

**ASSEMBLY BUDGET SUBCOMMITTEE NO. 5
ON TRANSPORTATION AND INFORMATION TECHNOLOGY****ASSEMBLYMEMBER MANNY DIAZ, CHAIR****WEDNESDAY, MAY 7, 2003
STATE CAPITOL, ROOM 127
4:00 P.M.**

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NOTE: ALL DEPARTMENTS, INCLUDING THE TRANSPORTATION COMMISSION, WILL BE HEARD AGAIN AFTER THE RELEASE OF MAY REVISION.

ITEM 2640 SPECIAL TRANSPORTATION PROGRAMS

The Special Transportation Programs is the budget line item for the State Transit Assistance (STA) program and is one of the state's primary sources of financial support for public transportation. The program will provide about \$96 million in the current year to over 100 transit operators statewide, largely to support public transportation operating costs. For 2003-04, the budget proposes \$100.4 million for STA, an increase of 4.6 percent over the current-year level.

The STA program is funded from the Public Transportation Account (PTA). Currently, revenues from the sales tax of diesel fuel as well as a portion of gasoline sales tax revenues are deposited in the PTA. Under current law, 50 percent of PTA revenues are allocated to the STA program to provide financial assistance for public transportation, including transit planning, operations, and capital acquisition. The remaining 50 percent of PTA funds are used to support Inter-City Rail Services, the Mass Transportation program in the Department of Transportation, and transportation planning.

ISSUE 1: PROPOSITION 42 FUNDING

The Governor's proposed budget suspends Proposition 42, which provides a significant amount of funding to the STA by allocating a portion of sales tax revenues from gasoline to the PTA.

The budget for the Special Transportation Programs line item will conform to the actions taken by the Subcommittee on Issue 1 under Caltrans later in this agenda.

**ITEM 2660 CALTRANS**

The Department of Transportation (Caltrans) is responsible for planning, coordinating, and implementing the development and operation of the State's transportation systems. These responsibilities are carried out in five programs. Three programs—Highway Transportation, Mass Transportation, and Aeronautics—concentrate on specific transportation modes. Transportation Planning seeks to improve the planning for all travel modes and administration encompasses management of the department.

The Governor's proposed budget includes total expenditures of \$6.4 billion by Caltrans in 2003-04. This is about \$670 million, or 9.5 percent, less than estimated current-year expenditures. This decrease is largely due to a significant projected drop in funding for capital improvements on state highways.

ISSUE 1: SUSPENSION OF PROPOSITION 42

The primary budget issue regarding Caltrans is the Governor's proposal to suspend Proposition 42 and transfer responsibility for the Traffic Congestion Relief Program (TCRP) to Caltrans.

BACKGROUND:

The Governor's budget projects Proposition 42 revenues to be approximately \$1.1 billion for the budget year. The funds would be allocated as follows:

- \$678 million to the TCRP for 141 specified projects.
- 40 percent of the remaining funds would go to the State Transportation Improvement Program (STIP).
- 40 percent of the remaining funds would go to local governments for local streets and roads improvements (split evenly between cities and counties).
- 20 percent to the PTA.

In addition to the \$1.1 billion projected in the Governor's budget, high gasoline prices have resulted in more sales tax revenues being collected. However most of these revenues would go directly to the PTA rather than being allocated pursuant to Proposition 42 as a result of the "spillover" provision of existing law.

At a previous hearing, Caltrans and the Transportation Commission provided information showing that of the \$678 million for TCRP projects, only \$459 million would be needed to meet the cash flow needs of existing allocations and new allocations made after July 1, 2003.

COMMENTS:

As part of the process for crafting an April Budget Reduction package, the Assembly Democrats proposed rejecting the Governor's Proposition 42 suspension plan, and instead proposed a \$500 million loan to the General Fund (GF). The language to accomplish this is contained in AB 1748.

The primary goal of the proposal was to protect the important economic impact of the Proposition 42 revenues going to critical transportation projects. Not only do these funds go to high paying jobs, but the projects themselves open the door to significant economic development in localities throughout the state.

