California State Assembly

Agenda

Assembly Budget Subcommittee No. 4
on Climate Crisis, Resources, Energy, and Transportation

Assemblymember Steve Bennett, Chair

Wednesday, April 17, 2024
9:30 A.M. – State Capitol, Room 447

Non-Presentation Items: Staff have suggested the following items do not receive a formal presentation from the Administration in order to focus time on the most substantial proposals. Members of the Subcommittee may ask questions or make comments on these proposals at the time designated by the Subchair or request a presentation by the Administration at the discretion of the Subchair. Members of the public are encouraged to provide public comment on these items at the designated time.

Public Comment will be taken in person after the completion of all panels and any discussion from the Members of the Subcommittee.

Items To Be Heard

Various

Issue 1: Transportation Budget Solutions

The Governor's budget proposes $4.3 billion in General Fund solutions from transportation programs during the budget window (2022-23 through 2024-25). These proposals include

- Making $2.8 billion in cash flow adjustments, which revert General Fund that has already been awarded to projects with the intent to restore the funding in a future year when it would be needed to cover expenditures.

- Delaying $1 billion in program expenditures, which reduces costs in 2024-25 with the intent of restoring the funding in 2025-26.

- Shifting $796 million in expenditures from the General Fund to the Greenhouse Gas Reduction Fund (GGRF).

- Cutting $296 million.

These specifically include:

- Delays $2.125 billion of competitive Transit and Intercity Rail Capital Program funding to as late as 2027-2028, and shifts $529.7 million from General Fund to the Greenhouse Gas Reduction Fund.

- Delays $1 billion of the Formula based Transit and Intercity Rail Capital Program funding from 2024-2025 to 2025-2026, and shifts $261.4 million General Fund to the Greenhouse Gas Reduction Fund in 2024-2025. ***(Adopted in early action)***

- Cuts $200 million from the Active Transportation Program and delays $400 million, with $300 million to 2025-2026 and $100 million to 2026-2027.

- Delays $150 million General Fund from the Highways to Boulevards from 2021-2022 to $50 million per year over three years.

- Delays $100 million for the Port and Freight Infrastructure Program from 2024-2025 to 2026-2027. ***(Adopted in early action)***

- Cuts $96 million from the Port of Oakland. ***(Adopted in early action)***

All new, one-time appropriations from budgets 2021-2023. The following one-time, discretionary appropriations in the list below were made in past years' budgets outside of the various transportation packages. Members of this subcommittee may wish to consider asking questions regarding implementation status and could consider cutting these appropriations to help address the deficit to the extent that funds remain.

California Department of Transportation (Caltrans)

2022-23

- $5.8 million in both 2023-24 and 2024-25 and $4.5 million in 2025-26 to continue and hire additional homeless encampment liaisons and support long-term planning efforts.

2021-22

- $1.1 billion over a three-year period for the Clean California Initiative, which supports activities such as highway litter abatement, state and local beautification projects, and a public education campaign.
- $7 million to support the liberty canyon wildlife crossing project.
- $2.7 million annually over a two-year period to hire homeless encampment liaisons.

Department of Motor Vehicles (DMV)

2023-24

- $4.5 million for implementation of Chapter 314 of 2021 (AB 796, Berman) related to the Motor Voter Program.

2022-23

- $7.5 million net increase due to withdrawals of prior year appropriations and reappropriations for various field office projects including: Santa Maria, Inglewood, and Reedley. (A similar $2 million upward adjustment for the Oxnard field office is excluded because the Governor proposes shifting the funding to Lease Revenue Bonds as part of the 2024-25 budget.)
- $3 million for the acquisition phase of the DMV El Centro/Brawley Field office Replacement.

2021-22

- $186.3 million for Real ID resources and operational improvements.
- $39.9 million for facilities improvements.
- $18.4 million for the construction phase of the Reedley Field Office Replacement.
- $18.1 million for the construction phase of the Santa Maria Field Office Replacement.
- $18 million for charter bus operator relief.
- $13.5 million for the working drawings and construction phase of the Oxnard Field Office Reconfiguration.
- $10 million to develop a mobile driver license pilot project.

- $5 million for Inglewood swing space (spread across 2021-22 through 2024-25).
- $3.7 million for Oxnard swing space (spread across 2021-22 through 2024-25).
- $2.6 million for the performance criteria phase of the San Francisco Field Office Replacement.

California Highway Patrol (CHP)

2023-24

- $11.3 million for the performance criteria phase of five office replacement projects (roughly $2 million each): Antelope Valley, Barstow, Los Banos, Porterville, and Redding.

2022-23

- $10.6 million over three years ($4 million in 2022-23, $3.3 million in 2023-24 and 2024-25) for the highway violence task force.
- $6 million annually through 2024-25 (increasing to $10.5 million in 2025-26 and $15 million in 2026-27 and ongoing) for the retail theft taskforce.
- $5.8 million for the construction phase of the enhanced radio system project at Leviathan Peak.
- $5.5 million General Fund for sideshow task force.
- $3 million for the acquisition phase of the Barstow office replacement.
- $2.5 million for the acquisition phase of the Los Banos area office replacement.
- $2.2 million for the performance criteria of the Gold Run area office replacement.
- $1.8 million for the acquisition phase of the Redding Area office replacement.
- $1.2 million for the acquisition phase of the Porterville area office replacement.

2021-22

- $10 million for deferred maintenance projects.
- $1.6 million for the acquisition and performance criteria phases of the Humboldt area office replacement.
- $1.5 million for the acquisition phase of the Gold Run area office replacement.

Panel

This panel will feature representatives from the Department of Finance (DOF), and Legislative Analyst's Office (LAO), the California State Transportation Agency (CALSTA), and the Department of Transportation (Caltrans).

LAO Comments

Recommend Legislature Adopt Most Proposed Solutions. Given the General Fund condition, the LAO recommends the Legislature adopt the proposed cash flow adjustments, certain fund shifts, and reductions. These actions would reduce cost pressures on the General Fund in the near term with minimal impacts to existing programs and infrastructure projects. The LAO notes that the proposals do come with some trade-offs for the Legislature to consider. First, the cash flow adjustments add out-year cost pressures to the General Fund, which would complicate projected future deficits and necessitate additional General Fund solutions in the coming years. The Legislature has limited flexibility around ultimately providing these funds given the state has already committed them to specific projects. Second, the proposed reductions would result in fewer projects being funded for active transportation and the Port of Oakland. On balance, however, the LAO finds the General Fund benefits that the proposals would yield are sufficient to justify their adoption.

Recommend Identifying Additional Options in Case They Are Needed. The Legislature could need additional General Fund solutions if the budget problem worsens and/or if it wishes to reject some of the Governor's proposals. Some options the Legislature could consider to generate additional General Fund savings from transportation programs include reducing funding for the formula-based portion of the Transit and Intercity Rail Capital Program (TIRCP), using other transportation special funds to replace some one-time General Fund, and replacing General Fund for existing competitive TIRCP commitments with the program's base funding that would otherwise support future projects. Finding additional savings will necessarily result in the trade-off of supporting fewer transportation activities overall compared to what was originally intended in prior budget agreements, whether that be for transit and rail projects or highway maintenance. While this process will be challenging, taking the time to research and select potential options over the spring will better prepare the Legislature to make decisions in May and June when it will not have much time to gather information and carefully consider program trade-offs before the budget deadline.

Background

Overview of California's Transportation System. California's transportation system consists of streets, highways, railways, airports, seaports, bicycle routes, and pedestrian pathways. All of these various modes provide people and businesses the ability to access destinations and move goods and services throughout the state. Funding for the state's transportation system comes from numerous local, state, and federal sources. State funding primarily comes from various fuel taxes and vehicle fees that are dedicated to specific transportation purposes. In 2024-25, total state transportation funding from these sources is estimated to be $14.6 billion. (This does not include revenues from vehicle fees that support the Department of Motor Vehicles and the California Highway Patrol.) Most of this funding is dedicated to maintaining, rehabilitating, and improving state highways and local streets and roads, with a smaller amount supporting transit operations and capital improvements.

Recent Budget Packages Included Significant Augmentations for Transportation. The 2022-23 budget package planned for significant multiyear General Fund augmentations for transportation programs. In total, these augmentations intended to provide $10.9 billion over a five-year period. This included $9.5 billion through a Transportation Infrastructure Package and $1.4 billion through a Supply Chain Package. The augmentations represented unprecedented levels of General Fund for these types of programs, many of which historically have been supported with state transportation revenue sources. This anomalous General Fund spending was enabled by the significant tax revenue surpluses the state received—and expected to receive—over the past few years.

To help address the General Fund shortfall that began materializing last year, the 2023-24 budget made several modifications to the Transportation Infrastructure and Supply Chain packages. Specifically, the budget shifted costs for certain programs—such as the Active Transportation Program (ATP)—from the General Fund to the State Highway Account (SHA) and delayed funding for certain programs—such as the Port and Freight Infrastructure Program—to future years. Overall, the budget agreement sustained the same overall amounts for the various programs within each package across a multiyear period. The budget also allowed transit agencies facing operational funding shortfalls to use the $4 billion provided and planned for the formula-based component of TIRCP for operational (rather than just capital) expenditures. Figure 1 displays the multiyear funding totals for each package as revised by the 2023-24 budget agreement.

Figure 1 Transportation Funding Packages as Revised in 2023-24 Budget Agreement
General Fund Unless Otherwise Noted (In Millions)

Program	Dept.	2021-22 and 2022-23[a]	2023-24	2024-25	2025-26	2026-27	Totals
Transportation Infrastructure Package		**$4,550**	**$2,600**	**$2,000**	**$350**	**—**	**$9,500**
Competitive TIRCP	CalSTA	$3,650[b]	—	—	—	—	$3,650[b]
Active Transportation Program	Caltrans	750	$300[c]	—	—	—	1,050[c]
Highways to Boulevards Pilot Program	Caltrans	150	—	—	—	—	150
Grade separation projects within competitive TIRCP	CalSTA/ Caltrans[d]	—	—	—	$350	—	350

Local climate adaptation programs	Caltrans	—	200[c]	—	—	—	200[c]
Formula-based TIRCP	CalSTA	—	2,000	$2,000	—	—	4,000
Clean California Local Grant Program	Caltrans	—	100	—	—	—	100
Supply Chain Package		**$670**	**$250**	**$250**	**$210**	**—**	**$1,380**
Port and Freight Infrastructure Program	CalSTA	$600	$200[c]	$200	$200	—	$1,200[c]
Supply chain workforce campus	CWDB	30	40	40	—	—	110
Port operational improvements	Go-Biz	30		—	—	—	30
Increased commercial driver's license capacity	DMV	10	10	10	10	—	40
Other		**$280**	**$410**	**$230**	**$230**	**$230**	**$1,380**
Port of Oakland improvements	CalSTA	$280	—	—	—	—	$280
Zero-Emission Transit Capital Program	CalSTA	—	$410[e,f]	$230[e]	$230[e]	$230[e]	1,100[e,f]
Totals		**$5,500**	**$3,260**	**$2,480**	**$790**	**$230**	**$12,260**

[a]Funding for Transportation Infrastructure Package and Supply Chain Package were provided as part of the 2022-23 funding agreement, but some funding was scored to 2021-22.

[b]Includes $300 million dedicated to adapting certain rail lines to sea-level rise, as well as $1.8 billion for projects in Southern California and $1.5 billion for projects in Northern California.

[c]Includes funding from the State Highway Account.

