Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, April 16, 2015
9:30 a.m. or Upon Adjournment of Session
Room: 112

Consultant: Farra Bracht

Transportation

OVERVIEW OF TRANSPORTATION FUNDING

INFORMATIONAL ITEMS FOR DISCUSSION

PROPOSED VOTE ONLY

PROPOSED DISCUSSION / VOTE

Overview of Transportation Funding

Presentation by the Legislative Analyst's Office

Transportation Budget Summary—Selected Funding Sources

(Dollars in Millions)

	Actual 2013–14	Estimated 2014–15	Proposed 2015–16	Change From 2014–15	
				Amount	Percent
Department of Transportation					
General Fund	$83.4	$83.4	$84.0	$0.6	0.7%
Special funds	4,854.5	3,735.4	3,633.6	–101.8	–2.7
Bond funds	1,334.7	559.2	562.4	3.1	0.6
Federal funds	3,771.4	4,759.8	4,627.1	–132.7	–2.8
Local funds	819.3	1,139.4	1,595.3	455.9	40.0
Totals	**$10,863.4**	**$10,277.2**	**$10,502.3**	**$225.1**	**2.2%**
High–Speed Rail Authority					
Bond funds	$48.4	$50.2	$1,354.5	$1,304.3	2,597.5%
Federal funds	1,291.1	616.1	1,224.0	608.3	98.7
Greenhouse Gas Reduction Fund	—	250	250.0	—	0.0
Reimbursements	—	1.0	—	—	—
Totals	**$1339.5**	**$917.3**	**$2,828.9**	**$1,911.6**	**208.4%**
California Highway Patrol					
Motor Vehicle Account	$1,836.9	$2,043.9	$2,174.3	$130.4	6.4%
Other special funds	164.7	180.1	182.9	2.8	1.5
Federal funds	15.5	19.9	19.8	—	-0.1
Totals	**$2,017.1**	**$2,243.9**	**$2,377.0**	**$133.1**	**5.9%**
Department of Motor Vehicles					
Motor Vehicle Account	$975.1	$1,058.7	$1,049.8	–$8.9	–0.8%
Other special funds	46.7	48.1	47.2	–0.9	–1.9
Federal funds	4.1	4.1	2.9	–1.2	–29.7
Totals	**$1,025.9**	**$1,110.8**	**$1,099.9**	**–$11.0**	**–1.0%**
State Transit Assistance					
Public Transportation Account	$408.1	$385.9	$387.8	$1.9	0.5%
Bond funds	278.4	649.2	150.0	–499.2	–76.9
Greenhouse Gas Reduction Fund	—	25.0	50.0	25.0	100.0
Totals	**$686.5**	**$1,060.1**	**$587.8**	**–$472.3**	**–44.6%**

INFORMATIONAL ITEMS PROPOSED FOR DISCUSSION

0521 Secretary for the California State Transportation Agency (CalSTA)
2600 California Department of Transportation

Agency Overview: The CalSTA has jurisdiction over 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 oversees 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 $201.3 million from a combination of special funds, federal trust funds and reimbursements. Of this amount, $97.0 million is for the California Traffic Safety Program and $100 million is for grants to encourage low carbon transit operations as part of the Transit, Affordable Housing, and Sustainable Communities Program. Administrative costs of the agency are $4.3 million in the budget year.

Item 1: Caltrans Reform

Independent Review of Operations. As part of establishing the CalSTA in 2013, the Administration contracted with experts from the independent State Smart Transportation Initiative (SSTI) to conduct an expert review of Caltrans' operations. The SSTI has reviewed 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 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 focused 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 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.

The report recommended Caltrans and CalSTA complete four tasks in the next six months:

- 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.

- Work to ensure the success of California Environmental Quality Act (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.

- Modernize the state's transportation design guidance.

Update from Caltrans on Reform. Caltrans has adopted a new mission, vision, and set of goals that encompasses a larger set of outcomes around economy, livability, and environment, in addition to the traditional goals of improving mobility. Further reform efforts focus on accountability, including the release of new management and employee handbooks and the launch of an ethics hotline for employees.

In an effort to increase the construction of multimodal local streets and roads, Caltrans endorsed National Association of City Transportation Officials' guidelines that include innovations such as buffered bike lanes and improved pedestrian walkways. Last year, California made the list of the top 10 most bike-friendly states in the nation. In addition, Caltrans is implementing a new state law that empowers local governments to establish their own standards for local bicycling facilities, rather than relying on a single statewide standard. This allows local agencies the flexibility to make innovative design decisions incorporating alternative modes of transportation, as well as the tools and support necessary to make the best planning and design decisions for their local area. California also launched the $350 million Active Transportation Program and Amtrak California is setting record ridership numbers, even as gas prices fall.

To improve communication and community outreach, Caltrans publishes a periodic performance journal, *The Mile Marker*, which tracks how Caltrans is performing and where it needs to improve. Caltrans is increasing partnerships in transportation by focusing on mutual goals and benefits. For example, Caltrans and the San Diego Association of Governments worked extensively with the Coastal Commission to receive one of the largest consolidated permits for multimodal improvements on Interstate 5. Caltrans is also supporting California's high-speed rail project by integrating the system into state rail planning and working with the Air Resources Board on sustainable freight planning.

In addition to promoting active transportation and public transit, Caltrans is working to help reduce greenhouse gas emissions. Caltrans and CalSTA are hosting public workshops on the state's low-carbon transit programs, which are part of a statewide effort to invest cap-and-trade proceeds in ways that reduce emissions and improve air quality. Caltrans is also cutting greenhouse gas emissions by improving transit, increasing opportunities for active transportation, and embracing new technology in construction materials, alternative fuels, efficient lighting and renewable energy. Finally, Caltrans has hired Dr. Steven Cliff as Assistant Director of Sustainability, who is helping incorporate sustainability into all programs, policies, and projects.

The department's forthcoming strategic plan will incorporate the department's new objectives with performance measures to improve multi-modal transportation corridors and preserve existing assets with a "fix it first" approach. Caltrans is also testing a performance management method, known as Lean Six Sigma, which strives to improve management by systematically fixing wasteful or unnecessary practices and processes.

Staff Comment: The state's transportation system faces significant 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. Caltrans is working to reform the organization so that it can better address all modes of the state's transportation needs.

Questions:

1) *Please discuss the agency's and Caltrans' efforts to reform the department. What are the plans for 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?*

2) *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.*

3) *How would the reform efforts at Caltrans change if the state were to receive a significant amount of additional revenues for transportation projects? What steps would be taken to ensure that new funding is used to address shortfalls for all modes of transportation in the state?*

4) *Has Caltrans identified any responsibilities that should be devolved to the counties? Are there responsibilities that Caltrans is not currently performing that it should be?*

Staff Recommendation: Informational item. No action necessary.

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 $10.5 billion ($84.0 million General Fund) and 19,463.5 positions. This is $255 million, or about two percent, greater than the estimated current-year expenditures. 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 $6.5 billion of the total available resources.

Item 1: Legal Program Zero-Based Budget

Governor's Proposal: The Legal Program's zero-based budget (ZBB) was developed to provide the baseline for workload and staffing levels. The baseline has been determined to be 270.6 positions and $119.7 million.

Background: 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, Aeronautics, Legal, and an initial review of the Capital Outlay Support (COS) Program. Five programs remain—Maintenance, Operations, COS-Indirect, Programming, and Administration. In July 2015, Caltrans plans to begin a ZBB review of the Maintenance Program. In spring of 2016, Caltrans is planning to conduct a ZBB review of Traffic Operations Program. The ZBB schedule is not finalized at this time.

Caltrans is the only state agency that handles all its own legal affairs. The legal program has four offices in Sacramento, San Francisco, Los Angeles and San Diego, with district claims offices in each of the twelve Caltrans district offices and Headquarters.

