

**ASSEMBLY BUDGET SUBCOMMITTEE NO. 5
ON TRANSPORTATION AND INFORMATION TECHNOLOGY**

Assemblymember Mike Feuer, Chair

**THURSDAY, MAY 29, 2008
Room 126 – 10:00 AM**

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CONSENT CALENDAR

CONTROL SECTION 15.25

ISSUE 1: MAY REVISION – DEPARTMENT OF TECHNOLOGY SERVICES RATE ADJUSTMENTS

The May Revision requests Control Section 15.25 be added to authorize the Director of Finance to adjust appropriations items in order to reflect cost changes which may be needed based on the Department of Technology Services rate adjustments adopted by the Technology Services Board.

Recommendation: Approve the request.

ITEM 2600 TRANSPORTATION COMMISSION

ISSUE 1: SPRING FINANCE LETTER – CONTRACT FOR FINANCIAL REVIEW OF HOT LANE PROGRAM APPLICATIONS

The Administration submitted a Spring Finance Letter requesting an increase of \$100,000 for a two year limited term contract with financial consultants to review the financial components of High-Occupancy Toll (HOT) lane applications submitted pursuant to AB 1467 (Ch. 32, Stats of 2006), which allows up to four new HOT lanes in the state.

Recommendation: Approve the request, but add budget bill language to specify the funds are only available for AB 1467 purposes and shall revert if unexpended.

ITEM 2660 CALTRANS

ISSUE 1: SPECIFIED SPRING FIANCE LETTER REQUESTS

The Administration submitted a Spring Finance Letter requesting the following:

- ◆ An increase of \$356,000 (SHA) to augment existing resources for the development and installation of the Integrated Financial Management System, resulting from increases in workload due to delays in software procurement and additional software and support costs.

- ◆ A decrease of \$10.4 million (SHA) and seven positions resulting from the delay in the procurement process of the Construction Management System.

- ◆ An Increase of \$200,000 (SHA) to the costs of replacing existing roadway and design software that is no longer being updated and will not be supported by the vendor.
- ◆ An increase of \$1.56 million (Aeronautics Account) to replace Caltrans' oldest aircraft. This will be funded out of local assistance funds which will be repaid over 10 years.
- ◆ Decrease of \$181 million (Prop 1B funds) for State Transportation Improvement Program (STIP) funding to reflect the rescheduling of these expenditures to the current year.
- ◆ An increase of \$189.2 million (federal funds) for debt service payments and related financing costs associated with the issuance of federal Grant Anticipation Revenue Vehicle (GARVEE) bonds.
- ◆ Various technical corrections to the Governor's budget.

Recommendation: Approve the requests listed above.

ISSUE 2: SPECIFIED MAY REVISION REQUESTS

The Administration submitted May Revision requests including the following:

- ◆ An increase of \$7.8 million (SHA) for increased fuel costs for Caltrans.
- ◆ A reduction of \$53.2 million in Proposition 42 funding as a result of lowered revenue projections resulting from reduced consumption of gasoline and a greater share of sales tax on gasoline going to the Spillover (which the Governor then proposes to use for General Fund relief).

Recommendation: Approve the requests listed above.

ITEM 2720 CALIFORNIA HIGHWAY PATROL**ISSUE 1: OPEN ITEM – CHP ENHANCE RADIO SYSTEM (CHPERS)**

In 2006-07 the Legislature approved a five year project totaling approximately \$500 million to upgrade the CHP's public safety radio system. The Subcommittee heard the CHPERS issue at an earlier hearing but did not take action due to the late annual report that was not submitted until earlier that day.

According to the report, the project is progressing to meet the five year completion timeframe and the costs have been updated to total about \$472 million (down from last year's estimate of \$480 million).

The report indicates that as a result of the reduction in project cost estimate and some costs being shifted to out years, \$3.7 million budgeted in the current year will not be spent, and \$12.8 million budgeted in for 2008-09 will not be spent. Therefore, the CHP's budget should be reduced by \$12.8 in the budget year. The CHP agrees with this.

Recommendation: Reduce the budget by \$12.8 million to reflect updated budget year cost projections.

