP. Currently, there is only one crew.

A cooperative agreement with the San Diego Association of Governments (SANDAG) was executed providing, at maximum, a 25 percent contribution from SANDAG to help offset the cost of maintaining and operating the express lanes. The variance in the contribution is directly linked to revenues generated by toll-paying users. The contribution level, however, is contingent upon the balance of toll revenues remaining after SANDAG allocates funds to the operation and maintenance of the toll collection system, in accordance with the requirements of Section 149.1 of the Vehicle Code.

Staff Comment: Staff has no concerns with the proposal. However, it notes that the funding agreement with SANDAG does not specify a minimum funding amount to Caltrans. As of December 2013, SANDAG has contributed just under $850,000 towards the cost of operations and maintenance of the I-15 Express Lanes, making their current contribution about 17 percent, rather than the 25 percent specified in the agreement. Collecting additional funding for operations and maintenance of the Express Lanes would reduce state SHA expenditures, making these funds available for other purposes.

Questions:

1) *What are the challenges associated with ensuring that SANDAG provides its share of funding for the operations and maintenance of the I-15 Express Lanes?*

Staff Recommendation. Approve 10 positions and $778,000 in SHA funding.

Vote:

Item 6: High-Speed Intercity Passenger Rail Grant Management (BCP #16)

The Governor's Budget proposes to continue four positions for a three-year limited-term and $421,000 ($386,000 in personal services and $35,000 in operating expenses) to support the management and completion of capital improvement grants funded through the Federal Railroad Administration's High-Speed Intercity Passenger Rail (HSIPR) program for the improvement of intercity rail.

Background and Detail: The Division of Rail manages and coordinates the Amtrak California intercity rail passenger service including operations, marketing, and passenger rail equipment. The HSIPR program funds various intercity rail improvements such as double tracks, layover facilities, crossovers, station improvements; and the procurement of additional intercity passenger rail cars and locomotives. The HSIPR program is funded by the Passenger Rail Investment and Improvement Act of 2008 (PRIIA), American Recovery and Reinvestment Act of 2009 (ARRA), and the Appropriation Act of 2010.

These four positions are performing work related to the management of federally-funded projects. The positions have been focused on the work required to manage projects funded by 27 federal grants. During the requested three-year limited-term period, the Division of Rail will still have at least twelve of the contracts open and sizable work remaining for the two equipment procurement contracts. Caltrans received two Federal grants totaling $168 million for the purchase of 42 new bi-level railcars and six locomotives.

Work activities include the following:

- Joint rail car procurement with the Illinois Department of Transportation.
- Contract management and overseeing all consultant team activities.
- Project management including: adhering to technical specifications, contract language, and contractor performance criteria for rolling stock.
- Managing engineering issues.
- Monitoring the project delivery schedule.
- Managing and ensuring compliance with contracts, monitoring construction progress; preparing progress reports; and monitoring corrective action plans.
- Project closeout.

Staff Comment. Staff has no concerns with this proposal.

Staff Recommendation: Approve four positions for a three-year limited-term and $421,000 in federal funds.

<u>Vote:</u>

Item 7: Aeronautics Program Zero-Based Budget and Local Airport Loan Account Transfer (BCP #18)

The Governor's Budget proposes a zero-based budget (ZBB) for the Aeronautics Program that supports the current level of staffing of 26 positions.

In addition, Caltrans requests a one-time transfer of $4 million from the Local Airport Loan Account (LALA) to the Aeronautics Account.

Caltrans also requests a statutory change to Public Utilities Code 21602 (f) to allow for future transfers from the LALA to the Aeronautics Account, upon approval of the California Transportation Commission and the Department of Finance, as follows:

Amend Public Utilities Code 21602 (f) to read: "Notwithstanding Section 13340 of the Government Code, the money in the subaccount created by subdivision (e) is hereby continuously appropriated to Caltrans without regard to fiscal years for purposes of loans to political subdivisions for airport purposes. Upon determination by Caltrans that the balance in the subaccount exceeds projected needs, funds may be transferred to the Aeronautics Account to fund the California Aid to Airports Program with the approval of the CTC and the Department of Finance (DOF). The aeronautics funding requests will not reduce the Local Airport Loan Account below $5 million.

Background. The Aeronautics program promotes the development of a safe, efficient, dependable, and environmentally compatible air transportation system. The program issues permits for commercial service airports, general aviation airports and heliports, integrates aviation into statewide transportation planning, considers environmental issues related to aviation, and administers grant and loan programs. The program leverages approximately $4 million of state funds to gain $275 million in federal funding annually. The ZBB of the Aeronautics Program was developed to provide baseline workload and staff levels, as required by the Governor's Executive Order B-13-11.

The Program has two primary funding accounts: the Aeronautics Account and the LALA. The Aeronautics Account funds all personnel services, operating expenses, and the California Aid to Airports Program (CAAP). The CAAP consists of three grant programs established to fund operational safety and airport improvement projects within California's air transportation system of 245 public-use airports. The LALA account makes discretionary loans to eligible state airports for projects that enhance the ability to provide general aviation services. Currently, there are 47 active LALA loans, with $19.4 million outstanding. At the end of 2012-13, the LALA had a balance of over $16 million and is projected to have over $18 million at the end of 2013-14 from loan repayments.

