AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3 RESOURCES AND TRANSPORTATION

PART I

Assemblymember Richard S. Gordon, Chair

WEDNESDAY, MAY 25, 2011
9:00 A.M. - STATE CAPITOL ROOM 444

VOTE-ONLY

2660 – DEPARTMENT OF TRANSPORTATION

VOTE-ONLY ISSUE 1: FUEL COST INCREASES

In the January budget, Caltrans requested a permanent augmentation of $1.7 million from the State Highway Account (SHA) to address higher fuel costs. The Department uses diesel, gasoline, and alternative fuels to power its fleet. The Department's current fuel budget is based on $3.06 per gallon. This proposal would align their budget with a $3.19 price per gallon budget. Currently the HSRA has $8 million built into their baseline to support their PMO contract. This proposal would increase that amount to $11 million.

STAFF COMMENT

This proposal was denied without prejudice by the Subcommittee in anticipation of the May Revision, which made no changes to the proposal. **Vote-Only Action:** Approve as budgeted

VOTE-ONLY ISSUE 2: PUBLIC PRIVATE PARTNERSHIPS

The May Revision includes a request for $1.6 million in reimbursement authority to receive funding from local governments to review locally-sponsored P3 proposals for the state highway system. The anticipated projects for review are the same as those cited last year – the Bay Area Express Lane Network, the I-710 North gap project and the I-710 Freight Corridor. After Caltrans completes its review and recommendations, the project sponsors can submit the request to the California Transportation Commission for their review.

STAFF COMMENT

As discussed in the April 27, 2011 Caltrans submitted a request for $4.5 million to the JLBC. The Legislative Analyst reviewed the request and found that little or no cash was needed for expenditures in 2010-11. Accordingly, the JLBC objected to the request and directed Caltrans to pursue a Finance Letter through the normal budget process. The May Revision request address the issue raised by the LAO and the JBLC. In the May Finance Letter, Caltrans has changed its direction by reducing the amount and requiring the project sponsor to reimburse for the cost. Caltrans indicates the cost is reduced, because at this point they will only hire fiscal consultants, not legal consultants.

VOTE-ONLY ISSUE 3: CONSTRUCTION MANAGEMENT SYSTEMS (CMS)

The Administration requests in the May Revision that the budget be adjusted to reflect the revised project budget and expenditure schedule for CMS that anticipates project completion in 2013-14 and conforms to the latest Special Project Report (SPR) dated February 2011. The project was originally approved by the Legislature in 2006-07 and at that time had a one-time cost estimate of $21.0 million – the updated cost estimate in this Finance Letter is $22.8 million. The project would replace the 35-year old legacy system known as Contract Administration System (CAS) with a customized commercial-off-the-shelf (COTS) application. The project has been modified and delayed over the years due to procurement issues. The project will comply with the direction of control agencies including the California Technology Agency.

VOTE-ONLY ISSUE 4: CLEAN RENEWABLE ENERGY BONDS (CREBS)

The May Revision includes a request for a reappropriation of $1.8 million remaining balance for the CREBs program initially authorized in the 2008-09 budget. CREBs are a federal energy program that helps finance solar-generated electricity projects. Caltrans was authorized to issue $20 million in CREBs to place solar panels on 70 state office buildings and maintenance facilities. Caltrans indicates that installation of four of the 70 projects will be delayed past 2010-11, and a reappropriation is necessary to complete those last four projects.

VOTE-ONLY ISSUE 5: PROPOSITION 42 MOE RELIEF

Representatives of the City of Santa Rosa are requesting budget trailer bill language to provide additional time to meet the MOE requirements for Proposition 42 revenue received by the city in 2009-10. A budget trailer bill adopted last year, SB 525 (Cogdill), provided similar flexibility for the County of Fresno. Due to the fuel tax swap, starting in 2010-11, Prop 42 sales-tax revenue was eliminated and local funding is now backfilled with new fuel excise tax revenue. The excise tax revenue and related statutory provisions do not include MOE requirements. Due to economic hardship in 2009, the City of Santa Rosa, like the County of Fresno, was unable to meet the MOE requirement within that fiscal year. SB 525 still requires the MOE be met, but extends the deadline until 2014-15. No counties or cities other than the County of Fresno and the City of Santa Rosa, have requested such relief.