ISSUE 2: CAPITAL OUTLAY FINANCE LETTERS

The Administration submitted a Capital Outlay Finance Letter requesting the following:

- ◆ An increase of \$1 million to provide preliminary plans for the Oceanside Area Office Replacement Facility. This request is necessary because the project has insufficient budget authority to move forward. Because of many factors, including project delays associated with land acquisition and cost increases, the original preliminary plan funds were not encumbered by the June 30, 2007 deadline. In order to continue this project, preliminary plans funding needs to be appropriated again.
- ◆ An increase of \$1.4 million for the Oakhurst Area Office Replacement project. This request is necessary because the project has insufficient budget authority to move forward. Because of many factors, including project delays associated with land acquisition and cost increases, the original preliminary plan funds were not encumbered by the June 30, 2007 deadline. As a consequence the working drawings funds appropriated in the 2007 Budget Act were not encumbered. The CHP has now acquired the necessary property and is ready to proceed with the design.

Recommendation: Approve the Capital Outlay Finance Letters.

ITEM 2740 DEPARTMENT OF MOTOR VEHICLES

ISSUE 2: CAPITAL OUTLAY FINANCE LETTERS

The Administration submitted a Capital Outlay Finance Letter requesting that Item 2740-490 be added to reappropriate three reconfiguration projects for the Department of Motor Vehicles. Because of technical and staffing issues, the completion of the preliminary plans phase were delayed. The three projects are:

1. Victorville Field Office Reconfiguration Project—Working Drawings.
2. San Bernardino Field Office Reconfiguration Project—Working Drawings.
3. Redding Field Office Reconfiguration Project—Working Drawings.

Recommendation: Approve the Capital Outlay Finance Letters.

ITEMS TO BE HEARD

NEW CONTROL SECTION IT CONTRACTS

ISSUE 1: GENERAL FUND SAVINGS

As discussed at the May 7th hearing, the state spends hundreds of millions of dollars each year on Information Technology contracts.

According to the SEIU Local 1000 report issued in March, 2008, the state could save as much as \$100 million annually shifting to state staff. At the hearing, the Administration generally agreed that there are current situations when contracts are being used in situations that are no longer necessary and the work could be transferred to less costly state staff.

Given the magnitude of the General Fund shortfall that requires major cuts to every area of the budget, including education, health, public safety, and transportation, it is critical that the state becomes as efficient as possible.

COMMENTS:

The Subcommittee should consider approving the following placeholder Budget Bill Language that would require the Administration to achieve \$100 million in General Fund savings by converting Information Technology contract positions to state staff.

SEC. XX. (a) The Director of Finance, in consultation with agency secretaries and other cabinet members, including the Chief Information Officer, shall reduce General Fund appropriations in the 2008-09 fiscal year by a total of at least \$100,000,000 by converting information technology contract positions to state staff positions. Each agency secretary shall recommend to the Director of Finance amounts to be reduced from the appropriations to departments within the agency.

(b) The Director of Finance shall not reduce, pursuant to subdivision (a), the amounts appropriated for the following: higher education; the judicial branch; the Legislature; the Legislative Counsel Bureau; or constitutional officers.

(c) Nothing within this section shall be construed to confer any authority upon the Director of Finance to modify or eliminate any other provision of existing law.

(d) Not later than February 15, 2009, the Director of Finance shall report to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committees of each house of the Legislature that consider appropriations the amount of savings, by agency and department, made pursuant to this section.

Recommendation: Approve the Budget Bill Language.

ITEM 2640 STATE TRANSIT ASSISTANCE**ISSUE 1: MAY REVISION – REDUCED FUNDING**

The May Revision requests support for State Transit Assistance (STA) be reduced from the statutory level of \$886 million to \$306 million.

The \$580 million reduction would be used for General Fund relief by reimbursing the General Fund for Home-to-School Transportation.

(The May Revision proposes a total increase of General Fund relief from public transit of \$828 million. This includes a total of \$593 million for Home-to-School – including the \$580 million in this item – and \$234.8 million to reimburse the General Fund for past debt service costs.)