Revenue for the Aeronautics program is deposited into the Aeronautics Account and is derived from an 18 cent per gallon excise tax on General Aviation (GA) gasoline and a two cent per gallon GA jet fuel tax. Prior to 2010, fuel tax revenue averaged $6.6 million per year; however, the average has declined to $5.2 million over the last three years. This is consistent with historical revenue cycles that track with the overall economy.

Caltrans does not anticipate any major impact to the LALA as a result of this request. Annual loan requests from the LALA range from $40,000 to $2.5 million per loan. The transfer of $4 million to the Aeronautics Account would not impact Caltrans' ability to fund additional loans directly from the LALA. The cash balance as of July 1, 2013, for the LALA program was over $16 million. Based on a five-year moving average with no transfer to the Aeronautics Account, the balance for the LALA Account for 2017-18 is projected to be over $36 million.

This one-time transfer will be used to fund $1 million for approximately 55 Airport Improvement Program (AIP) grants, and $3 million for 18 Acquisition and Development (A&D) grants for GA airports in California that are currently on the approved 2014 project list.

Staff Comment. The ZBB of the Aeronautics program found that the current staffing level of 26 positions was appropriate. In addition, transferring existing LALA funds to the Aeronautics Account will help Caltrans maximize its ability to leverage federal funds and provide necessary resources to deliver 100 percent of the approved AIP and A&D grant requests. Finally, the proposed TBL would provide on-going flexibility to transfer funds to the Aeronautics Account to fund grants for additional airport improvement projects, as needed.

Staff Recommendation. Approve the ZBB of the Aeronautics program. Also, approve the one-time transfer of $4 million from the LALA to the Aeronautics Account and the proposed TBL.

Vote:

Item 8: Capital Outlay Support ZBB Program Review (BCP #19)

A ZBB program review was conducted between Caltrans, the Department of Finance (DOF), and the Legislative Analyst's Office (LAO). Based on the review, the Administration is proposing recommendations to improve the estimating and accountability of Caltrans' Capital Outlay Support program's (COS) project-direct workload. Caltrans has agreed to implement these recommendations, as well as continuing improvement measures that were underway before the program review.

This proposal also includes trailer bill language to close a loophole that currently exists for right-of-way support and capital expenditures that exceed their allocation after the California Transportation Commission vote.

Background and Detail. Each May, Caltrans submits information that substantiates the COS budget. The total number of COS full-time equivalents (FTE) in all workload categories approved for 2013-14 was 10,149.

Over the last several years, questions have been raised about the staffing levels of the COS program and the information provided to support annual COS budget requests. At the request of the Legislature during the 2013-2014 budget hearings, Caltrans' COS program, DOF and the LAO, worked collaboratively from July 2013 through October 2013 to conduct a comprehensive review of the COS program's project-direct workload. The goal of the review was to increase the accountability and efficiency of the COS program, and to leverage information technology tools to achieve a transparent and standardized workload-based assessment of appropriate staffing needs.

Based on the review, the Administration has made the following recommendations:

Provide Caltrans with more flexibility over the resource mix (state staff, cash overtime, and consultants) requested in the annual Finance Letter:

- Finance will work with the Legislature to provide Caltrans with more flexibility over the COS resource mix (state staff, cash overtime, and consultants).
- Caltrans will develop a framework for establishing and funding "Environmental Stewardship Branches" to improve coordination with resource agencies.
- Caltrans will provide a three-year workload projection by District by function.

Caltrans will continue to develop and implement strategies to improve its annual resource request, initial project budgets; and improve monitoring of project budgets:

- Caltrans will develop a comprehensive strategy to improve and monitor the accuracy of initial project budgets, including:
    - Updating workload estimating data.
    - Developing a "predictive tool" for developing a range of estimates for project budgets that will be used beginning in fiscal year 2015-16.
    - Formulate and implement a policy to use the predictive tool in developing initial project budgets.
    - Feeding actual expenditures into the predictive tool.
- Caltrans will develop a comprehensive strategy to improve and monitor the accuracy of the annual request, including:
    - In conjunction with the annual Finance Letter, provide an analysis of budgeted versus expended Full Time Equivalents by district for the prior year. For the 2014-15 Finance Letter, Caltrans will do this analysis for approximately 95 projects.
    - Providing additional information including:
        - Adding columns for projects that require at least one Personnel Year and are more than three years past construction contract acceptance. The columns will provide the project end date and a comment field to explain the staffing need.
        - Earned value management metrics beginning in 2015-16.
- Complete the implementation of the Project Resourcing and Schedule Management (PRSM) IT project.
- The Administration will submit the annual Finance Letter on May 1st with the COS project workload files.

Caltrans will continue to develop and implement strategies to improve budget accountability:

- Caltrans will develop a framework for when Districts should consider a projectized organization like the "Corridor Director" model in use in District 11.

- Caltrans will establish change control rules for support budgets of the State Highway Operation and Protection Plan (SHOPP) program that are consistent with the State Transportation Improvement Program (STIP) and establish metrics to measure/track performance of the rules.

- Legislation is proposed to adjust county shares at the time of contract construction acceptance when right-of-way support and capital expenditures are greater than 20 percent of the allocation. Currently, right-of-way support and capital are combined into one component under SB 45 (Kopp), Chapter 622, Statutes of 1996. Costs in excess of the initial allocation come off the top of the STIP with no adjustment to county shares.

