AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 5
On Transportation and Information Technology

Assemblymember Joan Buchanan, Chair

WEDNESDAY, MAY 19TH, 2010
STATE CAPITOL, ROOM 447
4:00 PM

ITEMS TO BE HEARD

2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION

Issue 1: Vote Only Issues

District 3 Marysville Office Building (April FL #10): The Administration requests a permanent increase in operating expenses of $2.4 million (State Highway Account) to pay debt service on the District 3 Office Building in Marysville and the Caltrans share of the Department of General Services (DGS) Central Plant in Sacramento. Both of these facilities were previously approved by the Legislature with the financing mechanism of lease revenue bonds. This is a new expense for the Department and currently the Department is not budgeted for this expenditure

The Department's FY 2009-10 budget to fund this building is $8,326,076 (Debt Service = $5,687,448 and Operating Expense = $2,638,628). Per DGS, the District 3 Headquarter's Building cost for FY 2010-11 amounts to $9,059,277 (Debt Service = $6,346,000 and Operating Expense = $2,713,277). The difference in cost between FY 2009-10 and FY 2010-11 equates to $733,201.

Staff Recommendation: Approve the request.

1. **May 1 Capital Outlay Request – Eureka Office (April FL #12):** The Administration requests $687,000 (State Highway Account) to the working drawings phase of the Eureka District 1 Office renovation project. Future costs would include $8.7 million for construction. The facility is 57-years old and the repairs would address fire-safety, heating and ventilation, and other deficiencies.

   Staff Recommendation: Approved this request.

Issue 2: GARVEE Bond Debt

GARVEE Bonds (BCP #2). The Administration proposes an appropriation of $680 million to fund the full multi-year debt repayment (generally over about 12 years) for Grant Anticipation Revenue Vehicles (GARVEE) bonds that Caltrans would like to issue in 2010-11. GARVEE bonds are revenue bonds backed by future federal transportation funding. The use of GARVEE bonds accelerates projects that would otherwise be delayed because of insufficient transportation funds – saving construction-inflation costs, and delivering the projects faster to travelers. The Administration identifies three State Highway Operations and Protection Program (SHOPP) projects for GARVEE funding in 2010-11: (1) the Sacramento I-5 Rehabilitation project; (2) the San Bernardino I-15 Rehabilitation project; and (3) the Los Angeles 710 Roadway Rehabilitation project. The Administration expects a 4.15 percent interest rate for GARVEE debt and a five percent construction inflation rate.

Background on past use of GARVEEs: Existing statute allows the California Transportation Commission to authorize GARVEE projects up to a level where GARVEE debt service reaches 15 percent of annual federal funding. The budget assumes GARVEE debt service of $138 million in 2010, which is less than five percent of baseline federal funding. GARVEEs have been appropriated in three prior state budgets as indicated in the summary table below (in millions).

GARVEE Year	Amount Appropriated	Project amount	Interest amount	Unused GARVEE (Project amount)
2004-05	$783	$660	$123	$0
2008-09	$181	$141	$40	$43
2009-10	$675	$497	$178	$497
2010-11 proposed	$680	$495	$185	?

The Administration does not currently anticipate using GARVEE bonds appropriated in the 2009 Budget Act; however, the January Governor's Budget did assume the bonds would be used. The item of appropriation is specific to GARVEEs issued in the 2009-10 fiscal year, so the budget authority should not carry-over into 2010-11 if bonds are not issued. Recently, a Caltrans official was quoted indicating that the Great Recession has enabled Caltrans to save approximately $2.4 billion in construction costs for major projects since 2006 due to competition and some bids coming in up to 40 percent less than estimates. Going forward, Caltrans and the CTC indicate bid savings may result in State Highway Operations and Protection Program (SHOPP) savings of $600 million in the current year and $1.0 billion over the next two fiscal years. Adding to cash balances, at the April 11, 2010, hearing, the Subcommittee took placeholder language to budget $200 million in savings over 2009-10 and 2010-11 that is anticipated to result from continued operations savings such as reduced equipment purchases and reduced training and travel. Finally, the Administration indicates $80 million in expected savings at Caltrans from the "Workforce Cap" executive order.

Bid Savings Allows for more Pay-go Financing and Less Bonding: Caltrans has indicated that due to bid savings and other factors, it does not intend to use the $675 million in Grant Anticipation Vehicles (GARVEE) bonds (revenue bonds that use future federal revenue), which were authorized in the 2009 Budget Act, and will instead use cash. With the pay-go approach, $175 million in interest costs are saved over the next 12 years.