2740 – DEPARTMENT OF MOTOR VEHICLES

ISSUE 1: PALMDALE/LANCASTER FIELD OFFICE REPLACEMENT DELAY

The Governor's May Revision includes a proposal to revert $359,000 in the current year budget for the Palmdale/Lancaster field office project. Due to project delays, the majority of current year funding will not be needed.

2665 – CALIFORNIA HIGH SPEED RAIL AUTHORITY

VOTE-ONLY ISSUE 1: PROGRAM MANAGEMENT OVERSIGHT

The High Speed Rail Authority has not changed its January proposal for Program Management Oversight.

BACKGROUND

In the January Budget, the High Speed Rail Authority requested $3 million from the Safe, Reliable High-Speed Passenger Rail Bond (Proposition 1A) to support an expansion of the current contract for oversight and review of the Program Management Team's work products and schedule.

STAFF COMMENT

The Subcommittee denied this request without prejudice, but heard this issue on May 11th.

VOTE ONLY ISSUE 2: HSRA MAY REVISION CHANGES

The May Revision includes three proposals that modified the High Speed Rail Authority's Budget.

BACKGROUND

The HSRA has three separate May Revision Proposals:

1. Information Technology Services and Baseline Adjustment: The May Revision proposes a $781,000 for the authority's IT needs. Of this amount $751,000 would be a one-time increase and $36,000 would be ongoing. The funding would support system maintenance, equipment purchases, software, website hosting, phone service, and document management for the Authority;

2. Staff Increase: The May Revision provides an administrative increase of $1.4 million and 15 positions to perform tasks associated with project administration, design and engineering, contract management, and preparation for land acquisition; and,

3. Caltrans Agreement: The May Revision proposes to increase funding by $1.25 million in one-time funding for capital outlay support positions at Caltrans for work on the Central Valley segment of the High Speed Rail Authority.

STAFF COMMENT

The three May Revision requests are consistent with the Subcommittee's desire to see the Authority take more control over the direction and execution of the project.

ITEMS TO BE HEARD

2665 – CALIFORNIA HIGH SPEED RAIL AUTHORITY

ISSUE 1: HSRA CAPITAL OUTLAY

The May Revision includes proposals to adjust the High Speed Rail Capital Outlay budget to reflect updates to the project.

BACKGROUND

The May Revision includes a proposal to update the budget for the High Speed Rail Authority to reflect decisions by the Authority as well as updated fiscal information that have resulted in the need for revisions to the January budget. These revisions include changes made by the Authority due to the Federal Railroad Administration's selection of the Central Valley Corridor for initial construction. The changes are reflected by segment in the table below ($ in thousands):

Segment	CY Savings	2011-12 Governor Budget	2011-12 Revised Need	May Revision Fiscal Letter
San Francisco - San Jose	$4,670	$12,390	$27,850	$10,785
San Jose - Merced	$7,420	$34,920	$31,850	-$10,490
Merced - Fresno	$591	$13,358	$24,625	$10,676
Fresno - Bakersfield	$11,792	$13,884	$32,626	$6,950
Bakersfield - Palmdale	$0	$51,050	$26,850	-$24,200
Palmdale – Los Angeles	$19,480	$45,392	$24,857	-$40,015
Los Angeles - Anaheim	$3,414	$8,350	$11,850	$86
TOTAL	**$47,372**	**$179,344**	**$180,508**	**-$46,208**

The Authority has also decided to extend the environmental review periods to provide additional time for comments as well as to explore shared track and phased implementation scenarios.