Caltrans will continue to develop and implement strategies to improve statewide program management:

- Caltrans will develop a centralized Project Management statewide web portal.

- Caltrans will develop a Quality Management Plan for project and annual Finance Letter data, that will take into consideration the following:

  - Project managers ensuring that all data in PRSM is up-to-date and accurate no less frequently than at the end of each month.

  - Project managers are to develop initial project budgets consistent with the predictive tool and project budget development policies, during the project initiation phase for all major COS projects.

  - District management is to establish quality control procedures to review accuracy of PRSM data, compliance with project management policies (such as monthly PRSM updates), and reasonableness of project budgets.

  - Update to statewide project budget development policy.

  - Headquarters to conduct monthly oversight of current and planned projects, including:

    - Spot auditing of PRSM data to ensure that data in the system is accurate and up-to-date.
    - Evaluate projects that appear to have a problem based on the earned value analysis.

- Perform hindsight analysis reviews of actuals vs. planned workload to increase the accuracy of estimated budgeted resources.

Staff Comment. Caltrans has agreed to implement the above recommendations, as well as continuing improvement measures that were underway before the COS review began. Caltrans plans to submit an annual update on the progress of these recommendations in the annual Finance Letter in fiscal years 2015-16 and 2016-17. Caltrans will submit, on May 1st, its annual finance letter for the COS program.

While the COS review was intended to be a collaborative process with the LAO, at this time we have not heard from the LAO on this item. The Administration is moving forward with these recommendations above because they were determined to be the most practical and effective solutions. In addition, the COS Finance Letter that includes the staff resources request will be heard at a subcommittee hearing after May 1.

The proposed trailer bill language is reasonable and will help to close a loophole for right of way support and capital expenditures.

Questions:

1) *How will the ZBB of COS help to inform any redirection of workload that Caltrans may need to implement in the future to better align resources with priorities as discussed in the SSTI report?*

2) *Please explain the proposed trailer bill language and what problem it will address.*

Staff Recommendation: Approve the proposed trailer bill language.

Vote:

Item 9: Legal Services for the California High-Speed Rail Authority (BCP #20)

The Governor's budget proposes the continuation of eight positions for a two-year limited term and $3,148,000 ($1,103,000 in personal services and $2,045,000 in operating expenses) in State Highway Account Reimbursement authority for services rendered on behalf of the California High-Speed Rail Authority (HSRA).

Background. The HSRA is planning to build, design, construct, operate, and maintain a high-speed rail system. Caltrans, in 2012, began providing legal services to HSRA using eight positions for a two-year limited-term that expires on June 30, 2014.

Due to revisions to timelines and various protracted litigation involving HSRA, the initial anticipated legal services workload has been delayed. While substantive work is ongoing, it is anticipated legal services will continue to be needed over the next two fiscal years.

Caltrans currently provides the legal services for HSRA on the following topics:

- Acquisition of right-of-way.
- Purchase of real property through negotiations or eminent domain authority.
- Represent HSRA before the Public Works Board or other appropriate governmental bodies, as necessary.
- Arrangements for the protection, relocation, or removal of conflicting facilities.
- Railroad law, including interactions with the Public Utilities Commission and the Surface Transportation Board, and assistance in negotiations with railroads for both property acquisition and crossing agreements.
- Coordination with the Department of General Services regarding the Property Acquisition Law.

Staff Comment. The continuation of the current limited-term positions and reimbursable authority would allow Caltrans' legal services to HSRA to continue uninterrupted. This is a cost-effective way to provide some of the legal services that HSRA needs, especially given Caltrans' expertise in this area. In addition, ongoing challenges from various interested parties, will likely result in the continued need for legal services from Caltrans. According to Caltrans, a longer term solution for ongoing legal services will be addressed in the upcoming Legal Program's ZBB process.

Staff Recommendation. Approve eight positions for a two-year limited-term and $3.1 million in reimbursements from HSRA.

Vote:

ISSUES PROPOSED FOR DISCUSSION / VOTE

2600 California Transportation Commission

Agency Overview: The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction and improvements of highway, and passenger rail and transit systems throughout California. The CTC also advises and assists the Secretary of the Transportation Agency and the Legislature in formulating and evaluating policies and plans for California's transportation programs.

Budget Overview: The January Governor's Budget proposes expenditures of $3.6 million and 19.0 positions for the administration of the CTC (special funds), which is similar to the revised current-year level. Additionally, the budget includes $25.0 million in Clean Air and Transportation Improvement Bond Act funds (Proposition 116 of 1990) that are budgeted in the CTC and allocated to local governments.

Item 1 Informational Only: Draft Active Transportation Program Guidelines

Background. The Active Transportation Program was created by Senate Bill 99 (Budget and Fiscal Review Committee), Chapter 359, Statutes of 2013 and Assembly Bill 101 (Committee on Budget), Chapter 354, Statutes of 2013, to encourage increased use of active modes of transportation, such as biking and walking. The program combines five programs: the federal Transportation Alternatives Program, the state and federal Safe Routes to Schools programs, the state Environmental Enhancement and Mitigation Program, and the state Bicycle Transportation Account.

