AGENDA

ASSEMBLY BUDGET COMMITTEE NO. 3 RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, APRIL 11, 2018

9:30 A.M. - STATE CAPITOL ROOM 447

ITEMS FOR VOTE-ONLY

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ITEMS FOR VOTE-ONLY

2600 CALIFORNIA TRANSPORTATION COMMISSION

VOTE-ONLY ISSUE 1: ACCOUNTING AND INSURANCE COST ADJUSTMENT

The Governor's Budget requests $38,000 from the State Highway Account (SHA) and Public Transportation Account (PTA) for the California Transportation Commission's (Commission) to pay for increases for contracted fiscal services and workers' compensation insurance.

BACKGROUND

The Commission contracts with the Department of General Services for accounting services and has recently increased the cost of their services. The State Compensation Insurance Fund provides workers' compensation insurance to state employees and rate increases went into effect July 1, 2017.

The Commission requests an increase of $38,000 in its budget authority to cover the following rate increases: 1) Contracted Fiscal Services contract increase of $32,000, and 2) State Compensation Insurance Fund increase of $6,000.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 2: JOINT PUBLIC MEETINGS REQUIRED BY AB 179

The Governor's Budget requests for the Commission an increase of $35,000 from the SHA and PTA to pay for the travel costs of 13 commissioners and three staff for two joint meetings between the Air Resources Board (ARB) and the Commission required by AB 179 (Cervantes, Chapter 737, Statutes of 2017).

BACKGROUND

AB 179 states that the Commission and the ARB must hold at least two joint meetings per calendar year to coordinate their implementation of transportation policies, including interagency efforts, which shall include, but not be limited to, implementation of the sustainable freight action plan.

Staff Recommendation: Approve as Budgeted

2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION (CALTRANS)

VOTE-ONLY ISSUE 3: CONTINUATION OF PROPOSITION 1B ADMINISTRATIVE SUPPORT

The Governor's budget requests funding for the continuation of positions needed for the Administration of Proposition IB, the "Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006". The request is comprised of two components: 1) 2018-19 funding from Prop 1B proceeds for the continuation of 31 positions totaling $6.5 million and 2) 2019-20 funding for the continuation of 30 positions totaling $5.9 million. Additionally, the request includes a reappropriation of the remaining balance of Proposition IB funds appropriated from the Public Transit Modernization, Improvement, Service Enhancement Account designated for allocation under the State Transit Assistance program.

BACKGROUND

This request continues reductions in the number of staff needed to administer the Proposition 1B program as the money for this program is fully exhausted. Initially, Caltrans had 75 positions administering this program. At this time, approximately 1,700 of 2,300 allocated projects have been completed. Therefore, about 600 projects, or 26 percent, of allocated projects are still in the implementation phase and will require monitoring for several more years before they are complete. Funding for the current positions expires June 30, 2018.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 4: FACILITIES COST ADJUSTMENTS

The Governor's budget requests a one-time augmentation of $2.1 million in 2018-19; a one-time augmentation of $4.4 million in 2019-20; and a permanent augmentation of $6.7 million beginning in 2020-21 from the State Highway Account (SHA) for increased charges from the Department of General Services (DGS) for the maintenance and operation of headquarters and district office buildings.

BACKGROUND

Caltrans occupies 13 headquarters office buildings statewide (12 state-owned and 1 leased) and 18 other office facility leases. The type of services provided by DGS vary by District and/or building, and may include janitorial, building trades (electrical, plumbing painting, etc.), procurement of tools/building equipment, service contracts, etc. DGS's rates for providing these types of services to state departments have increased.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 5: FEDERAL HIGHWAY ADMINISTRATION AUDIT COMPLIANCE

The Governor's budget requests a permanent increase of $835,000 SHA and 7.0 positions to address workload increases resulting from the Federal Highway Administration's (FHWA) clarification of requirements regarding the State's procurement, management and administration of Architectural and Engineering (A&E) contracts.

BACKGROUND

The FHWA has recognized the risk of improper payments for costs not in compliance with Federal requirements and as a result, has made efforts to improve monitoring of state departments of transportation processes for ensuring the proper use of federal funds. An area of risk that has been identified at Caltrans is for indirect cost rates for A&E contracts. Caltrans has been unable to fully comply with federal requirements using its existing oversight resources (8.0 positions for state-administered A&E contracts and 5.0 positions for local agency-administered contracts.) and therefore is requesting additional staff to perform evaluations (specifically of sub-consultants of contracts.) The additional resources would be allocated as follows: 2.0 additional positions for state-administered contracts and 5.0 additional positions for local-agency administered contracts.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 6: SAFETY INSPECTIONS OF HIGHWAY TUNNELS

The Governor's budget requests a permanent increase of $852,000 and 4.0 positions and one-time funding of $30,000 for tunnel management software for federally mandated inspections. The costs for the 53 state-owned tunnels will be fully reimbursed by the FHWA and the inspection costs for the 31 local-agency tunnels will be 88.53 percent FHWA reimbursed and the remainder will be funded with local federal subvention funds.

BACKGROUND

There are 84 highway tunnels on public roads in California, which is the largest number of any state. The 2015 federal mandate expanded tunnel inspections. Caltrans estimates the 4.0 requested positions would inspect 42 tunnels each year in order to comply with the new mandate.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 7: STRATEGIC HIGHWAY SAFETY PLAN

The Governor's budget requests a $3 million increase ($2.7 million in Federal Funds and $300,000 in SHA matching funds) to develop the Strategic Highway Safety Plan required and mandated by the Fixing America's Surface Transportation Act. Of the total request, $1.5 million ($1.35 million in Federal Funding and $150,000 in state matching funds) is ongoing and $1.5 million ($1.35 million in Federal Funding and $150,000 in state matching funds) is one-time.

BACKGROUND

The Federal Highway Administration (FHWA) published Highway Safety Improvement Program (HSIP) and Safety Performance Management Measures Final Rules which require Caltrans to have a Strategic Highway Safety Plan in place by December 2019. This is a new permanent prerequisite in order for Caltrans to continue to receive federal HSIP funds (approximately $200 million annually) and August redistribution funds. The Strategic Highway Safety Plan is a statewide, coordinated safety plan that provides a comprehensive framework for reducing fatalities and severe injuries to motorists, pedestrians, and bicyclists on all public roads. Strategic Highway Safety Plan goals, objectives and annual safety performance targets are data-driven and results are measured. Caltrans will use consultant services to coordinate, develop, and complete its State Highway Plan.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 8: TORT FUND AUGMENTATION

The Governor's budget requests a permanent increase of $7.0 million SHA funds for Caltrans' tort litigation costs and settlement awards. Additionally, the Administration requests budget bill language allowing the Department of Finance the ability to increase funding by up to an additional $20 million following notification to the Legislature.

BACKGROUND

Caltrans' Legal Division defends lawsuits arising from accidents on the state highway system. Caltrans' annual appropriation includes $68.6 million to pay wrongful death, personal injury, and personal property damages and $5 million for litigation expenditures. Caltrans is the subject of approximately $1.5 billion in damage requests resulting from state highway accidents. Based on historical data, a permanent increase of $7 million to pay judgments and settlements is necessary.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 9: VEHICLE INSURANCE INCREASE

The Governor's budget requests a two-year increase of $4.9 million in SHA funds for fleet insurance costs.

BACKGROUND

For the last three fiscal years, Caltrans has lacked adequate funding to cover the cost of its annual insurance premium. In the 2018 Budget Act, Caltrans received a one-time augmentation of $5.5 million SHA to partially cover the cost of the deficiency. In past years, the deficiency was paid for by Caltrans redirecting funding from other activities. This request would cover the shortfall for two years and Caltrans would no longer need to redirect funding from other activities.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 10: PRIVACY AND ENTERPRISE SECURITY ENHANCEMENTS

The Governor's budget requests 4.0 positions and a one-time increase of $10.4 million in State Highway Account (SHA) funds ($699,000 for consulting services and $9.2 million for software and hardware purchases) in 2018-19 and an ongoing increase of $2.1 million SHA (for the 4.0 positions, $60,000 for consulting services, and $1.6 million for software and hardware purchases) to improve the Information Technology Cybersecurity Program, address Payment Card Industry compliance gaps and to develop an Enterprise Privacy Office.