LAO RECOMMENDATION

The LAO recommends that the Legislature reject the Administration's 2011–12 budget request for $185 million in funding for consultants to perform project management, public outreach, and other work to develop the project, and only appropriate at this time the $7 million in funding requested for state administration of the project by HSRA.

STAFF COMMENT

Either suspending contractor work now, or continuing work now but directing a new segment selection in the spring would delay initial construction work. Given these dynamics, it seems preferable to continue contract work now, consider the information in the October reports, and provide Legislative direction on a timeline determined by the circumstances – either during the spring budget process in 2012 or earlier. However, it seems the HSRA should not proceed to purchase right-of-way or sign design-build construction contracts in the Central Valley prior to Legislative review of the October reports and an appropriation for such purposes in the 2012 Budget Act. Provisional language stating this limitation may be worth consideration.

ISSUE 2: FINANCIAL PLAN AND PUBLIC PRIVATE PARTICIPATION PROGRAM

The January Budget requested a total of $750,000 from Prop 1A bond funds for the 2011-12 cost of financial consulting services, including development of a Public Private Partnership Program (P3) plan. A total of $1.0 million was provided in the 2010-11 budget for this same purpose.

RIDERSHIP STUDY

The Subcommittee held this January proposal open to allow it to be considered with any changes in the May Revision. If the Subcommittee members were interested in procuring an additional ridership study, action could be taken to augment this item and add budget bill language to conduct such and additional study.

Below is an example of possible language:
2665-004-6043

Provisions:
4. Of the amount provided in Schedule 1, up to $1 million is provided to conduct a revised study of ridership for the High Speed Rail project. The study must be concluded by March 1, 2013.

RIDERSHIP STUDY

The Subcommittee held this January proposal open to allow it to be considered with any changes in the May Revision.

ISSUE 3: HSRA GOVERNANCE REFORM

The Subcommittee could consider linking the HSRA budget to governance reform efforts.

BACKGROUND

The California High–Speed Rail Act of 1996 (Chapter 796, Statutes of 1996 [SB 1420, Kopp]) established HSRA as an independent authority consisting of a nine–member board appointed by the Legislature and Governor. In addition, the HSRA has an executive director, appointed by the board, and a staff of less than 20. Including the adjustments for May Revision, the total funding for State Operations for the High Speed Rail Authority is $16.5 million.

CURRENT GOVERNANCE REFORM LEGISLATION

Several authors currently have bills that would reform the governance of the high speed rail project. These bills include:

- AB 41 (Hill)
- AB 145 (Galgiani)
- AB 292 (Galgiani)
- AB 471 (Lowenthal)
- AB 1164 (Gordon)
- SB 517 (Lowenthal)

LAO RECOMMENDATION

The LAO recommends the Legislature pass legislation this session that shifts the responsibility for the day–to–day and strategic development of the project from HSRA to the California Department of Transportation (Caltrans). A new and separate division of Caltrans dedicated to the high–speed rail project would be better positioned, if equipped with the appropriate project delivery tools, to manage the development of the system in this phase. In addition, we recommend that the Legislature remove decision–making authority over the high–speed rail project from the HSRA board to ensure that the state's overall interests, including state fiscal concerns, are fully taken into account as the project is developed.

STAFF COMMENT

If the Subcommittee wished to facilitate governance changes to the High Speed Rail Project in the policy process, the committee could adopt budget bill language to achieve this objective. The actions would be in two steps. First, reduce the amount provided for State Operations to administer the project so that the project is only funded for part of the year. Second, adopt budget bill language in *2665-004-6043* authorizing DOF to augment the budget for High Speed Rail Authority pending JLBC approval and the adoption Legislation to reform the governance of the High Speed Rail Authority.

ISSUE 4: PUBLIC INFORMATION AND COMMUNICATIONS SERVICES

The May Revision proposes to increase the Authority's contract for Public Relations on a one-time basis by $500,000.