COMMENTS:

During last summer's budget deliberations, the Legislature resisted the Governor's proposal to make permanent, massive cuts to public transit. Ultimately, there was an agreement that while STA funding would take a temporary major reduction for 2007-08, there would be ongoing protection for public transit funding.

In the Governor's January 10 budget proposal, this commitment was maintained and STA was budgeted at \$743 million. Due to the increase costs of gasoline, this amount would have grown to \$886 million in the May Revision.

Rather than continue this commitment, however, the May Revision proposes to take STA funding down to the low current year funding level of \$306 million.

With growing pressures on the General Fund, it is not unreasonable for transportation to be part of the overall budget solution. And with most transportation funds tightly protected with by the Constitution, transportation's contribution to the solution falls on the remaining flexibility of public transit funds.

It is also important to note that the Governor's proposal is only for one year. This is consistent with many of the Governor's General Fund solutions. Under his overall approach, the budget is held together for a year but massive deficits would return in the out years – meaning more cuts to public transit would likely be needed then as well.

In contrast, the Assembly Budget Subcommittees are taking a balanced approach to resolving the budget shortfall that not only balances the budget for 2008-09, but balances the budget each year of the forecast period.

As part of this balanced approach, public transit reductions are necessary. However, since the cuts in the current year were never intended to be permanent, maintaining that low level of funding is not consistent with the spirit of last year's budget agreement. Instead, funding for STA should be at least at the funding level provided before the current year cuts, which would be \$623.7 million.

Therefore, the Subcommittee should approve STA funding at \$623.7 million. This restores the funding to the amount provided before the massive current year cuts, while also providing General Fund relief of \$262.2 million. If this level of support is continued in the out years, then there is more certainty for STA and more on-going General Fund relief can be provided than what is proposed by the Governor.

The level of Public Transportation Account reimbursement of Home-to-School transportation should conform to this action.

Recommendation: Fund STA at \$623.7 million. State that it is the intent that this level of funding be maintained on an ongoing basis.

ITEM 2600 & 2660 TRANSPORTATION COMMISSION AND CALTRANS**ISSUE 1: TRADE CORRIDOR IMPROVEMENT FUND**

The Trade Corridor Improvement Fund (TCIF) was discussed at length at this Subcommittee's April 2nd hearing.

The hearing covered the following issues:

- ◆ Whether the Los Angeles / Inland Empire Trade Corridor would receive their fair share of TCIF funding under the CTC plan, since that corridor's ports handle over 85 percent of the state's containerized cargo and its residents make up 80 percent of all Californians exposed to dangerous levels of diesel emissions;
- ◆ Whether it was right to fold State Highway Account (SHA) funds that would otherwise go for SHOPP projects into the TCIF; and
- ◆ Whether it made sense to base the TCIF on \$500 million of unidentified funds.

All of these issues remain.

Spring Finance Letters:

1. The Administration submitted a Spring Finance Letter for the CTC requesting to add \$100,000 (bond funds) for contract services to evaluate TCIF projects to determine if they meet air quality requirements. The costs for this would be offset with a reduction of \$130,000 and one staff position for Proposition 1B administration.
2. The Administration also submitted a Spring Finance Letter for Caltrans requesting \$2.8 million (bond funds) to fund workload associated with administering the TCIF and the State-Local Partnership Program, negotiating contracts with railroads, and website work associated with publishing information on the use of bond funds.
 - ◆ Of this amount, about \$2.1 million would be for the TCIF.

May Revision Request:

The May Revision requests the budget be updated to reflect the true anticipated costs of the TCIF of \$413.2 million. The January budget included \$500 million, but at that time the specific projects for the TCIF was not known.

Recommendation:

- ◆ **Take no action on the funding level for the TCIF, which will keep the January funding level in place and result in this being a Conference Issue.**
- ◆ **Approve the CTC Spring Finance Letter**
- ◆ **Approve the Caltrans Spring Finance Letter.**

ITEM 2660 CALTRANS**ISSUE 1: SPRING FINANCE LETTER – ADA COMPLIANCE CONTRACT**

The Administration submitted a Spring Finance Letter requesting \$3.5 million for each of the next two years (\$7 million total) for the following American's with Disabilities Act issues:

- ◆ Development of an updated transition plan and program to achieve ADA compliance - \$3.6 million over two years;
- ◆ Complaint resolution / investigation - \$2.2 million over two years; and
- ◆ Contract legal services for litigation - \$1.2 million over two years.