Here are the elements of the \$500 million loan proposal:

- Provide the entire \$459 million needed to meet the cash flow needs of the 141 TCRP projects. The balance (\$219 million) is then loaned to the GF.
- Block the spillover of sales tax revenue from going to the PTA and instead allocate the funds to Proposition 42.
- Loan a total of \$281 million from the remaining elements of Proposition 42, including the STIP, local streets and roads, and the PTA.

The language contained in AB 1748 divides this loan evenly among the three elements, however, the Subcommittee may wish to consider alternative formulas.

For example, since the PTA is losing the entire spillover, maybe the PTA should not be required to contribute to the loan. This would place a higher burden on the STIP and local government elements, but it is the STIP that stands to gain the most from denying the Governor's proposal (since the 141 TCRP projects would have to compete for STIP funds with new STIP projects), and local governments are the only element of the TCRP to receive their funds over the past two years.

- The loan would need to be repaid following a schedule established by the Department of Finance to ensure the cash flow needs are met, but the entire amount must be repaid no later than June 30, 2009.

The Subcommittee may wish to consider more specific repayment requirements.

ISSUE 2: AERONAUTICS ACCOUNT TRANSFER

The Governor's proposed budget includes transferring a total of \$6.7 million (\$5.2 million in the current year and \$1.5 million in the budget year) from the Aeronautics Account to the GF.

BACKGROUND:

The proposal to transfer the funding from the Aeronautics Account to the GF is part of the Governor's solution from closing the \$34.6 billion budget gap. Of the Governor's entire solution, approximately \$700 million includes transfers from various funds.

The Assembly approved this proposal as part of the March Mid-Year budget reduction package. The Senate, however, took this transfer out of the package that ultimately passed the Legislature.

The Assembly Democrats also included this transfer as part of the \$5.8 billion package. The final package that ultimately passed the Legislature once again did not include this transfer.

COMMENTS:

The Department of Finance should report at the hearing whether the entire \$6.7 million is still available to transfer at this time, and how much of the remaining amount could be transferred entirely in the budget year, should there be no current year action.

ISSUE 3: LOCAL ASSISTANCE CUTS TO ENVIRONMENTAL PROGRAMS

The Governor's proposed budget includes reducing certain environmental programs by \$25.5 million over the current year and budget year. The reductions are all from the State Highway Account and are as follows:

	<u>2002-03</u>	<u>2003-04</u>
Environmental Enhancement and Mitigation Program	\$6.5 million	\$10 million
Community Based Transportation Planning	\$3.0 million	\$3.0 million
Community Empowerment Planning		\$3.0 million

BACKGROUND:

The Environmental Enhancement and Mitigation Program (EEMP) has been in place since 1991 and provides grants for local projects to mitigate the negative effects of transportation projects.

The Community Based Transportation Planning and the Community Empowerment Planning grants programs have been in place for two years and enable transportation projects to better suit local community needs.

COMMENTS:

These are three important programs that the Governor proposed cutting to help address the condition of the State Highway Account.

The May Revision will include an update on the condition of the SHA. At that time, the Subcommittee may wish to restore funding for these programs, all or in part.

ISSUE 4: CONTINUOUS APPROPRIATION OF FEDERAL METROPOLITAN PLANNING FUNDS

Local metropolitan planning organizations receive federal planning funds that are allocated by Caltrans. However, the funds are not allocated until the state budget is enacted.

BACKGROUND:

The Budget Committee has received a proposal for Trailer Bill Language to be adopted that would allow for the continuous appropriation of the federal funds under the following circumstances:

1. The State has received federal funds for that purpose and the funds cannot be used for any other purpose
2. No State funds are required to match the federal funds
3. The funds are provided to a metropolitan planning organization in accordance with a State approved work program
4. The affected region or regions are subject to federal laws, which require that their regional transportation plan be regularly updated to ensure that it is in conformity with a federal regional air quality attainment plan
5. The work is necessary for regional transportation planning.