BACKGROUND

The May Revision requests $500,000 additional funding for public relations. In the January Budget, HSRA requested $1.8 million in Proposition 1A funding to continue the contract with Ogilvy Public Relations Worldwide (Ogilvy) for statewide public information and communications services. With the additional funding provided in May, $2.3 million would be budgeted for the contract in 2011-12.

The HSRA signed a five-year $9 million contract with Ogilvy Public Relations Worldwide (Ogilvy) to provide day-to-day public relations services including the coordination of various regional outreach activities related to the environmental review process and supplements those efforts with statewide communications including but not limited to stakeholder outreach, web site and social media activities, legislature tracking, event planning, and the production of written materials such as fact sheets. The HSRA's current contract with Ogilvy is scheduled to expire in 2012.

The HSRA currently has two positions that manage public relations responsibilities for the agency. Generally, the HSRA contracts for public relations services to help address issues that arise at a local level. Staff understands that the contracted public relations firm generally locates its own, or contracted staff, near the segments that are being developed to organize required outreach duties and respond to different public information needs.

STAFF COMMENT

The strategy of using only two state staff and a contract for $2.3 million to communicate with the public and work out tough issues with local, and state governments does not appear to be working well for the Authority. The lack of direction from the Authority has forced the contractor to be empowered with inter-governmental duties normally reserved for actual project staff.

State and local governments need to be able to access entities in the Authority that have the ability to fix problems and find collaborative solutions to the many challenges this project with face when it attempts to move through thousands of California communities. Employees from a public relations contractor with one year on their remaining contract cannot be taken seriously as point of contact for the Authority.

However, it does seem appropriate for the Authority to use a contractor for actual public relations activities, organizing events, using the press, utilizing various types of media to message the Authority's activities.

The Subcommittee may want to consider reducing budget funding for this contract based on this analysis:

- Increase public outreach by adding three state positions (and appropriate funding – about $300,000) that would be regionally located and report to Regional Directors. Decrease consultant funding for this purpose by half ($440,000). The HSRA should also study best-practices for how to use consulting resources along with State staff to facilitate discussion and to develop two-way communication with the public.
- Delete funding for lobbying ($360,000). State legislators can meet directly with HSRA staff, and the Governor has representatives in Washington DC to advocate for the State's interests.
- Delete funding for unspecified research ($75,000).
- Reduce the remainder of the contract funds by half ($493,000) since existing and new State staff in the area of communications, website maintenance, etc., should be able to perform these functions within their current job duties.

If all of the above actions were adopted, budget funding would be reduced by $1,068,000, resulting in remaining funding of $1,232,000.

2660 – DEPARTMENT OF TRANSPORTATION

ISSUE 1: PROPOSITION 1B BOND FUNDING

The May Revision includes $1 billion in additional appropriations of Proposition 1B funds for transportation projects, but the realities of the state cash management and the outcome of the bond sales will determine the extent that these funds are available.

BACKGROUND

In January, the Governor requested $2.4 billion in Prop 1B bond funds for programs administered by Caltrans. In the March budget package, the Legislature approved this funding level as a placeholder amount.

In May, the Administration submitted an updated request that recognizes about $2.0 billion appropriated for Prop 1B in prior years has not been allocated and will revert in June 2011. Due to the reversion and the revised estimate of new project allocations, the Governor is now requesting an increase in the appropriation of $1.0 billion. The table below indicates detail by program. (dollars in millions):

Proposition 1B Category	Total 1B Amount	January Request for 2011-12	May Revision Additional Request for 2011-12	Total
Corridor Mobility Improvement Account (CMIA)	$4,500	$631	$594	$1,225
State Transportation Improvement Program (STIP)	$2,000	$0	$0	$0
State Highway Operations and Preservation Program (SHOPP)	$500	$0	$48	$48
State Route 99 Improvements	$1,000	$392	$135	$527
Local Bridge Seismic Retrofit	$125	$22	-$8	$14
Intercity Rail	$400	$117	$0	$117
Grade Separations	$250	$0	$0	$0
Traffic-Light Synchronization	$250	$0	$0	$0
Trade Infrastructure	$2,000	$972	$192	$1,164
State/Local Partnership	$1,000	$200	-$35	$165
Local Streets & Roads	$2,000	$37	$0	$37
Transit	$3,600	$0	$123	$123
TOTAL for these programs	**$15,625**	**$2,371**	**$1,047**	**$3,418**

* Number pending from the Administration.