Caltrans is responsible for ADA compliance and more than 2,000 miles of sidewalk and 15,000 intersections existing on the State Highway System.

COMMENTS:

The January Governor's Budget reflects that the Highway Transportation Legal program has a 2008-09 budget of \$80.4 million and 194.8 positions, including \$48.6 million in expected tort payments. It is not clear why the existing legal budget cannot accommodate the \$600,000 in litigation contract costs.

Recommendation: Approve the requested funding for the ADA transition plan and complaint resolution/investigation, but reject the augmentation for litigation contracts.

ISSUE 2: SPRING FINANCE LETTER – PAVEMENT MANAGEMENT PROGRAM

The Administration submitted a Spring Finance Letter requesting \$4.2 million to develop a state highway pavement management program. The program is expected to cost \$6.6 million in 2009-10 and \$8.8 million in 2010-11, for a total three year cost of \$19.6 million.

COMMENTS:

The majority of this three-year request would fund a pavement structure inventory for the entire pavement network using ground penetration radar with pavement coring and identification.

While this \$19.6 million three year program would not directly repair any damaged pavement, Caltrans estimates that cumulative savings over the following 5-year period will be \$118 million, resulting in a average benefit-cost ratio of 4.4 to 1. The savings would occur, because the improved data would allow better forecasting of pavement deficiencies and better investment decisions.

Recommendation: Approve the request.

ISSUE 3: SPRING FINANCE LETTER AND MAY REVISION – PROP 1B INTERCITY RAIL ISSUES

The Administration submitted a Spring Finance Letter requesting an increase of \$6.6 million to fund increased contract costs associated with Amtrak's increased labor costs for providing intercity rail service on the three state-supported routes.

In addition, the May Revision requests a reappropriation of up to \$187.0 million of Proposition 1B intercity rail bond funding to enable sufficient time to analyze ridership data, review projections, and analyze rolling stock needs.

The May Revision also proposes to eliminate budget bill language regarding intercity rail audits since the audits have been completed and an agreement on rolling stock needs is anticipated in the near future.

COMMENTS:

In order to ensure that the Prop 1B intercity rail funds are spent prudently and expeditiously in accordance with the intent of the Legislature, the subcommittee should consider:

- ◆ Not including Provision 3 of Budget Act of 2007 Items 2660-304-6059 and 2660-104-6059 in the requested reappropriation; and
- ◆ Adopting the following Budget Bill Language (for items 2660-104-6059, 2660-304-6059, and 2660-492):

Provision (X) The Legislature finds and declares all of the following:

- (a) Funds made available by this item for capital improvements to the state's intercity rail program, including the purchase of new rolling stock, are necessary to implement a specific provision of the *Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006*, as that act was approved by the voters of the state of California.
- (b) From that Act, paragraph (2) of subdivision (f) of Section 8879.23 of the Government Code makes funds available, upon appropriation of the Legislature, for intercity rail improvements "including the procurement of additional intercity railcars and locomotives."
- (c) It is the intent of the Legislature that funds appropriated for this purpose be spent prudently and expeditiously to enhance the state's intercity rail service.

- (d) It is further the intent of the Legislature that during the 2008-09 Fiscal Year, and no later than June 30, 2009, the Department of Transportation shall release a Request for Proposal for the procurement of rolling stock equipment as provided for in paragraph (2) of subdivision (f) of Section 8879.23 of the Government Code.
- (e) No later than January 1, 2009, the department shall provide a report to the Joint Legislative Budget Committee, describing the activities it has undertaken to allocate the funds made available to it in this item.

These actions would conform to the Senate Action.

Recommendation: Approve the Spring Finance and May Revision requests and changes to the Budget Bill Language included above.