Major-Maintenance Contracts: Bid savings have been directed to accelerate SHOPP projects, but the shelf of SHOPP projects is being exhausted. Additional major maintenance contracts may be an option for consideration. Caltrans has found that additional maintenance activities provide out-year SHOPP cost avoidance of $5 for every $1 spent on maintenance today.

Staff Comment

Bid savings have augmented the department's cash balances, and reduced the need for GARVEE financing. The Administration indicates it will not use 2009-10 GARVEE authority. While the Administration is still requesting new GARVEE authority for 2010-11, continued bid savings in the current year and budget year may result in the 2010-11 authority also being unnecessary. Accordingly, the Subcommittee may want to consider (1) reverting the 2009-10 GARVEE authority as technical conformity to the Administration's updated plan, and (2) making any 2010-11 GARVEE authority contingent on Joint Legislative Budget Committee approval, to ensure that GARVEES are used only to the extent cash is unavailable (i.e., appropriate only $1,000 for GARVEES, but add language to allow an augmentation up to $680 million with JLBC approval). When this item was heard by the Senate, they approved a reversion of 2009 GARVEE authority, with authority up-to $680 million in the budget year pursuant to JLBC reporting. Staff feels that the Senate action is appropriate as conserves bonding capacity in the short term without restricting the Department's ability to pursue GARVEE bonding authority if unexpected need arises.

Staff Recommendation:

(1) Revert 2009-10 GARVEE authority;

(2) Reduce 2010-11 GARVEE authority to $1,000; and,

(3) add budget bill language to augment 2010-11 GARVEE authority up to $680 million with JLBC reporting and demonstration by the Administration that cash resources are insufficient.

Issue 3: Public Private Partnerships

Governor's Budget

The Administration proposes an appropriation of $3.45 billion ($495 million State Highway Account/ $2.95 Federal Trust Fund) to fund multi-year “availability payments” (over about 30 years) for one designated highway project (a portion of Doyle Drive – about $1.4 billion of the total) and other non-designated highway projects (about $2.1 billion). “Availability payments” are a type of public private partnership (P3) where the private partner initially funds the project and then the state compensates the private partner with payments over many years. Here, future federal funds are proposed with about $115 million directed annually to this purpose over 30 years (for Doyle Drive, there would be a $150 million payment upon completion of construction plus about $38 million annually after that).

In essence, this proposal requests that the Legislature continuously appropriate $2.1 billion for a 30 year period for projects that have not been identified and with budget bill language that would allow unlimited authority for the Administration to augment this proposal.

April 1 Finance Letter Modifications to January Proposal (FL #17): The Administration requests to reduce the federal funds authority by $495 million, and add State Highway Account (SHA) authority of $495 million. This would respond to and LAO finding that the original proposal would not comply with federal rules that prohibit the use of federal highway funds for operations and maintenance.

Background

California has used P3s for past highway investments with mixed results – Route 91 linking Orange and Riverside counties and Route 125 in San Diego County are examples. Senate Bill X2 4 (Cogdill) Chapter 2, Statutes of 2009, revised the P3 process, by removing the statutory limit on the number of P3s and removing the Legislature from the approval process.

Nationally and internationally, P3 agreements are often developed for toll roads with the advantage being that toll revenue can be used to support the long-term project maintenance and contractor payments. This proposal would differ in that Doyle Drive will not be a tolled road therefore the state would instead provide availability payments to the P3 contractor to maintain the availability of the road miles agreed upon in the contract.

LAO Comments

Overall, the LAO finds the Governor’s proposal is “problematic” and recommends rejecting the proposal. The full LAO March 2 report is available at: http://www.lao.ca.gov. The LAO makes the following findings and recommendations:

- SB X2 4 specifically requires that P3 project agreements include financing from toll or user fee revenues – the proposed agreement does not appear to be allowed under current law.

- The Doyle Drive proposal would fund the developers for project operations and maintenance out of federal funds – these costs are not eligible for federal funding **(Staff notes that the Department has amended their request in an April Finance Letter to attempt to address this issue).**
- $2.1 billion of the request is undesignated and budget bill language allows the Department of Finance open-ended authority to augment the $3.45 billion. This provides little or no opportunity for legislative review and oversight.
- This proposal, as specified for Doyle Drive, may not reduce State costs. The Administration assumes the developer could reduce construction costs relative to the standard process, but the basis for this assumption is not identified.