SMALLER FALL BOND SALE

The May Revision indicates that the Administration will reduce the size of the Fall 2011 general obligation bond sale from $5.8 billion to $1.5 billion. Of the reduced sale, about $530 million is tentatively reserved for Prop 1B bonds. Additionally, as of April 2011, about $2.7 billion in cash proceeds remain for Prop 1B projects from prior bond issuances. The Administration believes the cash on-hand plus the additional $530 million would provide sufficient funds to support Prop 1B projects until the next planned bond sale in the Spring 2012. By reducing the fall bond sales by $4.3 billion, the Administration indicates it will realize General Fund savings of $127 million in 2011-12 due to associated interest savings. However due to the modified fuel tax swap and truck weight fees, the majority of Prop 1B General Fund costs are reimbursed from transportation funds.

STAFF COMMENT

In recent years, the ability to sell bonds and the size of a bond issuance have been more of a constraint on Prop 1B projects than the level of funds appropriated by the Legislature. Since the Administration is attempting to closely manage cash to reduce interest costs, this creates risk and possibly delays projects. Staff is working with the Administration to develop a statutory reporting requirement that would provide additional information to the Legislature on the Prop 1B bond program and expenditure projections.

ISSUE 2: WEIGHT FEE/TRANSPORTATION LOAN TRAILER BILL LANGUAGE

The May Revision includes a statutory change to the repayment of special fund transportation loans in a manner that would help mitigate revenue volatility of the recently enacted weight fee fuel-swap proposal.

BACKGROUND

The Governor's May Revision budget proposes new trailer bill language that would revise the loan repayment schedule for prior loans from transportation special funds to the General Fund. This revised repayment schedule would provide General Fund relief in 2012-13 and through 2020-21 in three ways:

1. *First,* outstanding loans to the General Fund, derived from truck weight fee revenue would be directed to upon repayment to fund transportation-related bond debt (about $971 million in outstanding loans fall into this category);

2. *Second*, outstanding transportation loans to the General Fund not associated with truck weight fees, would have statutory repayment dates extended to 2020-21, with the intent to pay them prior to 2020-21, but as the General Fund is able (about $358 million in outstanding loans fall into this category); and,

3. *Finally*, authority would be added to allow new loans of weight fee revenue to the General Fund if annual weight fee revenue falls below applicable bond debt service in a given year (the Administration believes this could occur in 2012-13 and 2013-14 for a total of $171 million in new loans, but does not actually score this in the multi-year projection of General Fund revenues).

The Legislature enacted and the Governor signed AB 105 in March, which reenacted the 2010 fuel tax swap, and modified the financing of debt service such that truck weight fees would be directed to that purpose instead of gasoline excise tax revenues. The March package also directed weight fee revenue not needed for GO debt to the General Fund as a loan (about $841 million). Transportation interests were generally supportive of AB 105 because it preserved both transit funding and highway funding that was at legal risk with the passage of Prop 22 and Prop 26. The modified fuel tax swap retained most of the components of the original fuel tax swap, but because truck weight fee revenue was less than excise tax revenue, a new "cap" of about $900 million was placed on the amount of transportation revenues eligible to reimburse GO bond debt. Since transportation bond debt is expected to exceed annual truck weight fee revenue in 2014-15, the amount of out-year General Fund solution as reduced by the modified fuel swap.

Current statute contains formulas to distribute excise tax revenue, which is somewhat volatile due to the revenue-neutral provisions that result in a new excise tax rate every July 1. Truck weight fee revenue is less volatile, but the amount of applicable GO debt service in any given year is also subject to change based on the timing of future bond sales. With those caveats stated, the Administration has provided a forecast of the net new benefit available to highways and local roads with the modified fuel tax swap.