ISSUE 4: MAY REVISION – CAPITAL OUTLAY SUPPORT

The May Revision includes updated funding levels for Capital Outlay Support. In total, the May Revision requests a decrease of \$26.1 million and a reduction of 22 contract positions and 443 state staff resources (including 247 state staff positions and 196 overtime position equivalents).

Under the Governor's May Revision, there would be a total of 11,294.5 state staff and overtime positions and 1,371 contract positions. This represents a split between state staff resources and contract staff of 89 percent to 11 percent.

COMMENTS:

The long-term split between state staff resources and contract staff is 90 percent for state staff and 10 percent contract staff. In the current year, the split is 89-11 and under the Governor's May Revision, the split is 89-11.

The Subcommittee should consider funding Capital Outlay Support at the historic level of 90 percent state staff resources and 10 percent contract staff. Doing so requires:

- ◆ Reducing the reduction of state staff from the proposed reduction of 247 positions to a reduction of 142.5 positions;
- ◆ Increasing the proposed reduction of contract staff from 22 contract positions to a reduction of 126.5 contract positions;
- ◆ Maintaining the overtime position equivalent reduction at the level proposed in the May Revision.

Making these changes should result in total savings of about \$10 million. This is due to the fact that contract positions are budgeted at about \$217,000 and state staff positions are budgeted at about \$121,000 (including benefits and standard operation expenses and equipment).

It is important to note that should the Subcommittee approve additional funding for the SHOPP proposal (Issue 7, below) that the Capital Outlay Support level may need to be adjusted.

Recommendation: Approve the following reductions: 142.5 reduction of state staff; 196 reduction of overtime position equivalents; and 126.5 contract positions.

Also, direct staff to reconcile the Capital Outlay Support needs with the Subcommittee action on the SHOPP item (below) which may result in additional COS needs.

ISSUE 5: MAY REVISION – SPILLOVER GENERAL FUND RELIEF

The Governor's May Revision proposes to increase the amount of Spillover used to reimburse the General Fund for past General Obligation debt service costs by \$235 million.

COMMENTS:

The \$235 million increase is in addition to \$454 million in the budget proposed in January.

This, along with the \$593 million proposed for Home-to-School transportation, totals \$828 million of new General Fund relief from transportation funds.

Given the status of the General Fund and the need for cuts to all areas of the budget, this is probably a reasonable solution. (please note that the recommendation for State Transit Assistance is to reject \$317 million of the Governor's proposed cut.)

Recommendation: Approve the May Revision request. This action, along with the recommended action for STA, takes the Governor's May Revision cuts to transit funds from \$828 million to \$511 million.

ISSUE 6: MAY REVISION – TRANSPORTATION ACCOUNT LOAN

The Governor's May Revision proposes that the General Fund borrow \$238.1 million from various transportation funds, including:

- ◆ State Highway Account (SHA) - \$200 million;
- ◆ Local Airport Loan Account - \$14.9 million;
- ◆ Motor Vehicle Fuel Account - \$8 million;
- ◆ Bicycle Transportation Account - \$6 million;
- ◆ Environmental Enhancement and Mitigation Program Fund - \$4 million;
- ◆ Historic Property Maintenance Fund - \$3 million; and
- ◆ Pedestrian Safety Account - \$1.8 million.

The loans will be repaid by June 30, 2011.

In addition, the May Revision requests Trailer Bill Language to enable the SHA to borrow from the Pooled Money Investment Account, which will allow the SHA to meet its cash needs throughout the year without carrying a high cash balance.

COMMENTS:

Borrowing from various special funds is short-term solution that has been used during past budget shortfalls. However, it is only an appropriate solution when it conforms to the following two conditions:

1. The borrowing of the special funds does not harm the programs and activities supported by the funds.
 - ◆ It appears that most of the proposed loans meet the first condition, except the \$200 million SHA loan. In fact, the May Revision calls for a \$100 million reduction in SHOPP funding based on there not being adequate funds for this program.
2. The borrowing must be part of an overall budget solution that brings the budget into balance over the long-term. Otherwise, the borrowing would really not be a solution, but only a temporary band-aid that just pushes the need for real solution back a year or two.
 - ◆ Under the Governor's overall May Revision proposal it would not be appropriate to do any of these short-term solutions because his proposed budget does not bring the budget into balance in the out years. As a result, paying these loans back in two years only adds more pressure to the General Fund in years that are already not in balance. This increases the need to make further cuts to education, health, public safety, and even Proposition 42.