[d]CalSTA is responsible for awarding funds, but a portion of the funding will be included in Caltrans' budget to reflect awards to projects on the state highway system.

[e]Includes funding from the Greenhouse Gas Reduction Fund.

[f]Includes funding from the Public Transportation Account.

TIRCP = Transit and Intercity Rail Capital Program; CalSTA = California State Transportation Agency; Caltrans = California Department of Transportation; CWDB = California Workforce Development Board; Go-Biz = Governor's Office of Business and Economic Development; and DMV = Department of Motor Vehicles.

Figure 1 also displays $1.4 billion included for certain other significant transportation spending not adopted as part of the two thematic packages. This includes $1.1 billion planned across 2023-24 through 2026-27 from various special funds to support the Zero-Emission Transit Capital Program. This new program was created as part of the 2023-24 budget package to further support transit agencies across the state. The program provides formula funding for agencies to purchase zero-emission transit vehicles and related infrastructure and—for those agencies facing operational funding shortfalls—also can be used to cover operational expenses. The figure also includes $280 million from the General Fund provided as part of the 2021-22 budget package to support infrastructure improvements at and near the Port of Oakland.

State Faces a Multiyear, Multibillion-Dollar Budget Problem. Due to a deteriorating revenue picture relative to expectations from June 2023, both the LAO and the administration anticipate that the state faces a significant multiyear budget problem. A budget problem—also called a deficit—occurs when funding for the current or upcoming budget is insufficient to cover the costs of currently authorized services. Estimates of the magnitude of this shortfall differ based on how "baseline" spending is defined—the administration estimates a $38 billion problem whereas in January the LAO estimated that the Governor's budget addresses a $58 billion problem—as well as somewhat different revenue projections. Regardless of these distinctions, it is clear that the state faces the task of "solving" a substantial budget problem. More recent fiscal data summarized in the February publication, *The 2024-25 Budget: Deficit Update*, indicate the budget outlook continues to worsen—the LAO now estimates the state has a $73 billion deficit to address with the 2024-25 budget. The Governor proposes to address the 2024-25 budget problem through a combination of strategies, including relying on reserves and reducing recent one-time spending commitments. Given that the transportation policy area was one of the largest categories for recent one-time investments, the Governor targets these programs for a notable share of spending solutions. Moreover, both the LAO and the administration estimate that based on current revenue forecasts, the state will face significant operating deficits in subsequent fiscal years. Under the administration's January projections, even after adopting the Governor's proposals, the state still would face operating deficits of $37 billion in 2025-26, $30 billion in 2026-27, and $28 billion in 2027-28.

Governor's Proposals

Governor Proposes Several Budget Solutions in Transportation. The Governor proposes various budget solutions that reduce General Fund spending on transportation programs by a total of $4.3 billion across the budget window (2022-23 through 2024-25). These solutions all come from recent General Fund augmentations for transportation that were provided through budget agreements over the last three years. However, the Governor proposes to restore about

$3.3 billion of the postponed and delayed General Fund spending in future years, so the net savings across the multiyear forecast period totals only $1.1 billion. As shown in Figure 2, the Governor relies on four main strategies to provide General Fund relief. Figure 3 provides more detail on the proposed changes including impacts across fiscal years. The specific changes include:

- ***$2.8 Billion in Cash Flow Adjustments.*** The Governor proposes $2.8 billion in General Fund cash flow adjustments. This strategy would revert funding previously provided back to the General Fund (resulting in savings during the budget window), with the intention to reappropriate the funds in future years based on when the administration expects the money will be needed to cover project expenditures. These cash flow adjustments include (1) $2.1 billion for competitive TIRCP, (2) $400 million for ATP, (3) $150 million for the Highways to Boulevards Pilot Program, (4) $100 million for the Port and Freight Infrastructure Program, and (5) $40 million for the supply chain workforce campus. The administering departments have already committed these funds for specific projects through grant awards so grantees are in the process of undertaking planning, permitting, and other pre-construction activities. Figure 3 displays the administration's estimates for when the grantees would actually need the cash on hand to support the awarded projects (shown as positive values in the chart reflecting when the state would provide the funds). Under the proposal, all the postponed expenditures associated with cash flow adjustments would continue to be supported by the General Fund when they resume in future years, with the exception of $530 million for competitive TIRCP in 2024-25. The Governor proposes to fund that portion with GGRF instead.

- ***$1 Billion Delay.*** The Governor proposes to delay $1 billion in General Fund spending for formula-based TIRCP from 2024-25 to 2025-26. Unlike the cash flow adjustments, the delayed funding is not tied to specific projects—because these funds were planned for the budget year, the California State Transportation Agency (CalSTA) has not yet received authority to allocate the funds to local agencies.

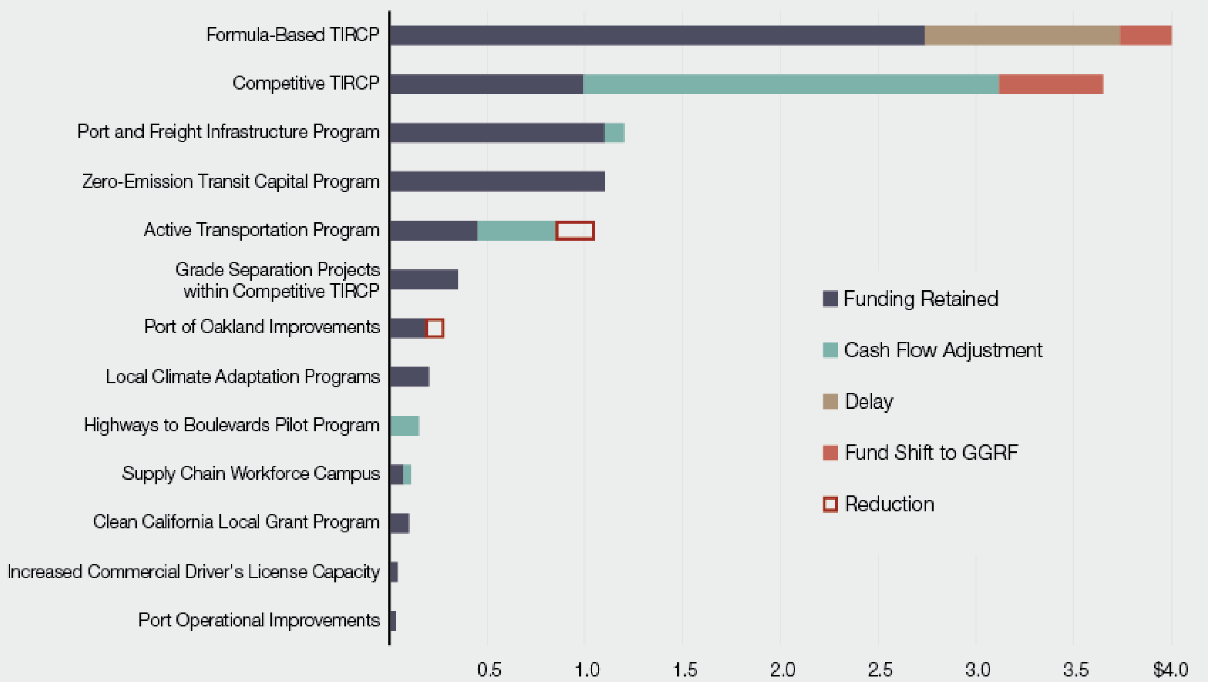
- ***$791 Million in Fund Shifts.*** The Governor proposes shifting expenditures totaling $791 million from the General Fund to GGRF in 2024-25. These fund shifts include $261 million planned for formula-based TIRCP and $530 million for competitive TIRCP. (The LAO notes that the latter amount is intended to cover budget-year costs associated with the proposed cash flow adjustment for competitive TIRCP. As such, the resulting General Fund savings are reflected in the current year as part of the $2.8 billion total cited above.)

- ***$296 Million in Reductions.*** The Governor proposes reducing $296 million in total spending across two programs: $200 million from ATP and $96 million from the funding provided for the Port of Oakland (both from the General Fund).

Figure 2

Governor's Proposed Transportation Budget Solutions

2021-22 Through 2027-28 (In Billions)



TIRCP = Transit and Intercity Rail Capital Program and GGRF = Greenhouse Gas Reduction Fund.

LAO

Figure 3 Governor's Proposed Changes to Transportation Funding
General Fund Unless Otherwise Noted (In Millions)

Program	Dept.	Total	Proposed Changes[a]			New Amounts Proposed
			2023-24	2024-25	2025-26 Through 2027-28	
Transportation Infrastructure Package		**$9,500**	**-$2,875**	**-$420**	**$3,095**	**$9,300**
Formula-based TIRCP	CalSTA	$4,000	—	-$1,000[d]	$1,000	$4,000[b]
Competitive TIRCP	CalSTA	3,650	-$2,125	530[b]	1,595	3,650[b]

Active Transportation Program	Caltrans	1,050[c]	-600	—	400	850[c]
Grade separation projects within competitive TIRCP	CalSTA/ Caltrans	350	—	—	—	350
Local climate adaptation programs	Caltrans	200[c]	—	—	—	200[c]
Highways to Boulevards Pilot Program	Caltrans	150	-150	50	100	150
Clean California Local Grant Program	Caltrans	100	—	—	—	100
Supply Chain Package		**$1,380**	**—**	**-$140**	**$140**	**$1,380**
Port and Freight Infrastructure Program	CalSTA	$1,200[c]	—	-$100	$100	$1,200[c]
Supply chain workforce campus	CWDB	110	—	-40	40	110
Port operational improvements	Go-Biz	30	—	—	—	30
Increased commercial driver's license capacity	DMV	40	—	—	—	40
Other		**$1,380**	**-$96**	**—**	**—**	**$1,284**
Zero-Emission Transit Capital Program	CalSTA	$1,100[b,e]	—	—	—	$1,100[b,e]

Port of Oakland improvements	CalSTA	280	-$96	—	—	184
Totals		**$12,260**	**-$2,971**	**-$560**	**$3,235**	**$11,964**

[a]Positive values reflect new proposed spending in that year due to the resumption of cash-flow adjustments or delays.

[b]Includes funding from the Greenhouse Gas Reduction Fund (GGRF).

[c]Includes funding from the State Highway Account.

[d]Includes a $1 billion delay and a $261 million fund shift from the General Fund to GGRF.

[e]Includes funding from the Public Transportation Account.

TIRCP = Transit and Intercity Rail Capital Program; CalSTA = California State Transportation Agency; Caltrans = California Department of Transportation; CWDB = California Workforce Development Board; Go-Biz = Governor's Office of Business and Economic Development; and DMV = Department of Motor Vehicles.

Assessment

While Multiple Programs Impacted, Most Funding Sustained. The proposed solutions would affect several programs in various ways. Overall, however, the Governor's proposals would sustain the vast majority of multiyear transportation funding. Specifically, the Governor's budget would sustain $12 billion, or 98 percent, of the total augmentations intended for transportation programs.

Cash Flow Adjustments Avoid Programmatic Impacts but Create Cost Pressures in Future Years. The proposed $2.8 billion in cash flow adjustments would help alleviate cost pressures in the near term by reducing General Fund commitments in 2023-24. If the state reappropriates the funding by the time the projects need it for construction, this budget solution should not have any significant programmatic impacts. However, these proposals would create cost pressures for the General Fund in future years when this spending resumes, making addressing projected out-year deficits more difficult. Moreover, unlike some other spending delays the Governor proposes across the budget (including for formula-based TIRCP, as discussed below), the Legislature would not have the flexibility to opt not to resume the expenditures in the future—at least not without causing significant fiscal and logistical disruptions for projects and their local sponsors. This is because, as noted, the state has already committed the funds associated with these cash flow adjustments to specific projects. Once grant awards are made, grantees reasonably expect that funding is forthcoming and take steps such as entering into contracts and initiating pre-construction activities.

