AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 5
On Transportation and Information Technology

Assemblymember Joan Buchanan, Chair

WEDNESDAY, APRIL 28TH, 2010
STATE CAPITOL, ROOM 127
4:00 PM

CONSENT CALENDAR

Department of Motor Vehicles

1. **San Bernardino Commercial Driver License Test Center (BCP #1):** The Administration requests a one-time augmentation of $844,000 (Motor Vehicle Account) to relocate the San Bernardino Dedicated Commercial Driver License (CDL) Test Center. The owner of the current facility is unwilling to renew the lease with the DMV, so the Department must move to a new location. The DMV believes separate CDL locations promote efficiency and public safety by not bringing larger commercial vehicles to the standard field office location.

   Staff Recommendation: Approve this request.

2. **Document Imaging (April FL #1):** The Administration requests a one-time augmentation of $4.8 million (federal funds) and three one-year limited-term positions for the purchase and implementation of a digital imaging system in field offices statewide. The federal funds come from two federal grants: (1) a $3.2 million 2008 Real ID Demonstration Grant, and (2) a $1.6 million 2010 Driver License Security Grant. DMV indicates these funds do not require matching state funds, nor do they require that the state become "REAL ID compliant." Under existing practice, the DMV photocopies identity documents at field offices, mails the copies to the DMV headquarters, and then runs them through a high speed scanner for storage. Under the new system, the DMV would scan the documents at the field office and electronically transmit them to headquarters. The DMV indicates the new process will be more secure and efficient.

   Staff Recommendation: Approve this request.

3. **Website Infrastructure Information Technology Project (April FL #2):** The Administration requests to extend the liquidation period for the remaining $7.4 million unexpended funds for the Website Infrastructure (WSI) project. In 2006-07, the Legislature approved funding for this project to improve the DMV's website so additional transactions could be completed on the internet and annual field office visits could be reduced by up to 2.2 million people. The project has been delayed due to the bankruptcy of the original vendor, Bearing Point. DMV reports that IBM is now the replacement vendor and under contract.

   Staff Recommendation: Approve request

ITEMS TO BE HEARD

2740 DEPARTMENT OF MOTOR VEHICLES

ISSUE 1: BUDGET REQUESTS RELATED TO DRIVING UNDER THE INFLUENCE

The Governor's budget is requesting a total of $3.0 million ($1.8 million federal funds, $1.2 million Motor Vehicle Account) and 19 new positions for DUI programs.

- DUI Internet System / BCP #8: The Administration requests $1.8 million from a U.S. Department of Homeland Security grant (and no new positions) to fund a security upgrade to the identification process for the DUI Internet system. The DUI system is a mechanism for drug and alcohol treatment providers to provide data to the DMV concerning individuals who have a DUI. The DMV indicates the current system does not meet best-practices for the protection of personal identity data.
- Ignition Interlock Devices / BCP #10: This BCP includes two components: (1) a three-county pilot program instituted by AB 91 (Chapter 217, Statutes of 2009, Feuer) to require ignition interlock devices for first-time DUI violators; and, (2) a program instituted by SB 598 (Chapter 193, Statutes of 2009, Huff) that would allow repeat DUI violators an option to regain full driving privileges in a shorter period of time by installing and utilizing an ignition interlock device. An Ignition Interlock Device (IID) is a devise installed in a motor vehicle that tests the sobriety of the driver and locks the ignition if alcohol is detected. This budget request totals $1.15 million and 19 positions and is divided as follows: $962,000 and 16 new positions for AB 91, and $188,000 and 3 new positions for SB 598.

Staff Comment: The analysis for AB 91 indicates a DMV estimate of one-time programming costs of $300,000 and ongoing costs to run the program of $500,000-$800,000 per year. The bill also requires that DMV obtain non-state funding for these costs prior to the implementation of the program. The DMV indicates there will be a $45 fee applied to individuals who obtain an ignition interlock device, which will generate $1.3 million annually to fund the programs. Staff does not have any issues with this proposal since this proposal is consistent with the fiscal analysis of the legislation and there will be new fee revenue to support the program.

Staff Recommendation: Approve as budgeted.

ISSUE 2: NEW FACILITY LEASES FOR FIELD OFFICES

The Governor's budget is proposing a one-time augmentation of $983,000 (various special funds) to relocate the following four field offices to newly leased facilities: Roseville, Lancaster, Palmdale, and Fontana. The Lancaster and Palmdale offices would be consolidated into one large field office. The Administration intends to submit an additional BCP request next year for the Department of General Services (DGS) fees, equipment, cabling, and telecommunication costs. The DMV indicates the moves are necessary to address capacity deficiencies.

Background: Last year, the Administration requested $6.7 million for preliminary plans and site acquisition for state-owned replacement facilities for Roseville and Fontana. Those funding requests were denied without prejudice due to budget constraints.

Staff Comment: This proposal conforms to the Department's 5-year infrastructure plan and the Department notes that these two facilities face aging infrastructure and were not designed to serve the growing populations that these regions have experienced in the last 20 years. As an example, the Roseville DMV office was built in 1973 and is 4,766 square feet. Since its construction, the populations it was intended to serve has grown 533%. Outdated facilities do not meet Americans with Disability Act standards and Fire/Life/Safety codes and issues such as a lack of parking, testing rooms and lobby space are compounding problems within the facility.

Staff has no issues with this proposal since the Department has demonstrated a clear need for each of the proposed facility replacements, these changes will greatly increase the level of services, and there is adequate funding in the Motor Vehicle Account to support this proposal.

Staff Recommendation: Approve as budgeted.

ISSUE 3: CONNECTING CALIFORNIA VETERANS TO FEDERAL BENEFITS

New Florida Program - The State of Florida recently started a program in which the state's Department of Highway Safety and Motor Vehicles (DHSMV) uses its different contact points with the public to identify veterans in order to connect them to state and federal benefits. Essentially, the DHSMV asks all customers applying to get a new license or ID card or renewal if they are veterans and if they want the DVA to contact them regarding benefits for which they may be eligible. Florida's Chief Financial Officer estimated that over a billion dollars in federal benefits a year could be brought into Florida to help its estimated 1.7 million veterans, only 700,000 of which have been identified.

