

**ASSEMBLY BUDGET SUBCOMMITTEE NO. 5
ON TRANSPORTATION AND INFORMATION TECHNOLOGY****Assemblymember Mike Feuer, Chair****WEDNESDAY, APRIL 16, 2008****ROOM 127 – 4:00 PM**

CONSENT CALENDAR

ITEM	DESCRIPTION	
2700	OFFICE OF TRAFFIC SAFETY	2
2720	CHP FINANCE LETTER	2
2740	DMV FINANCE LETTER	3

ITEMS TO BE HEARD

2640	STATE TRANSIT ASSISTANCE	4
ISSUE 1	LOCAL TRANSIT OPERATIONS FUNDING	4
2665	HIGH SPEED RAIL AUTHORITY	6
ISSUE 1	BUDGET YEAR FUNDING	6
2720	CALIFORNIA HIGHWAY PATROL	7
ISSUE 1	RADIO SYSTEM LATE REPORT	7
ISSUE 2	NEW STAFFING	8
ISSUE 3	TACTICAL ALERT	9
ISSUE 4	BSA AUDIT	10
2740	DEPARTMENT OF MOTOR VEHICLES	11
ISSUE 1	MOTOR VEHICLE ACCOUNT FEE INCREASES	11
ISSUE 2	REAL ID	13
ISSUE 3	FINANCE LETTER – VEHICLE REGISTRATION FINANCIAL RESPONSIBILITY	14

CONSENT CALENDAR

ITEM 2700 OFFICE OF TRAFFIC SAFETY

The California Office of Traffic Safety's (OTS) mission is to obtain and effectively administer traffic safety grant funds to reduce deaths, injuries, and economic losses resulting from traffic collisions.

The Governor's proposed budget includes \$96.3 million (nearly all federal funds) for the OTS.

ITEM 2720 FINANCE LETTER - CHP

The Administration has submitted a Finance Letter for the CHP requesting the following:

- ◆ **Tracy Area Command Office (Issue 001)**—Add provisional language to Item 2720-001-0044 to authorize the Department of General Services to enter into a long-term lease with purchase option for the replacement of the Tracy Area Command Office.
- ◆ **Bakersfield Area Command Office (Issue 002)**—Increase Item 2720-001-0044 by \$1,860,000 to contract with the Department of General Services (DGS) for locating a replacement site, and add provisional language to authorize DGS to enter into a long term lease with purchase option for a new Bakersfield Area Command Office.
- ◆ **Inland Empire Traffic Management Center (Issue 003)**—Decrease Item 2720-001-0044 by \$321,000 because a less costly alternative has been identified for rerouting of the radio microwave path.
- ◆ **Reduction to Officer Staffing Request (Issue 004)**—Reduce 2720-001-0044 by \$634,000 to correct the calculation of benefit costs for the officer staffing augmentation request.
- ◆ **Computer Aided Dispatch System (Issue 005)**—Add Item 2720-495 to revert \$6,661,000 in Item 2720-001-0044 of the Budget Act of 2007, to reflect cost savings due to schedule delay in the Computer Aided Dispatch System project.

ITEM 2740 FINANCE LETTER - DMV

The Administration has submitted a Finance Letter for the DMV requesting the following:

- ◆ **Rancho Cucamonga Field Office (Issue 002)**—Increase Items 2740-001-0044, 2740-001-0042, and 2740-001-0064 by \$1,255,000, \$125,000, and \$899,000, respectively, for a total of \$2,279,000 to establish a replacement field office in Rancho Cucamonga. Add Budget Bill language to authorize the Department of General Services to enter into a long-term lease for development of a replacement field office on a state site by a private developer.

- ◆ **Facility Lease Delay (Issue 003)**—Decrease Items 2740-001-0044, 2740-001-0042, and 2740-001-0064 by \$1,951,000, \$183,000, and \$1,348,000, respectively, and revert \$2,804,000, \$263,000, and \$1,939,000 in Items 2740-001-0044, 2740-001-0042, and 2740-001-0064, respectively, of the Budget Act of 2007. Delay in occupying various leased facilities approved in the 2007 Budget Act has resulted in rent savings in current and budget years.

ITEMS TO BE HEARD

ITEM 2640 STATE TRANSIT ASSISTANCE

The State Transit Assistance (STA) budget provides funding for allocation to local transit agencies to fund operations and capital costs associated with local mass transportation programs.

The Governor's proposed budget includes \$1.1 billion for STA; this includes \$350 million from Proposition 1B for local capital projects and \$743 million for local transit operations.

ISSUE 1: LOCAL TRANSIT OPERATIONS FUNDING

The proposed budget includes \$743 million for local transit operations. These funds come from three primary sources:

- 67 percent of spillover funds that are available for traditional transit purposes – \$304 million;
- 75 percent of Proposition 42 funds that go to the Public Transportation Account (PTA) – \$223 million; and
- 50 percent of all other PTA revenues – \$216 million.