The ATP is funded from (1) 100 percent of the federal Transportation Alternative Program (except for federal Recreation Trail Program funds appropriated to the Department of Parks and Recreation); (2) $21 million federal Highway Safety Improvement Program funds, or other federal funds; and (3) State Highway Account funds. This is anticipated to result in about $120 million being available annually for ATP. Funds for ATP must be distributed as follows: 40 percent to metropolitan planning organizations in urban areas with populations of greater than 200,000 in proportion to their relative population; 10 percent to small urban and rural regions with populations of 200,000 or less for projects competitively awarded by the CTC; and 50 percent competitively awarded by the CTC on a statewide basis.

The goals of ATP are to:

- Increase the proportion of trips accomplished by biking and walking.
- Increase safety and mobility of nonmotorized users.
- Advance the active transportation efforts of regional agencies to achieve greenhouse gas reduction goals as established by SB 375 (Steinberg), Chapter 728, Statutes of 2008 and SB 391 (Liu), Chapter 585, Statutes of 2009.
- Enhance public health, including reduction of childhood obesity through the use of programs, including, but not limited to, projects eligible for Safe Routes to School Program Funding.
- Ensure that disadvantaged communities fully share in the benefits of the program.

- Provide a broad spectrum of projects to benefit many types of active transportation users.

The CTC administers the program and is responsible for developing the program guidelines and procedures, including project selection criteria. The CTC is required to initially adopt a two-year program of projects, with subsequent four-year programs thereafter. Subsequent programs must be adopted no later than April 1 of each odd-numbered year, however, the CTC may elect to adopt a program annually.

A draft of the guidelines was adopted by the CTC and submitted to the Joint Legislative Budget Committee for its review on February 3, 2014. The CTC intends to adopt final guidelines on March 20, 2014. Depending on the category of the program funded, projects would begin to be approved and funded by the CTC as early as late August.

Staff Comment: The CTC has undertaken an inclusive and comprehensive process to develop the draft guidelines. It will be important to see what types of projects are selected using the guidelines and the Legislature may wish to revisit this item in a year in order to assess the effectiveness of the guidelines in meeting the goals of SB 99.

Questions:

1) *Please provide a brief overview of the ATP guidelines and the process CTC used to develop them.*

2) *Please summarize the significant outstanding concerns participants in the guideline development process have raised about the proposed guidelines.*

3) *Please describe what generally happens when state-funded projects have bid-savings. Where do the savings go? What would happen if there are ATP projects that had savings?*

4) *Do you anticipate making any changes to the guidelines before they are submitted to the CTC for its approval? If so, please describe the changes.*

Staff Recommendation: No action required. Informational item.

Item 2: Two Positions to Implement ATP (BCP #1)

Background. The CTC requests a net-zero change of two positions to implement ATP. This would be accomplished by increasing the number of positions working on ATP implementation by two and decreasing the number of positions working on the implementation of Proposition 1B by two. The workload associated with Proposition 1B is decreasing as the funding available for this program comes to an end. The proposal would also shift funding for these two positions from various Proposition 1B funds to the State Highway Account ($107,000) and the Public Transportation Account ($178,000).

Staff Comment. The CTC currently has no resources dedicated to ATP. Approximately $74.5 million, or 60 percent, of the funds available for ATP will be distributed through a statewide competitive program. The CTC does not know how many applications it will receive, but as many as 700 applications may need to be reviewed for each funding cycle. Staff must also review the guidelines used by organizations to provide the remaining 40 percent of the funds available for this program. In addition to other tasks, staff will track and monitor the program.

Questions:

1) *Will the two positions requested be adequate to implement ATP?*

Staff Recommendation: Approve the two positions.

Vote:

ITEMS PROPOSED FOR VOTE ONLY

2720 Department of California Highway Patrol

Department Overview: The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic and goods on the state's highway system and county roads in unincorporated areas. The department also promotes traffic safety by inspecting commercial vehicles, as well as inspecting and certifying school buses, ambulances, and other specialized vehicles. The CHP carries out a variety of other mandated tasks related to law enforcement, including investigating vehicular theft and providing backup to local law enforcement in criminal matters.

Budget Overview: The Governor's Budget proposes total expenditures of $2.0 billion (no General Fund) and 11,051 funded positions, an increase of roughly $13 million from the adjusted current-year level. Since departmental programs drive the need for infrastructure investment, the department has a related capital outlay program to support this requirement.

Item 1 Vote Only: Reimbursement Authority Augmentation (BCP #5)

The Governor's Budget proposes a permanent budget augmentation of $3.3 million in reimbursement authority for CHP to ensure adequate authority to collect all payment for reimbursable activities. These activities include services for other state and local agencies, as well as private companies. These services include traffic enforcement in Caltrans' construction and maintenance zones, traffic enforcement during special events, and various activities such as Freeway Callbox assistance.

Background: Reimbursement constitutes about five percent of the funding for CHP. A review last year, found that CHP's reimbursement authority was regularly in excess of actual expenditures. Accordingly, last year, reimbursement authority for this item was reduced by $17.8 million from $112.5 million in 2012-13 to $94.7 million in the 2013-14 budget based on historical expenditures. However, the 2012-13 actual expenditures exceeded the historic average that was used to set the 2012-13 authority of $94.7 million. Reimbursements are expected to continue at a slightly greater level of $98.0 million. This proposal would thus improve the transparency of the budget by bringing CHP's reimbursement authority more closely in alignment with anticipated spending levels.

Staff Comment: Staff has no concerns with the proposal.