Federal Veteran Compensation and Pension Benefits: California's Poor Participation Rate – Historically, California's has had a low participation rate in collecting federal Veteran Disability Compensation and Pension Benefits. A 2009 audit by the State Auditor of the California Department of Veterans confirmed that California has over 2 million veterans that participate in federal disability and pension benefits. These rates are significantly lower than those in other states with large veteran populations. Of the $7.1 billion spent by the U.S. Department of Veterans Affairs in California in federal fiscal year 2008, $3.15 billion was in disability compensation and pension payments to veterans. These disability payments are paid directly to the veterans and average (according to the audit) about $9,800 annually for each veteran receiving benefits. The Auditor estimated that only 12.86 percent of eligible veterans in California participate in these programs, which trails the national average of 13.94 percent. This is also significantly lower than that of other states with large veteran populations such as Texas and Florida, which have participation rates of 16.73 percent and 14.88 percent, respectively. Additionally, the LAO estimated that if California could increase its participation rate to the national average, $220 million in benefit payments could be returned to the state and local economy and paid to our resident veterans and who need that money to support themselves and their families (hundreds of millions more if increased closer to the Texas and Florida rates).

Staff Comments: For this hearing, the Subcommittee may want to discuss with the DMV whether the program adopted by Florida to use their DMV's multiple contact points with the public to increase participation in federal veteran's programs could be replicated in California. The DMV predominately interacts with its customers for the purposes of renewing licenses and registrations through either the mail, internet or field offices. If the DMV were to gather data from veterans, it could do so via verbal surveys, separate forms, registration/license form check-off boxes, or electronic survey on the DMV website. Through staff discussions with the Department, it appears that there is a willingness between the two Departments to work together on this issue. Because of the size of California's driving population that DMV serves and the complexity of their processes to do so, the DMV should be prepared to discuss which data collection and transmittal information gathering methods would be most achievable and cost effective for the DMV.

Staff Recommendation: Direct staff to work with the Department on Budget Bill language to direct the DMV and DVA to enter into a Memorandum of Understanding with each other to develop and implement a process for the DMV to identify Veteran's residing in California and share that data with the Department of Veteran's affairs.

2665 HIGH-SPEED RAIL AUTHORITY

ISSUE 1: OVERVIEW OF CURRENT FUNDING AND ACTIVITIES

Overview of High Speed Rail Funding and Progress to Date

The High–Speed Rail Authority (HSRA) was statutorily established to develop a high–speed rail system in California that links the state's major population centers, including Sacramento, the San Francisco Bay Area, the Central Valley, Los Angeles, the Inland Empire, Orange County, and San Diego. The latest cost estimate for completion of the first phase of the project, from San Francisco to Los Angeles and Anaheim via the Central Valley, is roughly $43 billion (this cost estimate reflects the escalated cost of each portion of the project at the time it is to be built). In November 2008, voters approved Proposition 1A, which allows the state to sell $9 billion in general obligation bonds to partially fund the development and construction of the high–speed rail system. The remaining funding for the system's construction and operation is anticipated to come from federal and local governments as well as the private sector.

2009 Business Plan: The 2009-10 budget required that the HSRA develop and submit a revised business plan prior to receiving an appropriation of $69.5 million. Per budget control language, the plan was required to address at a minimum: a) a plan for community outreach; b) detailed information on route selection and alternative alignments; c) discussion on how private financing will be secured; d) a working timeline with specific achievable milestones; and, e) what strategies the authority would pursue to mitigate different risks and threats.

In their review of the Business Plan, the LAO raised various concerns outlined below:

> *The Plan lacks discussion of risk management, including any detailed description of many key types of risk or mitigation processes. Also, there are few deliverables or milestones identified in the plan against which progress can be measured. Due to the multi-year nature of a project of this size, without clearly defined deadlines and work to be accomplished, it will be difficult for the Legislature and the administration to track progress in any meaningful way.*

April 8, 2010 Business Plan Addendum: In an effort to be responsive to concerns raised by the LAO and the Legislature, the HSRA at the April 8, 2010 hearing produced an addendum to the Business plan which was emailed to the Subcommittee staff on April 13th and contains additional information on project timelines, milestones, future funding issues, risk management, and fiscal assumptions.

The document is available at this link:

http://www.cahighspeedrail.ca.gov/about/default.asp?topic=boardArchive&year=2010&month=4

Prior Year Appropriations and Staffing: Since 2007, the High Speed Rail Authority has been operating with a very small staff – 6 to 13 positions – and a General Obligation Bond supported budget that has jumped significantly from $20.9 million in 2007 to $46.4 million in 2008-09 and $139 million in 2009-10. Aside from positions staffed at the HSRA, all funding has been spent on private consulting contracts to complete various preliminary planning and environmental workload at both a statewide and project level. Within the different corridors, funding to-date has been focused most heavily on the Southern California Corridors with contracts and funding beginning to ramp up in other regions. As shown on Table A on the following page, between 2006-07 and 2007-08, the HSRA only contracted for Los Angeles based project level workload. Following in 2008-09 and 09-10, the HSRA initiated contracts in the central valley and the Bay Area.

Administratively Approved Budget Year Staffing: In addition to the 13 positions that are currently filled at the HSRA, the Department of Finance administratively approved an additional 25 positions in the budget year to support the Authority's implementation of ARRA funding. These positions will be discussed more in depth along with their staffing BCPs.

ARRA Funding: On January 28, 2010, the Federal Railroad Administration (FRA) awarded California $2.25 billion toward the development of the high–speed rail system (California also received $99 million to improve and upgrade the state's current intercity rail program). Of the total High Speed Rail Grant, $400 million will be allocated directly to the Transbay Terminal Joint Powers Authority for the Transbay Terminal Project in San Francisco and $1.85 billion will be allocated to the HSRA for program development and environmental clearance for the entire first phase of the project, as well as design–build contracts in four of the project's ten corridors, including: Los Angeles to Anaheim; Merced to Fresno to Bakersfield; and San Francisco to San Jose.

ARRA Funding Availability and Expenditure Timeline: According to the FRA, funds have to be fully obligated by September 2011 or else they will be reverted. In order for funds to be considered as "obligated" by the FRA, the HSRA will need to complete full project-level environmental impact reports for all of the corridors receiving ARRA funding. Additionally, the FRA and the HSRA will be negotiating a cooperative agreement that will outline how funds will be divided between the different corridors and which activities can be funded in those corridors. Once obligated, the FRA is requiring that ARRA funds be spent by 2017.