Staff Comments

In their April 8th meeting, the California Transportation Commission (CTC) was scheduled to hear the proposed Doyle Drive P3 project but decided to delay action until May. In their staff analysis, CTC staff recommended that the project be rejected because; (1) the project does not appear to be consistent with a statutory requirement that tolls or user fees be collected and applied to the project cost, and (2) that approval of the project's financial plan would create a new long-term commitment from the State Highway Account, which is already oversubscribed and underfunded. If the CTC ultimately does reject this proposal, the Doyle Drive portion of the Governor's comprehensive P3 proposal would need to be taken out of the financing.

Aside from CTC concerns related to Doyle Drive, subcommittee staff has serious concerns with this proposal as it requests the Legislature to continuously appropriate $2.1 billion for a 30 year period for projects that have not been identified and with budget bill language that would allow unlimited authority for the Administration to augment this proposal.

In addition to cash resources in the SHOPP program, the Administration could also utilize GARVEE bonds and has Federal funds awarded for the Doyle Drive project. With funding available, the Doyle Drive project will go forward in any case, the question is one of the best funding mechanisms. The consultants' report does not include the option of GARVEE financing or other bonding options, which would likely show a lower cost to the state when net present value is considered. Lastly, the federal government recently awarded the project $46 million in a discretionary Transportation Investment Generating Economic Recovery (TIGER) grant. This funding occurred after the Governor's budget was released.

Lastly, staff has concerns that this proposal ultimately will cost more to the state as a P-3 than through traditional financing. A 30-year general obligation bond for $500 million would typically cost about $1.0 billion to pay off over thirty years. The 30-year cost of this P3 is estimated at $1.4 billion.

Legislative Counsel Opinion: Subsequent to the March 11, 2010, Subcommittee hearing on this topic, the Legislative Counsel was asked to provide an opinion on two questions:

- Is a transportation project funded by a revenue stream of public agency availability payment, rather than toll or user fee revenues eligible to be undertaken under the provision of statute added by SB X2 4. Counsel believes SB X2 4 does not authorize availability payments.
- Is the Doyle Drive Replacement Project eligible to be undertaken as a transportation project under the provisions of statute added by SB X2 4. Counsel notes that SB X2 4 requires that only projects that are new or supplemental to existing facilities be considered for P3 financing – Doyle Drive would not *supplement* the existing facility, but would rather *replace* existing lanes. Therefore, Counsel believes Doyle Drive fails this eligibility criterion to be considered for a P3.

Suggested questions / discussion:

1. The LAO should update the Subcommittee on developments since the April 14th hearing, including the April Finance Letter and the Legislative Counsel opinion.
2. The Administration should respond to the Legislative Counsel opinion.
3. The Administration should again explain why they are pursuing this project that does not produce new transportation dollars, is not authorized under current law, and would cost the state more money than traditional GARVEE bonds or other revenue bonds.

Staff Recommendation: Staff recommends that the subcommittee reject the BCP and related Finance Letter since there are legal opinions that this proposal is not allowable under statute and staff does not feel that it is appropriate to provide the Governor unlimited authority to commit at least $2 billion in state funds for 30 years that could be used to support other projects.

Issue 4: Public Private Partnerships Reappropriation

April Finance Letter Proposal

Last year, the Administration requested a total of $9.4 million in State Highway Account (SHA) funding to develop a P3 program. The funding was split into three parts: (1) $933,000 for 8.0 two-year limited-term positions; (2) $1.6 million in onetime funding to develop the base P3 program with boilerplate contracts and analysis, etc.; and (3) $6.9 million to develop five projects as P3 candidates (about $1.4 million per project). The Legislature approved funding for staff and $1.6 million for baseline P3 development. Funding for individual projects ($6.9 million) was made contingent on approval by the Joint Legislative Budget Committee (JLBC) after Caltrans submitted a request with information on the projects and financing proposed. In this April FL, Caltrans requested to reappropriate the unspent balance of the $6.9 million for expenditure in 2010-11.