Staff Recommendation: Approve the request to augment CHP's reimbursement authority by $3.3 million.

Vote:

ITEMS PROPOSED FOR DISCUSSION AND VOTE

Item 1: Air Fleet Replacement (BCP #1)

The CHP has requested multi-year funding from the Motor Vehicle Account (MVA) to establish an on-going replacement program for the CHP air fleet. The proposal requests a one-time augmentation of $16 million in 2014-15; a one-time augmentation of $14 million in 2015-16 and 2016-17; and a permanent augmentation of $8 million in 2017-18 and beyond, as shown in the table below. Last year, CHP received $17 million to replace four aircraft.

California Highway Patrol
Air Fleet Replacement Schedule
(Dollars in Millions)

Fiscal Year	Quantity of Aircraft	Funding
2013-14	4	$17
2014-15	4	16
2015-16	3	14
2016-17	3	14
2017-18	2	8
2018-19	2	8
2019-20	2	8
2020-21	2	8
2021-22	2	$8

Background and Detail. The CHP's Air Operations Program (AOP) provides support for enforcement, pursuit management, hazardous material response, and inter-operable communications with allied agencies, traffic congestion relief, stolen vehicle recoveries, conducting searches, and transporting emergency medical supplies. CHP's air fleet currently consists of 15 airplanes and 15 helicopters. These were acquired using mostly federal funds, as shown below.

Airplanes (15 total)	**Funding Source**
14	Office of Traffic Safety Grant
1	Homeland Security Grant
1	Asset Forfeiture
-1	Airplane lost in accident
Helicopters (15 total)	
2	Motor Vehicle Account (MVA)
1	Military Surplus
6	Office of Traffic Safety Grant/ MVA
6	Homeland Security Grant

Last year, the department received $17 million (MVA) to replace four of the oldest aircraft in its fleet—three helicopters and one airplane. At the time, CHP committed to conducting an overall needs assessment and providing a schedule for the replacement of its fleet.

The CHP estimated that, when department specifications are met, a helicopter will cost $4.5 million and an airplane will cost $3.5 million. The department indicates that each unit begins to experience additional maintenance issues once flight time exceeds 10,000 hours, which occurs in about ten years. At this time, the oldest airplane and helicopters in its fleet have logged nearly 15,000 hours and almost 17,000 hours, respectively. The department indicates its desire to reduce the amount of equipment 'downtime,' resulting from increased maintenance hours and difficulties in obtaining necessary replacement parts. It also expresses the desire to standardize its fleet. The intent of this request would be to replace aircraft as they accrue over 10,000 flight hours.

LAO Comment. The LAO raises four concerns with this proposal:

(1) While the report provided by CHP on its air fleet includes various information (such as each aircraft's record of maintenance and fuel costs), the report does not provide sufficient information justifying the size of the air fleet being proposed.

(2) The Governor's proposal "locks in" the size of the fleet at 26 aircraft in the future and that the aircraft will require replacement on a set schedule. However, it is uncertain if this size fleet would be needed in the future. There might be a need for a smaller or larger fleet size in the future for reasons such as less assistance requested by allied agencies or future aircraft lasting longer than planned.

(3) Under the Governor's proposal, the new aircraft would be purchased with monies from the MVA, which generates its revenues primarily from driver license and vehicle registration fees. The Governor's proposal raises the issue of whether it is appropriate for the MVA to be the sole funding source for this purpose. Under Article XIX of the State Constitution, any revenues from fees and taxes on vehicles or their use—such as driver license and vehicle registration fees—can only be used for the state administration and enforcement of laws regulating the use, operation, or regulation of vehicles used upon the public streets and highways. It is unclear whether all of the activities supported by CHP's air fleet meet this requirement, such as patrolling the state's electrical and water infrastructure.

(4) According to CHP, requests to assist various allied agencies (such as local law enforcement offices) increased several years ago as these agencies faced fiscal constraints during the economic downturn in operating and maintaining their own existing air fleets. Given the high cost to the state in maintaining CHP's air fleet and that the budgets of the allied agencies may have begun to recover, the Legislature may want to consider requiring certain allied agencies to reimburse CHP for some or all of the costs it incurs in providing them with air support. The LAO also notes that requiring such reimbursements might encourage allied agencies to be more efficient and selective when requesting air support assistance from CHP.

Staff Comment. The CHP's air fleet is aging and should be gradually replaced over a period of time. The CHP has provided a report that 1) describes its fleet of helicopters and airplanes, 2) provides justification for the 10,000 hour replacement guideline, and 3) provides a general replacement schedule. However, this report does not justify the size of the air fleet that is needed now and in the future. According to CHP, its goal is to have each aircraft log an average of 1,000 flight hours each year. Based on this, a fleet of 26 aircraft provides an annual total of 26,000 flight hours. However, it is unclear what the basis is for this goal and what outcomes are associated with this goal. Moreover, CHP states that the size of the fleet and locations of aircraft are based on a number of factors including, but not limited to, effective and efficient aircraft response to varied missions, response time, geography, political considerations, CHP ground unit deployments, allied agency resources, facility costs, and airport regulations. However, CHP has not provided an analysis that uses these factors to justify the size of its fleet.

It would be reasonable for such a study to be conducted in advance of additional purchases and that these purchases should be informed by the study. However, given that last year's request to conduct a similar study did not result in the desired outcomes, it is unclear if a second request would result in a better report.