Progress to Date: The HSRA has been moving forward with project level environmental reviews of the different corridors with a focus on advancing work fastest on those corridors that qualify for ARRA funds. To-date, the four sections which are eligible for the $1.85 billion in Federal ARRA funds awarded in January 2010 are the farthest along, with Los Angeles 61% of the way to the Record of Decision/Notice of Decision (ROD/NOD) required before funds can be committed. The other three sections Merced-Fresno, Fresno-Bakersfield, and San Francisco-San Jose are approximately one-third of the way completed. The HSRA reports that all are currently expected to be able to meet the deadline to qualify for ARRA funding.

Chart B on Page 5 outlines eleven milestones planned to be completed for seven sections of the initial phase of the system by September 2012; three remaining sections of the full system by 2014; the planned date of completion of each step; the current forecast for when it will actually be finished; and the percentage completed of each.

Table A. 4-year Project Planning Costs

Activity	Contract Value	Contract Term	Actual 06/07	Actual 07/08	Actual 08/09	Actual 09/10	Budgeted 10/11	Total
Program Management	199,000,000	11/06 - 06/13	3,253,066	8,640,000	13,802,136	22,108,022	37,036,000	128,839,224
Regional PE/Enviro								
LA/OC	21,400,000	12/06 - 06/12	2,500,000	4,988,000	6,250,001	9,262,000	10,000,000	35,000,001
LA/Palmdale	74,288,000	12/06 - 06/12	2,600,000	1,220,000	3,700,000	19,000,000	34,000,000	74,270,000
LA/SD	94,805,692	02/07 - 06/12	900,000	455,000	1,804,065	2,750,000	3,125,000	83,034,065
Fresno/Palmdale	119,985,612	02/07 - 06/12	1,097,010	754,500	4,750,001	19,000,000	39,000,000	101,101,511
Sacramento/Fresno	83,400,000	02/07 - 06/12	500,000	401,000	3,465,000	9,500,000	18,125,000	77,991,000
SF/SJ	55,000,000	11/08 - 06/14			3,000,000	19,000,000	25,000,000	55,000,000
SJ/Merced	55,000,000	10/08 - 06/14			2,000,000	14,500,000	25,000,000	55,000,000
Altamont	55,000,000	12/08 - 06/14			1,099,659	3,000,000	3,000,000	48,099,659
								-
Financial	4,000,000	10/06 - 06/12		770,345	754,170	500,000	1,000,000	4,024,515
Visual Simuation	5,000,000	11/06 - 06/12	1,000,000	565,000	422,000	260,000	375,000	2,972,000
Prog Mgmt Oversight	8,000,000	01/10 - 06/13				1,323,700	2,000,000	7,323,700
	774,879,304		11,850,076	17,793,845	41,047,032	120,203,722	197,661,000	637,655,675

Table B: Schedule of Milestones for Environmental and Design Work by Section of HST Line

Section/Activity	Plan Actual/Forecast % complete	Scoping Report	Initial Board Briefing	Board Briefing to Approve Release of the AA Report	Release Preliminary AA Report	Board Briefing to Approve Supplemental AA Report	Release Supplemental AA Report	Admin Draft EIR/EIS	15% Design	Draft EIR/EIS	Final EIR/EIS	NOD/ROD	Percent Complete Toward NOD/ROD
San Francisco - San Jose	Plan	May '09	Apr. 8, 2010	Apr. 8, 2010	Apr. '10	Jul. 1, 2010	Jul. '10	Sept. '10	Dec. '10	Dec. '10	July '11	Sept. ' 11	
50 miles	Actual/Forecast	Mar. 10 A	Apr. 8, 2010	Apr. 8, 2010	Apr. '10	Jul. 1, 2010	Jul. '10	Sept. '10	Dec. '10	Dec. '10	July '11	Sept. '11	
	% Complete	100%			100%		0%	30%	36%	22%	18%	16%	36%
San Jose - Merced	Plan	Oct. '09	Dec. 3, 2009	May. 6, 2010	May '10	Aug. 5, 2010	Aug. '10	Apr. '11	Dec. '10	July '11	Feb. '12	Apr. '12	
120 miles	Actual/Forecast	Mar. '10	Dec. 3, '09 A	Jun. 3, 2010	June '10	Aug. 5, 2010	Sept. 10	Apr. '11	Dec. '10	July '11	Feb. '12	Apr. '12	
	% Complete	100%			65%		0%	10%	45%	7%	6%	5%	29%
Merced - Fresno	Plan	Mar. '10	Dec. 3, 2009	Apr. 8, 2010	Apr. '10	Jun. 3, 2010	June '10	Aug. '10	Sept. '10	Nov. '10	June '11	Aug. '11	
65 miles	Actual/Forecast	Mar. 10 A	Dec. 3, '09 A	Apr. 8, 2010	Apr. '10	Jun. 3, 2010	June '10	Aug. '10	Sept. '10	Nov. '10	June '11	Aug. '11	
	% Complete	100%			98%		0%	35%	35%	26%	21%	19%	39%
Fresno - Bakersfield	Plan	Sept. '10	Dec. 3, 2009	Dec. 3, 2009	Mar. '10	Jun. 3, 2010	June '10	Sept. '10	Aug. '10	Jan. '11	July '11	Sept. '11	
110 miles	Actual/Forecast	Mar. 10 A	Dec. 3, '09 A	Dec. 3, '09 A	Apr. '10	Jun. 3, 2010	June '10	Nov. '10	Aug. '10	Jan. '11	July '11	Sept. '11	
	% Complete	100%			90%		0%	25%	35%	19%	15%	13%	33%
Bakersfield - Palmdale	Plan	Mar. '10	May. 6, 2010	Aug. 5, 2010	Aug. '10	Oct. 7, 2010	Nov. '10	Sept. '11	Nov. '11	Dec. '11	June '12	Sept. '12	
85 miles	Actual/Forecast	Mar. '10 A	May. 6, 2010	Aug. 5, 2010	Aug. '10	Oct. 7, 2010	Nov. '10	Sept. '11	Nov. '11	Dec. ' 11	June '12	Sept. '12	
	% Complete	100%			50%		0%	5%	2%	4%	3%	2%	15%
Palmdale - Los Angeles	Plan	June '09	May. 6, 2010	May. 6, 2010	May '10	Aug. 5, 2010	Aug. '10	Oct. '10	Oct. '10	Jan. '11	Aug. '11	Oct. '11	
60 miles	Actual/Forecast	Mar. 10 A	May. 6, 2010	May. 6, 2010	May '10	Aug. 5, 2010	Aug. '10	Oct. '10	Oct. '10	Jan. '11	Aug. '11	Oct. '11	
	% Complete	100%			90%		0%	33%	29%	25%	20%	18%	35%
Los Angeles - Anaheim	Plan	Aug. '09	Feb. 4, 2010	Feb. 4, 2010	Apr. 24, 2009	Jun. 3, 2010	June '10	Sept. '10	Aug. '10	Jan. '11	July '11	Sept. '11	
30 miles	Actual/Forecast	Mar. 10 A	Feb. 4, '10 A	Feb. 4, '10 A	Apr. 24, 2009	Jun. 3, 2010	June '10	Sept. '10	Aug. '10	Jan. '11	July '11	Sept. '11	
	% Complete	100%			95%		30%	60%	60%	45%	36%	33%	61%
Los Angeles - San Diego	Plan	June '10	Feb. 4, 2010	Jul. 1, 2010	Jul. '10	Jan. 6, 2011	Jan. '11	Aug. '12	Aug. '12	Feb. '13	Sept. '14	Dec. '14	
167 miles	Actual/Forecast	June '10	Feb. 4, '10 A	Jul. 1, 2010	Jul. '10	Nov. 4, 2010	Dec. '10	June '12	June '12	Dec. '12	Dec. '13	Mar. '14	
	% Complete	95%			45%		0%	0%	0%	0%	0%	0%	8%
Merced - Sacramento	Plan	Feb. '10	Sep. 2, 2010	Feb. 3, 2011	Feb. '11	May. 5, 2011	May '11	Sept. '11	Oct. '11	Jan. '12	Nov. '12	Mar. '13	
110 miles	Actual/Forecast	Apr. '10	Oct. 7, 2010	Dec. 2, 2010	Jan. '11	Feb. 3, 2010	Feb. '11	Apr. '12	July '12	Oct. '12	June '13	Aug. '13	
	% Complete	85%			10%		0%	0%	0%	0%	0%	0%	9%
Altamont Corridor Rail Proj	Plan	Feb. '10	Jul. 1, 2010	Nov. 4, 2010	Dec. '10	Mar. 3, 2011	Mar. '11	Nov. '11	Dec. '11	Mar. '12	Sept. '12	Dec. '12	
85 miles	Actual/Forecast	Mar. 10 A	Jul. 1, 2010	Sept. 2, 2010	Oct. '10	Nov. 4, 2010	Dec. '10	Oct. '12	Apr. '11	May '12	Mar. '13	May '13	
	% Complete	100%			15%		0%	0%	0%	0%	0%	0%	11%

A = Actual

LAO Comments on ARRA Funding: Because of the deadlines attached to the ARRA award, the LAO stresses that the HSRA act expeditiously to meet federal requirements. In addition, the state should consider how to most effectively spend the federal dollars while reducing the debt service burden on the state in the near term. Therefore, the LAO recommends that the authority report at budget hearings on its plans to meet the ARRA deadlines. Specifically, the HSRA should discuss the following:

- What restrictions are placed on the federal funds?
- How much of the ARRA funds are available for each segment or task?
- How will the authority structure the state's match of federal funds?
- What steps must be taken in order to obligate the funds?
- How will HSRA ensure that the project schedule meets the federal obligation deadline?

Staff Comments

At the hearing, the HSRA should be prepared to walk the Subcommittee through their progress to date on implementing Phase 1 of the High Speed Rail System. This discussion should include a commentary on their ability to move into place a sufficient management team to address and oversee the multitude of contracts that are currently funded by the HSRA. Specific to the management team, the HSRA should address how they intend on managing risk at an organizational level and how their approach will compare to the KPMG recommendation of having a position dedicated to risk management.

Lastly, for all of the HSRA proposals, the LAO raises the issue that there is not adequate justification in these proposals for the positions that are being requested. At the hearing, the Subcommittee may want to discuss with the HSRA whether it is working with the LAO to address these concerns.

Staff Recommendation: None, item is informational.

ISSUE 2: STAFFING REQUESTS

LAO Overview (From the LAO Analysis of the 2010-11 Budget)

Staffing Request Should Tie to a Staffing Strategy: The Authority is requesting an increase of $3.5 million and 27 additional staff. This would bring the total authority staffing to 38.5 positions in 2010–11.

It is clear that as the project progresses the authority will need to add positions to administer, monitor, and oversee the growing amount of work conducted by contractors. However, at the time this analysis was prepared, the Authority was unable to explain how the requested positions would provide the necessary skill sets to support the overall development of the project and why this amount of state staff is needed at this point in the process. Specifically, the Authority has not determined the mix of state and contracted staff it plans on using to develop the rail project over time. An independent consultant hired by the Authority concluded (in November 2009) that the current state staff is insufficient for a project of this size, and recommended a state managerial structure based on the best practices of similar programs around the world. However, the budget request does not provide information on how the proposed positions fit into the consultant's recommendations. Early identification of the role of state staff in the project, as well as a future staffing structure, would have significant advantages. For example, it would enable the organization to grow at the necessary speed to ensure staffing levels coincide with the workload required to deliver the project.

Additional Exempt Positions Should Be Statutorily Defined: The requested staff positions include a chief financial officer, chief program manager, and three regional managers. The Authority believes that it would not be able to attract qualified individuals under the state's current civil service restrictions. Therefore, under the budget proposal, these positions would be established administratively as positions appointed by the Governor and exempt from civil service requirements. Statute currently grants the HSRA the authority to appoint an executive director who is exempt from civil service.

The LAO sees merit in the HSRA's proposal to establish additional exempt positions. The HSRA would likely need numerous exempt positions over the next few years in order to bring on various staff that has the requisite skills to manage and oversee the development of the rail project by specialized contractors. These high–level staff must have the skills to negotiate with the private sector to finance, construct, and operate the system. Defining these positions through statute, similar to statutes describing exempt positions for other agencies in state government, would give the Legislature sufficient control over the specific positions that would be established, such as the salary levels and the assignment of responsibilities of each position. This would enable the Legislature to retain some additional oversight of the project, while making it easier for the authority to hire the staff necessary to administer the program.

Analyst's Recommendation: The LAO has withheld recommendation on the staffing request until the Authority is able to support the request for additional staffing with a strategy that outlines how to meet the short– and long–term staffing needs of the organization. The staffing strategy should include justification for the requested exempt positions. For the reasons discussed above, the LAO further recommends that any exempt positions be defined statutorily.

Additional Information Regarding New HSRA Staffing Requests

Administratively Approved Positions: Control Section 31.00 of the budget authorizes the Department of Finance (DOF) to administratively approve positions in the current year for un budgeted workload. Under this authority, administratively established positions expire in the beginning of the following year unless the Legislature acts to approve them in the budget.

In the current year, DOF administratively established a total of 25 of the 27 positions requested in the following budget proposals. To date, the HSRA has not filled most of these positions.

Additional Exempt Staff: As was requested in their BCPs, the HSRA have requested that a handful of their upper management staff be exempt level positions to allow for their pay to exceed civil service in order to improve recruitment. Because a majority of the positions requested in the BCPs have been administratively established to address ARRA related workload, the HSRA is moving AB 289 (Galgiani) through the policy process. This bill would allow the Governor to make five appointments to the HSRA who would be exempt from civil service. Similar to the Executive Director, these positions could have salaries exceeding the civil service ranges. According to HSRA, the Administration supports this bill. The HSRA indicates that if AB 289 passes, they would likely convert the Chief Program Manager, three Regional Directors, and the Chief Financial Officer to these exempt positions.

Individual HSRA Staffing Budget Change Proposals

BCP #8: Staff Increase/Baseline Adjustment

Currently, the HSRA has a total of 11.5 positions that are responsible for wide-ranging workload, including management of contractors, coordination with the federal government, and interaction with the state and local governments. All of the existing positions report directly to the Executive Director who reports to the Authority itself. This proposal would add 13 positions to this current HSRA staffing structure; most notably, this proposal would include new regional directors who will be managing preliminary engineering and environmental permitting contracted work at the site level. To date, the HSRA was not conducting site specific engineering and environmental workload and thus did not have contract management positions stationed locally.

This proposal would also provide two auditor positions to assist in contract management and various administrative personnel to administer federal and bond funds.

Staff Comments: In 2009, the HSRA commissioned a report from KPMG to assess the organizational structure of the Authority. The goal of the Gap analysis was to identify existing gaps in the current HSRA management structure and make recommendations for a new organizational plan by using the structures of other large infrastructure organizations as benchmarks. Their analysis made various recommendations to improve oversight and contract management by the HSRA, all of which related to the themes of: 1) the need for a strong oversight role by state officials; 2) need for independent in house risk management functions; and, 3) the need for strong in house project management. Additionally, the analysis proposed a new executive structure that would address the areas of greatest complexity and risk.

Since the release of their budget, HSRA has informed staff that they are planning on incorporating a majority of the management structure proposed by KPMG into their management staffing structure. One recommendation, however, that the HSRA has not integrated from the Gap analysis into their baseline staffing proposal was the establishment of a Project Controls and Risk Management position who would be specifically responsible for the development and implementation of an effective quality assurance and project control program, as well as a risk management policy and plan to avoid project implementation failures. Because mega-projects tend to encounter cost increases and timing delays, a risk management function can serve as a point where an organization can take a step back and accurately survey present risks and assess the management steps necessary to mitigate that risk. Under the HSRA proposal, this position was not requested and a focused risk management function would not be a consolidated entity within the HSRA. Rather, risk management would assumingly be managed together by contractors, the executive director and management staff. At the hearing, the HSRA should be prepared to discuss with the Subcommittee why some of the positions recommended in the KPMG analysis were not integrated into the Department's request. Specifically, the Subcommittee may want to discuss the value of establishing a risk management position in the management structure.

Appendices A,B,C, and D provide a complete overview of Current HSRA staffing, showing which positions were recommended by the KPMG Gap analysis and are either: 1) already filed; 2) have been administratively authorized but have not been filled; and, 3) were recommended by the KPMG Gap analysis but are not being requested.

BCP #6: Preliminary Engineering and design/Project Environmental Review.

The Authority is requesting a baseline augmentation of $1.37 million in Proposition 1A bond funds and 12 positions for project level preliminary engineering and design/project environmental review. These requested positions would provide needed expertise in engineering and environmental planning to manage the private consultants doing this workload. In addition, these positions would work with requested contracted staff to conduct public participation programs.

Staff Comments: Considering that the HSRA will be responsible for managing multitudes of engineering and environmental contracts, staff generally agrees that the HSRA will need an increase in staffing. As discussed by the LAO, it is difficult to accurately assess how many positions the HSRA needs at this time as there is no specific workload estimates included in this proposal for the staffing HSRA is requesting.

BCP #6: Right of Way Preservation and Acquisition

The Authority is requesting 2 right-of-way preservation and acquisition specialists. These positions would be responsible for organizing and directing all of the HSRA's right-of-way acquisition activities.

In their capital outlay proposal, the HSRA is requesting a total of $250 million for the 2010-11 cost of right-of-way acquisition in the Phase I, San Francisco to Anaheim corridor. The cost would be 50-percent Prop 1A funds and 50-percent federal stimulus funds.

LAO Comments: The LAO indicates that the authority has procured a contractor, with experience in right-of-way assessment and the state process for land acquisition, to develop a plan for the Authority to proceed with the purchase of rights of way for the proposed high speed rail system. Without this plan, the Authority's staffing needs for this function are unknown. It is expected the plans will be completed in time for budget review.

Staff Comments: At the hearing, the Department should be prepared to report to the Subcommittee on when the right-of-way plan will be completed.

April Finance Letter (April FL) Proposal #1 – Accounting Positions

The Administration requests $217,000 and two accounting positions to implement the California State Accounting and Reporting System (CALSTARS) at the HSRA. The HSRA accounting functions are currently performed through an interagency agreement by the Department of General Services (DGS). CALSTARS is the accounting system used by most state departments.

LAO Comments: The LAO indicates the funding need is overstated because it does not recognize the base funding that HSRA has currently to pay DGS.

April FL #6 – Pay increase for Executive Director

The Administration requests $392,000 to augment the compensation of the existing Executive Director position. Of this amount, $150,000 would be one-time for recruitment incentives and moving expenses, the remainder would be ongoing. According to the Administration's *Salaries and Wages*, the base pay for the Executive Director is $140,000. Current statute allows the HSRA Board to set the salary for the Executive Director, and the Board has set a salary range of $250,000 to $375,000.

Staff Recommendation: Staff feels that an increase in staffing is warranted for the HSRA considering the project level workload that will be required to encumber HSRA's ARRA grant funds. Staff recommends that all of the staffing request remain open at this time to allow the HSRA to work with the LAO on addressing their concerns with workload justification.

ISSUE 3: PROGRAM MANAGEMENT CONTRACTS

The Administration requests a total of $39 million from Prop 1A bond funds for the 2010-11 cost of two program-management service contracts. The two requests are as follows:

BCP #1 – Program Management Services

The Administration requests $37 million to continue funding for the program management team that is hired to assist the HSRA in the implementation of the High-Speed Train System. The BCP breaks the services into eight tasks as outlined in the table below (in whole dollars)

	Program Management Team	Total
Task 1	Project Mgmt. & Controls	3,154,706
Task 2	Public Education & Comms	216,000
Task 3	Eng. Criteria & Design Mgmt.	17,500,000
Task 4	Environmental Review	1,948,421
Task 5	Reg'l Consultant Oversight	
	A) LA - Palmdale	1,228,444
	B) LA-Orange Co.	1,098,067
	C) LA-San Diego	1,232,377
	D) Palmdale- Fresno	1,000,420
	E) Fresno - Sacramento	976,603
	F) Altamont Pass	814,666
	G) Merced - San Jose	1,052,354
	H) San Jose - San Francisco	1,172,068
Task 6	ROW Assm't & Acquisit'n	1,000,000
Task 7	Operations Mgt & Revenue	2,692,720
Task 8	Construction / Procurement	1,913,156
	Total Authority Cost	37,000,000

BCP #7 – Program Management Oversight

The Administration requests $2 million to continue funding for the program management oversight team that is hired to assist the HSRA in the oversight and review of the program management team's work products and schedule.

	Program Management Oversight	Total
Task 1	Implementation Plan	-
Task 2	Project/Program Monitoring	1,398,765
Task 3	Technical Review	601,235
	Total Authority Cost	2,000,000

Contract costs exceed initial expectations: These contracts are in place to support the project through completion of preliminary engineering and completion of environmental work. In May of 2007, the HSRA estimated the total cost of the Program Management Contract would be $55 million and the total cost of the Program Management Oversight would be $2 million. The HSRA now indicates the total cost of the Management Contract will be $129 million and the total cost of the Management Oversight contract will be $7 million. These new costs are more than double what the HSRA estimated in May 2007 documents. The HSRA should explain these cost overruns.

LAO Recommendation: The LAO withholds recommendation on these contract requests because there is no basis for the Legislature to determine the appropriate level of contract funding that should be provided to the HSRA for 2010-11. The LAO believes supplemental information is needed for each request that would describe the amount of work to be accomplished in the budget year and describe how each contract fits into the overall development of the system.

Staff Recommendation: Hold open for additional information and review.

ISSUE 4: CONTRACTS WITH OTHER GOVERNMENTAL ENTITIES

The Administration requests a total of $5 million from Prop 1A bond funds for the 2010-11 cost of workload performed by other state departments, local governments, and the federal government. The three requests are as follows:

BCP #12 – Resource Agency Staffing Agreements

The Administration requests $1.8 million to fund the environmental review workload of five resource agencies who must approve the HSRA environmental documents. The agencies are: the U.S. Army Corps of Engineers; the U.S. Fish and Wildlife Service; the U.S. Environmental Protection Agency; the California Department of Fish and Game; and the State Historic Preservation Office. Caltrans has similarly funded staff at resource agencies to ensure a timely review of environmental documents.

Staff Comments: Most other large state transportation agencies fund a portion of environmental review workload in order to expedite the review of their projects. This proposal would be consistent with those practices.

April FL #2 – Peninsula Corridor Joint Powers Board (Caltrain) Coordination

The Administration requests $1.6 million in consulting contracts to fund the provisions of a Memorandum of Understanding (MOU) with Caltrain, whereby the HSRA will fund the Caltrain cost of cooperative planning activities on the HSRA/Caltrans corridor.

The Authority has entered into a MOU with the Peninsula Corridor Joint Powers Board (Caltrain) for the sharing of the rail corridor between the City of San Jose and the county of San Francisco. This corridor is owned by Caltrain and the Authority and Caltrain will be partners in planning, designing, and construction of improvements in the Caltrain Rail Corridor that will accommodate and serve both the near and long term needs of high-speed rail and commuter rail service in that corridor.

Staff Comments: The 2009 Business Plan assumes that Local Governments will fund $4.5 billion of project costs. This proposal appears to be funding costs that local share's may be more appropriately supported by Caltrain. At the hearing, the HSRA should be prepared to discuss in more detail the MOU that has been entered into and delineate for the Subcommittee how costs will be divided between the HSRA and Caltrain.

Additionally, the HSRA should be prepared to speak more broadly about what local government costs the HSRA will fund over the life of this project and how this squares with the cost and revenue assumptions of the 2009 Business Plan.

April FL #3 – California Department of Transportation (Caltrans) Coordination

The Administration requests $1.6 million to fund the provisions of a MOU with Caltrans, whereby Caltrans will perform new workload related to project coordination and oversight where the high-speed rail project interfaces with state highways.

Staff Comment: Staff doesn't have any issues with this contract.

LAO Recommendation: The LAO withholds recommendation on these contract requests because there is no basis for the Legislature to determine the appropriate level of contract funding that should be provided to the HSRA for 2010-11. The LAO believes supplemental information is needed for each request. The LAO notes for the Caltrain request that most of the workload should be accomplished in 2010-11 so the Authority should be one-time.

Staff Recommendation: Hold open for additional information and review.

ISSUE 5: SPECIALTY CONTRACTS

The Administration requests a total of $4.2 million from Prop 1A bond funds for the 2010-11 cost of specialty contracts with private vendors in the areas of communications and ridership/revenue and fiscal studies. The two requests are as follows:

BCP #3 – Visual Simulation Plan Development

The Administration requests $375,000 to continue funding for the development of visual simulation programs. The HSRA indicates these simulations would be used to educate the public on the potential impacts high-speed trains may have in their communities.

Staff Comment: Visual simulations have been funded in the prior 3 budget years to assist the HSRA with public outreach. Visual simulations include 3-D video and photo models of project designs and their proposed alternatives. Because of the level of public outreach that is necessary for this type of project and the benefit that these simulations can provide to this process, staff doesn't have any concerns with the continuation of this activity.

BCP #4 – Ridership/Revenue Forecasts

The Administration requests $1 million to continue to refine the ridership/revenue model and testing various operational and fee scenarios to develop the range of options available. According to HSRA, the ridership and revenue data the HSRA currently has was developed by the Metropolitan Transportation Commission (MTC), in consultation with the HSRA, for the Program Level Environmental work, which is geared more towards the worst case scenario (largest number of riders, based on lower ticket costs, resulting in greater impacts to the physical environment). The HSRA indicates new forecasts are needed to provide investment grade information to private investment interests.

Staff Comments: Staff understands that HSRA has contracted with the Institute of Transportation (ITS) Studies at the University of California, Berkeley, to review the existing ridership forecast. However, the HSRA is moving forward concurrently with revisions to the existing ridership model. The HSRA should be prepared to explain how these efforts are being coordinated – it may make sense to fully complete the ITS review, prior to continuing with new use of the ridership model.

BCP #5 – Financial Plan and Public Private Partnership Program (P3)

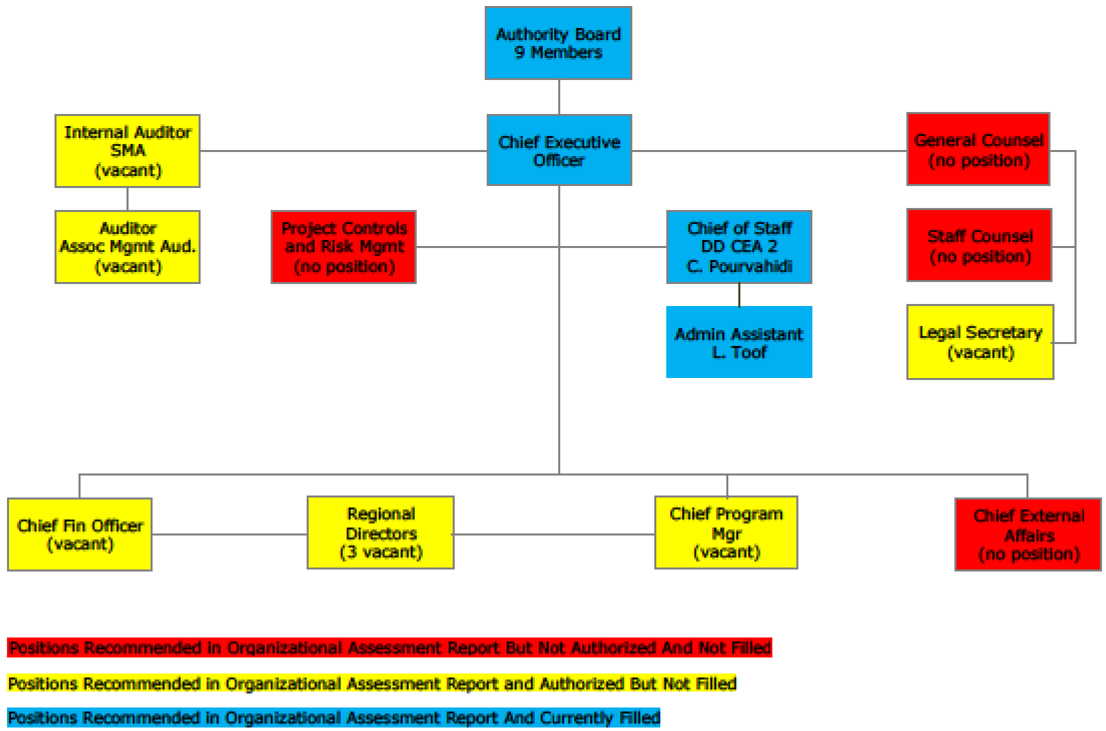
The Administration requests $1 million for continued funding of the Financing Plan consultants and the commencement of the P3 Program for the financing of the High-Speed Train Program.

LAO Recommendation:

The LAO withholds recommendation on these contract requests because there is no basis for the Legislature to determine the appropriate level of contract funding that should be provided to the HSRA for 2010-11. The LAO believes supplemental information is needed for each request that would describe the amount of work to be accomplished in the budget year and describe how each contract fits into the overall development of the system.

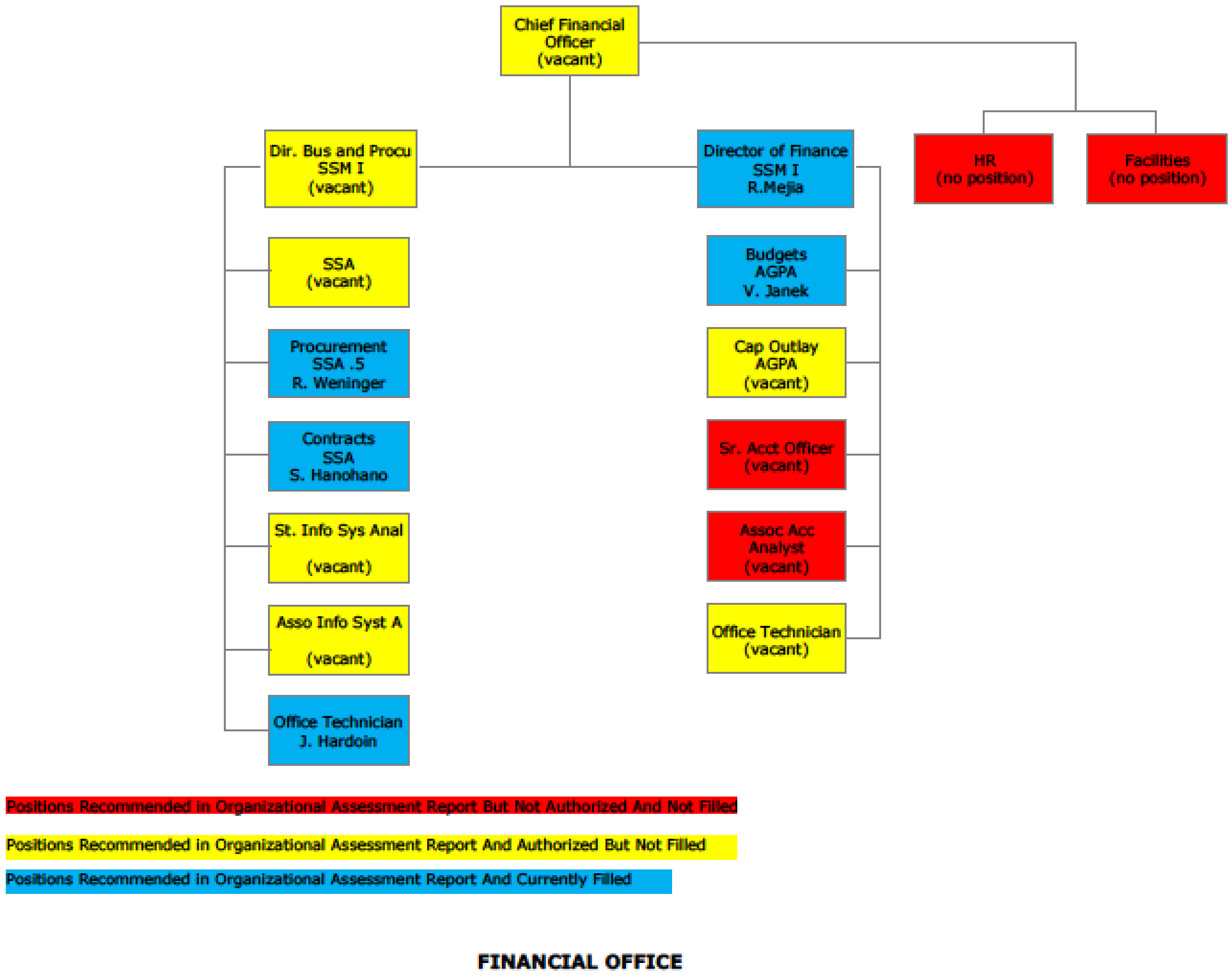
Staff Recommendation: Hold open for additional information and review.