BACKGROUND

In the 2017 Budget Act, Caltrans received funding for 6.0 permanent positions and $4.0 million for Cybersecurity Roadmap Wave 1 activities. The Wave 1 activities were intended to establish the foundation of a Cybersecurity program and assess what was needed to develop a privacy program, and address Payment Card Industry and cybersecurity gaps. In the fall of 2017 Caltrans released by cybersecurity roadmap and these resources will enable Caltrans to implement this plan.

Staff Recommendation: Approve as Budgeted

2670 BOARD OF PILOT COMMISSIONERS

VOTE-ONLY ISSUE 11: PROVISIONAL LANGUAGE FOR PILOT TRAINEE SELECTION EXAMINATION COSTS

The Governor's budget requests provisional language to allow the augmentation of the Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun (BOPC) budget authority by up to $400,000 to fund additional costs associated with administering a Pilot Trainee Training Program selection examination.

BACKGROUND

The BOPC does not anticipate having sufficient budget authority to conduct an examination in 2018-2019 while simultaneously training seven or eight trainees. The BOPC requests the addition of provisional language to its budget item allowing the augmentation of its budget by up to $400,000. This augmentation will provide sufficient funding to allow the BOPC to maintain a full roster of trainees in the program and administer a Pilot Trainee Training Program Selection Examination.

Staff Recommendation: Approve as Budgeted

2720 CALIFORNIA HIGHWAY PATROL

VOTE-ONLY ISSUE 12: RADIO CONSOLE REPLACEMENT PROJECT II

The Governor's Budget requests 4.0 limited-term positions and multi-year funding from the Motor Vehicle Account (MVA) to complete the replacement of antiquated and incompatible dispatch consoles in all communications centers statewide. This proposal requests one-time augmentations of $3.9 million in 2018-19, $4.5 million in 2019-20, $4.9 million in 2020-21, and $509,000 in 2021-22.

BACKGROUND

The CHP operates 25 communications centers statewide, all of which are equipped with dispatch radio console systems to facilitate mission critical voice communications between dispatchers, CHP patrol personnel, and allied agencies. Recognizing the need to address the challenges faced by public safety agencies equipped with aging and incompatible communications equipment, California's 13 largest state public safety agencies worked collaboratively to produce a "unified strategy for communication" titled, the California Public Safety Radio Communications (CAPSCOM) Strategic Plan of 2010. Initial funding for CHP's console replacement project was approved in 2014-15 with a one-time augmentation of $4.9 million for a pilot project to replace 12 dispatch radio consoles at two communications centers. This proposal would provide complete replacement of dispatch radio console systems at the remaining 23 centers under the control of the CHP over a three-year period. A total of 187 consoles will be purchased and installed, replacing all existing older consoles and providing necessary backup consoles at all communications centers.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 13: VEHICLE FLEET REPLACEMENT

The Governor's Budget proposes an ongoing augmentation of $4.5 million MVA for the replacement of its ground fleet, and provisional language to allow a two-year period for encumbrance or expenditure of up to $20 million for the purchase of replacement vehicles. The Administration also requests the deletion of the existing budget language for advance authority for the CHP to incur automotive equipment purchase obligations in an amount not to exceed $5.0 million during the current fiscal year, for delivery in the following fiscal year, payable from the MVA.

BACKGROUND

The CHP maintains a fleet of 4,311 automotive assets. The fleet is composed of 2,869 distinctively marked enforcement vehicles, 571 unmarked enforcement vehicles, 15 command post vehicles specially equipped for deployment to large-scale emergencies, and 856 support vehicles that are used to maintain essential services, such as radio communication towers. Enforcement vehicles, both marked and unmarked, are specially equipped (up-fitting) with lights, siren, weapons and weapons retention systems, and communications equipment.

According to the Department of General Services' vehicle replacement standards, law enforcement vehicles are to be replaced when they reach 100,000 miles. The CHP estimates it must purchase 1,027 enforcement vehicles annually to meet the DGS recommended vehicle mileage threshold. Historically, through 2006-07, CHP purchased in excess of 1,000 fleet assets each fiscal year. However, during the fiscal crises of 2007-08, CHP deferred purchases of replacement vehicles resulting in an unprecedented number of vehicles operating with over 100,000 miles. Between 2008-09 and 2016-17, the CHP purchased an average of 610 enforcement vehicles annually resulting in an average annual shortfall of 417 enforcement vehicles.

The estimated cost of each enforcement vehicle is $25,599. The CHP can purchase and equip up to 1,105 new enforcement vehicles each year at a cost of $28.3 million. The existing resources for vehicle replacement is $23.8 million and the requested permanent augmentation of $4.5 million will help cover the gap in funding.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 14: VEHICLE MOUNTED RADAR UNITS

The Governor's Budget requests $600,000 MVA for both 2018-19 and 2019-20 to purchase vehicle-mounted radar units.

BACKGROUND

Radar equipment is used as a speed enforcement tool that can reduce the incidence of speed related collisions throughout the state. 1998, CHP purchased approximately

2,950 mounted radar units using grant funding from the California Office of Traffic Safety (OTS). By 2003, every marked enforcement vehicle was equipped with radar. The anticipated life expectancy of a mounted radar unit is between 5 and 10 years and by 2010, all of the radar units were out of warranty and repair costs were becoming problematic. Fortunately, CHP received another OTS grant to purchase 2,323 replacement radar units.

Grant money from OTS is no longer available to fund the replacement of radar equipment. This one-time funding will allow CHP to replace radar on marked enforcement vehicles and begin the scheduled replacement of aging radar equipment.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 15: CALIFORNIA HIGHWAY PATROL ENHANCED RADIO SYSTEM (CHPERS) PHASE I (REAPPROPRIATION)

The Governor's Budget requests a reappropriation of $876,000 MVA funding for the working drawings phase of two sites of the CHPERS Phase 1 Replace Towers and Vaults project: Leviathan Peak and Sawtooth Ridge. Construction at these two sites is currently estimated at $10.1 million.

BACKGROUND

Since the previous reappropriation in 2015-16, the United States Forest Service amended its forest management plan (Plan) to prohibit the use of overhead power at the Leviathan Peak site. As a result, power must be provided by a solar array. Upon learning of the amended Plan requirements in June 2017, the Department of General Services has worked on modification of the site layout and additional design to incorporate the solar array.

For Sawtooth Ridge, a new site was selected when negotiations failed at Sacramento Mountain which delayed the project by approximately two years. Currently, easement negotiations with the Bureau of Land Management (BLM) are progressing for the new site, but are not expected to be approved until April 2018. These easements are necessary to allow CHP to cross BLM property and access the Sawtooth Ridge site. Development of preliminary plans is stalled until the State can acquire the site.

It is unlikely that preliminary plans will be completed in the current year for either site, thereby necessitating the need to reappropriate the working drawings phase. Consistent with the approach in 2015-16, CHP seeks to extend the availability of these funds through June 30, 2021 due to the complicated nature of these projects. Construction is anticipated to be completed in July 2022.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 16: CALIFORNIA HIGHWAY PATROL ENHANCED RADIO SYSTEM (CHPERS) PHASE II (REAPPROPRIATION)

The Governor's Budget requests a reappropriation of $6.0 million MVA funding ($4.1 million from 2011-12 and $1.9 million from 2017-18) for the construction phase of two sites of the CHPERS Phase II Replace Towers and Vaults project: Crestview Peak and Silver Peak.

BACKGROUND

The Crestview Peak and Silver Peak sites were previously delayed because they are on United States Forest Service (USFS) land, and the USFS must complete the National Environmental Protection Act (NEPA) review process prior to the state entering into the long-term lease agreement with the USFS that is needed to preserve state access to the site. While NEPA was completed in 2015, the USFS recently mandated redesigns to mitigate the impacts of the tower and vault replacements at Crestview Peak and Silver Peak. For Crestview, the USFS is requiring the addition of retaining walls for erosion control and for preserving a large rock outcropping at the site. For Silver Peak, the USFS is requiring extended retaining walls in order to preserve the ridgeline and peak. These requirements have extended the working drawings phase. It is anticipated that a construction contract will be awarded in the fall of 2018.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 17: KELLER PEAK TOWER REPLACEMENT

The Governor's Budget requests $281,000 MVA for the working drawings phase of the Keller Peak Tower Replacement project.