In the past, CHP's fleet was funded with mostly federal funds. Given that there might be federal funds available in the future and that the actual size of the fleet CHP needs is unknown, it would be premature at this time to commit the MVA to funding the future purchase of aircraft beyond the budget year.

Questions:

1) *If the existing fleet is not replaced as proposed, what activities will not be done?*

2) *Please explain how you have determined that a fleet of 26 aircraft is the right size?*

3) *What is the basis for the department's goal of having each aircraft fly 1,000 flight hours each year? What outcomes are related to this goal?*

4) *Why does this request not anticipate any future federal funding?*

5) *What consideration has been given to having allied agencies reimburse CHP for air fleet-related services?*

Staff Recommendation. Hold open.

<u>Vote:</u>

Item 2: Radio/Microwave Program Funding (BCP #2)

The CHP requests a one-time budget augmentation of $5.0 million (MVA) for escalating costs of services provided by the California Office of Emergency Services, Public Safety Communications Office (PSCO) to support the CHP's radio/microwave program.

Background. The CHP's radio/microwave program encompasses the entire infrastructure associated with CHP's radio communications. State law requires CHP to contract with PSCO for services relating to the design, engineering, installation, and maintenance of CHP's statewide public safety communications system. The PSCO then charges CHP for this work.

With the implementation of the California Highway Patrol Enhanced Radio System (CHPERS), which was completed in 2011-12, the PSCO costs for the radio/microwave program have increased. The primary objective of CHPERS was to address CHP's deteriorating radio communications infrastructure, meet future operational needs, and meet the goal of providing interoperability at the local, state, and federal levels.

For at least the last couple of years, CHP has been able to absorb the increased PSCO costs and under this proposal CHP would continue to absorb $7 million of what it estimates is a $12 million shortfall.

Staff Comments. At this time, it is uncertain what the ongoing level of expenditures will be for PSCO services. It is a reasonable approach that CHP absorb the costs that it can, and request funding for the remainder.

Questions:

1) *What types of services does PSCO provide to CHP?*

Staff Recommendation: Approve, on a one-time basis a budget augmentation of $5.0 million MVA for PSCO costs.

<u>Vote:</u>

Item 3: Radio Console Replacement Project (BCP #3)

Radio Console Replacement Project (BCP #3). The Governor's budget requests a one-time augmentation of $4.9 million from the MVA to replace twelve dispatch radio consoles at the Public Safety Communications Office and the CHP's Sacramento Communications Center. This would be the first year of a five-year project.

Background. The CHP operates 25 call centers statewide which are equipped with dispatch radio console systems to facilitate mission critical voice communications between dispatchers, CHP patrol personnel, and allied agencies. Dispatch radio consoles control, receive, and transmit radio communications with field units.

Public safety communications equipment lasts approximately 8 to 10 years and must be upgraded in its entirety to ensure compatibility. As equipment surpasses its useful life, reliability deteriorates, outages become more frequent, maintenance costs increase, and replacement parts become difficult or impossible to procure. Currently, 17 of the 25 call centers operate equipment purchased in 1993-94 and use Windows 3.11. Three centers operate equipment purchased in 1997-98 and use Windows 2000. None of these are supported by the manufacturer and are considered obsolete.

This project would ultimately replace the radio console systems at all 25 centers over a five-year period at an estimated cost of $52.7 million, as shown in the table below. The CHP is replacing 177 existing consoles plus acquiring an additional 22. This proposal would update all 25 call centers and allow for the installation of the new consoles at CHP's dispatch training facility and at the PSCO for testing, evaluation, and trouble-shooting of issues that may arise. Resources from PSCO would be needed to complete the project.

Radio Console Project Costs
(Dollars in Millions)

Year	Equipment Cost	# of Radio Consoles	PSCO Costs	Total Cost
2014-15	$2.9	12	$2.0	$4.9
2015-16	10.2	42	2.1	12.3
2016-17	9.1	37	2.1	11.2
2017-18	10.2	64	2.2	12.3
2018-19	9.6	44	2.3	11.9
Grand Total	**$42.1**	**199**	**$10.6**	**$52.7**

Totals may not add due to rounding.

Staff Comment. Staff has no concerns with this proposal. This is the first year of a five-year project to replace the department's radio console system. This will help to ensure the system is compatible and complete.

Staff Recommendation. Approve a one-time augmentation of $4.9 million from the MVA to replace dispatch radio consoles.

Vote.

Item 4: Integrated Database Management Systems Funding (BCP #6)

The CHP requests a permanent budget augmentation of $894,000 from the Motor Vehicle Account for a cost increase to support the Integrated Database Management System (IDMS) which CHP uses to support several legacy applications that support key CHP business processes.

Background and Detail: Costs for the California of Department of Technology (CDT) to manage IDMS used to be distributed across multiple departments. However, over time, many departments have upgraded their IT systems to more current platforms leaving only two departments—CHP and the State Controller's Office—to bear the cost to maintain the platform.

Currently, CHP is in the process of acquiring a commercial, off-the-shelf solution for one component on the IDMS—the Biennial Inspection of Terminals/Management Information System Terminal Evaluation Records. This component must be off IDMS, and on a new system, by January 2015, per federal requirements. However, this will have a minimal impact on IDMS costs as historical data will still need to be maintained on the IDMS.