Proposed Fund Shift for Competitive TIRCP Is Reasonable. The Governor's proposal to shift $530 million for this program to GGRF saves General Fund without impacting projects that have already been awarded funding through the program. (This funding would be provided in 2024-25 as one portion of the proposed cash flow adjustment delays.) As noted above, the state has limited options to avoid providing this funding if it does not want to cause significant disruptions, given it has already entered into project commitments with the awarded grantees. If the state must fund the projects, doing so with a source other than General Fund makes sense in light of the budget condition. Moreover, the proposed fund shift aligns with the goals of GGRF because the projects funded through TIRCP are intended to reduce greenhouse gas emissions.

Delay for Formula-Based TIRCP Achieves Short-Term Savings but Creates Out-Year Cost Pressures. As noted, the Governor proposes to delay $1 billion planned for formula-based TIRCP from 2024-25 until 2025-26. This would generate General Fund solution in the budget year, while also preserving total planned funding for the program across the multiyear period. However, this proposal would create cost pressures in 2025-26. This is particularly important given that the LAO and the administration project multiyear operating deficits. Unlike competitive-based TIRCP, these funds have not yet been committed for specific projects so the obligation to ultimately provide the funds is somewhat less binding.

Reductions to ATP and Port of Oakland Are Reasonable Given Budget Problem. While the proposed reductions to these two activities would result in fewer projects in future years, they would not impact any current projects. Specifically, for ATP, the proposal would not affect funding that has already been awarded to projects. Instead, the proposed $200 million reduction would be applied to future grant-award cycles. The proposal would allow the program to maintain $850 million of the original planned multiyear amount and thereby still accomplish a significant number of projects. Similarly, the Port of Oakland would keep $184 million for projects that are underway. While the port has identified projects that could be supported with the remaining $96 million, it has not yet obligated the funding, so it could accommodate the reduction with minimal disruption. As such, the LAO finds the proposals to be reasonable ways to address the General Fund problem.

Additional Solutions May Be Needed if Budget Problem Worsens. The Legislature likely will be seeking options for alternative budget solutions if it chooses to reject some of the Governor's proposals. Moreover, in the event that the budget condition worsens (our current revenue projections suggest this is likely), the Legislature will need to identify additional solutions in order to meet its constitutional requirement to pass a balanced budget. The LAO has identified a few options the Legislature could consider, but none are without trade-offs.

- ***Reduce Rather Than Delay $1 Billion for Formula-Based TIRCP; Reduce Additional $1 Billion.*** Unlike competitive TIRCP, formula-based TIRCP is not awarded to specific projects. Instead, the funding is provided on a formula basis to regional agencies. This affords the Legislature more flexibility about potentially changing its funding intentions without disrupting projects to which it has already committed. Specifically, it could reconsider providing the $2 billion in General Fund originally planned for 2024-25. This could entail reducing rather than delaying the $1 billion the Governor proposes providing in 2025-26 instead of 2024-25, and additionally reducing the $1 billion the Governor proposes to retain in the budget year. (As highlighted above and discussed next, the Governor proposes funding $261 million of this retained amount with GGRF.) However, such a reduction would impact the ability of local transit agencies to support operations or locally planned infrastructure improvements.

- ***Redirect GGRF for Other Activity, Reduce Formula-Based TIRCP.*** Given the changed state budget situation, the Legislature will need to consider whether a one-time augmentation for formula-based TIRCP still is among its highest priorities. For instance, should a different activity represent a higher priority (such as if a worsening budget picture puts funding for ongoing base programs at risk), the Legislature could opt to shift less than the proposed $261 million GGRF to formula-based TIRCP—or none at all—reducing overall support for the program instead. The Legislature could then utilize the freed-up GGRF to support another activity—transportation or otherwise—that might face reductions given the General Fund condition. As mentioned in the previous bullet, however, such a reduction would impact local transit operations and/or capital projects. (This approach would not yield additional savings if the Legislature opts to reduce all the funding for formula-based TIRCP in 2024-25.)

- ***Shift Funds From Transportation Accounts to Replace General Fund.*** The Legislature could consider shifting funding for certain programs from the General Fund to state transportation funds such as SHA or the Road Maintenance and Rehabilitation Account (RMRA). The Legislature took a similar action last year, when it shifted $650 million of the one-time General Fund augmentations for transportation to SHA. This approach could provide additional opportunities for achieving General Fund savings but comes with some limitations and trade-offs to consider. First, revenues from both accounts are restricted to specific transportation purposes under the California Constitution, so some limitations exist regarding which activities they could be redirected to support. Second, fund shifts would result in less funding available for other activities currently supported by the funds. For instance, any redirections from SHA ultimately would result in less funding available for state highway maintenance and rehabilitation projects. SHA funds the California Department of Transportation’s State Highway Operation and Protection Program, which supports capital projects that rehabilitate and reconstruct the state highway system. In the budget year, the program is estimated to have $5.2 billion for projects through a combination of state and federal funds. The Legislature also would want to consider any potential fund shifts from SHA within the context of the $650 million it shifted last year and the state’s goals for highways. Similar trade-offs would apply for any potential redirection from RMRA, which also funds state highway maintenance and rehabilitation projects, along with providing funds to cities and counties for local streets and roads and supporting several smaller programs. RMRA is projected to have revenues of $4.9 billion in 2024-25.

- ***Use Future Base Funding to Replace General Fund Augmentations for Competitive TIRCP.*** In addition to the one-time General Fund augmentations described above, competitive TIRCP receives an annual base amount of funding from GGRF and transportation improvement fee revenues, which is provided through a continuous appropriation. CalSTA currently is in the process of starting its 2024 competitive TIRCP grant cycle, with plans to award about $800 million from these base funds this fall to support new projects over the next five years. Instead of selecting new projects to support with these funds, the Legislature could statutorily direct CalSTA to use them to fulfill the state’s commitments to some of the projects already awarded funds from the one-time

General Fund augmentations to competitive TIRCP. (Because of delays in project implementation and the resulting cash flow adjustments proposed, the state has some flexibility around the timing of when to provide these funds even though projects have already been promised grant awards.) This action essentially would allow the state to sustain funding for local projects to which it has already committed *and* reduce General Fund expenditures. However, this approach would result in the state supporting fewer overall transit and rail improvement projects over the coming years.

Recommendations

Approve Cash Flow Adjustments. The LAO recommends the Legislature adopt the Governor's proposed $2.8 billion in cash flow adjustments as they will help address the General Fund condition without programmatic impacts. While postponing providing these funds will create cost pressures in future budget cycles, the state has already committed these amounts for specific projects and, as such, has limited flexibility around making reductions without creating significant disruptions. The proposed approach can help the General Fund condition in the near term but the state will need to prepare to provide the funds in the coming years despite the challenging budget situation.

Approve Fund Shift for Competitive TIRCP. The LAO recommends approving the proposed $530 million fund shift from the General Fund to GGRF for competitive TIRCP. This shift would help the state meet its commitment to funding projects that have already received grant awards while also saving General Fund.

Approve Proposed General Fund Reductions for ATP and Port of Oakland. The LAO recommends the Legislature adopt the proposed General Fund reductions for ATP ($200 million) and the Port of Oakland ($96 million). While these proposals reduce funding for potential projects in the future, they do not impact support for existing projects. In the cases of both activities, a notable amount of funding would be maintained to help accomplish key objectives, albeit at a reduced level. Due to the budget condition, the LAO finds these proposals to be reasonable.

Use Spring Budget Process to Identify Additional Potential Budget Solutions in Transportation. The LAO recommends the Legislature take steps now to identify additional options for generating General Fund solutions from transportation programs. Taking such steps will help position the Legislature to respond should the budget problem worsen—which the LAO thinks is likely—and if the Legislature seeks to modify the Governor's proposed approach. Some options the Legislature could consider include reducing funding for formula-based TIRCP (reducing General Fund and/or reducing and redirecting GGRF), using other transportation special funds to replace some one-time General Fund, and replacing General Fund for existing competitive TIRCP commitments with the program's base funding that would otherwise support future projects. None of these options are without trade-offs. Overall, reducing General Fund ultimately will mean supporting fewer transportation activities compared to what was originally intended in prior budget agreements, whether that be for transit and rail projects or highway maintenance. While this process will be challenging, taking the time to consider, research, and select potential options over the spring will better prepare the Legislature to make decisions in

May and June when it will not have much time to gather information and carefully consider program trade-offs before the budget deadline.

Conclusion

Historically, the General Fund has not been a major source of funding for transportation programs. However, the state provided—and planned to provide—an unprecedented amount of General Fund augmentations to support transportation in recent years. Given the change in the state's overall fiscal condition, reducing this spending correspondingly is both reasonable and necessary. The Governor proposes to reduce General Fund spending for transportation by $4.3 billion during the budget window. However, through a combination of cash flow adjustments, delays, and fund shifts, the actual programmatic reductions are much lower (only $296 million), as are the net multiyear General Fund savings ($1.1 billion). The Legislature faces the difficult task of balancing its goals of augmenting support for the state's transportation system with its responsibility to address the growing state budget problem.

Staff Comments

Staff notes that numerous of these proposals were already voted on by the Legislature in early action including:

- Delays $1 billion from the Formula Transit and Intercity Rail Capital Program from 2024-25 to 2025-26.
- Delays $100 million from the Ports and Freight Infrastructure Program of the $1.2 billion total.
- Reduces $96 million for the Port of Oakland of the $250 million total.

Additionally, a hearing on April 24th will discuss the Greenhouse Gas Reduction Fund spending plan and a hearing on May 8th will provide an overview of the implementation status of the $5.1 billion package regarding public transportation.

This subcommittee may wish to ask:

- What is the status of implementing the dollars previously appropriated?

Active Transportation Program (ATP)

- Why is the administration not backfilling the cut to the Active Transportation Program (ATP) with the State Highway Account (SHA) consistent with what was done last year?
- Traffic fatalities in California have increased 22% from 2019 to 2022, with pedestrian deaths increasing 18% and bicyclist deaths increasing 26%.

    - Without ATP dollars, what is the states strategy to reduce these pedestrian and bicyclist deaths?

- The 2022 CARB Scoping Plan states that "zero-emission vehicles (ZEV) alone are not enough to solve the climate crisis" within the transportation sector and recommends reducing statewide vehicle miles traveled (VMT) by 25 percent by 2030 (of 2019 levels) and 30 percent by 2045.

    - How will cutting funding for ATP impact the likelihood of reaching this goal?

    - What other policies is the administration pursuing to reach this goal?

- Why is $280 million proposed for electric vehicle fleet replacement a more appropriate use of SHA dollars than funding transportation infrastructure to allow Californians to walk and bike safely?

Subcommittee members may wish to opine on if they oppose any of the proposed solutions, or have additional solutions to help address the deficit.

Staff Recommendation: Hold Open.