BACKGROUND

A fully-operational 100-foot communication tower at Keller Peak provides radio coverage in western San Bernardino and Riverside counties for the CHP, as well as three other emergency services agencies. In January 2016, the 28 year-old CHP radio communications tower collapsed due to metal deterioration and weight from inclement weather. The tower was not salvageable. Currently, wooden poles are being installed on a temporary basis and will need replacement. The estimated total cost of a new tower is $2.3 million and it is anticipated the project would be completed in the fall of 2020. This request funds the preliminary plans phase. Last year's budget provided $223,000 MVA for the preliminary plans and construction costs are expected to be $1.8 million in 2019-20.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 18: CONVERSION OF CONTRACT POSITIONS TO PERMANENT POSITIONS

The Governor's Budget requests to convert 3.0 contract positions to permanent state positions and a $133,000 decrease in reimbursement authority.

BACKGROUND

The purpose of this proposal is to generate savings by converting 3.0 contract staff (cost of $500,000) to 3.0 full time, permanent state positions (cost of $367,000). In addition to the cost savings, the conversion of these professional service positions to permanent, state positions will strengthen institutional knowledge that will deepen the CHP Computer Aided Dispatch Support Unit's effectiveness, increase staff retention, and provide increased training opportunities to advance CHP's technology mission. The Department of Parks and Recreation reimburses CHP for this service.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 19: VEHICLE INSURANCE PREMIUM AUGMENTATION (APRIL FINANCE LETTER)

The Administration requests $7.5 million in 2018-19 and 2019-20 to fund the increase in the vehicle insurance premium assessment paid to the Department of General Services, Office of Risk and Insurance Management.

BACKGROUND

The Department of General Services (DGS) has the authority to calculate the costs of insuring motor vehicles belonging to a state agency. In 2012-13, the Department's insurance premium increased to $13.3 million compared to $7.7 million in the prior year. This increase was due to 395 claims against the Department, which resulted in $12.1 million of incurred auto liability costs for the period of July 1, 2010, through June 29, 2011. The Department requested a $5.6 million permanent augmentation due to this increase in vehicle insurance premium assessment. The augmentation increased the Department's baseline funding for vehicle insurance premium to $13,338 million beginning 2012-13. For 2018-19, DGS has communicated that the vehicle insurance premium assessment for CHP is $20.9 million based on expected large settlement claims. It is expected that these claims will also affect premium rates for 2019-20 as the yearly assessments are calculated based on five-year average of claims paid. The need for a permanent increase in baseline funding for vehicle insurance premium will be re-assessed in 2020-21.

Staff Recommendation: Approve as Proposed

2740 DEPARTMENT OF MOTOR VEHICLES

VOTE-ONLY ISSUE 20: HIGH-OCCUPANCY VEHICLES (AB 544) AND REVISED AB 544 REQUEST (APRIL FINANCE LETTER)

The Governor's Budget requests $2.7 million from the Motor Vehicle Account (MVA) for 18.0 positions for one year and 3.0 permanent positions in 2018-19 and funding for postage and printing necessary to implement AB 544 (Bloom, Chapter 630, Statutes of 2017). The ongoing cost of the 3.0 permanent positions would be $675,000 annually.

April Finance Letter Update. An April Finance Letter reduces the January budget request by $1.2 million MVA and 18 temporary help positions and proposes trailer bill language that would reduce DMV’s workload by not requiring a new decal be issued to applicants issued a decal between March 1, 2018 and January 1, 2019 as required by current statute. New decals would still be required for applicants between January 1, 2017 and March 1, 2018.

The revised total request is $1.4 million MVA and 3.0 permanent positions ongoing.

BACKGROUND

AB 544 requires DMV upon expiration of the current Clean Air Decal (CAD) program to create a new program to grant super ultra-low emission vehicles and transitional zero-emission vehicles access to high-occupancy vehicle (MOV) lanes for an approximately four-year period, regardless of vehicle occupancy level. It also would prohibit the issuance of more than one clean air decal per vehicle. AB 544 provides for a repeal date of September 30, 2025.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 21: PERIMETER SECURITY FENCES

The Governor's Budget requests $6.1 million MVA, for the second year of funding for the design and construction of perimeter fences at state-owned DMV field office locations.

BACKGROUND

66 DMV field offices (of 170) report regular problems with afterhours trespassing, and 20 of those offices report serious and ongoing health and safety concerns resulting from these activities.

Nine fencing projects were funded in 2017-18 at $4.0 million MVA; however, because the estimates overlooked certain overhead costs the funding was only sufficient for seven fencing projects. As a result, the remaining two fencing projects need to be funded in 2018-19. Also, since the approval of the 2017-18 proposal, an additional office was determined to be in critical need of fencing and an office for which a replacement was proposed in the 2017-18 five year plan is now eligible and in need of perimeter fencing. In total, 13 projects are proposed in the 2018-19 request. Upon completion, the 2017-18 and 2018-19 appropriations are expected to fund fencing projects at 20 offices.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 22: INFORMATION TECHNOLOGY INFRASTRUCTURE REPLACEMENT

The Governor's Budget requests a one-time operating expense increase of $3.1 million MVA funding for the replacement of outdated critical information technology (IT) infrastructure equipment that has reached its end of life (EOL) and has been identified as a priority to ensure continuity of business operations.

BACKGROUND

DMV has a 2016-21 IT Strategic Plan that emphasizes the importance of replacing IT to keep pace with ever-evolving technology. This request supports IT asset management through routine replacement of EOL equipment, promotes most effective use and maintenance of assets throughout the lifecycle, and ensures their proper upgrading, replacement and disposal. This funding is expected to replace 113 network, servers, and storage devices. The DMV will also have a vendor complete an analysis (estimated cost of $250,000 using existing budget authority) of all the IT infrastructure components and develop a replacement plan that DMV will use to submit a request in 2018-19 for a permanent augmentation for the ongoing replacement needs of IT infrastructure equipment.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 23: FIVE-YEAR INFRASTRUCTURE PLAN –ARLETA, LINCOLN PARK, AND MISSION HILLS INVESTIGATIONS CONSOLIDATION

The Governor's Budget requests $50,000 one-time from the MVA for Department of General Services planning fees; $457,000 MVA in 2019-20; and $692,000 MVA ongoing starting in 2020-21 to relocate the Mission Hills Investigations Office and consolidate it with the Lincoln Park and Arleta Investigation offices in a new leased facility.

BACKGROUND

The proposed consolidation would result in improved and more efficient operations. For example, DMV reports that consolidating the three investigations offices would allow the respective area commanders and deputy chiefs to more efficiently oversee office operations. Similarly, consolidated offices can allow for tenured investigators to mentor less-experienced staff, support efficiencies among the support staff performing clerical duties, and reduce interoffice travel time and costs. According to the Administration, another reason for the proposed office consolidation is that the lessor for the Mission Hills office is unwilling to renew the current lease for the office, which is scheduled to expires in 2020.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 24: SB 611- DISABLED PLACARDS (APRIL FINANCE LETTER)

The Administration requests in an April Finance Letter 3.0 permanent positions and $568,000 from the Motor Vehicle Account in 2018-19 and $238,000 from the MVA in 2019-20 to implement SB 611 (Hill, Chapter 485, Statutes of 2017).

BACKGROUND

SB 611 makes changes to the administration of the disabled person (DP) parking placard and DP license plate program, including but not limited to, requiring applicants to provide proof of their true full name, limiting the number of replacement DP parking placards to four in two years without an applicant obtaining a medical certification, and requiring the department to establish a renewal process that requires applicants to return a renewal notice every six years as opposed to the current automatic placard issuance. Onetime programming costs and additional costs every two years related to the mailing of the DP placard renewal notices will be requested in a future budget request.

Staff Recommendation: Approve as Proposed

ITEMS TO BE HEARD

2665 CALIFORNIA HIGH-SPEED RAIL AUTHORITY

ISSUE 1: 2018 DRAFT BUSINESS PLAN

The High Speed Rail Authority will present the 2018 draft Business Plan. Next, the High Speed Rail Peer Review Group and the Legislative Analyst's Office (LAO) will comment on the plan. Finally, a panel will discuss the bookend projects in Southern and Northern California.

Panel 1: Presentation of the 2018 Draft Business Plan

- Brian Kelly, Chief Executive Officer, High Speed Rail Authority

Panel 2: Evaluation of the 2018 Draft Business Plan

- Lou Thompson or Marty Wachs, Chair or Member, California High-Speed Rail Peer Review Group
- Tom Van Heeke, Fiscal and Policy Analyst, Legislative Analyst's Office

Panel 3: Update on the Southern and Northern California Bookend Projects

- Hasan Ikhrata, Chief Executive, Officer, Southern California Association of Governments
- Jim Hartnett, Executive Director, Caltrain

BACKGROUND

The High-Speed Rail Authority was established in 1996 by SB 1420 (Kopp, Chapter 796, Statutes of 1996) to plan and construct a high-speed train system to connect the state's major population centers. The project was partially funded following the passage of the High-Speed Rail Passenger Bond Act (Proposition 1A) in 2008, which allows the state to sell $9 billion in general obligation bonds for the development and construction of the high-speed rail line while imposing certain requirements on the project. Since then, the State received federal funds for the project and a continuous appropriation of 25 percent of the Cap and Trade proceeds.