April 15, 2010, JLBC Letter: In an April 15, letter, the Administration requests approval to expend $500,000 of the $6.9 million made available by Provision 12, of item 2660-001-0042 of the 2009 Budget Act. As this agenda was finalized, the JLBC had not acted on the request. Caltrans indicates that the $500,000 would be spent in support of four projects. With one of the projects Doyle Drive (see the prior issue) and an additional two projects candidates for availability payments – only one of the four projects would consider tolls as the only financing option.

2009-10 Expenditures Inconsistent with Approved Budget: As indicated above, the Legislature approved $1.6 million for general P3 development, with funding for specific P3 projects subject to JLBC approval. Caltrans indicates that instead of the budget plan, $1.4 million has been spent on P3 work specific to Doyle Drive, with $200,000 spent on general P3 work. Caltrans does note that some of the Doyle Drive documents, once complete, could be modified and used for other P3 projects. Given the legal and fiscal concerns with the Doyle Drive project, the state would have been better served if Caltrans had followed the budget direction to use the JLBC process to obtain project funding prior to embarking on costly analyses for that project.

Proposed Reappropriation Language is Flawed: The reappropriation language submitted with the April FL would appear to reappropriate any and all funds unexpended in item 2660-001-0042, not just those associated with P3 work. Additionally, the $6.9 million was not technically appropriated, but rather allowable as an augmentation to the appropriation via the JLBC process. Staff recommends, as a technical matter, that new 2010-11 funding should be appropriated instead of a reappropriation of 2009-10 funds.

Staff Comment: SB X2 4 removes any numerical limits on the number of P3 projects that state and local sponsors may adopt. It does not speak to the Caltrans budget for hiring consultants to develop P3 candidates – that is dependent on the annual budget. The basic question for the subcommittee is how many P3 development projects should be funded in 2010-11. Given data from the Doyle Drive project, it might be expected to cost about $1.5 million for consulting services up to the point of CTC approval and an additional $1 billion through contract implementation. Since Caltrans decided to pursue the availability payment approach to P3, which was not authorized with SB X2 4 (according to Legislative Counsel) and the future direction of the Administration in this regard is unclear, the Subcommittee may want to consider a robust reporting requirement that would again include JLBC notification prior to accessing project funding.

Senate Action: The Senate recently acted to reject the reappropriation, but add budget bill language to allow a budget augmentation of up to $4.5 million State Highway Account with JLBC reporting (this would fund planning for about 3 P3 projects to be developed through the CTC approval process).

Staff feels that the Senate approach is appropriate if there is an interest of the Subcommittee to provide the department with a limited amount of funding to pursue planning activities for P3 projects that are funded through tolling as was directed by SB X2 4.

Staff Recommendation: Conform with Senate Action

Issue 5: Load Rating of State Bridges

Governor's Budget

The Governor's Budget requests to absorb new workload for load rating of State bridges by: (1) redirecting 9 positions that provide engineering support for toll bridge traffic operations in the San Francisco Bay Area; and, (2) shifting $1.3 million from the litter pickup budget to fund the positions. The load rating determines the weight or load of vehicles that a bridge can safely carry. The 9 new bridge positions would complete a new load rating assessment of 6,800 State bridges over a ten-year period to comply with new federal requirements. The BCP indicates that engineering support for toll bridges and litter removal activities are both very important to the Department; however litter removal contract has been stalled due to litigation and the bridge load rating activities are a higher priority.

New load ratings are not required for all State bridges – for example, excluded are those designed to current standards (designed since 1976), and bridges that do not carry vehicular traffic. For the 6,800 bridges in question, the existing load ratings were developed with older computer modeling that did not include all bridge design data and the base load rating cannot be verified or updated with the existing system. The requested positions would review bridge records, perform a new load rating with new software, and write a summary report for each bridge.

LAO Recommendation

The Analyst recommends the Administration look at alternatives that would allow the work to be completed more expeditiously (instead of over 10 years). For instance, Caltrans could contract out some of the work, or assign more State staff to the task in order to complete the work sooner.

Staff Comment

The load rating assessment of a bridge feeds directly into how these bridges are used and how they are inspected. While this workload may not have the same immediate public safety impact as a bridge inspection program, this workload does impact public safety. Staff understands from the Department that they will be attempting to identify additional staff that can be redirected for this purpose as they prepare their May Capital Outlay Support request. When this issue was heard on April 13th, there was concern expressed by the subcommittee that the 10 year timeline for completion of the Load Ratings was too long. In the May Revision, the Department is proposing a reduction of 705 positions in the capital outlay support program due to reported workload decreases and efficiencies. Staff is aware that a majority of these positions proposed for reduction will come through vacancy reductions or attrition. While this proposal is not up for discussion today, staff feels that it would be appropriate transfer authority for 9 additional positions so that this workload can be completed in 5 years rather than 10.