2660 California Department of Transportation

Issue 2: Institutionalizing the California Integrated Travel Project (Cal-ITP) and Building a Data & Digital Services Division

The Governor's budget requests seventy (70) permanent positions and $26,298,000 ($11,156,000 in Personal Services and $15,142,000 in Operating Expenses) ongoing from the Public Transportation Account, for the California Integrated Mobility Program (CIM) that provides mobile payment services and route planning for transit agencies.

Background:

In 2018, the Capitol Corridor Joint Powers Authority (CCJPA) received $80,340,000 from the Transit and Intercity Rail Capital Program for the Northern California Corridor Enhancement Program. As part of this project, CCJPA allocated $27,000,000 towards the statewide Integrated Travel Program, to provide opportunities for riders on at least 10 rail and transit systems to plan travel and purchase tickets in a single, seamless transaction. According to the department, Cal-ITP served 253 fixed-route services using this funding.

In 2021-22, Caltrans received $7,172,000 of federal funds from the Coronavirus Aid, Relief, and Economic Security (CARES) Act to support medium, small and rural agencies in consistent compliance with the General Transit Feed Specification (GTFS) and contactless payment standards. GTFS defines a common format for public transportation schedules and associated geographic information. It allows real-time transit data to be incorporated into third-party apps and systems, such as Google Maps. This request funded an in-house Business Unit whose responsibility is overseeing the implementation and expansion of GTFS, equitable contactless payments and benefits eligibility verification for small, rural and mid-sized transportation services. In addition, this request funded Caltrans to streamline some processes for small and rural transit agencies to access state and federal funding by building a prototype grant eligibility checker, automating part of the annual reporting that Caltrans does to the FTA, and begin working on a statewide capital planning/transit asset management system of record. This funding allowed Caltrans to provide technical assistance to 250 fixed-route services, with focus on the 60 rural and small agencies that receive Section 5311 federal funding.

Caltrans requests funding to continue this work by establishing the California Integrated Mobility (CIM) Program and developing a Data & Digital Services (DDS) Division. The CIM Program would provide the scheduling software and technical assistance with GTFS, so that small, rural, and paratransit agencies can have complete and accurate GTFS data. In addition, CIM would work on providing discounts to older adult customers paying directly with a bank card, to streamline discounts and incentives in contactless payments. CIM would do such work by building or buying software, hardware, and/or time/error-saving services for local transit agencies. Caltrans proposes to fund CIM at $6.9 million annually, which includes 37 positions.

Under this request, Caltrans proposes to fund a Data and Digital Services Division, which will work on various projects, such as monitoring and improving the quality of transit GTFS and GTFS Real Time data, consolidating grant applications and simplifying grant application processes, collecting and structuring the Office of Civil Rights' DBE data for regular access via dashboards; training Caltrans District staff to work with mobility data and modern data tools; automating annual National Transit Database reporting. Caltrans proposes to fund this division at roughly $6 million annually, which includes 31 positions.

Panel

This panel will feature representatives from the Department of Finance (DOF), and Legislative Analyst's Office (LAO), and the Department of Transportation (Caltrans).

LAO Comments

LAO Reccomendation: The proposal could yield some benefits but the Legislature may want to consider whether other uses for the funding better align with its broader priorities, such as sustaining previously planned activities in light of the state's budget problem or assisting public transit agencies facing operating funding challenges.

Proposal. The Governor proposes $11.8 million from the Public Transportation Account and 24 positions (increasing to $26.3 million from the Public Transportation Account and 70 positions annually beginning in 2026-27) to expand and provide ongoing funding for the California Integrated Travel Project (Cal-ITP). A few years ago, the California Transportation Agency established Cal-ITP limited-term state and federal funding with the goals of improving and standardizing ridership experiences across public transit agencies by providing state-level technical assistance and support to help local agencies, including related to adopting open payment fare systems and transit scheduling improvements. The requested resources under this proposal would expand these state-level activities and make them ongoing.

LAO Comments. The proposed activities could help increase public transit ridership— which aligns with certain legislative priorities such as improving transportation mobility and reducing vehicle miles traveled in individual automobiles. As such, the proposal could have some merit. However, the Legislature may want to consider how these potential benefits compare with its other priorities—particularly in light of the state's budget problem. For example, the Legislature could consider whether it might instead want to use these funds to sustain activities that it had planned to support with General Fund that may now face reductions, or to provide assistance to public transit agencies facing operating funding shortfalls. Particularly given the proposal is for ongoing funding and the state is facing out-year General Fund deficits, the Legislature might want to be careful about weighing its priorities and preserving its flexibility.

Staff Comments

This subcommittee may wish to ask:

- How have the previous Cal-ITP efforts impacted transit ridership? To what extent do you expect this proposal would impact ridership? What other outcomes do you expect to achieve with this proposal?

- What are the allowable uses of the Public Transportation Account (PTA)?

- Could this funding instead be used to either directly or indirectly support budget solutions? For example, could the funding instead be used for the Zero-Emission Transit Capital Program in order to free up GGRF for other General Fund solutions?

Staff Recommendation: Hold Open.

Issue 3: Fleet Replacement

The Governor's budget requests $279,050,000 and 50 positions annually for 2 years from the State Highway Account (SHA) to continue replacing its aging fleet and installing zero emission vehicle (ZEV) infrastructure to meet state mandates and regulations.

Caltrans estimates the resources requested will replace approximately 3,000 vehicles over the two-year period, all of which far exceed the state's criteria for fleet vehicle replacement. Whereas the first two years focused primarily on light duty fleet, years three and four will be focused on medium duty, heavy duty, and off-road fleet. The cost increase compared to the first two years of the plan is due to the types of vehicles being purchased, the recent availability of electric vehicles in these categories, and historical inflation.

The FY 2022-23 Fleet Replacement BCP has allowed Caltrans to put 2,200 vehicles, including over a thousand electric vehicles, on purchase order to replace the oldest and highest mileage vehicles of all types in the Caltrans fleet, with a priority on those vehicles most at risk for failure.

Panel

This panel will feature representatives from the Department of Finance (DOF), and Legislative Analyst's Office (LAO), and the Department of Transportation (Caltrans).

Staff Comments

This subcommittee may wish to ask:

- Provide a status update on the progress Caltrans has made in implementing its long-term fleet replacement plan.
- What successes and challenges has Caltrans experienced in purchasing ZEVs and installing charging infrastructure.
- The initial years of the fleet replacement plan focused primarily on light-duty vehicles, while funding under this budget proposal will begin to focus on medium- and heavy-duty vehicles.
    - How will Caltrans' approach to transitioning its medium- and heavy-duty fleet to ZEVs differ from its approach for its light-duty fleet? What are some of the major factors that influence each of these approaches?
- Why is $280 million for vehicle replacement a more appropriate use of State Highway Account dollars than funding the $200 million that was previously agreed to for the Active Transportation Program?

Staff Recommendation: Hold Open.

2665 California High-Speed Rail Authority

Issue 4: Form to Function Budget Adjustments and Proposition 1A Administrative Expenditures Cap Increase Trailer Bill

The Governor's budget requests the following:

1) Trailer bill language to adjust the administrative cap of Proposition 1A (Prop 1A) from 2.5 percent ($225 million) to 5.0 percent ($450 million) of the $9 billion appropriation as specified in the language of Prop 1A through Streets and Highway Code section 2704.08(h).

   The language can be found here: https://esd.dof.ca.gov/trailer-bill/public/trailerBill/pdf/1038.

2) Budget adjustments that will result in greater oversight of contracted resources and savings of up to $8.7 million annually. Specifically, the Authority requests $13.5 million ($13.3 million Greenhouse Gas Reduction Funds and $279,000 Proposition 1A Bond Funds) and 67.0 positions to shift consultant resources to state staff in Fiscal Year 2024-25 and ongoing. Within this request there is a consultant expenditure reduction of $22.2 million and 62.6 Full-Time Equivalents (FTEs), for a net decrease of $8.7 million, to efficiently advance project completion of early interim high-speed service on the 171-mile segment between Merced and Bakersfield and other key milestones.

Background:

From FY 2008-09 through FY 2022-23 the Authority has expended $195.7 million in administrative expenses from Prop 1A. The 2.5 percent administrative cap referred to in Streets and Highway Code section 2704.08(h) is forecasted to be exhausted in FY 2024-25, as indicated in Figure C, 5 Row 2, which tracks Inception to Date (ITD) administrative expenditures as well as projected administrative expenditures for current year and beyond. After 15 years, this adjustment is finally needed and will update administrative operations funding to continue work on the project. Figure C, Row 3 demonstrates projected expenditures assuming the cap adjustment to 5 percent. Without this adjustment, administrative resources historically funded from Prop 1A would require a new funding stream. This cap increase is projected to cover staffing costs thorough FY 2029-30 or 6 years.

Figure C:

(in Thousands)	ITD - FY2020-21	FY2021-22	FY2022-23	FY2023-24[1]	FY2024-25[2]	FY2025-26[3]	FY2026-27	FY2027-28	FY2028-29	FY2029-30
1960.10-Administration Expenditures	**$143,194**	**$23,810**	**$28,439**	**$23,638**	**$35,109**	**$36,162**	**$37,247**	**$38,365**	**$39,515**	**$40,701**
2.5% Cap Remaining ($225,000)	**$81,806**	**$57,996**	**$29,557**	**$5,919**	**($29,190)**	**($65,352)**	**($102,599)**	**($140,964)**	**($180,479)**	**($221,180)**
5% Cap Remaining ($450,000)					**$195,810**	**$159,648**	**$122,401**	**$84,036**	**$44,521**	**$3,820**

[1] FY2023-24 projected expenditures, with actuals through October 2023.

[2] FY2024-25 includes proposed Prop1A costs from this BCP.

[3] FY2025-26 includes 3 percent inflation ongoing.

Panel

This panel will feature representatives from the Department of Finance (DOF), and Legislative Analyst's Office (LAO), and the High-Speed Rail Authority (HSR).

Staff Comments

This proposal transitions contracted positions to state staff, which was suggested by a 2018 State Audit, which has been slowly occurring as contracts end. This results in some cost savings.

This subcommittee may wish to:

- Opine on the use of state employees versus contracted staff for this workload.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

2667 Office of Inspector General, High-Speed Rail

Issue 5: Establishing the Office of Inspector General, High-Speed Rail

The Governor's budget requests 10 positions and three years of funding for four temporary positions, $2,039,000 in 2024- 25, 2025-26, 2026-27, and $1,413,000 in 2027-28 ongoing from the Public Transportation Account. The purpose of this budget request is to establish a fully functioning OIG-HSR that can carry out the responsibilities outlined in Public Utilities Code 187030, including the provision of independent assessments of the High-Speed Rail Authority's (Authority) business plans and project updates reports and other reviews of the Authority's project management, contracting, and contractor oversight.

Background:

If this budget request is approved, the OIG-HSR intends to conduct six separate operational reviews of the Authority, as well as in-depth assessment of the accuracy and reliability of the Authority's 2025 Project Update Report. Additionally, the OIG-HSR will have personnel resources to establish a hotline to receive whistleblower complaints and to investigate predicated complaints. Finally, the OIG-HSR will have personnel resources available to conduct audits and reviews requested by the Governor's Office, the Legislature, or the Authority. The OIG-HSR intends to provide a similar level and mix of review services in future fiscal years. These audits and reviews will collectively improve the oversight and performance of the High-Speed Rail project.