As of November 30, 2107, a total of $4.7 billion has been spent on the project. This includes $1.5 billion in Proposition 1A funds, nearly $2.6 billion federal funds, and $617.2 million in Cap and Trade funds.

Business Plan Required Every Two Years. HSRA is required to prepare and submit a business plan outlining key elements of the project to the Legislature every two years. The 2012 plan proposed to accelerate the benefits of high-speed rail through a "blended approach" which utilizes and upgrades existing rail infrastructure wherever possible, combined with increased early investment in the bookends. The 2014 Business Plan maintained the project's cost estimates for Phase 1 from San Francisco to Los Angeles at $68 billion, proposed a number of potential revenue sources, and revised HSRA's ridership and revenue forecasts, but did not significantly alter the construction plan. The 2016 Business Plan was the first plan since construction began. It presented a revised Phase 1 cost of $64.2 billion and proposed to develop the project going towards the north first, instead of the south.

Draft 2018 Business Plan. The HSRA has submitted the Draft 2018 Business Plan and a final version will be adopted in May 2018. The plan revises the Phase 1 cost to a range with a low cost of $63.2 billion and a high cost of $98.1 billion and a midpoint of $77.3 billion. The key changes in the plan are to extend the Central Valley segment into Bakersfield, expand Caltran electrification south of San Jose to Gilroy, make additional investments from San Jose to San Francisco, and to advance work on the Pacheco Pass and Merced tunnels. The plan also proposes to phase implementation and build the segment from Madera to Bakersfield first, then San Francisco to Gilroy, then connect Gilroy to Madera with tunnels as shown in the nearby figure.

EXHIBIT 2.1 SILICON VALLEY TO CENTRAL VALLEY

Funding to Complete the Project. The draft plan identifies the funding necessary to complete the section from Madera to Bakersfield and the likelihood of this funding being available is fairly certain. However, the plan does not fully identify funding to complete the section running from the Silicon Valley to the Central Valley. There could be a funding gap of roughly $15 billion if the project is paid for as Cap and Trade revenues come in. Alternatively, if financing was secured against a portion of the state's stream of Cap and Trade revenues there could be a funding gap of approximately $3 billion.

The plan proposes the remainder of the construction of Phase 1 would be funded by financing the stream of revenues from the operation of the Silicon Valley to the Central Valley section. However, this seems unlikely given that this section would have been in operation for only four years, and which is unlikely to provide a proven-enough record of revenues to borrow against, before the estimated completion of the project in 2033.

Southern California Bookend Projects. There are two key projects related to high-speed rail moving forward in Southern California. The Rosecrans/Marquardt Grade Separation is in the final design stage and construction is expected to begin in 2020. This project will use $76.7 million (total project costs of $155 million) of the Prop 1A bookend funds to address one of the state's most hazardous grade crossing. The project will increase safety, alleviate traffic congestion, and is a major investment towards building High- Speed Rail in Southern California

The Link US (Union Station) will use the remaining $423.3 million of the bookend funds to fund the Link Union Station project. Union Station will remain the epicenter for passengers travelling on local, regional and the future high speed-rail in Southern California. This project will transform the current LA Union Station by building up to 10 new run-through tracks (up to 4 for High-Speed Rail) and a new loop track. The project will enhance rail capacity by up to 63 percent. The project is currently in the environmental stage. The estimated total project cost is about $2.1 billion.

Northern California Bookend Projects. The Caltrain electrification project is a key component of the Caltrain Modernization (CalMod) Program and will electrify the corridor from San Francisco's 4th and King Caltrain Station to the Tamien Caltrain Station in San Jose. Electrification improvements include replacing 75 percent of the diesel-hauled trains with high-performance electric trains (Electric Multiple Units) and increasing service to six trains per peak hour, per direction.

In May 2017, Caltrain received the executed $647 million Federal Transit Administration Full Funding Grant Agreement. With that agreement in place, Caltrain secured all needed funding for the $1.98 billion project. Currently, Caltrain is in construction installing the electrification infrastructure and manufacturing of the new electric trains is underway. Electrified Caltrain service is expected in 2022.

HIGH SPEED RAIL PEER REVIEW GROUP COMMENTS

The HSR Peer Review Group provided a letter to the Legislature summarizing its thoughts on the 2018 draft Business Plan. The Group included in its letter the table below to illustrate the general magnitude and direction of change from Business Plan to Business Plan.

Evolution in Capital Costs, System Size and Demand, Revenue and Net Revenue Forecasts
(Revenue Projections for the Year 2040 re-stated in 2017$)
Capital Cost, Demand and Revenues are Medium Level Estimates

Business Plan	Ph I Capital Cost ($ Billions)	Miles	Capital Cost/Mile ($Millions)	Demand (Millions)	Gross Revenue* ($Millions)	Net Revenue** ($Millions)	Ratio: Net/Gross (%)	Schedule: SF to LA 3 stops
2012	61.0	490	124.5	26.4	1,948.5	1,076.3	55.2	na
2014	61.4	490	125.3	34.9	1,766.0	843.3	47.8	3:08
2016	57.9	520	111.3	42.8	2,512.5	1,566.0	62.3	3:10
2018 draft	67.5	520	129.8	42.0	2,561.0	1,610.0	62.9	3:32 ***

* Farebox revenue plus ancillary revenue
** Gross Revenue minus O&M Costs and ongoing capital replacement
*** To be revised in Final 2018 Business Plan

The Group also summarizes in broad terms the Legislature's choices as:

1. End the project, pay the remaining contractor charges, retain purchased property for state uses where needed and otherwise sell it or return it to its former owners and scrap any work already done. In practice, this would not be practical because the work done so far would have no utility and the federal ARRA money would probably have to be repaid.

2. Complete the existing committed work in the Central Valley and provide connections to the existing San Joaquin service so that use could be made of the investment and the ARRA funding would not need to be repaid. Complete all contracted commitments to local authorities on the Peninsula and in the Los Angeles basin including Phase I environmental clearances. After doing so, end the project. This appears to be the minimum feasible program, though it would leave Cap and Trade appropriations unspent.

3. Complete existing work as described above and, using Cap and Trade receipts provided under current policies, add improvements in electrification from San Jose to Gilroy and upgrade Los Angeles Union Station and the Los Angeles to Anaheim lines. Complete planning and engineering for the Pacheco Pass tunnels and all environmental clearances needed. Defer other commitments for future consideration but continue to pursue potential financial options such as state guarantees of the share and level of Cap and Trade flows. This is basically the program status in the draft 2018 Plan. If the Legislature chooses this approach, it may want to commission a review of the program before authorizing further commitments.

4. Reconfirm the State's commitment to completion of an agreed version of Phase I as contemplated in Proposition lA and provide the Authority with adequate and reliable sources of financing to complete the project. A workable funding plan should be based on the understanding that the project's schedule and costs are likely to change as the project evolves.

STAFF COMMENTS

The draft Business Plan is similar to previous plans in that it highlights the positive aspects of the project and the uncertainty about the funding needed to complete the project. The project has and continues to make a strong economic impact in the Central Valley resulting in an estimated 11,300 job-years of employment and $2 billion in economic activity. Also, the “bookend projects” in Los Angeles and the Bay Area are key to transforming how people move in the most congested areas of the state.

However, since the beginning of the High Speed Rail project there has been the question of where funding would come from to complete the project. The 2018 draft business plan does not identify reliable options for fully funding the project, thus raising the bigger question of if the State should move forward with some or all of the project. The project may help to move people from northern to southern California in a mode that produces less greenhouse gas emissions; however, it will take longer and may be similar in cost to air travel. In addition, the project, beyond the expenditures in the “bookends” may do little to address the state’s most serious congestion in the cities and it is likely to be cost prohibitive to use the service as commuter rail from more affordable regions of the state on a daily basis.

As suggested by the HSR Peer Review Group, the Subcommittee may wish to direct the Administration to commission a study to revalidate the role of high-speed rail in California's transportation network and reaffirm its priority in comparison to other spending needs in the state.