COMMENTS:

There are several continuous appropriation issues being proposed this year throughout many areas of the budget, including health, human services, education, and state employee pay.

The Budget Committee is not taking any actions on any of these proposals at this point. Therefore, this issue should be considered in the context of the rest of the proposed continuous appropriations.

ITEM 2665 HIGH SPEED RAIL AUTHORITY

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The HSRA is required to prepare a plan for the financing, construction, and operation of a high-speed network for the state that would be capable of achieving speeds of at least 200 miles per hour. The HSRA has completed its business plan, initial finance plan, and currently is completing an initial program Environmental Impact Report (EIR) and related technical studies.

ISSUE 1: PROPOSED CONSOLIDATION WITH CALTRANS

The Governor's proposed budget includes the consolidation of the HSRA with Caltrans, beginning in the 2003-2004 budget-year. If approved, the HSRA board would continue to exist, but Caltrans staff would assume responsibility for support and administration of the program. This proposal could provide as much as \$589,000 in special fund(s) savings.

COMMENTS:

The Legislative Analyst Office (LAO) is concerned that the proposed consolidation would reduce accountability, complicate lines of authority and responsibility, and not improve the programs effectiveness.

In addition, while the proposal would result in minor savings, much of it would come from absorbing HSRA staff into Caltrans existing position authority. The LAO therefore concludes that Caltrans is over funded for staff by \$250,000 if they are able to absorb the new workload without expanding staff. The goal of the consolidation is to save state funds and to bring the expertise of Caltrans to the high-speed rail project.

ITEM 2700 OFFICE OF TRAFFIC SAFETY

The Office of Traffic Safety (OTS) administers the California Traffic Safety Program. Under the provisions of State law, the office conducts a wide range of activities designed to reduce deaths, injuries and property damage that results from traffic accidents. Activities include: (1) developing the California Highway Safety Plan, which identifies major traffic safety problems, appropriate countermeasure programs and available state and federal funds; (2) administering funds to State and local governmental entities in the form of project grants; and (3) coordinating statewide traffic safety programs and activities. The nine priority areas of traffic safety are alcohol and drugs, occupant protection, pedestrian and bicycle safety, traffic records, emergency medical services, roadway safety, police traffic services, motorcycle safety and speed control.

Funding for the OTS in the current year is \$84.6 million. Of this amount, \$79 million is awarded for grants. The Governor's proposed budget continues funding the OTS at the same level, however, as part of the Business, Transportation and Housing Agency consolidation, as discussed below.

ISSUE 1: CONSOLIDATION OF OTS WITH BUSINESS TRANSPORTATION HOUSING AGENCY

The Governor's proposed budget consolidates the OTS within the Business, Transportation, and Housing Agency.

According to the Governor's proposed budget, there would be a consolidation savings of \$135,000 in contract expenditures, which would be redirected to local grants.

COMMENTS:

The LAO has the following concerns with the proposed consolidation:

- The OTS currently functions efficiently and effectively and has been well administered.
- The proposed consolidation only saves \$135,000 out of an \$85 million budget. And, instead of these funds all going to local grants, the LAO believes \$39,000 of this amount should be reverted to the Motor Vehicle Account.
- Additional savings could be achieved with a more comprehensive consolidation proposal.

ITEM 2720
ITEM 2740**CALIFORNIA HIGHWAY PATROL (CHP)**
DEPARTMENT OF MOTOR VEHICLES (DMV)

The California Highway Patrol (CHP) is responsible for ensuring the safe, lawful, and efficient transportation of persons and goods along the State's highway system, and providing protective services and security for state employees and property.

The Governor's proposed budget includes \$1.07 billion for the CHP, a reduction of \$3 million from estimated current year amounts.