Utilized by all Caltrans' programs, the Legal Program advises on federal and state statutes, regulations, and case law and how those laws impact Caltrans policy makers, operational needs and associated risks. Given the close proximity and availability of counsel, attorneys meet with and advise Caltrans personnel, which, allows for expedited program decisions and responses to local partners, stakeholders, Agency, the Legislature or the Governor's Office.

Caltrans is required by law to review every contract for legal sufficiency and compliance with the State Administrative Manual and Public Contracting Code. Accordingly, the Legal Program reviews Architecture & Engineering contracts, service contracts, procurement contracts, interagency agreements, and cooperative and maintenance agreements with our local partners.

The Legal Program is funded through the State Highway Account, State Transportation Fund, and receives smaller allocations from Seismic Retrofit Bond Funds, Federal Trust Fund and Reimbursements. The Legal Program's base budget is approximately $120 million; legal services have remained consistent over the past five years. The Legal Program has realized significant cost savings over the years due to collaborative and strategic analysis of potential exposure in tort law where single incidents can translate into multi-million dollar verdicts. The single largest area of litigation is tort defense actions involving the dangerous condition of public property. The Legal Program's ability to mitigate risks by engaging with the client at all levels in each program is a valuable resource for Caltrans.

Staff Comment: Staff has no concerns with the level of resources proposed for the Legal Program.

Staff Recommendation: Approve as budgeted.

Vote:

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 $2.4 billion (no General Fund) and 11,059 funded positions, an increase of roughly $49 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: Relocation of Chico and Stockton Area Offices

Governor's Proposal: The Governor's budget proposal includes a $5.8 million (Motor Vehicle Account) augmentation to complete the relocation of the Chico and Stockton Area Offices to new, build-to-suit facilities. The relocation of these offices was approved in past-year budgets (Chico in 2009-10 and Stockton in 2012-13).

Background: The Chico area office opened in 1979 and has been identified as having serious seismic structural issues. The Stockton area office opened in 1967 and also has serious seismic issues. The current project schedule anticipates occupancy for the new Chico facility to occur around June 2016 and the Stockton facility to occur around March 2016.

Staff Comment: The requested funding will support the final steps necessary for relocation.

Staff Recommendation: Approve as budgeted.

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 Governor's Budget proposes expenditures of $3.8 million and 20.0 positions for the administration of the CTC, 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: Department of Transportation: Goals and Performance Measures

Governor's Budget Proposal: The CTC requests $136,000 for a two-year limited-term position to support the expanded role of the CTC in developing, adopting, and monitoring of the State Highway Operation and Protection Program, the California Transportation Plan, the state's Interregional Transportation Strategic Plan, and the Interregional Improvement Program, as required by SB 486 (DeSaulnier), Chapter 917, Statutes of 2014.

Background: The SSTI review, completed in 2014, found that Caltrans has not kept pace with changes in transportation policy and calls for reforms to modernize Caltrans's mission, strengthen its performance, and help align Caltrans with the state's policy goals. Existing law requires the regional transportation planning agencies to engage in a transportation planning process that moves from a longer-term vision, represented by the regional transportation plan, to a short-term list of specific projects that implement the long-term vision. Caltrans, responsible for the maintenance and operation of the state highway system and for the state's interregional transportation system, does not currently have in place a similarly inclusive planning process that moves from vision to implementation.

Developing a process for Caltrans to follow in the development of the state's interregional and highway maintenance and operations programs, similar to the regional transportation planning process can create a framework for Caltrans to begin to address the flaws identified in the SSTI report and allow the state to catch up with the changes in transportation policy, so that Caltrans can once again align its work with the state's policy goals.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

Vote:

ITEMS PROPOSED FOR DISCUSSION AND VOTE

2660 Department of Transportation

Item 1: Fleet Greening for Air Quality

Governor's Budget Proposal: The Governor requests a permanent increase of $12.0 million in State Highway Account funds to replace equipment with lower and "cleaner" emissions in order to reduce the impact to the environment and comply with air quality regulations.

Background and Detail: Caltrans owns and operates a statewide equipment fleet of nearly 12,000 vehicles used to deliver capital projects, incident response, and the preservation, maintenance, and operation of the state transportation system. Caltrans' current equipment replacement budget is $28 million annually for replacing aged equipment that is beyond its useful life (based on replacement criteria of age, usage, and high repair costs). Caltrans has recently established guiding principles to prioritize the replacement process to ensure that the "worst of the worst" equipment is replaced first.

The focus of the Caltrans' proactive greening efforts are based on two regulations that have upcoming compliance deadlines. These regulations are:

1. In-Use Off-Road Diesel Vehicles (Off-Road): On July 26, 2007, the California Air Resources Board (CARB) adopted the off-road regulation to reduce diesel particulate matter and nitrogen oxide emissions from off-road diesel-fueled equipment in California. The regulation requires replacing older diesel-fueled equipment with newer, less polluting models; and it imposes specific reporting, labeling, and sales disclosure requirements; in addition to idle limitation requirements.

On December 14, 2011, the Office of Administrative Law approved amendments to the off-road regulation, which replaced fleet maximum average targets for particulate matter and nitrogen oxide emissions with a simplified, single annual fleet average structure. Fleets now have only one fleet average target to meet based on the nitrogen oxide emissions of all engines within their fleet. As shown in the table below, if the fleet average is not less than or equal to the required fleet average target for a given year, actions must be taken to reduce fleet emissions until the required target is met.

Required Fleet Target and Average Emission Rates for Caltrans

Target Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Target Emission Rate	6.4	6.0	5.5	4.9	4.3	3.7	3.1	2.5	1.9	1.5
Average (current)	**4.9**									

On September 13, 2013, CARB received authorization from the U.S. Environmental Protection Agency to begin enforcing the Off-Road Rule's emission performance requirements. Under this regulation, fleets must implement a replacement cycle to meet increasingly stringent annual emission milestones. The regulation requires Caltrans to meet specific annual emission milestones that are calculated based on the number, horsepower, and age of all equipment in its fleet. As of May 2014, Caltrans' off-road equipment fleet count is 893 active units, and Caltrans is projecting the need to replace over 475 pieces of off-road equipment worth approximately $85 million (based on current costs) for compliance with the final fleet emission target.

2. Air Toxic Control Measures: Effective March 11, 2005, CARB adopted the Air Toxic Control Measures to reduce diesel exhaust emissions produced by portable diesel-fueled engines having a rated brake-horsepower of 50 and greater. The Air Toxic Control Measures impose engine, fleet emission rate, and record keeping requirements.

The Air Toxic Control Measures regulate engines that are either the secondary engine (non-propulsion) on a two-engine piece of equipment, or mounted on a piece of equipment such as a trailer. The CARB categorizes all portable engines based on their brake-horsepower ratings and emission levels.

172 pieces of equipment in Caltrans' fleet are subject to the Air Toxic Control Measures. To comply with this regulation, Caltrans must replace approximately 120 of these pieces of equipment worth approximately $40 million (based on current costs) by calendar year 2020. The first component of the rule starting January 1, 2010, requires affected engines to meet state and federal emission standards for newly manufactured engines. The second component of the rule establishes the compliance schedule for fleet emission rate limits. Average emission rates from the portable engine fleet must stay below these rates. The following table shows the requirements of the Air Toxic Control Measures regulation. Caltrans is currently in compliance with these regulations.

2020 Maximum Average Fleet Emission Rates for Air Toxic Control Measures (In Grams Per Brake-horsepower Hour)

< 175 Hp	175-749 Hp	≥ 750 Hp
0.04	0.02	0.02

Staff Comment: This request allows Caltrans to modernize and green its diesel fueled fleet in order to comply with regulation deadlines. Beginning ahead of the regulatory deadlines will allow Caltrans adequate time to procure new equipment—it would not be feasible to procure them all in a limited amount of time.