Subject to change resulting from a formal risk assessment to completed at the end of fiscal year 2023-24, the OIG-HSR intends to perform two reviews in Summer 2024, two reviews in the Fall 2024, a review of the Authority's 2025 Project Update Report beginning in November 2024 and ending upon its publication in March 2025, and two additional reviews in Spring 2025. These reviews will be focused on critical areas, including project funding and benefits, cost controls and estimates, and procurement and contractor oversight.

Panel

This panel will feature representatives from the Department of Finance (DOF), and Legislative Analyst's Office (LAO), and the High-Speed Rail Office of the Inspector General (OIG).

LAO Comments

Summary. The Governor's budget proposes $2 million in new funding from transportation special funds (including $1.4 million on an ongoing basis) to support ten ongoing and four limited-term positions to launch the High-Speed Rail Authority (HSRA) Office of the Inspector General (OIG). The LAO finds that the proposed level of resources for OIG appears reasonable to accomplish the proposed work plan. However, the LAO identifies some potential barriers to the successful and independent operation of the new office, including (1) the temporary nature of some of the proposed positions for OIG, (2) OIG's lack of authority to use a requested auditor classification, and (3) two areas where the provision of additional information to the Joint Legislative Budget Committee (JLBC) could help preserve OIG's budgetary independence. Accordingly, the LAO recommends that the Legislature fund all of the requested positions on a permanent basis; provide OIG with the authority to use the requested, or similar, auditor classification; and adopt two changes to strengthen the JLBC's role in overseeing and safeguarding OIG's budget.

Background

Legislature Established OIG in 2022 to Improve High-Speed Rail Project Oversight. As part of an agreement to appropriate the remaining unappropriated Proposition 1A bond funds for HSRA, the Legislature adopted Chapter 71 of 2022 (SB 198, Committee on Budget and Fiscal Review). Among other provisions, Chapter 71 created the HSRA OIG to improve oversight of the high-speed rail project and provide accurate, current, and impartial information to inform project decisions. The budget package included baseline funding of $1 million annually from the Public Transportation Account (PTA) for OIG. The package also included budget bill language that allows the Department of Finance (DOF) to approve an additional midyear augmentation of up to $1 million no sooner than 30 days after notifying JLBC.

Statute Included Various Provisions. Chapter 71 included a variety of provisions governing the establishment and operation of OIG. Some of the key provisions relate to the following:

- ***OIG Responsibilities.*** Chapter 71 specified various responsibilities for OIG, such as conducting audits and investigations and reviewing HSRA business plans, contracts, and proposed agreements.

- ***OIG Authorities.*** To perform its work, Chapter 71 provided OIG with a number of powers and authorities, such as issuing subpoenas and accessing all HSRA files and other records.

- ***Appointment and Removal of the Inspector General (IG).*** Chapter 71 gave both the Legislature and Governor roles in selecting the IG to lead OIG, requiring the Governor to appoint an IG from among three individuals nominated by the Joint Legislative Audit Committee (JLAC). The statute also prohibits the Governor from removing the IG without good cause.

- ***IG's Selection of Staff.*** The statute requires the IG to select, appoint, and employ officers and employees necessary to carry out the functions of OIG. In making these selections, the IG is required to ensure that officers and employees have the requisite training and experience to enable the office to carry out its duties effectively.

- ***IG Compensation.*** Chapter 71 specifies that the IG's salary be the same as that of the IG of the California Department of Corrections and Rehabilitation (currently roughly $192,000 annually).

- ***OIG's Operational Independence.*** Chapter 71 specifies that OIG be independent and not a subdivision of any other governmental entity, such as a state department or agency.

- ***Budgetary Independence.*** The statute requires that if OIG proposes a different level of overall fiscal support than the amount included in the Governor's budget, DOF shall provide a notification to the chairs and vice chairs of the budget committees of both houses of the Legislature and to the Legislative Analyst's Office. When applicable, this notification must identify the differences and explain the rationale for the discrepancy and be provided no later than January 10 of each year.

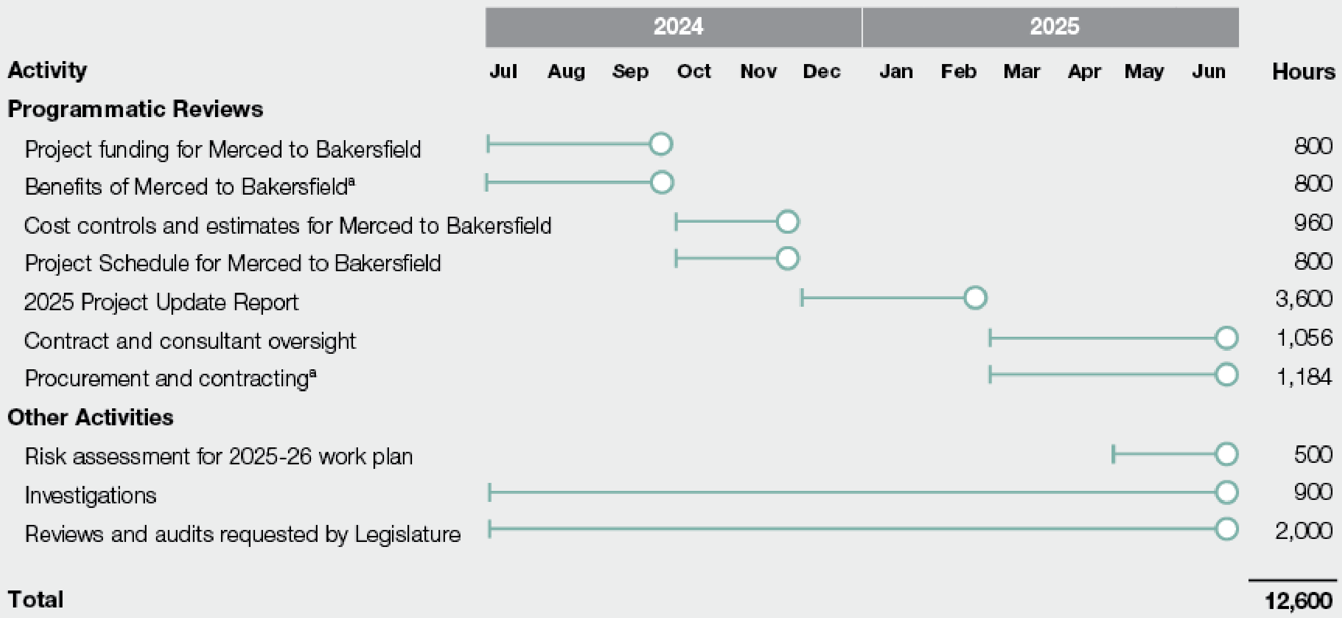
- ***HSRA Support for OIG Operations.*** The statute requires HSRA to provide various resources to OIG, including appropriate and adequate office space, equipment, office supplies, maintenance services, and communications facilities and services as may be necessary. The statute does not specify the extent to which OIG is required to reimburse HSRA for the cost of any resources it may provide.

In 2023, IG Was Selected and Began Hiring. In August 2023, the Governor announced the selection of the first IG from among three candidates selected by JLAC, consistent with the process outlined in statute. Since being selected, the IG has taken various steps to launch the office. For example, the IG moved into a portion of HSRA's office space, which HSRA provided consistent with the statutory requirement. The IG also began hiring staff using the $1 million provided as part of the 2023-24 state budget. To date, the IG has hired three staff members. OIG also currently is using HSRA staff to help support various activities, such as those related to basic human resources and budgeting functions.

IG Has Identified a Proposed Work Plan. The IG's proposed work plan envisions that OIG will conduct six programmatic reviews annually, as well as investigate complaints (such as from whistleblowers) and conduct ad hoc reviews. The LAO summarizes the OIG's work plan for 2024-25 in Figure 1. As shown, some of the key activities planned for the 2024-25 fiscal year include analyzing the funding, benefits, costs, and schedule of the Merced-to-Bakersfield segment; evaluating HSRA's policies for managing contracts and overseeing consultant work and assessing compliance with those policies; and analyzing policies related to procuring contracted services.

Figure 1

OIG's Proposed Work Plan for 2024-25



[a] OIG indicates that the timing of these activities may be switched.
OIG = High-Speed Rail Office of the Inspector General.

Governor's Proposal

Proposes Funding and Positions to Launch OIG. The Governor's budget proposes $1.4 million on an ongoing basis plus an additional $600,000 annually from 2024-25 through 2026-27, all from the PTA, to launch a fully functioning OIG. This funding is in addition to the baseline funding of $1 million annually that is available to OIG, as mentioned above. Together, the ongoing $2.4 million is proposed to support ten permanent positions and the additional $600,000 would support four temporary positions for three years. The new positions are summarized in Figure 2. Under the proposal, OIG would continue to use HSRA to help support various administrative functions—such as human resources and budgeting—at least until OIG conducts an assessment to determine the best plan for securing these services in the long term. The Governor continues to include budget bill language that allows DOF to approve a midyear augmentation of up to $1 million as needed after providing a notification to the JLBC.

Figure 2 Proposed Positions for OIG

Classification	Number and Type of Position[a]
Inspector General	One Permanent
Chief Deputy Inspector General	One Permanent
Deputy Inspector General	Two Permanent
Attorney III	One Permanent
Supervising Management Auditor	Two Permanent
Associate Management Auditor	Three Permanent, Three Temporary
Staff Management Auditor (Specialist)	One Permanent, One Temporary

[a]Temporary positions are proposed to be funded for three years.

OIG = High-Speed Rail Office of the Inspector General

Assessment

Proposed Staffing Levels Appear Reasonable to Meet Work Plan. The proposed staffing levels—ten permanent positions and four temporary positions—appear to be well justified to complete the IG's proposed work plan and address the baseline workload associated with overseeing the high-speed rail project. This level of staffing provides sufficient auditors to conduct six programmatic reviews annually, as well as an estimated 900 hours annually to respond to whistleblower complaints and 2000 hours annually to respond to workload requests from the Legislature, Governor, and HSRA.

Providing Positions on Temporary Basis May Make It More Difficult to Attract and Retain Staff. As mentioned above, the proposal would fund four of the requested positions on a limited-term basis. In some cases, such an approach can make sense, particularly when programs are new and the level of ongoing workload is uncertain. However, this likely is not the case for OIG. While OIG is new, some certainty exists that the proposed staffing will be needed as a baseline level on an ongoing basis given the size and complexity of the high-speed rail project and the number of issues that could benefit from oversight. Additionally, attracting and retaining qualified staff can be difficult for limited-term positions since the job status provides less stability.

Lack of Authority to Use Proposed Auditor Classification Could Pose Challenge. As shown in Figure 2, the proposal requests funding for two Staff Management Auditor (Specialist) positions. However, OIG indicates that it currently does not have access to this position classification—which is used by the State Controller's Office (SCO)—nor to similar classifications used by the California State Auditor (CSA) and the California Public Employees' Retirement System (CalPERS). OIG lacks this access because to use department-specific classifications under existing state policy, OIG must either (1) receive approval from the relevant "owning" department, as well as from the California Department of Human Resources (CalHR) or (2) CalHR must approve the use of the classification, overriding the owning department's refusal to allow the requesting department to use the classification. That is, based on the typical state process, SCO, CSA, CalPERS, and/or CalHR would have to grant approval to OIG to use this type of auditor position. To date, OIG reports that CSA and CalPERS have denied requests to use their classifications, and SCO has not yet responded to OIG's requests. Thus, while the proposal assumes the use of the Staff Management Auditor (Specialist) classification, whether OIG ultimately will have access to it still is unclear. Absent such access, OIG reports it would have to use a general classification for hiring these positions that pays less than the other comparable state agencies. OIG indicates this inability to hire at the desired classification could affect its ability to attract and retain top talent.