Forecast of new revenue to highways and roads from modified Swap
($ in millions)

	2011-12	2012-13	2013-14	2014-15
Highway Rehabilitation (SHOPP)	$202	$224	$284	$256
Highway Capacity (STIP)	$120	$256	$431	$287
Local Streets and Roads	$120	$256	$431	$287
TOTAL net new benefit of swap	$442	$736	$1,146	$830

Forecast of weight fees and debt service
($ in millions)

	2011-12	2012-13	2013-14	2014-15
Weight Fee Revenue	$910	$918	$930	$943
Applicable GO Bond Debt Service	$778	$756	$919	$1,192
Surplus / (Deficit) for Bond Debt	$132	$162	$11	($249)

As the first table indicates, the modified fuel tax swap is expected to result in significant new revenues for highways and roads – about $3.0 billion over the four-year period through 2014-15. However, as the second table indicates, a deficit emerges for GO debt service in 2014-15 that represents an eroded General Fund solution of $249 million relative to the original 2010 fuel swap. The Administration's trailer bill would direct some of the loan repayment to this GO debt service to restore the General Fund solution in the out-years.

STAFF COMMENT

Because the original fuel tax swap included a higher level of General Fund relief for debt service than achieved with the March modified fuel tax swap, the proposed trailer bill would seem reasonable within the general intent to maintain the structure of the original fuel swap where constitutionally allowable. Since none of the proposed amendments affects the 2011-12 budget, a question arises over the need to take this action now. The Administration's response is to fully address the multi-year General Fund problem and not delay action when needed. Additionally, acting now would reduce uncertainty for the California Transportation Commission (CTC) as they update the 5-year Fund Estimate for transportation funding. While the Subcommittee may want to consider approving the revised repayment schedule for *existing* loans, the Subcommittee may want to reject the proposal to allow *new* special fund loans to the General Fund in 2012-13 and 2013-14. The Administration believes a total $173 million might be available for new budgetary loans; however, they do not score this in their long-term General Fund revenue projections. These future loans would be from weight fee revenue that would already be set aside for bond debt, so there is not impact on the CTC Fund Estimate, and the Legislature could always grant this authority as part of next year's budget if needed.

ISSUE 3: CAPITAL OUTLAY SUPPORT

The May Revision proposes 122 contracted positions to provide capital outlay support.

BACKGROUND

The May Revision includes $60.4 million (various special funds, bond funds, and federal funds) to increase consultant engineering contracts by 122 positions, or Full Time Equivalents (FTEs), and to fund the cost escalation for the base-level of consultant contracts. This request would result in a total COS budget of $1.9 billion and 10,756 FTEs in state and contract resources (9,120 state staff positions, 398 state-staff overtime FTEs, and 1,238 FTEs of contract staff).

Within the $60.4 million request is $1.3 million in one-time funding for long-term travel assignments to move construction oversight staff across regions due to temporary workload imbalances. The cost of consultant engineering contracts has increased from the $213,000 per FTE budget in 2010-11 to $243,000 per FTE requested in the Finance Letter.

As a way to address this cost escalation, the Administration is proposing trailer bill language for a pilot program that would involve 122 FTEs of contract work. The pilot would involve modifying procurement so that firms bid on specific projects, instead of bidding on the hourly price of engineering services. The budget assumes this pilot will bring costs down to $209,000 per FTE for the pilot subset of projects. Finally, four positions, and budget bill language is requested for workload related to the High Speed Rail Authority.

Each year, Caltrans zero-bases its project workload based on the program of projects adopted by the California Transportation Commission. Relative to other areas of the budget, COS staffing sees large fluctuations in staffing as transportation funds ebb and flow – Proposition 1B and American Recovery and Reinvestment Funds being recent examples of new revenues that could not have been anticipated in the years prior to their enactment. The COS workload is addressed primarily by state staff (in regular time and overtime), who historically have performed 90 percent of the project work.

The remainder of the workload is addressed by contract staff, who historically have performed 10 percent of the workload. While state staff is less expensive than contract staff ($158,000 for state staff position, $96,000 for state staff overtime FTEs, and $243,000 for contract staff), a contingent of contract staff has been seen as beneficial to perform specialty work, such as the Bay Bridge replacement, and to provide more flexible staffing across districts and at times of large workload adjustments.

The Administration forecasts moderate reductions in workload over the next several years – a reduction in the range of 200 to 300 FTEs for 2012-13. However, there remains significant uncertainty about the level of federal funding over the next 5-year period. Due to this forecast reduction, the Administration indicates it prefers the more flexible (but more expensive) contract staff over state staff positions. The Administration does note that state-staff overtime is also a flexible resource, and it is a less costly alternative to contracting. If the forecast for 2012-13 proves accurate, a future reduction of 200-300 FTEs is clearly absorbable without layoffs, through attrition, reduced overtime, and reduced contracting out.

BSA RECOMMENDATION

As heard in the May 9th Hearing of the Subcommittee, the BSA suggests Caltrans institute improved tracking and reporting of budgets and expenditures. The following recommendations would require Legislative action to fully implement:

- Adopt legislation to require Caltrans to improve its existing report to the Legislature by including addition summaries and analysis. The current report provides detail by project, but does not include useful summaries and measures;

- Adopt legislation to expressly require the California Transportation Commission to review and approve project construction support cost overruns for individual projects that exceed the budget by 20 percent; and,

- Appropriate funds for an independent study of the costs and benefits of using consultants to address temporary increases in workload.

STAFF COMMENT

Given the relatively stable outlook for COS workload over the next several years, the Subcommittee may want to consider a balanced approach such as an alternative that would fund 61 new state staff plus 61 FTEs of state staff overtime. That alternative would save about $17 million, keep staff overtime at a normal level, and maintain this historic average split of 90 percent state staff and 10 percent contract resources (see the below table for a historical perspective on the COS workload). As has been done in some past years, the Subcommittee my want to direct this savings, on a one-time basis, to preventative highway maintenance.

In terms of pilot program to reduce contract costs, the Subcommittee may want to adopt the Administration's assumption that about 122 FTEs of contract resources can be procured through an alternative negotiation that would result in a cost of about $210,000 per FTE instead of $243,000. However, the trailer biller language proposed with this pilot is not legally needed to implement the pilot.

Historical and Proposed Capital Outlay Support Staffing
(measured in full-time equivalents (FTEs))

Year	State Staff	Overtime	Contract Out	Total
1997-98	7,538	351	1,176	9,065
1998-99	9,434	692	921	11,047
1999-00	9,854	546	592	10,992
2000-01	10,565	822	1,159	12,546
2001-02	11,072	650	1,646	13,368
2002-03	10,803	650	1,382	12,835
2003-04	10,245	303	500	11,048
2004-05	10,651	699	1,070	12,420
2005-06	10,815	710	1,568	13,093
2006-07	10,638	636	1,343	12,617
2007-08	11,064	668	1,393	13,125
2008-09	10,779	473	1,266	12,518
2009-10	9,901	450	1,166	11,517
2010-11	9,307	398	1,116	10,821
2011-12 as proposed	9,120	398	1,238	10,756
2011-12 Staff Recommenation	9,181	459	1,116	10,756

ISSUE 4: CALTRANS PROJECT INITIATION DOCUMENTS

The May Revision revisits the budgeting for Project Initiation Documents (PID), with additional funds requested for SHOPP project PIDS a new proposal for local reimbursements for PIDs.