Questions:

1. *Why is Caltrans proposing to "green" its fleet ahead of ARB deadlines?*

Staff Recommendation: Approve as budgeted.

Vote:

Item 2: Project Initiation Document Program

Governor's Budget Proposal: The Governor's budget requests 362 positions and $53.8 million (State Highway Account) for Caltrans to develop roughly 600 PIDs in 2015–16. (Under the proposal, the same level of PID resources would be provided in 2016–17.) This reflects a net increase of 25 new positions and $3.4 million from the levels provided to the department in 2014–15. Specifically, the budget reflects the following changes.

- $2.6 million and 18 additional positions to develop roughly 40 additional PIDs resulting from an estimated annual increase in SHOPP funding of $300 million.

- $2 million and 14 additional positions to develop additional PIDs for projects with a total estimated cost to complete construction of $500 million. According to Caltrans, this would provide them with a shelf of projects to the extent that additional funding above what is currently estimated for SHOPP unexpectedly becomes available (such as unanticipated federal funds). If such funding does not become available, the developed PIDs would be programmed as part of the next SHOPP cycle. Under the Administration's plan, Caltrans would add new PIDs to the shelf when the existing shelf of projects is programmed, such that the department will continually maintain a $500 million shelf of PIDs.

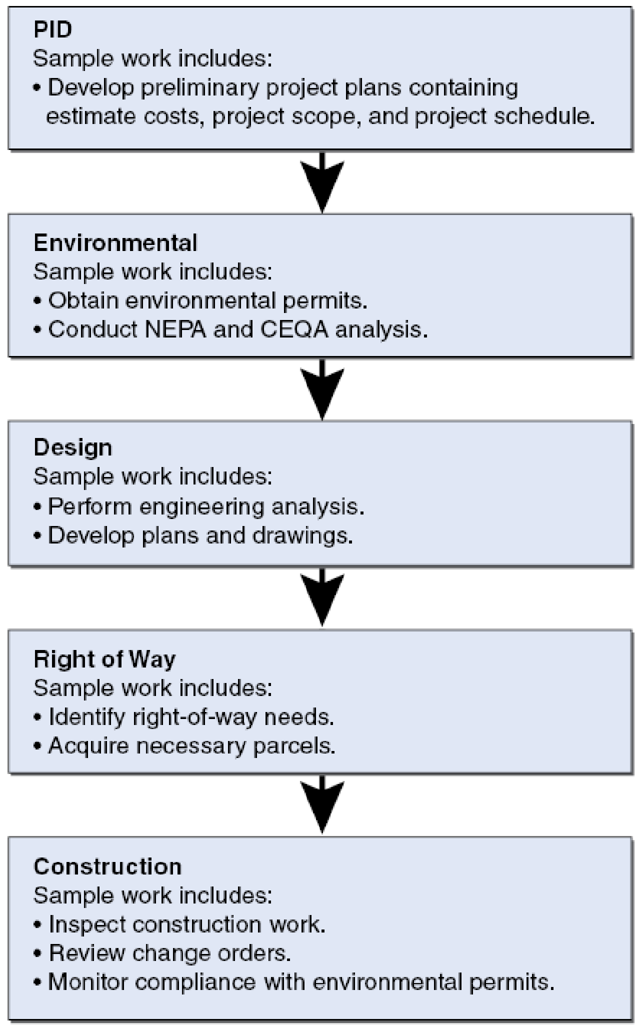
- $1.2 million reduction and seven fewer positions due to various other workload adjustments.

Background and Detail: Most of the $10.5 billion for Caltrans in 2015-16 supports the department's highway program, which primarily includes $3.9 billion for capital outlay, $2 billion for local assistance, $1.8 billion for highway maintenance and operations, and $1.7 billion to provide the support necessary to deliver capital projects.

At various stages throughout the development of a highway capital project, Caltrans estimates the cost and scope of the work required to complete the project. When this estimate is completed during the preparation of the initial plan for a project it is commonly referred to as a PID. The PID contains information about the proposed project, including the identification of the transportation problem that is to be addressed and an evaluation of alternatives to address the problem, as shown in the figure below. In addition to the estimated cost and scope, the PID also includes the estimated schedule of the project.

Figure 3

Development of PID Is First Step in Building Highway Projects



PID = project initiation document; NEPA = National Environmental Policy Act; and CEQA = California Environmental Quality Act.

Source: Legislative Analyst's Office

According to Caltrans, the above PID information is needed to decide if, how, and when to fund a particular project. Specifically, state law requires a PID be completed before a project can be programmed in the State Transportation Improvement Program (STIP), which is a five–year program that funds new highway construction projects that add capacity to the highway system. Caltrans and the CTC administratively require a PID also be completed before a project can be programmed for funding in the State Highway Operations and Protection Program (SHOPP), which is a four–year program of projects to improve the state highway system (such as pavement rehabilitation and safety improvements). Caltrans develops PIDs to provide the necessary information to add new projects to the STIP and

SHOPP when these programs are updated every other year to account for two additional years of funding. As a result, Caltrans budgets for PID workload on two–year cycles to align the development of PIDs with the need for such documents to program new projects in the STIP and the SHOPP. In addition, local transportation agencies develop PIDs for STIP projects and locally funded state highway projects. Caltrans oversees and must approve these locally developed PIDs before the related projects can be programmed. After a PID is completed and a project is programmed, a more refined cost estimate is made based on the specific project scope and design.

The number of PIDs Caltrans needs to prepare in a given year depends on the estimated level of funding that will be available to add new projects to the SHOPP and the STIP. Caltrans develops estimates of the amount of available funding on two–year cycles so that updated estimates are available each time the SHOPP and STIP programs are updated. In the most recent estimate in 2014, Caltrans projected a $300 million annual increase in funding available for the SHOPP, increasing funding for the program from $2 billion (based on the 2012 SHOPP) to $2.3 billion each year.

Over the last several years, the Legislature has directed Caltrans to make several improvements to the PID program. In response, Caltrans has developed several streamlined PID documents that better tailor the amount of workload required to complete a PID with the size and risk of a project. For example, for a capital project under $3 million in value, the department completes a streamlined PID that reflects only the studies and preparatory work required based on the scope of the project (rather than the full list of studies required in a traditional PID). As a result, the streamlined PID typically requires less work than a traditional PID.

In addition, due to concerns about the lack of data regarding the types of PIDs completed and the level of workload involved, the Legislature adopted supplemental report language as part of the 2013–14 budget package requiring Caltrans to report specific workload data for the PID program by January 31 of each year for five years, beginning in 2014. Such data includes the time and resources required to complete PIDs, as well as the impact of the PID process on overall project cost. In response to this requirement, the department began developing a database to track the actual workload required to complete each PID.

LAO Comments: The LAO has the following concerns with the Governor's proposal: (1) the lack of robust PID cost and workload data makes it difficult to assess the appropriateness of the level of resources being requested, (2) existing resources may be available to meet increased workload, (3) there is no need to create a shelf of SHOPP PIDs because Caltrans has been able to program projects in the past when there were increases in funding, (4) and it would result in an increased cost per PID.

The LAO recommends Caltrans report at budget hearings this spring on (1) the reasons why it has not provided the requested PIDs data, (2) when the department plans to provide the data, and (3) the steps it is taking to ensure the necessary data is collected and reported. It also recommends the Legislature withhold action on the proposed $2.6 million and 18 additional positions so that the Legislature can consider the request in conjunction with the department's COS budget request (the Legislature will receive this information April 15).