Notably, as mentioned previously, Chapter 71 requires OIG to select, appoint, and employ officers and employees necessary to carry out the functions of the office. It also further requires that, in making these selections, the IG must ensure that those officers and employees have the requisite training and experience to enable the office to carry out its duties effectively. This language suggests that Chapter 71 intended OIG to have the ability to hire well-qualified, experienced staff to support the mission of the office.

DOF's Failure to Notify the JLBC About Modifications to OIG's Request May Fall Short of Meeting Legislative Intent. The mix of permanent and limited-term positions proposed—ten permanent staff and four temporary staff—differs from the proposal originally submitted to the administration by OIG, which requested that all the positions be permanent. DOF did not provide a notification to JLBC that the Governor's budget modified this request. The LAO only learned about this modification because the LAO specifically asked if any changes were made to the initial OIG proposal. While the administration's perspective is that a notification was not required under the statute since the total amount of *funding* provided matches what OIG requested for 2024-25, DOF did change the proposal materially. Indeed, the changes made by the administration affect OIG's out-year budget amount, given the temporary nature of the positions results in a limited-term need for funding. This raises questions about whether DOF's failure to notify the JLBC of the change to OIG's budget proposal is consistent with the Legislature's intent to provide OIG with robust budgetary independence.

Additional JLBC Involvement in Potential Midyear Augmentations Could Boost OIG's Budgetary Independence. As mentioned previously, the Governor's budget proposes to retain existing budget bill provisional language that allows OIG to request midyear resources from DOF. The language further authorizes DOF to make an augmentation—of up to $1 million—no sooner than 30 days after notifying JLBC. This provision could be an important tool for OIG to secure any additional resource needs that it may identify outside of the standard budget cycle, particularly as it is first launching and determining its funding requirements. Under the existing language, however, JLBC does not directly receive notification of any midyear funding requests OIG may submit to DOF. Instead, it is only notified if and when such a request is approved by DOF. This lack of concurrent notification of OIG's request for resources could make it difficult for the Legislature—through the JLBC—to monitor OIG's resource needs and ensure that the administration is addressing them promptly. For example, the Legislature may be left unaware if DOF delays acting on or rejects a midyear request from OIG. This circumstance would deny the Legislature the opportunity to review and evaluate such a request and—should it disagree with DOF's decision and feel that OIG urgently needs the requested funding to support its independent operations—to potentially intervene.

Launching OIG Represents Important Opportunity to Ensure Consistency With Legislative Vision and Priorities. The Governor's proposal provides resources to fully launch OIG, thus setting the course for how the office will be staffed and operated. As such, this represents an important juncture for the Legislature to assess whether the proposed plan for the office is consistent with legislative intent and vision. Such an assessment should include consideration of whether the proposed scope of work and time lines are consistent with what the Legislature seeks from the office. The Legislature also can consider whether OIG's proposed use of HSRA staff to support activities such as human resources and budgeting—at least in the short term—is sufficient to preserve the office's independence, or whether it would feel more comfortable having an outside entity—such as the Department of General Services—providing these services (which likely would result in an additional cost).

Recommendations

Fund Positions on a Permanent Basis. The LAO recommends modifying the Governor's proposal to fund all of the requested positions, but on a permanent basis (rather than funding a portion of the positions on a limited-term basis as proposed). This is because (1) the LAO expects the OIG will have sufficient workload to support these positions on an ongoing basis and (2) authorizing positions on a limited-term basis could compromise OIG's ability to attract and retain highly qualified staff. The LAO notes that providing the positions on a permanent basis would be consistent with the budget request OIG submitted to the administration and would not affect the condition of the General Fund, as the positions would be funded from the PTA.

Provide Authority to Use Requested—or Similar—Classification. The LAO recommends the Legislature provide OIG with authority to use the requested classification—Staff Management Auditor (Specialist)—or a similar one with a comparable salary. This might be achieved in a number of ways. One option that could accomplish this objective would be for the Legislature to adopt budget trailer language providing OIG with authority to create classifications and set salaries as needed to complete its work. (CSA currently maintains this authority.) Alternatively, the Legislature could consider more narrowly targeted options for addressing OIG's staffing concerns, such as providing specific statutory authority to use the particular classification the office is seeking. The LAO recommends the Legislature explore the various available options for ensuring OIG is able to hire and compensate sufficiently qualified staff, including requesting information from the administration regarding the trade-offs and technicalities of potential alternatives.

Adopt Budget Trailer Legislation Strengthening Requirement for JLBC Notification of Changes to Both Fiscal Year and Midyear OIG Budget Requests. The LAO recommends that the Legislature adopt two changes to strengthen the JLBC's role in overseeing and safeguarding OIG's budget. First, the LAO recommends adopting technical cleanup budget trailer legislation that would clarify that the administration is required to provide the JLBC with a notification of *any* changes DOF makes to a budget proposal requested by OIG as part of the standard fiscal year budget process—including modifications related to funding amounts in the budget year and out-years, classifications, limited-term versus permanent positions, contract resources, and operating expenses and equipment. The LAO recommends the language also require the administration to provide a copy of OIG's original request to the JLBC along with the notification. These statutory changes would help ensure that the Legislature has sufficient information to (1) assess the appropriate level of funding for OIG to complete its work and (2) safeguard the independence of the office.

Second, the LAO recommends modifying budget bill language to require that OIG's midyear requests for additional funding be provided to JLBC concurrently with DOF (rather than only to DOF initially, as is currently the case). Such a change would ensure the Legislature is aware of the midyear resource needs that OIG identifies and can help ensure the office is promptly receiving a level of support consistent with legislative intent for its activities and deliverables.

Take Actions, as Relevant, to Ensure Consistency With the Legislature's Vision and Priorities for OIG. As noted above, the Legislature created OIG to improve oversight of HSRA. The launch of this office is an important opportunity for the Legislature to consider whether its proposed size, scope, and structure are consistent with its vision and priorities. The LAO recommends that the Legislature determine its specific expectations for such oversight and make any adjustment—such as to OIG's responsibilities, authorities, staffing, and funding—necessary to ensure its expectations are met. For example, if the Legislature desires a different approach to the proposed work plan, it could adopt intent language or provide additional direction in statute. Depending on the scope of the Legislature's desired changes, if any, there could be an effect on the level of staffing and other resources required by the office.

Staff Comments

Staff recommends adopting all of the Legislative Analysts' recommendations.

The subcommittee may wish to ask:

- If the Administration has any concerns with the LAO's proposal.

The subcommittee may also wish to ask the Inspector General (IG) for an update of what the Office will be reviewing, and the subcommittee may wish to give direction to the IG on what topics they would like to see the Office focus on.

Staff Recommendation: Hold Open.

Various

Issue 6: Motor Vehicle Account Fund Solvency

The Governor's budget includes proposals that would increase expenditures from the Motor Vehicle Account (MVA) by roughly $22 million in 2024-25 and $14 million ongoing despite a projected structural deficit in the fund according to the Legislative Analyst's Office.

Panel

This panel will feature representatives from the Department of Finance (DOF), and Legislative Analyst's Office (LAO).

LAO Comments

Background

MVA Supports Various State Programs. MVA is the primary funding source for California Highway Patrol (CHP) and DMV. The account also provides some funding for the California Air Resources Board. The uses of most MVA revenues are constitutionally limited to the administration and enforcement of laws regulating the use of vehicles on public highways and roads, as well as certain transportation activities.

Revenues Mainly Come From Vehicle Registration Fees. For 2023-24, MVA revenues are estimated to total about $4.7 billion. Of this amount, nearly $4.1 billion (87 percent) is projected to come from vehicle registration fees. The remainder largely is generated by other DMV fees such as driver license fees. (the DMV also collects various other fees at the time of vehicle registration that are not deposited into MVA, such as vehicle license fees, truck weight fees, and an additional registration fee charged to owners of zero-emission vehicles.)

Fund Rapidly Heading for Insolvency

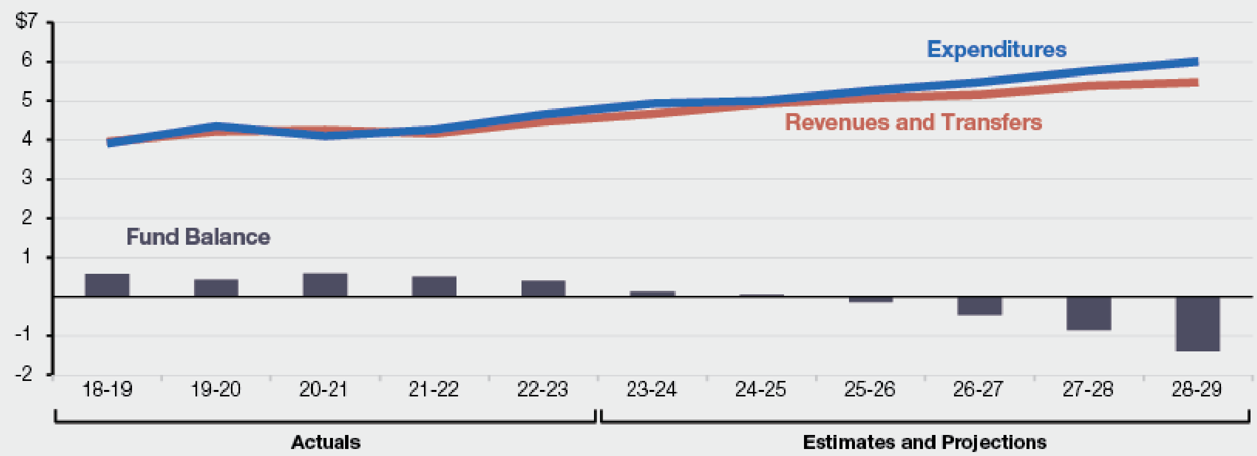
Expenditures Outpacing Revenues. Between 2018-19 and 2023-24, MVA revenues have increased by $714 million (18 percent) while expenditures have increased by about $1 billion (26 percent). Since 2021-22, annual expenditures have exceeded yearly revenues, resulting in a structural imbalance. Some of the major expenditure cost drivers have included (1) replacement of older CHP area offices and DMV field offices, (2) increased employee compensation costs—which have been driven by both increases to staffing levels and growing salary and benefit costs at CHP, (3) workload related to the issuance of new driver licenses and ID cards that comply with federal standards—commonly referred to as "REAL IDs," and (4) supplemental pension plan repayments that began in 2019-20. (These payments are related to a 2017-18 budget action that borrowed from the General Fund for a large one-time contribution to the state employee pension fund, requiring future repayment from all relevant funds that make employer pension contributions, including MVA. Over the next 30 years, MVA is expected to receive savings that outweigh these near-term loan repayment expenditures due to slower growth in employer pension contributions.) Despite this gap between revenues and expenditures, MVA has remained solvent thus far due to the state actions described in the next paragraph and by relying on its reserves. However, these reserves are rapidly declining. MVA entered 2021-22 with $585 million in reserves but its year-end balance is projected to drop to $130 million by the beginning of 2024-25.