BACKGROUND

In the January budget, the Administration proposed to increase budgeted positions for PIDs workload from 242 positions to 260 positions and also shift the funding for 66 of these positions from State Highway Account (SHA) to local reimbursements. A "PID" is a preliminary planning document, or tool, that includes the estimated cost, scope, and schedule of the project—information needed to decide if, how, and when to fund the project. At the April 27 hearing, the Subcommittee rejected the reimbursement funding for locally sponsored highway projects and instead funded all PIDs out of the SHA – the Assembly Subcommittee took the same action. The overall funding for PIDs was budgeted at $33.0 million.

In the May Revision request, the Administration modifies their January proposal by deleting reimbursement funding of $7.5 million and eliminating 74 positions – instead trailer bill language is proposed that would allow Caltrans to increase reimbursement authority administratively when local governments request PIDs services and sign cooperative agreements to reimburse costs. The May Letter zero-bases the workload for State Highway Operations and Protection Program (SHOPP) PIDs and adds, or adds back, 78 positions and $8.6 million that is needed for that purpose.

STAFF COMMENT

The contract required with locals for a PIDs reimbursement appears to currently be a lengthy process that can result in a six-month delay. The staff at Caltrans has been reduced to zero-base the workload and Caltrans has – as of April 19, 2011 – implemented a streamlined PID. The May Letter indicates that the streamlined PID process is reflected in the revised staffing calculations. Major reforms have been implemented for the program including zero-basing staffing and streamlining PIDs. Using local reimbursement as a mechanism to drive the reform may not be necessary and may produce new inefficiencies such as the need for negotiating cooperative agreements for each project.

ISSUE 5: AIR QUALITY MANDATES DIESEL RETROFITS AND FLEET REDUCTION

The Subcommittee will revisit the issue of Air Quality Mandate Diesel Retrofits.

BACKGROUND

On December 8, 2005, the ARB adopted a fleet rule to reduce diesel particulate matter (PM) emissions from fleets operated by public agencies and utilities based on a phased implementation schedule.

The 2010-11 budget appropriated $57.3 million to bring 435 vehicles into compliance. It was later determined that the Department's overall compliance plan did not actually bring the Department into compliance with the Air Resources Board (ARB) requirements. Subsequently, the Department worked with the Air Resources Board to develop a new compliance plan. The new compliance plan focused on retrofits instead of replacements in 2010-11 and results in expenditure savings of about $47 million in this fiscal year. The Department developed the 2011-12 request based on this new joint compliance agreement between the California Air Resources Board (ARB) and the Department.

LAO RECOMMENDATION

The LAO recommends that the Legislature approve the budget request, but include budget bill language requiring the Department of Finance to adjust the appropriation amount after the completion of the fleet review to be consistent with its findings about which vehicles will be retired or replaced. In addition, the LAO thinks that the Legislature should specify how the savings from the executive order can be spent. In this case, LAO recommends that any savings be made available for pavement maintenance projects. We have found in past analyses that the state has a growing backlog of maintenance and repair needs on its highways. Directing the amount of the $63 million in funding for vehicle replacement that is not needed for compliance with ARB's regulations to pavement maintenance will allow for more accurate budgeting of Caltrans' needs as well as the use of funds to perform critical highway repair work. Accordingly, LAO recommends that the Legislature adopt the following budget bill language:

Item 2660-001-0042 Provision X

Of the funds appropriated in this item, up to $63 million is available for the replacement of vehicles necessary for compliance with regulations imposed by the California Air Resources Board. None of the funds provided in this item shall be spent until after the completion of the fleet evaluation being conducted under Executive Order B-2-11. After completion of the fleet evaluation, the Director of the Department of Finance shall reduce the amount of funds appropriated for the purchase of vehicles in this item to account for vehicles that are planned for retirement and do not need to be replaced. The Director of the Department of Finance shall also increase the appropriation for the *department's pavement maintenance activities, by an amount equivalent to the savings identified from vehicle replacements. The Director of the Department of Finance shall notify the Joint Legislative Budget Committee of the portion of the $63 million in this item that is available for vehicle replacement and the portion that is available for pavement maintenance after adjustments have been made.*