Finally, the LAO recommends the Legislature reject the proposed increase in funding and positions to create a shelf of SHOPP PIDs (14 positions and about $2 million).

Staff Comments: Since the LAO report, Caltrans has provided the PIDs report. It would be useful for the LAO to review the data in this report, in conjunction with the COS budget request that will be submitted on April 15th, and provide an assessment of the Administration's requests for resources for both the PID and COS program at May Revision hearings.

Questions for Caltrans:

1. *Please respond to the LAO's concern that existing resources may be available to meet increased PIDs workload.*

2. *Has Caltrans experienced any challenges in programing projects in a timely manner when the state has received unexpected funding increases in the past? Why or why not?*

Staff Recommendation: Hold open and direct the LAO to review the recently submitted PIDs data in conjunction with Caltrans' April 15th capital outlay support (COS) request and at the May Revision hearings make recommendations about the level of resources requested for both the PIDs and COS programs.

Vote:

Item 3: Transportation Management Systems (TMS) Maintenance and Engineering

Governor's Budget Proposal: The Governor's budget proposes $6.6 million from the SHA and 64 permanent positions for Caltrans to support the TMS. The request includes:

- $3.9 million and 44 positions to the Maintenance program to help adequately maintain and preserve the TMS, specifically related to maintenance needs for the increase in TMS components since 2007.
- $2.7 million and 20 positions to the Traffic Operations program to implement two TMS pilot projects on two highway corridors—one in Northern California and one in Southern California—to measure changes in traffic mobility and safety outcomes resulting from maintaining a TMS in accordance to federal requirements. The proposal also funds a report on the two selected corridors to show the effectiveness and value-added functionality of the TMS.

Background and Detail: In order to anticipate and clear traffic incidents, provide traveler information, and manage traffic in a given corridor, Caltrans maintains a transportation management system (TMS) for the state's highways. Currently, the TMS consists of more than 24,000 individual components, including numerous traffic signals, ramp meters, changeable messaging signs, highway advisory radios, closed circuit TV cameras (CCTVs), vehicle detection systems, and weather stations. This is an increase of 5,000 components since 2007. The department's Traffic Operations and Maintenance programs are responsible for operating and maintaining the various components of the TMS.

Federal regulations require monitoring of existing traffic and travel conditions with 85 percent accuracy and 90 percent information availability. These standards needed to be met for interstate highways by November 2012 and must be met for non–interstate routes on the state highway system by November 2016. Caltrans indicates that it is currently meeting these standards as they pertain to the interstate highways, but is not certain, at this time, whether it is meeting the requirements for non–interstate routes. The department is in the process of collecting data to determine its current rate. If Caltrans fails to meet the above federal requirements, it could be sanctioned by the Federal Highway Administration, such as by withholding project approval or making the department ineligible for certain federal transportation funds.

LAO Comments. A well maintained TMS could help the state make more efficient use of the state's existing highway system, which could reduce the need for additional highway capacity. While the number of components added to the TMS (such as ramp meters and traffic signals) has increased in recent years, the level of resources available to maintain the accuracy and operability of the different TMS components has been relatively flat. As a result, several required operational checks and preventative measures have not been completed. Such deferred maintenance has caused the current TMS to operate at less than full functionality, and can expedite the need to replace certain TMS components. For example, certain TMS components such as CCTV cameras, require regular inspection to ensure proper operation and identify any failures or physical damage that may have occurred—such as from extensive use, an accident, or vandalism.

In addition, if implemented effectively, the two pilot programs proposed by the department could provide information on the most cost–effective TMS components, best practices in operating the TMS, the measurable benefits that can be achieved within a given corridor from maintaining an accurate and functional TMS system, and any implementation challenges.

The LAO recommends the Legislature approve the proposed funding and 44 positions for the Maintenance program. This would allow Caltrans to make needed repairs and replacements to ensure that the components of the TMS are working as intended and in accordance to federal standards, improving the overall functionality of the system.

The LAO finds that the proposal for the pilot projects lacks detailed information, making it difficult to assess the appropriate level of resources needed for implementation and recommends that the Legislature not take action on this item until more information is provided.

Staff Comment: Staff agrees with the LAO recommendation to approve the resources for TMS management, which will enable Caltrans to better ensure the TMS components are working as intended. Staff understands that due to the timing of this request some information is not available that would help the Legislature to assess the resources needed to implement the pilot programs. However, given the lack of funding for system expansions and the critical need to use the current system as effectively and efficiently as possible, staff recommends approval of the resources to implement the pilot project.

Questions for Caltrans:

1) *What corridors are being considered for the pilot project and what criteria are being used to select them?*
2) *What types of TMS components will be used on the selected pilot corridors?*
3) *What metrics will be used to evaluate the effectiveness of the pilot project and what is the timeline for completion?*

Staff Recommendation: Approve as budgeted the requested 64 permanent positions and $6.6 million from the State Highway Account to support the TMS.

Vote:

Item 4: Highway Relinquishments (trailer bill language)

Governor's Budget Proposal: The Governor proposes trailer bill language that would expand the role of the California Transportation Commission and Caltrans in order to streamline the state process for relinquishing portions of the state highway system that primarily serve regional or local purposes.

Staff Comment. Given the complexity and policy nature of this proposal, staff finds that consideration of the trailer bill language is more appropriate for the Senate Transportation and Housing Committee.

Staff Recommendation. Reject, without prejudice, the proposed trailer bill language, so that the policy committee can consider this proposal.

Vote.

Item 5: Highway Tolling (trailer bill language)

Governor's Budget Proposal: The Governor proposes trailer bill language that would provide a process for proposing and approving toll lane projects, including both new toll lanes and the conversion of existing high-occupancy vehicle lanes to toll lanes. The legislation would also expand the authority of the California Transportation Commission to approve these toll road projects.

Staff Comment. Given the complexity and policy nature of this proposal, staff finds that consideration of the trailer bill language is more appropriate for the Senate Transportation and Housing Committee.

Staff Recommendation. Reject, without prejudice, the proposed trailer bill language, so that the policy committee can consider this proposal.

Vote.

Item 6: Road Usage Charge (RUC) Pilot Program

Governor's Budget Proposal: The Governor's budget includes several proposals—totaling $9.6 million from the State Highway Account (SHA)—related to the implementation of SB 1077, DeSaulnier, Chapter 835, Statutes of 2014. These are:

- $8.8 million for Caltrans to contract with consultants to both provide technical assistance and to conduct the RUC pilot program, and provisional language to provide Caltrans the flexibility to encumber these funds through June 2018.

- $618,000 annually for three years to support five limited–term positions at Caltrans to (1) assist the Technical Advisory Committee (TAC), and (2) manage the contract for the implementation of the pilot program.

- $162,000 annually for three years for the California Transportation Commission (CTC) to support one limited–term position to provide day–to–day support and coordination for the TAC, such as helping to organize and manage a number of meetings to gather public comment on issues and concerns related to the pilot program.

Background: Over time, changes in the type and fuel efficiency of vehicles have eroded the relationship between fuel taxes and road usage. In addition, revenues from fuel taxes are projected to decline, while at the same time construction costs have risen and the overall cost of the aging highway system is increasing. In light of these issues, the Legislature enacted SB 1077, to study the feasibility of charging individuals for each mile they drive. Such a charge is also sometimes referred to as a "mileage-based user fee." Several states have begun exploring the idea of funding their transportation systems with a road usage charge as an alternative to the fuel excise taxes. Currently, Oregon is the only state that has implemented a RUC program.