State Has Undertaken Previous Efforts to Address Deficits and Delay Insolvency. Over the last couple of decades, MVA has experienced periodic deficits and risks of insolvency. In response, the state has taken various actions to shore up the fund. Some of these past solutions provided temporary relief, such as the state making a one-time repayment of loans that previously were provided from MVA to the General Fund and delaying supplemental pension plan repayments to the General Fund (which temporarily reduced MVA expenditures but created additional out-year liabilities). Other solutions provided longer-term solutions, including (1) ending a previous practice of transferring about $90 million annually from MVA to the General Fund; (2) authorizing vehicle registration fees to be adjusted annually based on the percent change in the California Consumer Price Index (CPI) to account for inflation; (3) shifting certain programs from MVA to other fund sources; and (4) the state recently has shifted away from using up-front cash from MVA to pay for CHP's and DMV's facility needs.

Due to Ongoing Structural Imbalance, MVA Projected to Become Insolvent in 2025-26. Despite the previous efforts to address MVA's condition, the severity of the fund's imbalance is expected to become worse in the near term, with expenditures growing about 1 percent faster than revenues over the next several years. Due to this imbalance, MVA is expected to fully exhaust its reserves and become insolvent in 2025-26, as shown in Figure 3. Specifically, the administration projects expenditures will exceed available resources by roughly $140 million in 2025-26. If left unaddressed, expenditures would continue to outpace revenues, resulting in a negative fund balance of $1.4 billion in 2028-29. For context, total MVA revenues are projected to be about $5 billion in 2024-25. By 2028-29, these revenues are only projected to increase by about $500 million while expenditures are projected to increase by roughly $1 billion.

Figure 3

Motor Vehicle Account Facing Insolvency in 2025-26
(In Billions)



LAO Comments

Governor Proposes New Spending From MVA. The Governor's budget does not include a proposal to address MVA's fund condition or structural deficit. In contrast, the January budget includes various proposals for DMV and CHP that would increase cost pressures for MVA. Specifically, the Governor proposes $18 million in 2024-25 (including $10 million ongoing) from MVA for various DMV programs. In addition, the Governor proposes $4 million annually in ongoing spending from MVA for outside counsel to represent CHP and its officers in civil litigation cases related to officer-involved shootings.

Debt Service for Infrastructure Projects Could Create Additional MVA Cost Pressures. CHP and DMV both operate large numbers of facilities across the state, many of which have significant needs. Traditionally, CHP's and DMV's facility projects—such as office replacements—have been funded up front with cash from MVA. However, due to concerns about MVA's condition, over the past several years, the state has explored alternative ways to fund CHP and DMV facilities. In 2019-20, this included issuing lease revenue bonds with plans to repay the debt service from MVA, in an effort to spread the costs of the projects over time and limit near-term pressures on the fund. In 2021-22 and 2022-23, when the state was experiencing a budget surplus, the state provided cash from the General Fund to support such projects. However, as the General Fund condition has worsened, funding for recent projects has been shifted to lease revenue bonds. While this approach reduces costs to move forward with the projects in the near term, repaying the bonds will create cost pressures in future years. Whether the General Fund or MVA will bear the burden of these future costs currently is unclear, as the fund source for repaying the bonds has not yet been determined. The administration indicates that these decisions will be made during annual budget deliberations beginning in 2025-26.

Automatic Pay Increases for CHP Officers Could Impact MVA Cost Pressures. The impact future employee compensation costs will have on MVA's fund condition is somewhat uncertain and depends on future pay trends decided upon by select local governments. For more than 40 years, statute has based highway patrol officers' compensation on an average of specified elements of compensation provided to peace officers employed by five local jurisdictions. The five jurisdictions are Los Angeles County and the Cities of Los Angeles, Oakland, San Diego, and San Francisco. Because these statutory pay increases are wholly dependent on decisions made by the five local governments, actual pay increases for CHP officers could be higher or lower than current assumptions—potentially impacting MVA cost pressures in future years.

Temporary Actions Could Delay, but Not Prevent, Insolvency. The Legislature has a couple of options for actions that could temporarily delay insolvency for MVA. First, the Legislature could direct the administration to make a loan or transfer to MVA from another fund source such as the General Fund. However, the current General Fund condition and overall budget problem would make this challenging. Second, the administration could temporarily suspend supplemental pension plan repayment requirements. Doing so, however, would result in higher cost pressures for MVA in the near future because the principal and interest for the loan still would need to be repaid by June 30, 2030. Moreover, suspending these repayments would only delay MVA's insolvency by a few months.

Legislature Could Address MVA Fund Condition Through Reducing or Constraining Costs… As noted, MVA's expenditures are outpacing revenue growth and cost pressures could be higher than projected depending on future lease revenue bond debt service decisions and employee compensation trends. To help address the fund condition, the Legislature could take steps to reduce or constrain expenditures. For example, the Legislature could reduce overall employee compensation costs by cutting the number of positions at DMV and CHP. However, such actions would result in a decrease in the level of service the departments would be able to offer, which could affect both public satisfaction (in the case of DMV) and safety (with regard to CHP). Going forward, the Legislature also could consider MVA's fund condition when it is evaluating agreements negotiated between the administration and the employee unions that represent the majority of DMV and CHP employees pertaining to pay and other benefits. Specifically, the Legislature could take into consideration the level of costs the fund can support as one of the factors it weighs when considering whether to approve these draft agreements. The state currently has limited control over CHP officer pay because it is determined based on a formula. However, the Legislature could consider changing this methodology to regain more decision-making power and the ability to align costs with what MVA can afford to support.

…And/Or Through Increasing Revenues. The Legislature also could help MVA remain solvent by taking steps to increase its revenues. One option would be to raise vehicle registration fees—either through a base increase or by changing the methodology for annual fee adjustments such that they exceed changes in the CPI. A strong policy rationale exists for raising fees in that it would continue to task vehicle owners with paying to support the services from which they benefit. Based on the number of vehicles currently registered in California, the LAO estimates that every $1 increase in vehicle registration fees would increase MVA revenues by about $36 million. However, one key trade-off to consider is that increasing fees would result in additional costs to households and businesses that own vehicles. This could be particularly burdensome for lower-income households. As of January 1, 2024, base vehicle registration fees were $74 but once other fees (such as weight fees and vehicle license fees) are factored in, the average cost vehicle owners pay when registering a vehicle is $329.

Recommendations

Consider MVA Cost Pressures When Evaluating New Spending Proposals. As noted, the Governor's budget includes proposals that would increase expenditures from MVA by roughly $22 million in 2024-25 and $14 million ongoing. Regardless of the merits of these specific proposals—and absent actions to address the MVA fund condition—approving them will make the structural deficit worse and hasten the time line for MVA going insolvent. Until a plan is put in place to address MVA's structural deficit, the LAO recommends the Legislature set a high bar for considering approval of any proposals that create additional MVA cost pressures and accelerate the risk of insolvency.

Develop Plan to Ensure Fund Remains Solvent. In order to remain solvent, MVA expenditures and revenues must be brought into balance. As such, the LAO recommends that the Legislature develop a plan to address MVA's structural deficit on an ongoing basis. To achieve ongoing sustainability for the fund, the state will need to reduce MVA's costs, increase the fund's revenues, or adopt some sort of combination of these strategies. To help determine which options best align with legislative priorities, the Legislature could hold hearings to get a better understanding of the fund condition, any actions the administration is considering to address the problem, and the trade-offs associated with options such as raising fees or reducing positions at CHP and DMV.

Consider Cost Pressure Impacts From Employee Compensation. Even if the Legislature takes action to address MVA's current deficit, the fund could be at risk of future insolvency if expenditures related to employee compensation outpace revenues in the future. When addressing the MVA fund condition, the Legislature will want to consider how the fund could absorb future increases in employee compensation. The Legislature also might want to consider whether changes to the methodology for setting CHP officer pay could be needed to increase the state's flexibility for controlling MVA expenditures. Similarly, the Legislature might want to consider MVA's fund condition and impact of employee compensation costs when evaluating future memoranda of understanding negotiated between the administration and the employee unions that represent the majority of DMV and CHP employees. While the state currently has limited discretion over the formula that determines CHP officer pay, the Legislature could change this methodology to regain more decision-making power.

Staff Comments

This subcommittee may wish to ask:

- When does the administration project that the fund will become insolvent?
- What is the administration's plan to address the projected fund insolvency?

Members of this subcommittee may wish to reject items proposed for funding by the Motor Vehicle Account (found in the non-presentation items), or suggest other fund solvency alternatives for the administration to consider.

Staff Recommendation: Informational, no action necessary.

0521 California State Transportation Agency (CalSTA)

Issue 7: Ports and Freight Infrastructure Program Trailer Bill

The Governor's budget requests trailer bill language to add Section 2196.3 to the Streets and Highways Code to explicitly authorize the Secretary of the California State Transportation Agency or his designee to issue letters of no prejudice to agencies that have been awarded funding for projects through the Port and Freight Infrastructure competitive grant program. This language is necessary to allow these agencies to spend their own funding for the projects and to be eligible for future reimbursement from monies available for the program. This language is necessary to facilitate the $100 million cashflowing solution for this program.

The language can be found here: https://esd.dof.ca.gov/trailer-bill/public/trailerBill/pdf/999.

Panel

This panel will feature representatives from the Department of Finance (DOF), and Legislative Analyst's Office (LAO), and the California State Transportation Agency (CALSTA).

Staff Comments

Last year's budget adopted supplemental reporting language expressing Legislative intent to reduce the number of Administrative Procedures Act (APA) and Public Contract Code exemptions and encouraged the Administration seek Legislative authors for them.

This trailer bill proposes an Administrative Procedures Act exemption in violation of the Legislative intent from last year.

This subcommittee may wish to ask:

- Why is this APA exemption necessary and why are you not seeking a bill author or adopting emergency regulations?

Staff Recommendation: Adopt without Administrative Procedures Act exemption.

Non-Presentation Items

2720 Department of California Highway Patrol

Issue 1: Augmentation for Retention of Conflict Counsel

The Governor's Budget requests $4 million ongoing from the Motor Vehicle Account for retention of outside conflict counsel to represent the CHP and its officers in civil litigation cases arising from officer-involved shootings when the Attorney General cannot represent those officers due to a conflict of interest.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 2: Convert Administrative Positions from Sworn Personnel to Non-Uniformed Personnel

The Governor's Budget requests permanent position authority for 34 positions, without funding, to support CHP's administrative functions. Currently many administrative functions are being performed by uniformed personnel. The new administrative positions will allow sworn, uniformed personnel to return to enforcement-related activities, while continuing to provide service in administration.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 3: Keller Peak: Tower Replacement- Revert and Fund New

The Governor's budget requests to replace the existing authority of $3,231,000 with a new appropriation of $4,877,000 from the Motor Vehicle Account for the construction phase of the continuing Keller Peak: Tower Replacement Project. The project includes the replacement of a tower that collapsed in 2016. This tower is needed to restore full communications capabilities. This is due to increased steel costs and changing designs.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

2665 California High-Speed Rail Authority

Issue 4: Central Valley Segment – Acquisition

The Governor's budget requests a capital outlay appropriation of $6 million from the High-Speed Rail Property Fund for the reinvestment of excess property sale revenue to offset the future Authority costs needed for right of way acquisitions in the Central Valley Segment. This appropriation will allow the Authority to use parcel sale revenue toward the cost of future parcels which will offset future project costs and will allow the state the ability to avoid having to return federal dollars which are approved only for this purpose.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

2740 Department of Motor Vehicles

Issue 5: Cybersecurity Program Resources

The Governor's budget requests five (5) new permanent positions, Information Technology (IT) security consulting services, and IT security tools to improve the Cybersecurity Program costing $7.4 million FY 24/25, $7.3 million in FY 25/26, and $4.9 million in FY 26/27 and ongoing from the Motor Vehicle Account. The requested resources will strengthen cybersecurity measures, expand State staff capabilities, reduce risk exposure, address compliance gaps with State mandated security requirements, and remediate security audit findings.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 6: Enterprise Content Management (ECM) Project

The Governor's budget requests $3,279,000 in 2024-25 from the Motor Vehicle Account to continue the implementation of the department wide Enterprise Content Management (ECM) System to consolidate document resources, maintain and manage a centralized repository, and apply a federated model to provide the ability to integrate multiple content repositories.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 7: REAL ID Automated Document Verification Program (RADVP)

The Governor's budget requests $7.5 million from the Motor Vehicle Account in FY 2024-25 and $5.5 million in FY 25-26 and ongoing to continue supporting the REAL ID Document Verification (RADV) processes leading up to and beyond the REAL ID enforcement date of May 7, 2025. Beginning May 7, 2025, the REAL ID Act will require individuals to present federally compliant Driver's License/Identification Cards (DL/IDs), or another federally accepted document, to board an airplane and enter secure federal facilities. The RADVP expedites field office visits by allowing customers to upload Driver license/identification application documents before their visit resulting in more accurate, secure, and expedient services at field offices statewide.

Background:

Approximately 16.9 million eligible California residents have received their REAL ID. However, approximately 7 million more Californians are anticipated to get a REAL ID in addition to those moving into California as well as those under the age of 18.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

2600 California Transportation Commission

Issue 8: Administrative Workload Adjustments

The Governor's budget requests permanent Attorney IV position to provide legal services, including but not limited to the Commission's role as a Responsible Agency pursuant to the California Environmental Quality Act. In the 2023-24 Budget Act, the Commission received $200,000 for a contract for legal services and will redirect these funds to support the Attorney IV position, resulting in no net change to the Commission's budget authority from this request. This request includes a $539,000 increase in reimbursement authority to support three positions performing workload related to climate resiliency, the Local Transportation Climate Adaption Program (LTCAP), and the Transit and Intercity Rail Program (TIRCP).

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

0521 California State Transportation Agency (CalSTA)

Issue 9: Formula Transit and Intercity Rail Capital Program Trailer Bill

The Governor's budget requests trailer bill language to amend Government Code Section 13987 to provide statutory authority for the California State Transportation Agency to administer the distribution of formula Transit and Intercity Rail Capital Program funding in fiscal year 2025-26 in the same manner as it is authorized to administer the distribution of this funding in 2023-24 and 2024-25. This language is necessary to implement the budget proposal to delay $1 billion of this funding until 2025-26.

The language can be found here: https://esd.dof.ca.gov/trailer-bill/public/trailerBill/pdf/1000.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

2660 California Department of Transportation (CalTrans)

Issue 10: Highways to Boulevards Trailer Bill

The Governor's budget requests trailer bill language to amend Streets and Highways Code Section 104.3, which implements the Reconnecting Communities: Highways to Boulevards Pilot Program, to allow Caltrans more flexibility in how it spends its state funding and maximize its opportunity to leverage federal funding. The current statute requires Caltrans to use 25 percent for planning and 75 percent for implementation. The proposed language would allow Caltrans to use up to 25 percent for planning. This language is necessary to provide Caltrans with flexibility to spend less on planning and more on implementation, as necessary, to ensure it can maximize its opportunity to spend its entire state appropriation and its opportunity to leverage federal funding for this program.

The language can be found here: https://esd.dof.ca.gov/trailer-bill/public/trailerBill/pdf/1001.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 11: Administration Program Support

The Governor's budget requests a permanent increase of 38 positions and $4,761,000 from the State Highway Account (SHA) for administration support to adequately address increased workload requirements commensurate with departmental program growth and expanded Program requirements, responsibilities, and functions.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 12: Bridge and Tunnel Safety Inspection Resources

The Governor's budget requests a permanent increase of 12 positions in FY 2024-25 totaling $6,628,000, an additional 16 positions in FY 2025-26 for a total of 28 positions and $8,518,000 ongoing from the State Highway Account, to address the requirements contained in the new National Bridge Inspection Standards (NBIS) and the concurrent release of the new Specifications for the National Bridge Inventory enacted by the Federal Highway Administration in June 2022, as well as address the increased workload required to deliver the federally mandated safety inspections of highway bridges, tunnels, and overhead signs.

This request includes 16 mid-size 4x4 SUVs and a 25-ft bridge inspection boat with a trailer to perform the required inspections.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 13: California High Speed Rail Reimbursement Authority

The Governor's budget requests $3,065,000 in State Highway Account Reimbursement authority for services rendered on behalf of the California High Speed Rail Authority for a two-year extension for 11 limited-term positions. These resources will provide ongoing legal services to the California High Speed Rail Authority in real property acquisition and management for the Central Valley Madera to Shafter segment.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 14: Continuation of Proposition 1B Administrative Support

The Governor's budget requests funding to continue the administration of the workload associated with Caltrans' responsibilities under Proposition 1B. This request is for the continuation of funding for 11 positions totaling $1,687,000 ($1,584,000 in personal services; and $103,000 in operating expenses) for fiscal years 2024-25 and 2025-26. This is a reduction of one position. There are about 200 projects or 8 percent, of allocated projects are still in the implementation phase and will require monitoring for several more years before they are complete.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 15: Continuation of Road Charge Pilot (SB 339) Positions

The Governor's budget requests an augmentation of $1,042,000 in State Highway Account (SHA) funds to continue six (6) two-year limited term positions to implement a road charge revenue collection pilot per the requirements of Senate Bill 339 (2021).

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 16: Culvert Inspection Program Statewide Crew Augmentation

The Governor's budget requests a permanent increase of 29 positions and $8,142,000 in FY 2024-25, an additional 21 positions in FY 2025-26, for a total of 50 positions and $8,157,000 ongoing beginning in FY 2026-27 from the State Highway Account (SHA), to meet the culvert inspection requirements outlined in the federal Infrastructure Investment and Jobs Act (IIJA) enacted in 2021.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 17: Distributed Programs Abolishment

The Governor's budget requests approval to transition from distributed programs to centralized programs and consolidate funding to the State Highway Account (SHA).

The Departments centralized Program will provide funding to the geographic districts and headquarters divisions to perform administrative activities and services including accounting, budgeting, external affairs, information technology, human resources, labor relations, office facility operations and management, procurement and contracting, resource management, training, and workforce planning and development.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 18: Enterprise Data Governance Technology Solution Implementation

The Governor's budget requests $7,747,000 in fiscal year (FY) 2024-25 from the State Highway Account. The request includes consulting services, equipment, and software for year 1 of the Enterprise Data Governance Technology Solution implementation. This request covers year one of three years planned for the implementation. An annual BCP request will be submitted to provide for continued funding to implement the solution with the final BCP in the series requesting resources for the long-term maintenance and operation of the implemented solution.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 19: Enterprise Data Storage Expansion

The Governor's budget requests $12,873,000 in FY 2024-25 and $10,195,000 in FY 2025-26 and ongoing to continue expansion of data storage, protect and maintain equipment and complete network infrastructure upgrades to enable efficient access to very large data sets at designated locations throughout the state.

This new request is a follow-on to the FY 2022-23 BCP that addresses funding for a third year of data storage expansion and upgrades to network infrastructure at designated locations throughout the state. In addition, permanent funding is requested for data expansion growth and vendor maintenance support for the network and data storage equipment beginning in FY 2025-26.

In summary, Caltrans' transportation project delivery workload has been increasing due to the influx of additional state and federal funding increases and the use of new generations of digital data collection tools in all phases of project delivery have led to an ongoing need for additional one-time and ongoing funding for primary, secondary, and archival data storage capacity.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 20: Equal Employment Opportunity Program Support

The Governor's budget requests ten (10) permanent positions and $2,095,000 from the State Highway Account (SHA) for Equal Employment Opportunity Program (EEOP) support and to implement equity related actions, trainings, and departmental policies.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 21: FI$Cal Onboarding Planning

The Governor's budget requests a one-year augmentation of $13,500,000, which includes $4,971,000 for 34 limited-term positions in FY 2024-25 and $8,529,000 in operating expenses (OE), of which $8,217,000 is for professional consulting services, to support the transition and onboarding to the FI$Cal System. This is a follow-up request to the resources approved in the 2023-24 Enacted Budget for the additional planning.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 22: Transportation Infrastructure Workforce Development Program

The Governor's budget requests $50,000,000 in authority over four fiscal years, of federal funds from the federal Infrastructure Investment and Jobs Act (IIJA), starting in FY 2024-25 to invest in workforce development education and training in collaboration with the California Workforce Development Board (CWDB) and other partners.

Background:

In 2021, the federal Infrastructure Investment and Jobs Act (IIJA) provided federal funding for transportation and infrastructure investments across a variety of sectors, including broadband, rail and transit, clean energy, and water. Federal guidance allows the states' Department of Transportation to fund supportive services programs in connection with workforce development, including childcare and transportation for workforce program participants as well as participant support costs, such as stipends. The IIJA also calls out specific options for how the funding can be used, including for apprenticeship, pre-apprenticeship, on-the-job training, and partnerships with industry, labor organizations, and workforce development boards.

Senate Bill 150 (Durazo, Chapter 61, Statutes of 2023) requires the Department of Transportation to work in partnership with the CWDB to support California's high road construction careers program. The bill requires the department to reserve a minimum aggregate total of $50,000,000 of federal funds from the federal IIJA to be allocated over 4 years to support the program.

The funding will be allocated through the CWDB's High Road Construction Careers (HRCC) program, which links local building and construction trades councils to workforce boards, community colleges, and community-based organizations, creating structured pathways to state-certified apprenticeships in a variety of crafts.

The requested $50 million will be allocated as follows over the next four years:

- $6.75million in 2024-25
- $12 million in 2025-26
- $15 million in 2026-27
- $15 million in 2027-28

CalTrans will use the remaining $1.25 million for evaluation and technical assistance to support the program.

Staff Recommendation: Hold Open, to conform action with Assembly Budget Subcommittee No. 5 on State Administration.

Issue 23: Transportation System Network Replacement

The Governor's budget requests eight positions and resources totaling $4,204,000 in Fiscal Year (FY) 2024–25 (including a one-time system development cost of $1,982,000 and a system operations and maintenance cost of $737,000) from the State Highway Account for Transportation System Network Replacement.

The TSN reports provide valuable data that help Caltrans in reducing the number and severity of traffic crashes, but the current TSN covers less than 10 percent of all public roads in California. The federal government requires states to have a safety data system to perform enhanced analysis supporting the Strategic Highway Safety Plan (SHSP) and Highway Safety Improvement Program (HSIP) [23 U.S.C. 148 (c)(2)]. In addition, states must adopt and use Model Inventory of Roadway Elements (MIRE) fundamental data elements (FDE) to improve their roadway and traffic data inventories. All states must have access to the MIRE FDEs on all public roads [23 CFR 924.11 (b)] by September 30, 2026.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

Issue 24: Wildfire Litigation

The Governor's budget requests four-year, limited-term resources for 18 positions and $4,378,000 annually from the State Highway Account for wildfire legal defense.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

This agenda and other publications are available on the Assembly Budget Committee's website at: Sub 4 Hearing Agendas | California State Assembly. You may contact the Committee at (916) 319-2099. This agenda was prepared by Shy Forbes.