Combined, these represent an increase of \$439 million from the current year, which is funded at \$304 million.

COMMENTS:

The proposed budget for STA is the result of three key changes in the current year:

1. The Governor in the current year proposed to permanently redirect all Spillover revenues to the General Fund. The final budget agreement resulted in only 50 percent of Spillover funds be redirected to the General Fund beginning in 2008-09.
2. To mitigate the impact on local transit agencies of this permanent shift of Spillover funds from the PTA, the budget agreement increased the STA's share of the Spillover that reaches the PTA from 50 percent to 67 percent beginning in 2008-09.

3. The Legislature passed SB 717 (Perata) which increased the STA share of PTA revenues from Proposition 42 from 50 percent to 75 percent beginning in 2008-09.

If none of these changes had been made in the current year, then the budget for STA would have been about \$818 million. Clearly, the Legislative actions to mitigate the loss of Spillover revenues helped, but did not completely fill the hole.

In addition, to the extent the impact on STA was mitigated, it came at the expense of other PTA responsibilities, such as the STIP, intercity rail, and high-speed rail.

ITEM 2665 HIGH SPEED RAIL AUTHORITY

The California High-Speed Rail Authority's mission is to plan, design, build, and operate a high-speed train system for California.

ISSUE 1: BUDGET YEAR FUNDING

The Governor's proposed budget includes \$5.2 million for the HSRA, of which \$1.7 million is from the PTA and \$3.5 million is a reimbursement.

COMMENTS:

The Governor's proposed budget funds the state staff for the year budget does not provide funding for the contract work that is currently underway.

In addition, the Governor supports a High Speed Rail bond for the November ballot. Assembly Bill 3034 (Galgiani) would make changes to the bond act currently on the November ballot, that bill passed the Assembly Transportation Committee on a 10-0 vote on April 14. Should the voters approve a bond, the proceeds will ultimately be available to pay the state's portion of the planning and construction costs.

However, the LAO points out that if there is no funding for the continuing contract work in the budget, the work is likely to stop at the end of the current year and would not resume until after the bond funds are available. The interruption in contract works would likely result in higher costs once the projects start again. In addition, the LAO notes that without the continuation of the contract work in the budget year, a portion of the \$3.5 million in reimbursements may not materialize either.

The Administration should report at the hearing regarding their understanding of the potential negative impacts resulting from not funding the contract work in the budget year.

ITEM 2720 CALIFORNIA HIGHWAY PATROL

The California Highway Patrol's (CHP's) mission is to ensure the safe, convenient, and efficient transportation of people and goods across the state's highway system and to provide the highest level of safety and security to the facilities and employees of the State of California.

The Governor's proposed budget includes \$1.9 billion for the CHP.

ISSUE 1: RADIO SYSTEM LATE REPORT

The Governor's proposed budget includes \$116.3 million for the budget year costs for the continuing project to upgrade the CHP's radio system. 2008-09 would be the third year of the five year plan.

As part of last year's budget, the CHP is required to report on the progress of the project by March 1 of each year. The CHP has not provided this report.

COMMENTS:

The CHP should report at the hearing regarding why they have not provided the required report to the Legislature. Where is the report? Is it with the CHP, the Business Transportation and Housing Agency, or the Governor's office?

Without the report, the Subcommittee is unable to fully evaluate the project and whether the funds should be continued for the radio upgrade.

Therefore, this item should be held open until the report is provided and adequately reviewed.

ISSUE 2: NEW STAFFING

The Governor's proposed budget includes 120 new officer positions and 44 other new positions. Due to existing vacancies and backlog in hiring, the budget does not include new funding for the officer positions, but does include \$4 million for the 44 other positions.

The proposal for new officers is the continuation of the effort to address the well documented problem of the CHP not growing adequately to reflect the state's significant population and vehicle miles traveled growth.

COMMENTS:

There are two key issues to consider with this item.

1. **New Officer Positions.** The CHP is has been unable to fill the 360 new officer positions that the Legislature has approved over the past two year. In addition, there have been recent high attrition rates among the officers. Together, the LAO reports there is a total of 712 vacant positions. The CHP expects to graduate 399 cadets from the academy leaving a final vacancy 313. With this many vacancies, the LAO recommends the new positions not be approved for the budget year.

The CHP contends, however, that approving the new positions in the budget year is necessary because it enables the CHP to make conditional hires to recruits that are entering the Academy, even if they will not be hired until 2009-10.

The CHP should report at the hearing on specifically how many fewer CHP officers will be on the streets in both 2008-09 and 2009-10 should the 120 new positions not be approved until 2009-10.

2. **44 Other Positions.** The LAO recommends rejecting 44 other staff positions since the 120 officers they would support would not be hired in the budget year.

The CHP contends that actually only about 12 of the other staff positions are directly tied to the hiring of the new officers and the remaining 32 positions are needed to meet base department needs.

The CHP should outline the need for these 32 positions at the hearing and the LAO should respond to the CHP's contention.

ISSUE 3: TACTICAL ALERTS

The Governor's budget includes in the main CHP line item \$10 million for the overtime costs of tactical alerts. This has been in place since 9/11 when the CHP officers were placed on 12 hour shifts to enhance preparedness.

COMMENTS:

After two years of the CHP not tracking their spending on tactical alerts, the current year budget requires the CHP to report on their tactical alert spending and to revert any unused funds.

The first report was due by December 31, 2007 but was not submitted until March 7, 2008. The substance of the report was that the CHP did not spend any funds in 2006-07 for tactical alerts and all the budget funds were reverted.

Since it is unknown how much, if any, of the \$10 million will be used each year for tactical alerts, the Senate Budget committee approved the following changes to the budget bill:

2720-002-0044—For augmentation to fund tactical alerts for declared emergencies and immediate threats to public safety as determined by the Commissioner of the California Highway Patrol, payable from the Motor Vehicle Account.....(\$10,000,000)

Provisions:

- 1. For the purpose of this item, a tactical alert occurs when officers are placed on 12-hour shifts to enhance emergency preparedness and emergency response.*
- 2. By December 31, 2009, the department shall report to the Joint Legislative Budget Committee on the activities funded by this item.*

These changes will better enable the Legislature to track tactical alert spending over time since it will be recorded in each year's January 10 budget proposal. This will be a much more reliable source of information than just relying on the CHP's reports – which have been pretty clearly demonstrated to not be timely.

ISSUE 4: BSA AUDIT

In January the Bureau of State Audits (BSA) released their audit report concerning the California Highway Patrol's (CHP) purchasing and contracting practices, conflict-of-interest guidelines, and use of a state resource.

The full report is available on the BSA website (www.bsa.ca.gov), but the highlights of the audit are as follows:

- ◆ The CHP did not include all the justifications recommended by the State Administrative Manual in its \$6.6 million handgun purchase request, nor did it sufficiently justify the cost of its planned \$1.8 million patrol car electronics purchase.
- ◆ The Department of General Services approved the CHP's purchases even though the CHP's purchase documents did not provide all the requisite justifications for limiting competition or for the cost of the product.
- ◆ Despite the deficiencies in the handgun and patrol car electronics procurements, our legal counsel advised us that those deficiencies did not violate the provisions of law that would make a contract void for failure to comply with competitive bidding requirements.
- ◆ The CHP has weaknesses in its conflict-of-interest guidelines including not requiring employees who deal with purchasing to make financial interest disclosures, and not consistently following its procedures to annually review its employees' outside employment.
- ◆ Between 1997 and 2007, the CHP owned and operated a Beechcraft brand King Air airplane (King Air), but could not substantiate that it always granted approval to use the King Air in accordance with its policy, and its decisions to use the King Air were not always prudent.

COMMENTS:

The CHP should comment on the audit findings and what they are doing to correct the problems identified in the audit.

ITEM 2740 DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles (DMV) is responsible for protecting the public interest in vehicle ownership by registering vehicles and for promoting public safety on California's streets and highways by issuing driver licenses. Additionally, DMV licenses and regulates vehicle-related businesses such as automobile dealers and driver training schools, and collects certain fees and tax revenues for state and local agencies. The department operates 215 facilities, which include customer service field offices, telephone service centers, commercial licensing facilities, a headquarters, and driver safety and investigations offices.

The Governor's proposed budget includes \$959 million (Special Funds) for the DMV.

ISSUE 1: MOTOR VEHICLE ACCOUNT FEE INCREASES

The Governor's proposed budget includes an increase to the car registration fee of \$11 dollars per year and a doubling of late fees. This is proposed to eliminate the operating deficit in the Motor Vehicle Account (MVA) and keep the fund solvent. The base car registration fee (including a California Highway Patrol (CHP) fee) is \$41 per vehicle – so the proposed increase would result in a new annual base fee of \$52.

The increases are projected to increase revenues by \$385 million in 2008-09 (due to an October 2008 effective date) and about \$522 million in 2009-10 and thereafter.