SB 1077 requires that several steps be taken to design and implement a pilot program to test the concept of a road usage charge in California as an alternative to the current gas tax system. First, the legislation requires the CTC, in consultation with CalSTA, to create a technical advisory committee (TAC) to guide the design, development, and evaluation of the pilot program. The TAC shall consist of 15 members appointed by the chairperson of the CTC who are representative of specified groups, including highway user groups, the telecommunications industry, the data security and privacy industry, and privacy rights advocates. According to the legislation, the TAC may request Caltrans to perform such work as it deems necessary to carry out its duties and responsibilities. Specifically, the TAC is required to consider and gather public comment on various issues such as:

- Availability of methods to record and report on the number of miles that individuals drive in the state and the costs to obtain such data.
- Ease and cost associated with collecting and enforcing a road usage charge.
- Various privacy issues related to the collection and reporting of travel data, including privacy protection, data security, and law enforcement access to data.

The TAC is required to make recommendations to CalSTA on the structure and specific features of the design and implementation of a road usage charge pilot program, including potentially determining the state department best suited to administer the pilot and the ideal number of participants. Chapter 835 requires that these recommendations be included in CTC's annual report to the Legislature.

Based on the recommendations of the TAC, CalSTA shall implement a road usage charge pilot program by January 1, 2017. The pilot program is required to (1) analyze various methods for collecting road usage data (including at least one method that does not rely on electronic vehicle location data), (2) collect a minimum of personal information from pilot participants, and (3) protect the privacy and integrity of driver data. Upon completion of the pilot program, CalSTA must submit its findings on the feasibility of implementing a RUC to the TAC, the CTC, and the Legislature by June 30, 2018. In January 2015, the CTC chairperson appointed the members of the TAC, which held its first meeting on January 23, 2015.

LAO Comments: The LAO raises the following concerns: (1) the budget assumes that Caltrans will administer the pilot program, (2) the budget assumes certain design features of the pilot, (3) Caltrans recently signed a contract to commit some of the funds proposed in the budget, and (4) the Administration has not provided a complete plan for the requested contract funds.

Staff Comments: The LAO raises concerns about assumptions Caltrans had to make and actions it took to begin work on the RUC. However, given the relatively short timeline for implementation of a pilot program—by January 1, 2017—and the importance of doing the pilot project well, Caltrans' early actions seem reasonable and consistent with the implementation of a successful pilot. Accordingly, Caltrans has developed a detailed project plan identifying the timeline and each of the steps that need to be taken to implement the pilot.

Questions for Caltrans:

1. *Why does Caltrans need the flexibility to encumber the funds for the contract through June 2018 when the project is expected to be completed and a final study report issued by June 2018?*

Staff Recommendation. Approve as budgeted the request for $9.4 million (State Highway Account) at Caltrans and $162,000 annually at CTC for one three-year limited term position. In addition, approve the provisional language to provide Caltrans the flexibility to encumber the funds through June 2018.

Vote.

Item 7: Fish Passages

Governor's Budget Proposal: The Governor has no proposal for this item.

Background: SB 857 (Kuehl), Chapter 589, Statutes of 2005 requires the Department of Transportation (Caltrans) to construct projects in a manner that does not present barriers to anadromous (salmon and steelhead) fish passage, to develop an approach to remediate existing barriers, to prepare and present its assessment for any repair project using state or federal transportation funds that affects anadromous fish to the Department of Fish and Wildlife (DFW), and to annually report to the Legislature on its progress in locating, assessing, and remediating existing barriers to anadromous fish passage.

Existing law intends the removal of man-made barriers to salmonid migration that have been created by the state highway system and for those barriers to be remediated as repairs are made. Road and stream crossings are extremely numerous, and may prevent the use of available habitat, a situation that is worsening as the current drought continues. Many salmon species in California are federally or state-listed endangered or threatened species, and the barriers posed by highways and roads have scientifically-validated limiting effects on the stream flows available to these fish.

The 2014 Coastal Anadromous Fish Passage Assessment and Remediation Progress Report states the estimated number of fish barriers in the state is 569 and, since 2006, only 31 fish passage barriers have been remediated. In 2013, four barrier remediations and four passage assessments were completed. In coordination with DFW, Caltrans has completed a review of all state highway locations within the passage assessment database and found that 36 of the 569 barriers are considered to be priority locations, as shown in the figure below.

Caltrans Fish Passage Barriers by District

Caltrans District	Estimated Fish Passage Barriers	2013 Priority Locations
1 – Eureka	322	11
2 - Redding	56	9
3 - Marysville	6	0
4 - Oakland	72	10
5 – San Luis Obispo	87	2
6 – Fresno	0	0
7 – Los Angeles	23	2
10 – Stockton	0	0
11 – San Diego	2	2
12 - Orange	1	0
Total	**569**	**36**

Source: Passage Assessment Database (PAD)

However, none of these 36 projects have a Construction Contract Acceptance (CCA) date. Caltrans has ongoing work at 27 other barriers that do have CCA dates, however none of those are on the joint DFW-Caltrans list of priority projects.

Staff Comments: Despite efforts by Caltrans to assess migratory fish barriers and to co-operate with DFW in identifying priorities for remediation, the progress in actually remediating these barriers has been minimal. There are several options the Legislature may want to consider to increase the rate of progress for the remediation of fish passage barriers. Specifically:

1. Direct Caltrans to standardize one or more designs that are acceptable to the state agencies (including other funding partners such as the Coastal Conservancy) so that when funding is available, projects can immediately move toward implementation, rather than re-hashing design issues;

2. Have Caltrans consider using DFW as the lead agency for a number of projects. This could result in using the DFW CEQA process which often results in a negative declaration thereby expediting the approval process, the use of the technical review committee that DFW has in place, and improved outreach to the federal fisheries and streambed regulatory agencies (Army Corps of Engineers and US Fish and Wildlife Service).

3. Explore the use of Proposition 1 funding that may be available to DFW through partnership arrangements with Caltrans.

4. Directly allocate, for the purpose of remediation, sufficient funds to complete 2-3 projects each year. Caltrans estimates the average cost per project is $1.5 million. A potential funding source is the federal Transportation Alternatives Program which provides funding for environmental mitigation, in additional to many other transportation alternatives, such as safe routes to schools projects.

5. Consider other permit consolidation or efficiency steps, much like AB 2193 (Gordon), Chapter 604, Statutes of 2014, did in 2014 for small-scale habitat restoration projects by consolidating various permits.

Questions for Caltrans and DFW:

1) *Please describe the Fish Creek project in Mendocino County and what contributed to this ultimately being a successful fish passage project.*

2) *What are the primary obstacles to completing the backlog of fish passage projects and what needs to be done to insure that these projects are a priority within Caltrans?*

3) *Which department is best to serve as the lead on these projects, especially for CEQA purposes? What is being done to ensure coordination between DFW and Caltrans?*

4) *How does repairing culverts fit into work done on fish passages? Does having a fish passage associated with a culvert needing maintenance increase the priority of the project?*

5) *Please provide an update on efforts to streamline permitting for fish passage.*

6) *What potential sources of funding could be used for fish passage projects?*

Staff Recommendation:

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 9,022.8 positions; which, is slightly less than the level of funding and number of positions provided in 2014-15. There are three capital outlay requests for 2015-16.

Item 1: Oversight of the Motor Vehicle Account (MVA) Fund Condition

Background: The MVA was created to support the state's activities related to the administration and enforcement of laws regulating the operation or registration of vehicles used on public streets and highways, as well as to mitigate the environmental effects of vehicle emissions.

In 2014–15, $3.1 billion is estimated to be deposited into the MVA with vehicle registration fees accounting for $2.7 billion (85 percent) and driver license fees accounting for $299 million (10 percent). The remaining revenue primarily comes from identification card fees, late fees associated with renewals, and miscellaneous fees for special permits and certificates. Between 2009–10 and 2014–15, revenues have increased at an average rate of five percent annually.