The Department of Motor Vehicles'(DMV) objectives are: (1) to protect the public interest in vehicle and vessel ownership, to provide various revenue collection services for State and local agencies and to provide miscellaneous registration-related services through the vehicle and vessel registration and titling process; (2) to promote highway safety and financial responsibility by regulating the issuance and retention of driver licenses and to provide personal identification services to drivers and non-drivers; and (3) to provide public protection by licensing and regulating occupations and businesses related to the manufacture, transport, sale and disposal of vehicles and occupations and businesses related to the instruction of drivers in the safe operation of vehicles on the highways.

The Governor's proposed budget includes \$682 million for the DMV, a reduction of \$4 million from estimated current year amounts.

ISSUE 1: MOTOR VEHICLE ACCOUNT CONDITION

The primary issue regarding the CHP and the DMV in the Governor's proposed budget is the Motor Vehicle Account (MVA) fund condition.

The MVA derives most of its revenues from vehicle registration and driver license fees. In 2002-03, those fees account for 89 percent of the estimated \$1.4 billion in MVA revenues. The majority of MVA expenditures support the activities of the CHP (70 percent), the DMV (22 percent), and the Air Resources Board (5 percent).

Under the Governor's proposed budget, the MVA has total resources of \$1.8 billion, expenditures of \$1.5 billion, and a final fund balance of \$284 million.

The above figures assume several factors – including MVA fees being raised, federal funds finally coming into the MVA to reimburse increased anti-terrorism costs, and CHP costs being shifted to other funds –if they do not occur, the MVA will end the budget year with a significant deficit.

The Governor's proposed budget includes the following revenue increases for the MVA totaling \$163 million:

(in millions)

Proposal	2003-04 Amount	Annual Ongoing Amount
Increase vehicle registration fees from \$30 to \$37.	\$95	\$190
Increase non-commercial driver license fees \$15 to \$24 for 5-year license.	\$30	\$67
Increase identification card fees for non-seniors from \$6 to \$20 and eliminate the \$3 fee for seniors.	\$9	\$19
Standardize various transaction fees.	\$15	\$31
Impose Business Partner Automation fee.	\$2	\$2
Enact new penalties for failure to file transfer of title documents.	\$12	\$24
Total	\$163	\$333

The Governor's proposed budget also anticipates the receipt of \$170 million in federal funds to reimburse the MVA for increased anti-terrorism costs. As the primary funding source for the CHP, the increased security costs since September 11, 2001 have been a significant pressure on the MVA. To date, however, the federal government has not provided any funds to backfill the increased costs.

To reduce MVA expenditures, the Governor's proposed budget shifts \$86 million in CHP expenditures to different funding sources, including \$15.7 million to the SHA, \$41 million to the State Emergency Telephone Number Account (911), and \$31 million to the Public Safety Surcharge Fund (newly proposed fund).

COMMENTS:

The LAO is concerned that the Governor's proposed solutions to the MVA problems might not be adequate.

Expenditures for the MVA are likely to be over \$100 million higher than budgeted. This is a result of the budget not funding the existing memorandum of understanding for salary and health benefit costs. The Governor's proposed budget includes significant savings from reopening state employee contracts that have been established through the collective bargaining process. Changes to the existing contracts are also subject to the collective bargaining process.

In regards to the new penalty for not paying vehicle transfer fees, the LAO notes that the DMV has a difficult time collecting the existing fee and may also have difficulty tracking violators to collect the proposed penalty.

In addition, the LAO is concerned about the proposed fund shifts. Specifically, the LAO is concerned that the 911 account fee increase does not have sufficient nexus to the CHP activities. According to the LAO, the fee is collected to cover the costs of maintaining and operating the 911 telephone system, while the CHP would use the increased revenues to cover the costs of responding to 911 calls.

The LAO believes the fund shift to the SHA to cover the costs of certain highway activities, such as removing debris from the highway, would be cumbersome and inefficient to track.

As a result of these uncertainties and concerns, the LAO recommends the Legislature consider raising the standard DMV fees (\$1 registration fee generates \$27 million, \$1 drivers license fee generates \$7.5 million, and a \$1 fee on various transactions generates \$8.5 million) and/or reducing CHP and DMV expenditures.