The CHP is working with CDT to find a solution for its data storage needs and completely migrate off the IDMS in the future. CHP should submit to CDT a business analysis by October 2014; approval is expected from CDT by January 2015. Once approved, the project will enter the Feasibility Study Report (FSR) phase with CDT. With the final approval of the FSR, CHP will seek funding for the complete replacement system; this will probably be no sooner than fiscal year 2015-16. If successful, the target date for a complete migration off the IDMS is January 2017.

Staff Comment: The CHP is migrating a component of its legacy systems off IDMS sooner than anticipated. This may result in small savings for CHPs' total IDMS costs as proposed in the Governor's January Budget. The DOF and CHP are re-evaluating the amount requested as a permanent augmentation and, if necessary, will provide an updated cost at the May Revision. The CHP is working with CDT to completely migrate off IDMS by January 2017.

Questions:

1) *This proposal has changed somewhat since January. Please describe the changes and explain why a permanent budget augmentation is still necessary?*

Staff Recommendation: Hold open.

Vote:

Item 5: Statewide Advance Planning and Site Selection (BCP #1)

The Governor's Budget calls for $1.7 million in funding (Motor Vehicle Account funds) to identify suitable parcels for replacing up to five facilities ($1.3 million) and develop studies ($400,000) for those sites. It is expected that the results of advance planning and site selection will drive future requests for site specific replacement offices.

Background. Working with the Department of General Services (DGS), the CHP categorized its 111 total offices according to seismic risk. Risk was based on engineering studies of risk resulting from a seismic event and expressed on a 1-7 scale, with 7 representing a condition that would necessitate immediate evacuation and 1 indicating only nugatory structural impacts. Facilities with a 5 or 6 denotation would likely be unsafe during or following a seismic event. The studies indicated that 80 of CHP facilities are of seismic level 5 and 6.

Site searches for CHP facilities have been problematic in the past due to constraints and demands. It has proven to be difficult to locate parcels of the required 3-5 acres, with appropriate freeway access, and unhindered by traffic, rail or other impediments. This has been particularly troubling in urban areas in Los Angeles, San Diego, and the San Francisco Bay Area. Acquisition of land, and subsequent construction, has often been delayed as a result of these limitations. This has been a large part of the motivation for CHP to pursue the current proposal of combining advance planning, site selection, and potential purchase.

Build-to Suit Leases or Direct Capital Outlay. Field office replacements can be procured in one of a few ways. The most common ways are 'build-to-suit' leases and direct capital outlay. With the build-to-suit procurement method, CHP contracts with a private developer to construct a facility and agrees to lease the facility from the developer for a predetermined number of years. At specified times during the built-to-suit lease, CHP has the option to purchase the facility from the developer. With the direct capital outlay procurement method, DGS uses funds from the Motor Vehicle Account (MVA) to both purchase the property and contract with a private developer to design and build the CHP facility. Under direct capital outlay, the state owns the facility and does not have ongoing lease payments.

In 2012, in a letter response to a notification from DGS of its intent to execute three separate build-to-suit lease agreements on behalf of the CHP, the Chair of the Joint Legislative Budget Committee (JLBC) raised several issues, including (1) the absence of an updated CHP facilities plan that outlines its facility needs and priorities, and (2) the lack of an assessment of the relative benefits of financing projects with the build-to-suit process or capital outlay. The department, at that time, indicated that facility needs and priorities will be addressed in the 2013 Five-Year Infrastructure Plan and no systematic analysis was made available to the Legislature regarding capital outlay and build-to-suit approaches. The JLBC expressed that such an assessment is essential to ensure that the most cost–effective method is chosen when building new CHP facilities. To address this concern, supplemental report language was adopted in 2013 requiring the Department of Finance (DOF), in consultation with DGS, to report to the Legislature, by April 1, 2014, guidelines that help determine whether a proposed new facility should be procured using capital outlay or through a build-to-suit lease.

California's Five-Year Infrastructure Plan. The Administration released its Five-Year Infrastructure Plan in January 2014. For CHP, the plan proposes $398 million from the MVA for the second through sixth year of the statewide field office replacement program. According to the document, the funding will be used to develop budget packages and select sites for up to 25 projects, acquire land and start design on 20 of those projects, and begin construction on 10 of those projects.

LAO Comment. The LAO recommends that the Legislature withhold action on the Governor's proposal pending receipt of (1) the Administration's forthcoming report on direct capital outlay and build–to–suit procurement methods and (2) a list in priority order of the area offices proposed for replacement and the criteria used to determine such prioritization.

Staff Comment. This proposal continues a process approved in the 2013 Budget Act to identify five CHP offices for replacement. However, the proposal does not justify why a capital outlay approach to procure the facilities is being used rather than build-to-suit. Guidelines are under development, as discussed earlier. It would be reasonable to hold this item open until those guidelines are received. Moreover, these guidelines should be used when making procurement decisions in the future.

Questions:

1) *Which five offices are being replaced under this proposal?*

2) *What selection criteria are being used to determine which office to replace, and in what order?*

3) *How is this request consistent with the CHP's needs identified in the five-year infrastructure plan?*

4) *How will the replacement facilities be procured and what is the rationale for this decision?*

Staff Recommendation: Hold open appropriation request, pending receipt of the guidelines developed by CHP and DOF for determining whether to procure a new facility using capital outlay or through a build-to-suit lease. If necessary, the CHP should revise its request to be consistent with the guidelines.