Staff Recommendation: Approve as budgeted with an additional transfer of 9 positions from the Capital Outlay Support program to accelerate bridge load ratings.

Issue 6: Air Quality Mandates

Governor's Budget

The Governor's budget is requesting a one time appropriation of $57.3 million (State Highway Account) to replace or retrofit 435 vehicles and pieces of equipment (As shown in the below chart). This includes both on-road and off-road vehicles. Caltrans indicates this budget augmentation is necessary to comply with State Air Resources Board (ARB) and South Coast Air Quality Management District (SCAQMD) regulations. This request represents the second year of a five year air quality retrofit that will cost a total of about $260 million.

Summary of Equipment Compliance Costs for 2010-11

Mandate	Compliance Requirement	# of Equipment	Cost (in thousands)
ARB In-Use Off-Road Diesel Vehicles	Replace Vehicles	101	$15,482
	Retrofit Vehicles	53	1,014
ARB Large Spark Ignition	Replace Vehicles	28	1,263
ARB On-Road Heavy-Duty Diesel Vehicles	Replace Vehicles	101	15,482
	Retrofit Vehicles	53	1,014
SCAQMD Fleet Rule for Alternative –Fueled Heavy Duty Vehicles	Replace Vehicles	32	10,021
Federal EPA Diesel Emission	Incremental Costs		1,062
TOTAL		**435**	**$57,330**

Staff Comments

The Department reports that it will need a total of $159 million in funds for the 5-year plan to bring equipment into compliance. At the hearing, the Department should be prepared to discuss whether they are meeting the compliance targets set out by their plan.

When this issue was heard on April 14th, the Department reported that the Air Resources Board has been working with the Department to provide some flexibility in their compliance schedules. At the hearing, the Department should update the subcommittee on this review process. If there hasn't been any movement on regulatory relief for the Department, staff recommends that the subcommittee approve the request with budget bill language to require the Department of Finance to reduce this appropriation to the appropriate level if the Air Board approves regulatory relief for the Department.

Staff Recommendation: Approve as budgeted with the following budget bill language:

Funding appropriated in this item for compliance actions for Air Resources Board on-road and off-road diesel regulations shall be reduced accordingly by the Department of Finance to meet the compliance needs of the Department of Transportation if the Air Resources Board takes an action to change on and off road regulatory requirements.

2720 CALIFORNIA HIGHWAY PATROL

Issue 1: Operating Costs for Los Angeles Transportation Management Center

The Administration requests a permanent augmentation of $191,000 (Motor Vehicle Account) to meet the increased maintenance and operations costs for the Los Angeles Regional Transportation Management Center (LARTMC). The CHP shares this facility with the California Department of Transportation (Caltrans) so the two departments can coordinate responses to more effectively respond to public safety issues, and return highways to full operation. Funding of $885,000 was approved for the CHP for LARTMC costs when the facility opened about five years ago; however, ongoing operations costs have been higher than anticipated and an additional $191,000 is necessary to meet the CHP's share of facility costs.

Staff Comments: This issue was held open on May 5 to address questions raised by the subcommittee on the ongoing costs for maintaining a relatively new facility. The CHP has responded to the questions with the following:

> The Department of General Services is requesting a total increase of cost for maintenance of the building of $383,538; CHP is responsible for 49% of these costs. Some of the significant changes in costs that are listed out in detail on the following page include: increased labor costs relating to custodial and various building maintenance activities ($453,950); increase in utilities ($190,130); decrease in equipment (-$58,304); and the elimination of the Communications System Maintenance (-$200,000). Per Caltrans, the communications system maintenance is not a CHP expense.
>
> The original projected costs for the operation and maintenance of the LARTMC were based on 2004/05 fiscal year costs. This was the anticipated timeframe for the occupancy of this facility. Occupancy did not occur until April 2008. Many of the systems are currently under warranty and have a maintenance contract in place; therefore, we will not have a cost included in the current agreement. As the facility ages and warranties expire, the cost for Fixed Operating Costs – Equipment may increase.

Staff feels that the department's response adequately shows that these cost increases are not within the control of the department and need to be supported due to their responsibilities under their operations agreements of the building. From the information provided, it appears that the requested amount should cover a 26 month period. The BCP, however, schedules an annual appropriation of $191,000 rather than spreading it over the 26 month period. If you calculate the average total costs from the totals outlined on the following page, the increase in costs for the department only appear to be around $100,000. At the hearing, staff recommends that the CHP walk the subcommittee through this calculation and justify their request. If they are unable to show how they reach $191,000, staff recommends that the subcommittee approve$100,000 for this subcommittee adopt an increase of $100,000 unless the CHP can better explain their

Staff Recommendation: Approve as budgeted if justified by CHP

LARTMC Caltrans / CHP Operating Costs Projection
Los Angeles/Ventura County (Caltrans District 07)

Category	Contract 7C514000 (8/01/07 - 4/30/09) Projections	Contract 8C514002 (5/01/09 - 6/30/11) Projections	Difference
Fixed Operating Costs - Labor			
DGS Janitorial Services	$321,153	$676,405	$355,252
DGS Engineering Services	$198,892	$545,247	$346,355
Pest Control	$1,440	$3,700	$2,260
Grounds Keeping	$25,000	$4,908	-$20,092
BPM Administration Cost	$26,500		-$26,500
Recurring Maintenance	$115,000	$36,000	-$79,000
Security Services	$400,000	$275,676	-$124,324
Total for Fixed Operations Cost-Labor	**$1,087,985**	**$1,541,936**	**$453,951**
Fixed Operating Costs - Equipment			
Backflow System Certification		$1,000	$1,000
Computer Room Cleaning		$7,992	$7,992
Emergency Power Systems Maintenance	$35,000	$1,500	-$33,500
Emergency Generator Service		$2,433	$2,433
Elevator Maintenance	$7,800	$15,600	$7,800
Elevator Monitoring Service		$384	$384
Fire Alarm Monitoring		$850	$850
Fire Extinguisher Inspect/Recharge	$2,400	$390	-$2,010
Fire Sprinkler System Test/Maintain	$40,000	$14,988	-$25,012
FM - 200 Service		$1,296	$1,296
Generator Diesel Fuel	$7,500	$180	-$7,320
General Building Electrical Equipment Maintenance	$3,000	$15,000	$12,000
Glass Maintenance		$2,520	$2,520
HVAC Air Filters		$10,992	$10,992
HVAC Replacement and Maintenance	$37,000		-$37,000
Janitorial & Paper Supplies	$14,400	$75,360	$60,960
Door & Locksmith Supplies		$3,000	$3,000
Parking Lot Equipment Maintenance	$12,000		-$12,000
Plumbing Maintenance	$15,850	$2,400	-$13,450
Plumbing Supplies		$2,400	$2,400
Security Maintenance	$15,000		-$15,000
UPS Systems Maintenance	$20,000		-$20,000
Waste Management	$14,400		-$14,400
Water Treatment Equipment Maintenance	$4,800	$3,034	-$1,766
Window Washing Service		$9,528	$9,528
Total Fixed Operating Costs - Equipment	**$229,150**	**$170,847**	**-$58,303**
Utility Costs			
Cable TV Services		$1,800	$1,800
Electrical Service	$225,000	$398,112	$173,112
Gas	$35,000	$62,218	$27,218
Waste and Water Services	$30,000	$13,000	-$17,000
Waste Management		$5,000	$5,000
Total Utility Costs	**$290,000**	**$480,130**	**$190,130**
Communication Systems Maintenance	**$200,000**	**$0**	**-$200,000**
License, Fees and Permits	**$3,500**	**$1,260**	**-$2,240**
Grand Total	**$1,810,635**	**$2,194,173**	**$383,538**

2740 DEPARTMENT OF MOTOR VEHICLES

ISSUE 1: 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. At this point, staff is recommending that the subcommittee adopt the following budget bill language to require the DMV and CDVA to enter into an MOU to collect data on California Veterans. The Senate has not taken action on this issue and currently will be in conference committee. As the budget moves forward, the Legislature can work with the Department to address any concerns that they may have with this language.