Staff Recommendation: No Action Necessary. Informational Only.

ISSUE 2: INITIAL OPERATING SEGMENT, SECTION 1 BLENDED SYSTEM EARLY IMPROVEMENTS REAPPROPRIATION

The Governor's budget requests a reappropriation of $1.6 billion through June 30, 2022 and extends the liquidation period through June 30, 2024. The request is comprised of:

- $528.4 million [{$380.8 million fiscal year 2010 federal funds and $147.6 million High-Speed Passenger Train Bond Fund (Proposition 1A)] for the Initial Construction Segment (ICS) of the high-speed train, and

- $1.0 billion Proposition 1A for the early improvements within the Bay Area and greater Los Angeles regions, also known as the "bookends".

BACKGROUND

The Budget Act of 2012 appropriated $5.8 billion ($2.6 billion Proposition 1A and $3.2 billion federal funds) for the acquisition of land and construction of the ICS, as well as $1.1 billion Proposition 1A for Bookend projects. This authority expires on June 30, 2018. Due to the complicated nature of these projects additional time is needed encumber and liquidate these funds.

The Authority fully expended approximately $2.5 billion federal funds through 2016-17 and is required to spend approximately $2.5 billion in matching state funds prior to any liquidation of $929 million in federal fiscal year 2010 funds per the terms of the Authority's agreement with the Federal Railroad Administration. The Authority is funding current progress of the ICS with Prop 1A funds, however at its current rate of expenditure, the Authority will not meet the full state match obligation by June 30, 2018.

To date, two Bookend projects have been approved for Proposition 1A funding: the San Francisco Bay Area Caltrain funding plan was approved for $600 million, and the Southern California Rosecrans-Marquardt rail grade separation project was approved for $77 million. A total of $423 million remains available for additional Southern California Bookend Projects. Without a reappropriation, it is currently estimated that over $1.0 billion of bookend funding will remain unencumbered as of June 30, 2018.

STAFF COMMENTS

The bookend projects are critical to making improvements in some of the state's most congested areas. These projects will deliver multiple benefits by reducing greenhouse gas emissions and congestion, and increasing safety.

Staff Recommendation: Hold open

2660 CALTRANS

The Governor's budget includes $13.6 billion all funds for Caltrans in 2018-19, an increase of $2.3 billion, or 20 percent from the current year, and increase of $4.5 billion from 2016-17. This budget includes new funding from Senate Bill (SB) 1, the Road Repair and Accountability Act of 2017 in both the current year and budget year. The proposed budget for Caltrans only includes special funds, with no General Fund support. The total number of proposed positions is 19,518. The figure below shows the proposed expenditures for Caltrans by program and fund source.

Caltrans Budget Summary

(Dollars in Millions)

	Actual 2016-17	Estimated 2017-18	Proposed 2018-19	Change From 2017-18	
				Amount	Percent
Program					
Highways					
Capital outlay projects	$3,370	$3,258	$4,595	$1,337	41%
Local assistance	1,715	2,728	3,393	665	24
Maintenance	1,442	1,992	2,187	195	10
Capital outlay support	1,658	1,852	1,858	6	—
Other	434	467	494	27	6
Subtotals	**($8,619)**	**($10,297)**	**($12,527)**	**($2,230)**	**(22%)**
Mass transportation	$364	$729	$779	$50	7%
Other[a]	156	302	312	9	3
Totals	**$9,138**	**$11,328**	**$13,617**	**$2,289**	**20%**
Fund Source					
Special funds	$3,439	$5,256	$6,607	$1,351	26%
Federal funds	4,603	4,992	5,681	690	14
Reimbursements[b]	939	948	1,100	152	16
Bond funds	158	132	229	96	73
Totals	**$9,138**	**$11,328**	**$13,617**	**$2,289**	**20%**

[a]Includes Aeronautics, Planning, and Office of Inspector General.

[b]Primarily payments from local governments for roadwork activities.

Source: Legislative Analyst's Office

Of the $2.3 billion proposed increase in expenditures, about $878 million relates to the implementation of SB 1 and $99 million relates to other budget proposals. Below is a summary of the proposed increases in spending which are considered in this agenda.

Governor's Proposals for Caltrans

(In Millions)

Proposal	Proposed 2018-19	Out-Year Costs[a] 2019-20	Out-Year Costs[a] 2020-21
Implement Senate Bill 1	$878.2[b]	$878.2	$878.2
Adjust compensation costs	58.0	58.0	58.0
Upgrade information technology			
Security	$10.4	$2.1	$2.1
Equipment	2.0[c]	—	—
Subtotals	**($12.4)**	**($2.1)**	**($2.1)**
Fund liability cost increases			
Tort payments	$7.0[d]	$7.0	$7.0
Vehicle insurance	4.9	4.9	—
Subtotals	**($11.9)**	**($11.9)**	**($7.0)**
Continue existing workload			
Continue Proposition 1B staffing	$6.5	$5.9	—
Continue legal work performed for HSRA	—	2.8	$2.8
Subtotals	**($6.5)**	**($8.7)**	**($2.8)**
Perform federally required activities			
Highway safety plan	$3.0	$1.5	$1.5
Tunnel inspections	0.9	0.8	0.8
Highway spending audits	0.8	0.8	0.8
Subtotals	**($4.7)**	**($3.1)**	**($3.1)**
Implement new road usage charge pilot program	$3.2	$0.7	—
Fund facilities cost increase	2.1	4.4	$6.7
Totals	**$977.0**	**$967.2**	**$958.0**

[a]Reflects changes associated with limited-term funding or full implementation costs. Does not reflect changes in SB 1 revenues expected in the out years.

[b]The Governor's budget displays a $1.3 billion increase. The main reason the Governor's figure is higher is because he treats all capital outlay spending as new in 2018-19.

[c]Proposal allows the Department of Finance to increase by up to $12 million.

[d]Proposal allows the Department of Finance to increase by up to $20 million.

HSRA = High-Speed Rail Authority.

Source: Legislative Analyst's Office

ISSUE 1: ROAD REPAIR AND ACCOUNTABILITY ACT IMPLEMENTATION

The Governor's budget requests funding for projects and staff in accordance with SB 1. The figure below shows the specific programs that SB 1 funds in 2017-18 and 2018-19.

Senate Bill 1 Funding for Caltrans

(Dollars in Millions)

Program	Estimated 2017-18	Proposed 2018-19	Change	
			Amount	Percent
SHOPP[a]	$424	$994	$570	134%
Highway Maintenance Program	421	576	154	37
Transit/intercity rail capital	330	330	—	—
Trade corridors	153	306	153	100
Congested corridors	250	250	—	—
Local partnerships	200	200	—	—
Active transportation	100	100	—	—
Local planning grants	25	25	—	—
Freeway service patrols	25	25	—	—
Totals	**$1,929**	**$2,807**	**$878**	**46%**

[a]Includes $75 million each year from a General Fund loan repayment. Senate Bill 1 dedicates this funding specifically to SHOPP.

SHOPP = State Highway Operations and Protection Program.

Source: Legislative Analyst's Office

The budget proposes $994 million for the State Highway Operations and Protection Program (SHOPP) or highway rehabilitation projects in 2018-19. (Staffing adjustments for SHOPP architects and engineers will be proposed later in the budget process). For the maintenance program, the budget proposes $576 million in 2018-19. $53.6 million of this amount is for 400 new positions. 300 of the new positions will perform routine maintenance (such as filling potholes and crack sealing), while the remaining 100 positions are to oversee construction contracts for major maintenance.

BACKGROUND

SB 1 represents a significant investment in state and local transportation infrastructure needs. Through a mix of new fees and taxes, SB 1 is expected to generate approximately $53.8 billion in revenue over the next 10 years. During this period, this revenue will provide $15 billion for highway repair and maintenance, $4 billion for bridge repair, $3.3 billion in the state's trade corridors, and $2.5 billion for the state's most congested commute corridors. Local roads will receive more than $15 billion for maintenance and repairs, and $2 billion in matching funds for local partnership projects. Transit and intercity rail will receive $7.6 billion in additional funding, and local governments will have access to $1 billion for active transportation projects. Revenue will be allocated evenly between state and local transportation projects and programs, as well as providing resources for several new programs.

LAO COMMENTS

Under the Governor's proposal, the LAO estimates that Caltrans would still have near-term annual funding shortfalls of about $1.6 billion for maintenance and at least $600 million for SHOPP due to the significant backlog of projects. The LAO finds that the Legislature may want to allocate more funding toward major maintenance and less funding toward SHOPP, because major maintenance projects are critical for achieving long-term savings on the state highway system.