<u>Vote:</u>

ITEMS PROPOSED FOR DISCUSSION AND VOTE

2740 Department of Motor Vehicles

Department Overview: The Department of Motor Vehicles (DMV) serves the public by providing licensing and motor vehicle-related services, as well as various revenue collection services for various state and local government programs. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

Budget Summary: The Governor proposes total expenditures of $1.1 billion (no General Fund) and 9,030 positions; which, is a significant increase over the level of funding and positions provided in 2013-14 largely related to the implementation of AB 60 (Alejo), Chapter 524, Statutes of 2013, discussed further below. There are no new capital outlay requests for 2014-15.

Item 1: Funding to Implement AB 60 (BCP #1)

The Governor's Budget proposes an increase of 822 positions and $64.7 million (Motor Vehicle Account) to implement AB 60. The Governor's budget also includes provisional language to allow DOF to augment DMV's budget item if it determines that DMV requires additional resources to implement AB 60. Under the proposed language, DOF would be required to provide notification to the JLBC at least 30 days prior to authorizing the augmentation.

Background: As of January 2013, the DMV had issued 27.3 million licenses/identification cards. AB 60 expanded who DMV can issue a license to and requires DMV, by January 1, 2015, to issue a driver's license to an applicant who is unable to submit satisfactory proof that their presence in the United States is authorized under federal law, if he or she meets all other qualifications for licensure and provides satisfactory proof to the department of his or her identify and California residency. AB 60 also requires DMV to develop regulations and consult with interested parties in an effort to assist the department in identifying documents that will be acceptable for purposes of providing documentation to establish identity and residency.

AB 60 is anticipated to result in approximately **1.4 million** additional people receiving drivers' licenses (DL) over the next three years. Given the direct and indirect benefits of licensure and what has happened in other states, DMV anticipates that 38 percent (538,947) of this population will apply in the last six months of 2014-15, 50 percent (709,141) in 2015-16, and 12 percent (170,194) will apply in 2016-17. The actual number of applicants could be much greater or much smaller, given that there is limited experience in other states on which to base an estimate.

The department believes that successful implementation should involve partnering with the various stakeholders, such as community-based and immigrant-rights organizations, to help prepare and educate the individuals applying for a driver's license.

As shown in the figure below, the budget proposes $64.7 million for 822 staff that will be hired by September 2014 and to establish five temporary offices in Santa Clara, Santa Barbara, Los Angeles, Orange, and San Diego counties. The exact location of these temporary offices has not been determined at this time as DMV is still working with the Department of General Services and nothing has been finalized and no leases have been signed.

The resources requested over the next three fiscal years are as follows:

Resources Requested to Implement AB 60
(Dollars in Millions)

	2014-15		2015-16		2016-17	
Expenditures	Positions	Dollars	Positions	Dollars	Positions	Dollars
Personnel Services	822	$42.8	811	$44.0	215	$13.3
Operating Expenses and Equipment		$10.7		$6.3		$1.7
Start-up Costs for Temporary Offices		13.8		6.8		2.3
Total	**822**	**$67.4**	**811**	**$57.1**	**215**	**$17.3**

The funding to implement AB 60 is proposed to come from the Motor Vehicle Account (MVA). The MVA receives revenues from a variety of sources including motor vehicle registration payments, driver's license and identification card fees, and revenues from other services it provides. The fee currently charged for an original DL is $33 and it costs the department a little over $100 to process a card today. On average it takes about five renewal cycles for the department to break even on the cost of issuing a new license. This proposal assumes the fee for a new DL remains at $33.

AB 60 additionally requires the DMV to develop regulations and consult with interested parties in an effort to assist the department in identifying documents that will be acceptable for purposes of providing documentation to establish identity and residency. The department is simultaneously developing both emergency and temporary regulations. It has held two pre-notice public workshops this year and will also provide the opportunity for public comment, after it releases the draft regulations. The DMV has also met with 32 consulates from 22 different countries, 13 law enforcement agencies and 12 community and labor organizations.

Staff Comment: It is very difficult to know if the proposed level of resources is appropriate for the potential demand. Similarly, it is difficult to know if the proposed locations of the temporary DMV field offices will be best located to adequately address the demand for licenses. However, as noted earlier, the Governor's Budget includes provisional language allowing for augmentations necessary to implement AB 60. It would be valuable for the DMV to provide an update on implementation progress later this spring.

Questions:

1) *What steps are you taking to ensure that you are ramping up appropriately to implement AB 60?*

2) *How did you determine where to site temporary offices? How will this address the potentially high influx of applicants for the drivers' license especially in the Central Valley?*

3) *Why are you using an appointment-only process for original driver's licenses in existing DMV field offices rather than allowing for both walk-in applicants and appointments? Why are walk-ins being allowed at the temporary offices?*

4) *At this time, when do you expect to begin accepting applications for this population?*

5) *What happens if midway through 2014-15 it is determined that there is a greater demand than anticipated for driver's licenses and additional resources are needed?*

6) *What are the major outstanding issues that need to be resolved prior to this going live?*

Staff Recommendation: Approve $64.7 million in MVA funds to implement AB 60 and the related provisional language.

<u>Vote:</u>