- ◆ Under the budget being crafted by the Assembly Budget Subcommittees, however, this condition will be met. That is because the Assembly Budget Subcommittees are taking a balanced approach that not only balances the budget for 2008-09 but balances the budget for every year in the forecast period.

Therefore, the Subcommittee should consider approving the special fund loans, but reduce the SHA loan to \$110 million to ensure adequate funds for the SHOPP.

Recommendation: Approve the special fund loans as proposed, with the exception of reducing the SHA loan to \$110 million.

ISSUE 7: MAY REVISION – SHOPP REDUCTION

The May Revision includes a reduction of \$100 million for the State Highway Operation and Protection Program (SHOPP), from \$848 million to \$748 million.

The Administration reports that the reduction is due to the decline in gas tax revenues of \$225 million.

COMMENTS:

The Administration reports that reduced construction costs in the current year have resulted in savings to address \$125 million of the \$225 million gas tax shortfall.

If the Subcommittee's actions on Capital Outlay Support and the State Highway Account loan provide additional SHA resources, then this proposed reduction should be reduced to ensure the important SHOPP work continues.

Recommendation: Reject proposed reduction. Action on the COS item (up to \$10 million savings) and SHA loan (\$90 million savings) should provide adequate funding for the SHOPP.

ISSUE 8: SPRING FINANCE LETTER AND MAY REVISION – PROJECT RESOURCES AND SCHEDULING MANAGEMENT SYSTEM

The Administration submitted a Spring Finance Letter requesting the reappropriation of the \$11.6 million for the Project Resources and Schedule Management System (PRSM). The reappropriation is requested to ensure the availability of funds should the contract for the project not be signed by the end of the current year.

The May Revision requests Budget Bill Language for PRSM that allows Caltrans and the Department of Finance to increase the appropriation by up to \$5.0 million in accordance with the final signed contract for the project. While Caltrans is currently in negotiations with a contractor, the Administration believes it is likely that the final project cost will exceed the \$11.6 million that would be reappropriated in this project (pursuant to the Spring Finance Letter).

COMMENTS:

The purpose of PRSM is to improve the management and tracking of Capitol Outlay Support (COS) costs for transportation projects, adding new functionality so Caltrans could easily track COS costs by individual project and tie that information to employee timekeeping.

The Administration should report on the reasons for the anticipated increased costs of the contract.

Recommendation: Approve the Spring Finance Letter and May Revision request.

ISSUE 9: DISADVANTAGED BUSINESS ENTERPRISES

The Governor's proposed budget includes \$179 (SHA) to implement the federally-mandated Disadvantage Business Enterprise (DBE) Race Neutral Program.

COMMENTS:

The proposal would implement the statewide race-neutral measures to the DBE program statewide. Caltrans' workgroup developed a list of 68 statewide race-neutral measures and related initiatives, including:

- ◆ Business Outreach and Communication;
- ◆ Technical Assistance; and
- ◆ Access to Capital Assistance to increase small business participation in Department contracting.

These and other activities certainly appear worthy, however, these are all similar to policies in AB 2376 (Price), which is currently making its way through the Legislative process. Assembly Bill 2376 requires Caltrans to establish and administer the Small and Emerging Contractor Technical Assistance Program for the purpose of providing training and technical assistance to small businesses to improve their ability to obtain the surety bonds and liability insurance necessary to qualify for public works projects.

The Subcommittee should consider rejecting this proposal and instead let this issue be handled through the policy committee process. Caltrans should work with Assemblymember Price to incorporate critical issues in this budget proposal that are not yet in AB 2376.

Recommendation: Reject budget proposal to defer to the Policy Bill process. Encourage Caltrans to work with Assemblymember Price to incorporate critical issues in this budget proposal that are not yet in AB 2376.