Additionally, the LAO notes that the Governor's proposal funds some routine maintenance activities on highway assets—such as guardrails, lighting, and signs—that are not specifically addressed in SB 1. Given SB 1 focused on pavement, bridges, culverts, and transportation management systems, the Legislature could consider if this is consistent with its immediate priorities for repairing California's highways.

STAFF COMMENTS

Neither Caltrans' SHOPP nor highway maintenance programs have been fully funded for many years and the unmet needs in both programs is large. According to Caltrans of the 50,000 lanes of pavement in the state, approximately 26,000 are appropriate for highway maintenance projects and 23,000 are appropriate for SHOPP projects. In some ways it make sense to address the larger road rehabilitation and improvement or SHOPP projects first because these are most likely to cause serious issues on the roadways. Once a SHOPP project is complete, highway maintenance will be used to preserve the asset. Caltrans expects that as the backlog of SHOPP projects is addressed the need for highway maintenance will increase.

The Committee may wish to ask why this proposal allocates more money towards SHOPP projects than towards maintenance projects and how much funding is proposed for routine maintenance of highway assets such as guardrails, lighting, and signs.

Staff Recommendation: Hold open

ISSUE 2: PERSONAL SERVICES ADJUSTMENT

The Governor's budget requests a permanent increase of $58 million from the State Highway Account to correctly align resources to fund all currently authorized positons.

BACKGROUND

The Governor's budget annually includes adjustments for department's budgets to account for changes in compensation costs from collective bargaining agreements and employer retirement rates. These adjustments are based on the number of *permanent* positions authorized for each department. The budget does not provide such compensation adjustments for *temporary* positions. In 2017‑18, Caltrans has about 500 temporary positions. According to Caltrans, this has resulted in it having insufficient funding for all its permanently authorized positions. In addition, the conversion to FI$CAL (the state's accounting system) also created funding shortfalls for its positions.

The proposed augmentation would fully fund about 340 positions that Caltrans otherwise would have to hold vacant. Caltrans plans to allocate the augmentation across its programs based on their historical compensation expenditures and position history. Most of the increase would go to the Highway Maintenance Program ($20.5 million) and administration ($16.1 million).

LAO COMMENTS

The LAO finds the proposal does not document the effects of using temporary positions over time to justify its need for additional funding.

STAFF COMMENTS

In the past, Caltrans was able to cover shortfalls in funding for positions because workload was declining and it was able to hold numerous positions vacant. However, with SB 1 funding, workload is increasing and Caltrans needs to fill the vacancies that resulted in salary savings which were used to cover funding shortfalls. This augmentation will allow Caltrans to fully fund authorized positions to meet the needs of maintenance and project delivery workloads and supporting administrative activities.

Staff Recommendation: Approve as Budgeted

ISSUE 3: ROAD USAGE CHARGE PILOT PROGRAM CONTINUATION

The Governor's budget proposes $3.2 million ($1.4 million State Highway Account and $1.8 million federal funds) for a two year extension of 5.0 positions and $2.5 million for a demonstration project of a pay-at-the-pump charging station alternative.

BACKGROUND

SB 1077 (DeSaulnier, Chapter 835, Statutes of 2014) was enacted to study the feasibility of a "road usage charge"—an amount charged to individuals for each mile they drive—as an alternative to raising revenue for roads through fuel taxes. SB 1077 required a pilot program be conducted to analyze various methods for collecting road usage data and a report by June 2018 on the feasibility of implementing a road charge on a statewide basis.

The pilot program enrolled 5,000 vehicles from volunteer participants to test several options for collecting revenues, including: (1) prepurchased time and mileage permits, (2) manual odometer readings, (3) vehicle plug-in devices, (4) smart phone applications, and (5) a specific built-in technology found in newer vehicles. The pilot program concluded in March 2017 and found that a road usage charge is viable, but identified obstacles that would need to be addressed for each of the methods tested. For example, the two permit options could be difficult to enforce and costly to administer, while the vehicle plug-in devices tested could be obsolete by the time a road usage charge is implemented.

The initial pilot program did not test collecting road usage charges when drivers pay for fuel purchases at the pump. This is because Caltrans determined that cost-effective technology did not exist to transmit mileage data from vehicles to fuel pumps to include in the price of fuel purchases. However, the 2017 Budget Act provided funding to initiate planning for a new pay-at-the-pump pilot program and required the Department to report on its progress in studying a pay-at-the-pump pilot program by July 1, 2018. In early January 2018, Caltrans issued a request for information to gauge market conditions for implementing a pay-at-the-pump pilot program, and received numerous responses which it is currently reviewing. This proposal would allow Caltrans to implement the new pilot program.

LAO COMMENTS

The LAO recommends the Legislature ask Caltrans to provide information summarizing the results of its request for information at spring budget hearings. Once the Legislature has this information, it would be better positioned to evaluate whether to fund the new pilot program.

STAFF COMMENTS

The Administration released an Executive Order to increase zero emission vehicles to 5 million by 2030 and funding is currently being proposed to support this effort. There is a strong need to move away from vehicles that produce greenhouse gas emissions in order to reduce/mitigate the negative impacts of climate change. Less gasoline and diesel fuel will be purchased if more people drive electric vehicles and this will result in a reduction in the tax revenues that are currently used to maintain the state's roadways. The state must find an alternative way to charge users of the state's roadways so that the infrastructure can be maintained. The RUC pilot will need to continue to explore the feasibility of various options.

Staff Recommendation: Hold open

ISSUE 4: INFORMATION TECHNOLOGY INFRASTRUCTURE REPLACEMENT

The Governor's Budget requests a one-time increase of $2 million in State Highway Account (SHA) funds to develop an Information Technology Applications Roadmap. Additionally, the Governor proposes budget bill language authorizing up to $12 million (one-time SHA) to continue replacement of outdated IT infrastructure, contingent upon approval of the Roadmap by the California State Transportation Agency (CalSTA), the California Department of Technology (CDT), and the Department of Finance (DOF).

BACKGROUND

As of June 2016, Caltrans had 10,938 IT infrastructure devices worth approximately $60 million. The 2017 Budget Act provided Caltrans $12 million on a one-time basis to replace its most outdated IT infrastructure that was at greatest risk of failure. Caltrans is on track to complete the replacement of 1,081 devices by June 30, 2018.

LAO COMMENTS

The LAO recommends the Legislature approve the proposed $2 million to develop the roadmap. However, the LAO finds the proposed budget bill language puts the Legislature in the position of approving funds to start implementing the Roadmap without providing the Legislature an opportunity to first review it. Therefore, the LAO recommends the Legislature reject the proposed budget bill language and adopt language that requires Caltrans to submit a copy of the roadmap to the Legislature, and then Caltrans could submit a 2019-20 budget request after the Legislature has had an opportunity to review the roadmap.

STAFF COMMENTS

Caltrans has previously developed an IT Roadmap identifying critical devices that need replacement. This year it is developing a Roadmap for its IT Applications. The two road maps inform each other. Caltrans has been working closely with CDT and expects to complete the IT Application Roadmap during 2018-19. At that time, it would like to begin replacing outdated infrastructure and not have to wait another budget cycle to do so. Caltrans would not make any purchases until the Roadmap is approved by CalSTA, CDT, and DOF. The Subcommittee may wish to adopt budget bill language requiring DOF notify the Legislature receive notification of when the IT Application Roadmap has been completed, prior to the release of the $12 million for the replacement of IT devices.

Staff Recommendation: Hold open

ISSUE 5: HIGH-SPEED RAIL REIMBURSEMENT AUTHORITY

The Governor's Budget requests the extension of 14 existing limited-term positions for an additional two years (beginning July 1, 2019 through June 30, 2021) and $2.8 million in State Highway Account Reimbursement authority for services rendered on behalf of the California High Speed Rail Authority (CHSRA).

BACKGROUND

The CHSRA entered into a reimbursement agreement years ago with Caltrans to use its expertise in eminent domain and to take advantage of the cost-effective attorney billing rate of $88 per hour versus $475 per hour for private firms with similar expertise.

There are unique challenges to the High Speed Rail project and historically the litigation has been more prolonged than routine highway related eminent domain and inverse condemnation cases. Approximately 580 of the more complex acquisitions remain to be acquired. There are 183 of the 580 parcels currently in the eminent domain process. 397 of the 580 parcels are awaiting legal action. It Is estimated that 75 percent of the parcels will go through the eminent domain process and 60 percent of the remaining parcels will proceed through trial. Therefore, the 580 parcels will result in approximately 435 parcels proceeding through eminent domain and approximately 261 being resolved in jury trials. Cases in litigation take, on average, three years to complete trial. These trials are adjudicated with a bench trial on liability and a jury trial to assess damages.