Vehicle registration fees consist of two components—a base fee of $46, and an additional fee of $24 that directly benefits CHP. The base vehicle registration fee was last increased in 2011, from $34 to $46. In 2014, the CHP fee increased from $23 to $24 and was indexed to the Consumer Price Index (CPI), allowing the fee to automatically increase with inflation. The current driver license fee is $33 and was last increased by $1 in 2014. The driver license fee is also indexed to the CPI.

The MVA primarily provides funding to three state departments—DMV, CHP, and the Air Resources Board (ARB)—to support activities authorized in the California Constitution. In recent years, expenditures from the MVA have increased. The major cost drivers include:

- ***CHP Officers' Salary Increases.*** The state and the union representing CHP officers negotiated a memorandum-of-understanding (MOU) in 2013 that provides salary increases for CHP officers annually from 2013–14 through 2018–19. The MOU specifies that the increases are determined by calculating the weighted average of the salaries of the state's five largest local police agencies. In 2013–14 and 2014–15, CHP officers received average salary increases of five percent—adding $110 million in costs for the MVA.

- ***CHP Air Fleet Replacement.*** As part of an ongoing air fleet replacement plan for CHP's air fleet of 26 aircraft, the Legislature approved $17 million in 2013–14, $16 million in 2014–15 and annually ongoing, to fund the replacement of CHP aircraft.

- ***CHP Field Office Replacement.*** In 2013–14, the Legislature approved a total of $6.4 million to initiate a multiyear plan to replace existing CHP field offices. The funding supported the acquisition of land for one new office and the advanced planning to replace five additional offices. In 2014–15, the Legislature approved $32.4 million to fund the acquisition of land for the five new offices initiated in the prior year, as well as $1.7 million for advanced planning for five additional replacement projects.

- ***Implementation of AB 60.*** In 2014–15, the Legislature provided resources for DMV to implement Chapter 524, Statutes of 2013 (AB 60, Alejo), which specifies that beginning January 1, 2015, DMV accept driver license applications from persons who are unable to submit satisfactory proof of legal presence in the U.S. Specifically, $67.4 million was provided in 2014–15 and $57.1 million in 2015–16.

In order to help the state meet its spending priorities during the recent recession, $480 million was loaned from the MVA to the General Fund—$300 million in 2010–11 and $180 million in 2012–13.

In recent years, MVA expenditures have increased at a higher rate than revenues deposited into the fund. As a result, beginning in 2014–15, expenditures from the MVA are estimated to exceed the amount of revenues deposited in the fund—thereby resulting in an operational shortfall. Specifically, the MVA is estimated to have revenues of $3.1 billion and expenditures of $3.3 billion in the current year. This would leave an ongoing operational shortfall of about $200 million that will require the use of the MVA’s fund balance, which amounted to $415 million at the start of 2014–15. Such operational shortfalls are likely to continue in 2015–16 and future budget years.

Governor’s Proposals: The budget proposes to repay $480 million in loans that were previously made from the MVA to the General Fund. Specifically, the Administration proposes to repay $300 million in 2015–16 and $180 million in 2016–17. These loan repayments would provide the MVA with additional revenues that can be used to address operational shortfalls identified above—delaying when the MVA becomes insolvent.

The budget also includes proposals that would increase expenditures from the MVA in 2015–16, as well as in subsequent years. The CHP and DMV proposals are discussed in greater detail later in this agenda and include the following:

- ***Additional CHP Field Office Replacements ($136 Million).*** The Governor’s budget proposes $135 million for construction activities for five previously approved CHP area offices and $1 million for planning and site selection activities for up to five CHP area offices. These proposals are part of the Administration’s plan to replace many CHP field offices over several years.

- ***Initiate Multiyear DMV Office Replacement Plan ($4.7 Million).*** The Governor’s budget proposes $4.7 million for pre–construction activities to replace three DMV offices. The out-year replacement cost of these three facilities is roughly $42 million. This proposal is the initial phase of the Administration’s plan to replace eight DMV offices over the next several years.

- ***New ARB Research Facility ($3.8 Million).*** The Governor's budget proposes $3.8 million from the MVA to partially support the costs of evaluating a site and developing performance criteria for a new ARB research facility in Southern California. (Total costs of these activities are $5.9 million, with the remaining $2.1 million supported with other fund sources.) The total cost of the project is estimated to be $366 million and the Administration indicates that a portion of this cost would be supported by the MVA. (The LAO, in its recent report, *The 2015–16 Budget: Resources and Environmental Protection*, finds that the proposal is premature, as the Administration has not yet provided information that justifies the scope, costs, and need for the facility.)

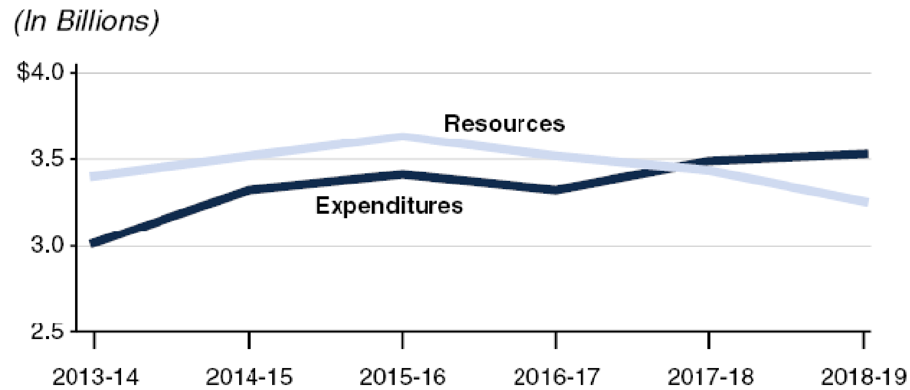
- ***CHP Salary Increase.*** The Governor's budget assumes a salary increase for CHP officers of 3.3 percent for 2015–16 and provides $41 million from the MVA to support these costs. Based on the MOU discussed above, CHP officers will likely receive additional salary increases in 2016–17, 2017–18, and 2018–19.

LAO Comments: While the Governor's proposed loan repayments from the General Fund to the MVA would offset operational shortfalls in the MVA in 2015–16 and 2016–17, the LAO's forecast of MVA revenues and expenditures indicates that the MVA's fund balance will still be depleted by 2017–18—resulting in insolvency. This forecast includes revenue estimates based on historical trends and expenditure estimates based on proposals already approved by the Legislature (such as the multiyear replacement of CHP's aircraft) and those proposed in the Governor's budget (such as the proposed replacement of DMV offices), as well as assumed in the Administration's 2015 Five–Year Infrastructure Plan. The forecast also includes out–year expenditures related to the annual CHP officer salary increases discussed above.

The figure below compares total MVA resources (revenues, proposed loan repayments, and fund balances) with expenditures from 2013–14 through 2018–19. As shown in the figure, absent any corrective actions, the forecast indicates that the MVA would become insolvent in 2017–18 with a shortfall of about $50 million that grows to roughly $250 million by 2018–19. As previously indicated, existing reserves and the loan repayments help prevent the fund from becoming insolvent prior to 2017–18. The LAO also notes that various additional cost pressures could further impact the solvency of the MVA over the next few years, such as possible information technology system replacements being considered by the DMV.

Figure 2

MVA Projected to Be Insolvent Beginning in 2017-18



MVA = Motor Vehicle Account.

Given the projected insolvency of the MVA in the near future—assuming approval of the various proposals in the Governor's budget from the MVA—the Legislature will want to establish its priorities for the MVA and determine how best to address the projected insolvency based on these priorities. While the MVA is not projected to become insolvent until 2017–18, the LAO recommends that the Legislature begin to take steps now to help prevent this insolvency, especially given that the Governor's budget proposals for 2015–16 have fiscal implications in subsequent years. Below, are some of the options the LAO recommends the Legislature consider.