Additionally, staff recommends that the Subcommittee approve supplemental report language requiring the Departments to report to the legislature next year on the effectiveness of the MOU

Staff Recommendation: Approve the following Budget Bill and Supplemental Report Language:

Provisions:

In order to better inform and improve the participation rate of California veterans in collecting state and federal veteran benefits, particularly federal disability compensation and pension payments, the Department of Motor Vehicles (DMV) will be used as a means to assist the California Department of Veterans Affairs (CDVA) in identifying veterans who request that they be informed of their eligibility to collect state and federal veteran benefits. Accordingly, the amount appropriated in this item shall be used by the DMV to support an interagency agreement or MOU with the CDVA that provides for at a minimum the following requirements:

- Requiring the DMV to help identify veterans by asking all its customers if they are veterans and if they want to be contacted about federal and state benefits the person may be entitled to and eligible for as a result of the person's military service.
- Requiring the DMV to adjust its paper and on-line application forms at the earliest possible opportunity so that this information can be obtained.
- Requiring the DMV and CDVA to establish a data sharing agreement for this information, which will be structured in accordance with state and federal law respecting the privacy and personal information of these veterans, so that the only use of this information will be to inform veterans that request to be notified of their eligibility to collect state and federal veteran benefits.

Supplemental Reporting Language

By June 30, 2011, the California Department of Motor Vehicles and the California Department of Veterans Affairs shall report to the Joint Legislative Budget Committee and appropriate fiscal and policy committees of the Legislature, on the status and progress of the Veteran Identification and Information Sharing for Veteran Benefit Eligibility Notification agreement between the DMV and CDVA.

ISSUE 2: GOLD STAR FAMILY LICENSE PLATE IMPLEMENTATION

April Finance Letter Proposal

The Department is requesting in an April Finance Letter to approve an augmentation of $115,000 in 2010-11 and $185,000 in 2011-12 from the Motor Vehicle Account to cover 3 one year limited term positions and the implementation costs of SB 1455 Cogdill. This funding will be supported by an identical transfer of funds from the Gold Star Family License Plate Account to cover these costs.

Background

SB 1455 (Cogdill) authorizes an eligible family member, of a member of the Armed Forces, who was killed in the line of duty to apply for the specialized license plate and be exempt from the fee for the original issuance or renewal of the specialized license plate

Staff Comments

The Department has reported that it has actively requested and received donations from public and private entities for the purpose of establishing this new specialized plate program. To date, $115,000 has been collected to support the program. Staff has no issues with this proposal as funding to support its implementation comes from donations. Staff recommends that this proposal be approved as budgeted.

Staff Recommendation: Approve as budgeted

2700 OFFICE OF TRAFFIC AND SAFETY

ISSUE 1: FEDERAL TRUST FUND – REAPPROPRIATION OF FUNDS

May Revision Proposal

Governor's May Revision proposes to reappropriate Federal Highways Safety Grant Funds from 2005/06 ($51.1 million) 2006/07 ($42.4 million), and 2007/08 ($28,792) until 2011.

The Office of Traffic and Safety (OTS) is responsible for managing the Federal Highway Safety grant funds that are passed-through to local and state agencies. On average, the OTS receives nearly $100 million per year for Safety grants. The Federal government allows the state to rollover expenditure authority for funds that are not expended in the fiscal year to the next fiscal year. On average, there has been $285 million of new and carried over funds available for grants. In prior years, the OTS had state authority to administratively extend appropriations for funds that were not expended. This authority was eliminated in 2007.

Staff Comments

Staff understands that this proposal is intended to address an accounting issue of OTS's budget year appropriations not being synched up properly with grant awards. It appears that the Department is not delayed in getting grant funds awarded, rather grants are going out under anticipated schedules but the Office has been disencumbering funds for prior years, and subsequently reencumbering those funds in the budget year to award the prior year grants even though there is 2-year appropriation authority approved with the grant funds. This practice leaves the Office in a position where they are receiving budget year grant funds while their budget year appropriation authority is dedicated to prior year grants. This proposal would attempt to bring their year of expenditures in-line with their grants.

At the hearing, the OTS should address the principal issue of whether their grant programs are expediting the award of these federal funds as efficiently as possible. Additionally, The Department of Finance and OTS should walk the Subcommittee through their approach to solve this issue as well as address this issue and how it will be improved in out-years.

Staff Recommendation: Staff recommends that the Subcommittee approve this proposal if the Department of Finance and OTS adequately shows that federal grant funds are being expended as expeditiously as possible.