ITEM 2665 HIGH SPEED RAIL AUTHORITY**ISSUE 1: MAY REVISION – FUNDING INCREASES**

The May Revision proposal includes increased funding for the High Speed Rail Authority, as follows:

- ◆ \$10 million from the Public Transportation Account to continue program management activities and contract work to prepare environmental documents and conduct preliminary engineering on all portions of the system. This will allow work to continue until bond funds are available after the November election.
- ◆ \$8.2 million from Proposition 116 bond funds to continue contract work to prepare environmental studies and conduct engineering on the Fresno-Sacramento segment of the High-Speed Rail system.
- ◆ \$23 million from the High-Speed Train (HST) Bond Act that is expected to be on the November ballot.

COMMENTS:

The \$10 million from the PTA is to help bridge the HRSA work until the bond funds become available after the November election.

However, the PTA contribution could be reduced if the \$8.2 million from Proposition 116 was limited only for the Fresno-Sacramento segment. If the limiting language is deleted, the entire \$8.2 million in Prop 116 funds could be directed to the pre-election period and the PTA budget appropriation could be reduced by \$6.1 million. The funding from the HST Bond Act would then be increased by \$6.1 million to ensure full funding of the requested amount in the May Revision.

This would provide the exact same amount of funding for the High Speed Rail as proposed by the Governor – including for the Fresno-Sacramento segment. The only difference is that it would reduce the amount of PTA used and increase the amount of HST bond funding.

Recommendation:

(conform to Senate action, avoid sending this issue to conference)

- ◆ **Remove language limiting the use of the Prop 116 funds.**
- ◆ **Reduce PTA funding by \$6.1 million.**
- ◆ **Increase HST funding by \$6.1 million.**