This request includes $1,000,000 of additional operating expenses for expert witness contracts, travel, and court filing fees.

STAFF COMMENT

In the past, Caltrans has requested renewal of the limited term positions and reimbursement authority immediately prior to their expiration. However, this year Caltrans is requesting renewal of reimbursement authority that does not expire until July 1, 2019. Caltrans asserts that this is necessary because renewing in advance of the expiration will eliminate the recruitment and training processes. Yet, this has never been a problem in the past. Renewing the reimbursement authority for these positions is premature and unnecessary at this time.

Staff Recommendation: Hold open

2740 DEPARTMENT OF MOTOR VEHICLES

The Governor's budget includes $1.2 billion mostly from the Motor Vehicle Account (MVA) for the Department of Motor Vehicles (DMV) in 2018-19, which is a 3 percent increase in funding from the current year level. DMV's budget includes 8,308 positions.

ISSUE 1: MOTOR VEHICLE ACCOUNT FUND CONDITION

The Governor's budget proposes $3.8 billion MVA expenditures for 2018-19.

Motor Vehicle Account Expenditures
(In Billions)

Department	2017-18 Funding	2018-19 Proposed Funding
California Highway Patrol	$2.19	$2.19
Department of Motor Vehicles	$1.09	$1.11
Air Resources Board	$0.14	$0.14
Department of Fish and Wildlife	$0.00	$0.02
Other	$0.26	$0.33
Total	**$3.68**	**$3.79**

BACKGROUND

The MVA receives most of its revenues from vehicle registration fees which currently total $83 for each registered vehicle and consist of 1) a base registration fee of $58 and 2) a CHP fee of $25. The MVA also receives a smaller amount of revenues (about $300 million in 2017-18) from the $35 driver license fee. The remaining MVA revenues come from late fees, identification card fees, and miscellaneous fees for special permits and certificates.

The California Constitution restricts most MVA revenues to supporting the administration and enforcement of laws regulating the use of vehicles on public highways and roads, as well as mitigating the environmental effects of vehicle emissions. Accordingly, the MVA primarily provides funding to the California Highway Patrol, the Department of Motor Vehicles, and the Air Resources Board. Since 2012, a portion of MVA revenues (that are not constitutionally restricted) have been transferred to the General Fund. The budget proposes a transfer of $88 million in 2018-19.

The five-year MVA forecast estimates it will have a declining operating surplus. This projection reflects expenditures already approved by the Legislature and those proposed in the Governor's budget, as well as in the Administration's *2018 Five-Year Infrastructure Plan*. Under the Governor's budget the MVA fund balance will be $429 million in 2018-19, falling to $336 million in 2019-20 and stabilizing thereafter as shown below.

MVA Fund Balance Under Two Scenarios
(In Millions)

MVA Fund Balance	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
With CHP Capital Outlay Financed	449	429	336	320	336	323
With CHP Capital Outlay Cash-Funded	449	254	127	111	140	141
Difference	**0**	**-175**	**-209**	**-209**	**-196**	**-182**

A key component of the Governor's proposal for the MVA is to shift funding for CHP's field office replacements from pay-as-you-go, or cash-funded, to financing these costs with lease revenue bonds. This results in a $138.7 million reduction in MVA expenditures in 2018-19. Without this shift and the resulting savings, the fund balance would drop to $254 million in 2018-19 and to $127 million in 2019-20 and it would remain below $150 million through 2022-23 as shown above.

LAO COMMENTS

The LAO finds that MVA's proposed fund balance reasonable. In 2018-19, this amount represents approximately 11 percent of projected expenditures and about 8 percent in the following years, or equivalent to slightly more than one month of expenditures.

The LAO identifies various cost pressures that could affect the condition of the MVA over the next several years, including:

- ***Supplemental Pension Plan Payments.*** The 2017 Budget Act borrowed $6 billion from the state's cash balances to make a one-time supplemental payment to the California Public Employees' Retirement System (CalPERS). All funds that make employer contributions to CalPERS—including the MVA—will repay a share of this loan. The Administration accounts for these annual repayments in its MVA projections, forecasting modest growth in these expenditures from $59 million in 2018-19 to $69 million in 2022-23. However, these could be higher in the coming years.

- ***Deferred Maintenance Costs.*** DMV and CHP have deferred maintenance backlogs totaling $11 million and $39 million, respectively. Because the Administration lacks a plan to ensure that routine maintenance is adequately funded on an ongoing basis, this maintenance backlog could grow and place additional pressure on the MVA.

- ***CHP Officer Salaries and Benefits.*** The state and the union representing CHP officers last negotiated a memorandum of understanding (MOU) in 2013, which provided salary increases annually through 2018-19. The Administration's projections for CHP expenditures assume ongoing compensation increases after 2018-19 in line with historical growth. These costs could turn out to be greater depending on the provisions of a new MOU.

- ***New Federal or State Requirements.*** Legislatively enacted requirements at the state or federal level can result in additional workload and costs for the CHP, DMV, or ARB. For example, the federal REAL ID Act, which required states to implement certain driver license and identification card issuance procedures and security enhancements to prevent fraud, has resulted in new workload and funding requirements for DMV.

STAFF COMMENTS

The Governor's budget proposes an approach to reduce the fiscal pressure on the MVA and ensure that the MVA maintains a reasonable fund balance by shifting how capital outlay projects are funded at CHP. However, at the same time, it proposes to increase fiscal pressure by providing $18 million to the Department of Fish and Wildlife (DFW) to address its funding shortfall. Such action raises concerns because shifting CHP capital outlay projects to financing artificially reduces cost pressure on the MVA and over the long term these projects will actually cost more due to the financing costs. In addition, while the DFW proposal may have merit it also increases pressure on the MVA and expands the use of this limited funding to new activities.

The Subcommittee may wish to have the Administration provide an updated MVA forecast at the time of the May Revision. It may also want to consider other options to reduce fiscal pressure on the MVA. For example, could slow down some of the field office replacement projects at DMV and CHP. Also, rather than transferring the $88 million in annual MVA revenues to the General Fund, the MVA could retain those funds.

STAFF RECOMMENDATION: HOLD OPEN

ISSUE 2: DMV CAPITAL OUTLAY PROPOSALS (JAN BUDGET AND APRIL FINANCE LETTER PROPOSALS)

The Governor's Budget requests $4.8 million from the MVA for various field office capital outlay projects. The Governor's Budget also requests $200,000 from the MVA Motor Vehicle Account to perform advanced planning and analysis for two reconfigurations/renovations proposed for the 2020-21 fiscal year.

An April Finance Letter requests $15.7 million from the MVA for two reappropriations of funding provided in previous years for field office replacements.

BACKGROUND

DMV operates 249 facilities that include customer service field offices, telephone service centers, commercial licensing facilities, headquarters, and driver safety and investigations offices. Over half of DMV facilities are field offices. According to DMV, most of its field offices are programmatically deficient and/or do not meet seismic criteria. Beginning in 2015-16, the Administration initiated a plan to replace a couple of DMV field offices each year for the next several years.

The January budget and April Finance Letters request the following for DMV field office capital outlay projects, as well as funding to plan for two additional sites.

DMV Capital Outlay Proposals for Field Office Projects
(In Millions)

Field Office	2018-19 Request	Total Project Cost
Delano Reappropriation (working drawings)	$0.8	$12.6
Delano Reappropriation (acquisition phase)	$0.6	(see above)
San Diego (Normal Street) Reappropriation	$1.5	$22.3
Santa Maria Reappropriation	$0.9	17.0
Oxnard Reconfiguration	$0.4	$6.6
Reedley Replacement	$1.1	$20.6
Inglewood Reappropriation (construction phase)	$15.1	$17.2
Statewide Planning	$0.2	NA
Total Proposed Capital Costs	**$20.6**	**$96.3**

STAFF COMMENTS

Approving MVA funding for DMV's capital outlay projects should be considered as part of the overall approach to maintaining the solvency of the MVA.

STAFF RECOMMENDATION: HOLD OPEN

VOTE-ONLY ISSUE 3: FRONT END SUSTAINABILITY PROJECT

The Governor's budget requests $15 million MVA in 2018-19 to support the implementation of the Front End Applications Sustainability (FES) project. The annual amount requested over each of the next four years will fluctuate and total $89 million. The proposal includes funding for 3.0 permanent positions beginning in 2018-19 and funding for 7.0 limited-term positions from 2018-19 through 2022-23. The budget also proposes $14.9 million annually beginning in 2023-24 for system maintenance and operation.

In addition, the Governor proposes trailer bill language to authorize DMV to charge an additional $1 fee per transaction to the private industry partners that work with the department to collect registration fees. The revenue from the fee would fund the business partner's portion of the project.

BACKGROUND

Existing System to Process Numerous DMV Transactions Has Functionality Issues. Each year, the DMV issues about 7 million driver licenses and registers roughly 35 million vehicles, and collects $3.5 billion in associated fees. In addition, the department collects and distributes various fees (such as unpaid parking penalties) on behalf of local authorities and other state agencies. According to DMV, its current vehicle registration and fee collection system, referred to as the legacy system, is dependent on approximately 45-year old technology, which is inflexible and fragmented leading to significant challenges.

Efforts to Replace Existing System Began Over Ten Years Ago, But Was Terminated in 2013. In 2005, DMV began an effort to replace the legacy system. In 2006, the Legislature approved the project with an estimated total cost of $242 million and full implementation scheduled for May 2013. However, due to the inability of DMV staff and the vendor to reach a mutual agreement the project was terminated in January 2013. At that time, $135 million had been spent on the project. When the vendor closed out its work in the spring of that year, not all of the modernization work was fully completed. Specifically, upgrades to the vehicle registration system and cashiering functions, and updates to DMV's code were left unfinished.

Current Effort Is Intended to Complete Upgrades to the Legacy System. Following the termination of the project, DMV and CDT initiated efforts to complete the unfinished upgrades to DMV's legacy system. This project, the Front End Applications Sustainability (FES) project, is currently proceeding through the state's IT project approval process and its four stages—known as the Project Approval Lifecycle (PAL).

DMV completed Stage 1 for the FES project in 2016 and Stage 2 at the end of 2017. The department is currently entering Stage 3 and expects to complete Stage 4 in January 2019. As part of the 2017-18 budget, the Legislature approved up to $3.4 million to support pre-project activities related to Stage 3, including the preparation of a Request for Procurement.

LAO COMMENTS

The LAO finds it is premature to approve funding for the remainder of the project prior to completion of the planning process, specifically Stage 4, which DMV currently expects to complete in January 2019. The LAO recommends the Legislature adopt supplemental reporting language requiring that DMV provide a status report on the FES project to the Legislature within 45 days following CDT's approval of Stage 4. At a minimum, this report should include (1) an updated project cost and completion date; (2) terms of the vendor contract (such as key vendor responsibilities, what options are available should the vendor fail to perform, and first-year project milestones); and (3) how the department plans to prepare employees for use of the new system. This report would provide the Legislature with the necessary baseline information to hold DMV accountable as the project progresses.

STAFF COMMENTS

According to CDT moving forward with this request would not circumvent its review process. The intent of providing funding in 2018-19 is to ensure that the procurement for this project is not delayed assuming it clears Stage 4 mid-year.

The proposed trailer bill language requires DMV to charge a $1 transaction fee to recoup a portion (25 percent) of the estimated one-time project costs that benefit private industry business partners. DMV estimates the business partners' share of costs would be approximately $19.2 million, and with a $1 fee this would be recouped in about three years. Currently this language does not have a sunset. According to DMV, this flexibility permits DMV to collect the appropriate share of the project's cost from business partners should the project cost change. The Subcommittee may wish to consider modifying the Administration's proposed language and sunset the $1 fee in five years.

Staff Recommendation: Hold open

2720 CALIFORNIA HIGHWAY PATROL

The Governor's budget includes $2.4 billion all from non-General Fund sources for the California Highway Patrol (CHP) in 2018-19, which is about the same level of funding as the current year. The CHP has 10,856 positions, including 7,600 uniformed officers.

VOTE-ONLY ISSUE 1: CHP CAPITAL OUTLAY PROPOSALS (JAN BUDGET AND APRIL FINANCE LETTER PROPOSALS)

The Governor's budget proposes to shift five area office replacement projects at CHP from a direct "pay-as-you-go" approach to financing using lease revenue bonds. This would result in the reversion to the MVA of $138.7 million in previously authorized funds. The Governor's budget requests $174.2 million in lease revenue bond authority from the Public Buildings Construction Fund.

The Governor's budget also requests a reversion of the unexpended authority appropriated for the Santa Barbara Area Office Replacement Facility capital outlay project in 2014-15 and 2015-16, trailer bill language to authorize a lease-purchase agreement, or a lease with an option to purchase as options for the build-to-suit lease.

April Finance Letter Updates. An April Finance Letter proposes changes to CHP's January capital outlay requests. First, it increases by a total of $30.3 million the lease revenue bonds authority requested in January due to project cost increases as follows:

- Quincy: Replacement Facility- $4.2 million
- El Centro: Area Office Replacement- $10.0 million
- Hayward: Area Office Replacement- $10.0 million
- San Bernardino: Area Office Replacement- $6.2 million

Second, the Administration requests to increase MVA expenditures by $3.7 million and decrease lease revenue bonds by $38.4 million to reflect the following actions:

- Santa Barbara: Area Office Replacement- Withdraw the trailer bill language proposed as part of the Governor's January budget proposal.
- Ventura: Area Office Replacement- Withdraw the Governor's budget request for $38.4 million in lease revenue bonds for the design-build phase of this project.
- Santa Fe Springs: Area Office Replacement- Add $1.9 million MVA for the performance criteria phase of this project.

- Baldwin Park: Area Office Replacement- Add $1.7 million MVA for the performance criteria phase of this project.

BACKGROUND

CHP Area Office Replacements Began Years Ago. The CHP operates 103 area offices across the state. In 2013-14, the Administration initiated a plan to replace a few of the most outdated and unsafe CHP field offices each year for the next several years. Accordingly, the Legislature has approved MVA funding in each of the past fiscal years for advanced planning and site selection, and for the replacement of offices. Nearly all of the office replacement projects over the last 10 years at CHP have been funded directly from the MVA.

Small Reserve Forecast for the Motor Vehicle Account Fund. As discussed in the MVA Fund Condition write up earlier in this agenda, there will be fiscal pressure on the MVA in the near future.

Budget Proposes to Revert Previously Authorized MVA Funds and Shift Funding Method to Financing. As shown below, under the Governor's proposal, $138.7 million in previously authorized funds would revert to the MVA. Including the proposal to build a new office in Quincy financed by lease revenue bonds, the budget proposes $174.2 million in lease revenue bond authority. The proposal will relieve pressure on the MVA in the near-term, but assuming 25-year lease revenue bonds, CHP estimates that the total cost of the amount of funding financed--$174.2 million—will be $278.2 million.

Financing Projects Saves Money Now, But Costs More Over Time
(In Millions)

	Amount Proposed to Revert to MVA	**Lease Revenue Bond Authority**	**Cost Including Debt Service**
El Centro	$30.3	$30.4	$48.7
Hayward	$38.1	$38.1	$61.0
Ventura	$37.1	$38.4	$61.5
San Bernardino	$33.2	$34.2	$54.7
Quincy	*	$32.7	$52.3
Total**	**$138.7**	**$173.8**	**$278.2**

*Funding reverted in 2015-16 due to challenges with acquiring a site.
** An April Finance Letter that withdraws the Venture project and increases the lease revenue bond authority by $30.3 million for other capital outlay projects is not reflected in this table.

STAFF COMMENTS

If the proposed CHP projects were cash-funded, instead of financed as proposed by the Administration, the MVA reserves could be under $150 million for several years. The proposed change reduces the immediate fiscal pressure on the MVA, but over the long term, because of the costs associated with borrowing, making this shift will consume more of the available MVA funding over time.

The CHP notes that not making this change would drop the MVA reserve below a prudent level and could result in some projects being delayed due to a lack of cash funding. However, it is likely that some projects will be delayed on the natural. For example, the Administration withdrew the Ventura project in early April due to the inability to find a suitable site. Also, not funding the Department of Fish and Wildlife from the MVA as the Administration proposed would reduce fiscal pressure on the MVA. The Subcommittee may wish to have the CHP provide an update on the progress of each of these projects at the time of the May Revision to identify potential delays and cost savings to the MVA in 2018-19.

Staff Recommendation: Hold open