Appendix A: Executive Level Organization

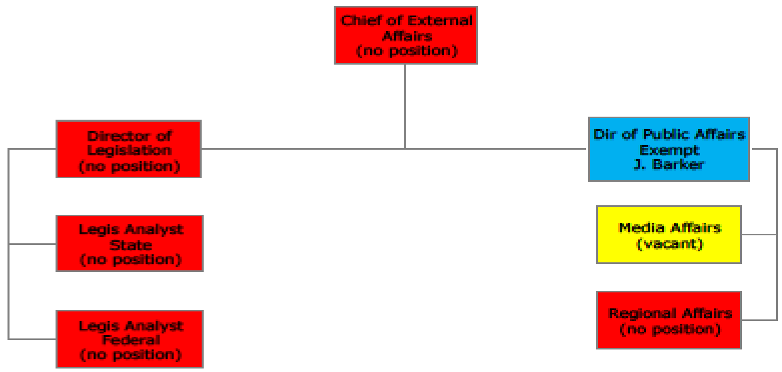


EXECUTIVE LEVEL ORGANIZATION

Appendix B: Financial Office



Appendix C: External Affairs Office



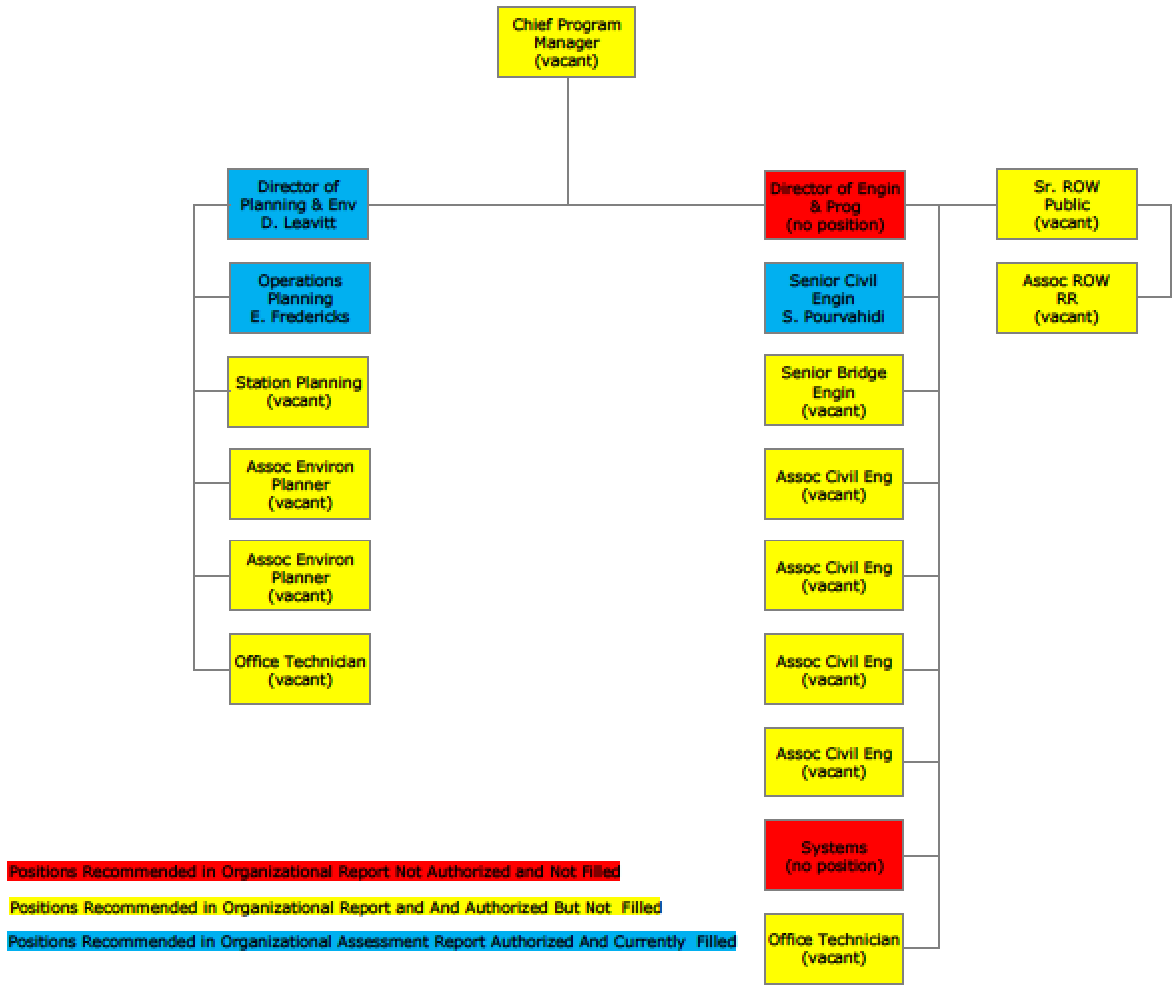
Positions Recommended in Organizational Assessment Report But Not Authorized and Not Filled

Position Recommended in Organizational Assessment Report and Authorized But Not Filled

Position Recommended in Organizational Assessment Report And Authorized And Filled

EXTERNAL AFFAIRS OFFICE

Appendix d: Program Office



PROGRAM OFFICE