- *Reject Some of the Governor's Capital Proposals.* The Legislature could reject some of the Governor's capital outlay proposals as a way to reduce MVA expenditures in 2015–16 and in future years. For example, the Legislature could not approve any new projects but allow previously approved projects to continue as planned (such as the CHP field offices approved for replacement in the 2014–15 budget). We note that such actions would leave various safety and operational challenges facing certain offices unaddressed.

- *Reduce Other Expenditures.* The Legislature could choose to reduce or delay other expenditures—meaning the base programs supported by the MVA. For example, by delaying expenditures to replace CHP aircraft in future years or reducing CHP salary increases in future years. In addition, the Legislature could reduce base operational costs for CHP and DMV, such as the replacement of equipment or ending certain programs. We note that during the recent recession, CHP delayed vehicle replacements in order to reduce MVA expenditures.

- *Increase Fees.* The Legislature could choose to generate additional revenues by increasing vehicle registration or driver license fees to mitigate the shortfall in the MVA. For example, the LAO estimates that roughly $30 million in additional revenue could be generated annually from a $1 increase in the base vehicle registration fee.

Questions:

LAO:

1. *Please present your concerns about the fund condition of the MVA and recommendations to the Legislature to address the future shortfall.*

DOF:

1. *How does the Administration intend to address the shortfall that the LAO estimates will begin in 2017-18?*

2. *How should the Administration's requests to fund budget proposals that have negative out-year effects on the MVA's fund condition be considered and prioritized?*

Staff Recommendation: Hold open the repayment of the $300 million loan from the MVA to the General Fund. Direct the Administration to come back at the time of May Revision hearings with a prioritization of its 2015-16 budget requests and a strategy for ensuring the long-term solvency of the MVA.

<u>Vote:</u>

Item 2: Update on the Implementation of AB 60

Background: AB 60 (Alejo), Chapter 524, Statutes of 2013 expanded to whom DMV can issue a license 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 establishing identity and residency.

As shown in the figure below, last year's budget provided 822 positions and $64.7 million and established five temporary offices in Santa Clara, Santa Barbara, Los Angeles, Orange, and San Diego counties to implement AB 60. The level of resources requested in 2015-16 is somewhat less, and in 2016-17 the level of resources needed to implement AB 60 are anticipated to drop significantly.

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**

AB 60 is anticipated to result in approximately 1.4 million additional people receiving drivers' licenses (DL) over the next three years. From January 2, 2015 to April 3, 2015, over half-of-a-million Californians have applied for a driver license under AB 60. Most applicants, about 91 percent, are providing the necessary identity and residency documents to obtain a license without further review and 217,000 have obtained a license through this process. A small percentage of these applications, about six percent potentially require additional review, and a smaller percentage of these applicants have not had the necessary documents and were given the option to schedule a Secondary Review Referral to obtain a license.

Staff Comment: It appears that the level of resources and amount of preparation directed towards the implementation of AB 60 has contributed to the smooth roll-out of the program. In addition, post-AB 60 the Statewide Knowledge Test pass rate is roughly the same as the pre AB-60 pass rate. Overall, the average wait times have increased somewhat since last year, however, this is to be expected due to the increase in customer volume at field offices and processing centers.

Staff Recommendation: Informational item only. No action necessary.

Item 3: Licensing: Driver's License and Identification Cards

Governor's Proposal. The Governor's budget proposes an increase of 3.5 one-year limited-term positions ($633,000 Motor Vehicle Account) and two permanent positions ($148,000 reimbursements from the California Department of Corrections and Rehabilitation (CDCR)) to implement the following licensing bills:

- AB 935 (Frazier), Chapter 644, Statutes of 2014
- AB 1733 (Quirk-Silva), Chapter 764, Statutes of 2014
- AB 2308 (Stone), Chapter 607, Statutes of 2014

Background: AB 95 allows personnel who served in the United State Armed Forces to request, during an original, duplicate, or in-person renewal of a driver license or identification card a designator with the word VETERAN to indicate an individual's service. The bill would allow the DMV to charge a $5 fee for the indicator. The DMV requests 2.5 positions and $525,000 for one-time implementation costs.

AB 1733 provides an identification card free of charge to an applicant who verifies that he or she is homeless. It is assumed that 40 percent of California's homeless population of 136,826 will apply. The DMV requests one position and $92,333 for one year only.

AB 2308 expands an interagency agreement between DMV and CDCR to provide ID cards to all eligible inmates being released from a state prison. The program will expand from 13 to 34 CDCR institutions. The DMV requests two permanent positions and ongoing reimbursement authority from CDCR to expand the existing program.

Staff Comment: Staff has no concerns with these proposals. The requested resources are reasonable and consistent with these recently enacted state laws.

Staff Recommendation: Approve as budgeted.

<u>Vote:</u>

Item 4: Capital Outlay: Field Office Replacements

Governor's Proposal. The Governor's budget requests a total of $4.7 million from the MVA for DMV to begin replacement of several of its facilities, specifically those most in need of replacement. This request reflects the initial phase of the Administration's multiyear plan to replace eight DMV facilities over the next several years. Specifically, the budget proposes:

- $1 million to fund the acquisition plan phase of the Delano field office replacement project. The proposed facility would be 10,718 square feet with a total cost of $11.5 million. The current Delano field office is in a leased facility of 3,386 square feet that was built in 1954.
- $1 million to fund the preliminary plan phase of the Inglewood field office replacement project. The proposed facility would be 15,042 square feet with a total cost of $14.9 million. The current Inglewood field office of 20,824 square feet was built in 1972, which includes DMV investigations offices that will not be included in the new facility—resulting in the smaller square footage.
- $2.6 million to fund the acquisition plan phase of the Santa Maria field office replacement project. The proposed facility would be 13,342 square feet with a total cost of $15.5 million. The current Santa Maria field office of 4,387 square feet was built in 1969.

Background: The DMV operates 313 facilities, which include customer service field offices, telephone service centers, commercial licensing facilities, headquarters, and driver safety and investigations offices. Over half of DMV facilities are customer service field offices. According to DMV, most of its field offices are programmatically deficient. For example, the department reports that many customer service field offices were built in the 1960s and 1970s and are not sufficiently sized to accommodate the number of customers who currently use the offices. This is primarily because of population increases in the areas served by the offices. In addition, DMV reports that certain customer service field offices are seismically deficient, creating safety risks.

The Administration's Five-Year Infrastructure Plan proposes $116.5 million from the MVA over the next five years to address critical infrastructure and workload space deficiencies at six existing field offices and at DMV's 62-year old headquarters in West Sacramento. This plan includes the $4.7 million requested for 2015-16.

LAO Comment: The LAO's review of the Governor's proposals, finds that certain DMV field offices face significant programmatic and seismic safety challenges that merit their replacement in the near future. For example, according to data from the department, the Delano and Santa Maria customers service field offices—compared to the other 167 field offices—face some of the most significant space shortages to accommodate their customers and carry out their programmatic responsibilities. In addition, according to a study conducted by the Department of General Services, the Inglewood field office is seismically deficient and faces severe safety risks, compared to most other DMV offices—particularly since the office is located in close proximity to two fault lines.

The LAO notes that while it is reasonable to replace the most deficient DMV customers service field offices, such replacements creates cost pressures on the MVA which is problematic given the LAO's projected insolvency of the MVA beginning in 2017–18. This projection is based in part on approval of the Governor's proposed expenditures from the MVA in 2015–16 and their impact in subsequent years, which includes the proposed replacement of field offices. Thus, the LAO notes the Legislature will want to consider the $4.7 million proposed in the budget for DMV office replacement in the context of meeting its other priorities for MVA funding.