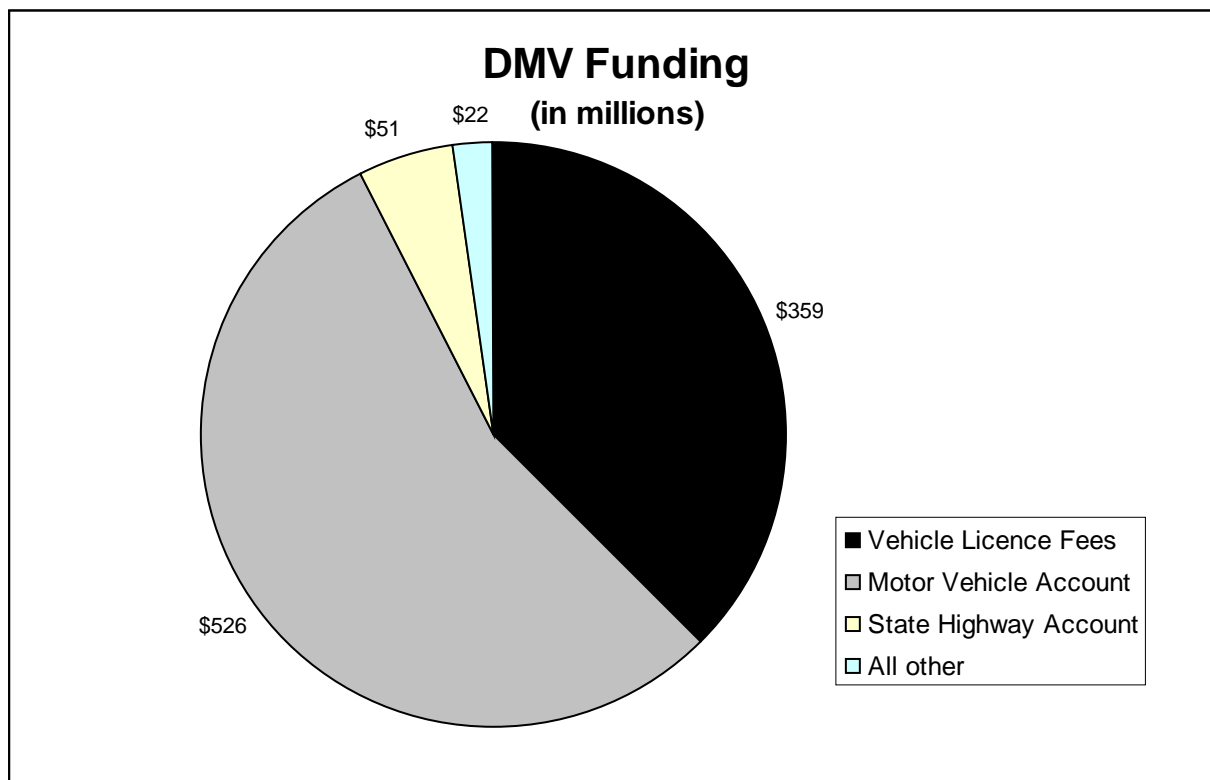
ITEM 2740 DEPARTMENT OF MOTOR VEHICLES

ISSUE 1: APPROPRIATE FUND SOURCE FOR THE DMV

According to the Governor's budget, "the mission of the Department of Motor Vehicles (DMV) is to effectively and efficiently serve the public by:

- ◆ Registering vehicles to identify and authorize use, and titling vehicles to establish ownership interest for consumer protection.
- ◆ Licensing and regulating the motor vehicle industry and licensing drivers to protect consumers and promote traffic safety.
- ◆ Establishing true identity to ensure the validity of licensed drivers and identification card holders, and securing personal information for consumers' protection."

It is not mentioned in the Mission Statement, but the DMV also collects the Vehicle License Fee (VLF), an in lieu property tax, on behalf of local governments. Despite the collection of the VLF not being a primary function of the DMV, 37 percent of the DMV's budget comes from the VLF – these are funds that would otherwise go to local governments.



COMMENTS:

For 2008-09, the VLF is projected to generate about \$2.39 billion. The VLF revenues are allocated as follows:

- ◆ \$1.8 billion continuously appropriated for local government pursuant to the 1991-92 State-Local Program Realignment (Realignment);
- ◆ \$234 million apportioned to local governments; and
- ◆ \$359 million for the DMV (plus about \$6 million for the Controller and FTB).

The \$359 million for the DMV is about 15 percent of the total VLF revenues. This appears to be a high percentage, given that the function of collecting the local VLF funds is done concurrently with the collection of the regular vehicle registration fees.

Rather than the DMV being disproportionately subsidized with local VLF revenues, the DMV should be adequately funded by the primary funding source, the Motor Vehicle Account (MVA). This can be accomplished by capping VLF funds for the DMV at five percent.

If the DMV's share of the VLF revenues were to be reduced, more funds could be provided to counties through Realignment. And if Realignment is increased, then Subcommittee #1 can avoid some of the Governor's most difficult cuts to the IHSS program by shifting additional IHSS costs to Realignment.

However, the MVA fund condition would have a hard time absorbing the entire cost of reducing the VLF support to five percent in one year. But with a fund balance of over \$230, the MVA should be able to absorb a phasing down of the VLF share, to 10 percent in 2008-09 and to five percent in 2009-10.

This may result in the need for modest fee increases in future years, perhaps as much as \$7. However, this overall shift would provide better truth in budgeting, in that

Therefore, the Subcommittee should consider the following:

- ◆ Approve placeholder Trailer Bill Language capping the DMV's share of VLF revenues at 10 percent in 2008-09, and five percent in 2009-10, and increasing the portion going to Realignment accordingly each year;
- ◆ Reduce VLF funding for the DMV by \$120 million; and
- ◆ Increase MVA funding for the DMV by \$120 million.

It should also be noted that the LAO's alternative budget includes a similar proposal which would realign \$130 million of the VLF from the DMV to local governments as part of their Parole Realignment proposal.

Recommendation:

- ◆ **Approve placeholder Trailer Bill Language capping the DMV's share of VLF revenues at 10 percent in 2008-09, and five percent in 2009-10, and increasing the portion going to Realignment accordingly each year;**
- ◆ **Reduce VLF funding for the DMV by \$120 million; and**
- ◆ **Increase MVA funding for the DMV by \$120 million.**