COMMENTS:

The MVA derives most of its revenues from vehicle registration and driver license fees. In 2007-08, those fees accounted for 90 percent of the estimated \$2.1 billion in MVA revenues. The majority of MVA expenditures support the activities of the CHP (69 percent), the DMV (22 percent) and the Air Resources Board (7 percent). While increases in the number of cars, license holders, and other factors, increase MVA revenues about five percent annually, expenditure have grown at a faster rate. The CHP's budget, for example, has grown at a rate of about nine percent annually. Some specific costs drivers are as follows:

- ◆ The number of CHP Officers has increased and a CHP Officers' contract tied salary to local law enforcement resulting in above-average salary increases – in 2002-03 there were 7,237 Officers at a cost of about \$540 million and in 2007-08 there are 7,617 Officers at a cost of about \$750 million.
- ◆ The CHP began a radio replacement project in 2006-07 that will cost about \$500 million to implement.
- ◆ The DMV is implementing several large information technology projects with a combined cost of about \$334 million.

- ◆ Various programs at the Air Resources Board have expanding, increasing MVA expenditures from \$62 million in 2002-03 to \$120 million in 2007-08. (Note: there was a \$15.2 million loan from the MVA to the Air Pollution Control Fund in 2007-08 for AB 32 implementation, but there is no ongoing MVA funding for AB 32 implementation).

An operating deficit has developed over the past few years and 2007-08 reflects revenues of \$2.1 billion and expenditures of \$2.4 billion. Without correct action, the MVA will become insolvent in 2008-09. Out-year pressure on expenditures may come from additional growth in the number of CHP Officers, possible expenditures to implement the Real ID Act, and risk from cost escalation of existing radio and information technology projects.

The LAO indicates that the Administration's calculations overstate the revenue gain by about \$32 million annually, and additionally there is risk to the assumption that doubling the late fee penalty (from the current range of \$10 to \$100 to the new range of \$20 to \$200), will not reduce the number of late payments and therefore reduce the revenue benefit. The LAO believes the proposed fee increases would sustain the MVA through 2013-14 (assuming historical expenditures trends). The LAO cites additional short-term risk from a late budget, with every month's delay eroding the revenue benefit in 2008-09 by \$29 million.

The Administration should outline the need for the increased fees and respond to the issues raised by the LAO.

ISSUE 2: REAL ID

The federal Real ID Act has been in place since 2005 and requires states to meet certain requirements for issuing drivers licenses and identifications.

Real ID will require most people to go to a DMV field office to re-verify their identity. Upon full implementation, Real ID will require people without a passport to have a compliant driver's license or identification card in order to enter a federal building or cross an airport checkpoint.

Final federal regulations have been approved for Real ID, with the most significant update being that states have until 2017, rather than 2013, to fully comply with the Real ID Act. The final regulations allow states to apply to delay initiation of Real ID (i.e. begin the issuance of compliant ID cards) from May 2008 to December 2009 – DMV indicates it has already applied for, and received approval of, this extension. As a condition of receiving a second extension to May 2011, states must certify that certain “benchmarks” have been met.

COMMENTS:

The LAO raised the following points in their analysis:

- The regulations provide no guidance to states on how to establish several national databases to verify identity documents that would be needed to implement the Act.
- Real ID privacy concerns are not fully addressed in the regulations – for example, future legislation may be needed to address third-party use of personal information included in the machine-readable ID card.
- There is no serious federal plan to fund the full implementation cost of Real ID.
- The DMV should report on its revised implementation plan and costs.

On March 18, 2008, the DMV sent a letter to Secretary Chertoff indicating that California's request for an extension to December 2009 is not a commitment to implement REAL ID. The letter cites the state's concerns over: the absence of adequate federal funding; the lack of specificity regarding how to protect and secure personal information; and the design and support of required electronic verification systems that are critical to the program.

The DMV should report at the hearing regarding the LAO points and the letter to Secretary Chertoff. In addition, the DMV should outline their efforts to receive available federal funds to mitigate the state's cost of implementing Real ID.

ISSUE 3: FINANCE LETTER – VEHICLE REGISTRATION FINANCIAL RESPONSIBILITY

The Administration has submitted a Finance Letter requesting a total increase of \$3.9 million (special funds) for the Vehicle Registration Financial Responsibility (VRFR) program.

COMMENTS:

The VRFR was established by SB 1500 in 2004 and establishes electronic links between the DMV and car insurance companies to ensure that car insurance is maintained throughout the year. The Finance Letter states that the cost is the result of shifting the operation of VRFR from a contractor to the DMV.

The DMV has stated that the implementation of SB 1500 would be less than \$1 million annually.

The Administration indicates the bulk of the additional costs are for one-time costs of creating a state owned computer system for the VRFR. The existing system used by the contractor is proprietary and not available to the DMV as the program is transferred from the contractor to the DMV.

The DMV should explain the need to transfer the operation of VRFR from the contractor to the state and why the costs of the transfer are so high. In addition, the DMV should report at the hearing regarding their projections for the ongoing costs of the VRFR.