The LAO recommends the Legislature withhold action on the Governor's proposal pending consideration of its various priorities regarding expenditures from the MVA, given the fund's projected insolvency beginning in 2017–18.

Staff Comment: Staff concurs with the LAO analysis and recommendation.

Staff Recommendation: Hold open and direct the Administration to come back at the time of May Revise hearings with a prioritization of its 2015-16 budget requests and a strategy for ensuring the long-term solvency of the MVA.

Vote:

2720 Department of California Highway Patrol

INFORMATIONAL ITEM ONLY

Item 1: Air Fleet Replacement Update

Background: The CHP's Air Operations Program 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.

The 2014 Budget Act approved multi-year funding from the Motor Vehicle Account (MVA) to establish an on-going replacement program for the CHP air fleet. The plan involved replacing aircraft that exceeded 10,000 flight hours and maintaining an air fleet of 26 aircraft. Prior to this, most of CHP's aircraft were acquired using federal funds. The figure below shows the approved funding and replacement schedule.

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

Fiscal Year	Quantity of Aircraft	Funding
2013-14	4 (1 plane and 3 helicopters)	$17
2014-15	4 (2 airplanes and 2 helicopters anticipated)	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

Last year, CHP estimated that, when department specifications are met, an airplane would cost $3.5 million and a helicopter would cost $4.5 million. Actual costs for the airplanes have been in line with estimates; however, future costs may be higher if and when a turbine-powered airplane is identified. Actual costs per helicopter have been higher than estimated—$6.1 million rather than $4.5 million. The higher costs resulted from seeking a single price over the three-year life of the contract, plus the addition of a new, larger fuel cell. According to CHP, due to these higher costs, the number of aircraft purchased in a given fiscal year may be less and the time needed to replace all aircraft may be longer than initially estimated.

Staff Comment: The CHP has begun to replace its air fleet using MVA funds. As noted above, in the past, CHP's fleet was funded with mostly federal funds. Given that there might be federal funds available in the future and the future insolvency of the MVA forecast by the LAO, it would be prudent to consider options that reduce cost pressures on the MVA, such as finding alternative funding sources or slowing down the replacement schedule.

Questions for CHP:

1) *Has there been any indication that federal funds might be available in the future for the purchase of aircraft?*

2) *What are the trade-offs to consider when weighing slowing down the air fleet replacement program to reduce pressure on the MVA?*

Staff Recommendation: Informational only item. No action necessary.

ITEMS PROPOSED FOR DISCUSSION AND VOTE

Item 2: Integrated Database Management Systems Funding

Governor's Proposal. The Governor's budget proposes one-time funding of $894,000 from the Motor Vehicle Account (MVA) to cover cost increases associated with CHP's use of the California Department of Technology's (CDT) Integrated Database Management System (IDMS). The CHP uses this database to support several legacy applications that support key CHP business processes.

Background and Detail: Costs for the 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.

The CHP has begun the process to migrate its databases from the IDMS to a replacement system; they are currently revising a Stage 1 Business Analysis at the direction of CDT. If approved, CHP will proceed with a Feasibility Study Report. The FSR is expected to be completed and submitted in time for the 2016-17 budget cycle. The CDT anticipates that one-time funding for the IDMS replacement project may be requested as early as 2016-17 and that on-going costs would be absorbed within CHP's budget.

Staff Comment: The requested one-time funds are necessary to continue the operation of CHP's legacy systems on IDMS.

Questions for CHP:

1) *Is the FSR still on track to be completed in time for the 2016-17 budget cycle?*

Staff Recommendation: Approve as budgeted.

<u>**Vote:**</u>

Item 3: Capital Outlay: Statewide Planning and Site Identification, and Funding for Five Area Office Replacements

Governor's Proposal. The Governor's budget requests $135 million from the MVA to fund the design and construction of five CHP area offices in Crescent City, Quincy, San Diego, Santa Barbara, and Truckee. The Legislature previously allocated funding for the planning, site selection, and acquisition of parcels for these facilities. The Governor's budget also provides $1 million from the MVA for advanced planning and site selection to replace five additional area offices. The budget does not identify the specific five area offices that would be replaced. The figure below summarizes these proposals including estimated total project costs.

Governor's Budget Proposal for CHP Capital Outlay
(Dollars in Millions)

Proposed Item	2015-16 Request	Estimated Total Project Cost
Statewide Planning and Site Identification Study	$1.0	NA
Crescent City: Replacement Facility	21.3	$23.7
Quincy: Replacement Facility	27.3	29.4
San Diego: Replacement Facility	32.9	45.0
Santa Barbara: Replacement Facility	24.3	34.2
Truckee: Replacement Facility	29.4	35.5
Total	**$136.2**	**$167.8**

In addition, the proposal includes provisional budget language to allow the Department of Finance to provide an augmentation from the MVA of up $2 million to CHP to secure purchase options for parcels. The purchase option would provide the state the exclusive right to purchase a parcel if the project is authorized. The cost of the purchase option is estimated to be about 10 percent of the parcel's value, which the state would lose if the project is not authorized. The language also allows for the use of the design-build procurement method for these facilities.

Background. The CHP operates 103 area offices across the state. These offices typically include a main office building for CHP staff, CHP vehicle parking and service areas, and a dispatch center. Beginning in 2013–14, the Administration initiated a plan to replace five CHP field offices each year for the next several years. For both the current year and prior year, the Legislature has approved funding in accordance to this plan. Specifically, the 2013–14 budget included $1.5 million for advanced planning and site selection to replace up to five unspecified CHP area offices. Based on the results of this advanced planning, the 2014–15 budget provided (1) $32.4 million to fund the acquisition and design for five new CHP area offices in Crescent City, Quincy, San Diego, Santa Barbara, and Truckee, and (2) $1.7 million for advanced planning and site selection to replace up to five unspecified additional CHP area offices.

The Administration's Five-Year Infrastructure Plan proposes $712 million from the MVA over the next five years to replace the five facilities described above in addition to developing budget packages and selecting sites for up to 25 area office projects. The plan notes that the ability to fund these projects is a function of the resources available in the MVA.

LAO Comments: The LAO projects the MVA will become insolvent beginning in 2017–18 based in part on the Governor's proposed expenditures from the MVA in 2015–16 and their impact in subsequent years, which includes the proposed replacement of CHP field offices. Thus, the Legislature will want to consider the $136 million proposed in the budget for CHP office replacement in the context of meeting its other priorities for MVA funding.

In addition, the LAO finds that the proposed budget bill language would limit the type of legislative oversight that is typically provided in the traditional facility replacement process. This is because the proposed language would not allow the Legislature to adequately review and approve the specific offices to be replaced, as well as the proposed scope and estimated cost of each office, before the state commits funding to purchase the actual property. This is problematic because making changes to the scope of the project, after the property is chosen and secured, becomes more challenging.

The LAO recommends the Legislature withhold action on the Governor's proposal pending consideration of its various priorities regarding expenditures from the MVA, given the fund's projected insolvency beginning in 2017–18. To the extent that the Legislature decides to approve the proposed funding for CHP office replacements, the LAO recommends rejecting the proposed budget bill language authorizing CHP to secure purchase options for parcels, as it would circumvent legislative oversight.

Staff Comments: Staff concurs with the LAO analysis and recommends withholding action at this time.

Staff Recommendation: Direct the Administration to come back at the time of May Revision hearings with a prioritization of its 2015-16 budget requests and a strategy for ensuring the long-term solvency of the MVA. In addition, direct the Administration to modify the proposed BBL to reflect a smaller high-priority list of projects for which purchase options for parcels might need to be secured, and a process allowing for legislative notification and justification prior to locking into a site.

Vote: