

# SUBCOMMITTEE NO. 2

# Agenda

S. Joseph Simitian, Chair  
Dave Cogdill  
Alan Lowenthal



## Hearing Outcomes

Senators in Attendance: Simitian and Lowenthal

### Agenda – Part “B”

Day: Monday May 24, 2010

Time: 11:00 a.m.

Room: Rose Ann Vuich Hearing Room (2040)

Consultant: Brian Annis

## Transportation

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## Issues Suggested for Vote Only

### Office of Traffic Safety (2700)

- 1. Reappropriation of Federal Funds (May Finance Letter):** The Governor requests to reappropriate Federal Highways Safety Grant Funds from 2005-06 (\$51.1 million) 2006-07 (\$42.4 million), and 2007-08 (\$28,792) to extend the ability to encumber these funds until June, 30 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. While the reappropriation is needed to allow expenditure of the federal funds, this request raises questions on the accounting practices at OTS, and also the speed at which the grant funds are expended. About half of the unexpended funds are related to safety grants awarded to the California Department of Transportation (Caltrans).

**Staff Recommendation:** Approve the reappropriation request, and direct staff to meet with the department in the fall to review their accounting practices and the speed at which state grantees – such as Caltrans – are expending the federal funds.

**Action:** *Approved request on a 2 – 0 vote.*

## 2600 California Transportation Commission

**Department Overview:** The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction of highway, passenger rail, and transit improvements throughout California. The CTC also advises and assists the Secretary of the Business, Transportation and Housing Agency and the Legislature in formulating and evaluating State policies and plans for California's transportation programs.

**January Governor's Budget Overview:** The January Governor's Budget proposes expenditures of \$3.9 million and 20.0 positions for the administration of the CTC (no General Fund) – an increase of \$569,000 and no change in positions. Additionally, the budget includes \$28.9 million in Clean Air and Transportation Improvement Bond Act funds (Proposition 116 of 1990) that are budgeted in the CTC and allocated to local governments. The Administration submitted one Budget Change Proposal, which is described below.

**March 11 and May 13 Hearings:** The Subcommittee heard the CTC's budget on March 11 and May 13 and left the below Budget Change Proposal (BCP) open for further review. The CTC did not submit any April or May Finance Letters.

### Issues proposed for Discussion / Vote:

- 2. Design Build / Public Private Partnership Review (BCP #1):** The Administration requests a one-time increase of \$200,000 (State Highway Account) to contract out with a financial consultant to assist in the review of proposed projects under the design build contract method and the public private partnership (P3) program. This request is related to SB X2 4 (Statutes of 2009, Cogdill), which mandates that the CTC establish criteria and review projects for inclusion in these programs.

**Staff Comment:** In 2008, the Legislature approved two-year funding of \$100,000 per year for 2008-09 and 2009-10 for consultants to review High Occupancy Toll (HOT) projects associated with AB 1467 (Statutes of 2006, Nunez). Reviews in that program cost about \$50,000 per project; however, the scope of review was less broad because it only included the feasibility of toll revenues being sufficient to fund the cost of the project – not the contract terms of a P3. This year's BCP would include both the sufficiency of toll revenues (as applicable) and the terms of a P3 contract. Due to greater breadth of review, the cost is estimated to be closer to \$80,000 per project. So the budget funding would provide for two to three project reviews. Given the fiscal risk of these projects to the State, investing in a complete analysis of the proposed projects should be a prudent investment.

**Budget Bill Language:** At the May 13 hearing, the Subcommittee asked the CTC to work with staff to draft budget bill language that would implement certain privacy protections for the users of toll facilities. The following language was developed by staff in cooperation with the CTC:

Add Provision 1 to Item 2600-001-0042

*Of the amount appropriated in this item, \$200,000 is for the California Transportation Commission to contract out with a financial consultant to assist in the review of proposed projects under the design build contract method and the public private partnership program. In the 2010-11 fiscal year, and thereafter, the California Transportation Commission shall include in its public private partnership guideline requirements to ensure the privacy of motorists. The guidelines shall prohibit a transportation agency or private operator from selling or providing personally identifiable information of a person obtained pursuant to the person's participation in an electronic toll collection system or use of a toll facility. The guidelines shall allow a transportation agency or private operator to store personally identifiable information of a person and would require it to discard information related to usage of the toll facility within six months after the closure date of a billing cycle, **except information may be retained for a period exceeding six months where required by a legal settlement or judicial decree in effect prior to July 1, 2010.** The California Transportation Commission shall also add privacy protection as a review criterion in evaluating public private partnership proposals.*

**Staff Recommendation:** Approve the request plus the budget bill language.

**Action:** *Approved request plus budget bill language. The budget bill language suggested in the agenda was modified as indicated above in bold and underlined.*

## 2660 Department of Transportation

**Department Overview:** The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The Department also has responsibilities for airport safety, land use, and noise standards. The Caltrans budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

**January Governor's Budget Overview:** The January Governor's Budget proposed total expenditures of \$13.9 billion (\$83 million General Fund) and 21,513 positions, an increase of about \$100 million and a decrease of 44 positions over the revised current-year budget. For comparison purposes, Administration is not distributed by program in 2010-11 as it is in the Governor's Budget.

**Activity:** (in millions):

<b>Activity</b>	<b>2009-10</b>	<b>2010-11</b>
Aeronautics	\$4	\$8
Highway: Capital Outlay Support	1,598	1,738
Highway: Capital Outlay Projects	6,820	6,180
Highway: Local Assistance	2,891	2,192
Highway: Program Development	82	75
Highway: Legal	113	126
Highway: Operations	187	201
Highway: Maintenance	1,233	1,303
Mass Transportation	223	587
Transportation Planning	151	164
Administration	457	1,293
Equipment Program (distributed costs)	(227)	(251)
<b>TOTAL</b>	<b>\$13,759</b>	<b>\$13,867</b>

**Major Funding Sources** (in millions):

<b>Fund Source or Account</b>	<b>2009-10</b>	<b>2010-11</b>
Federal Funds	\$5,172	\$4,797
State Highway Account (SHA)	3,085	3,597
Proposition 1B Bond Funds	2,560	2,937
Reimbursements	1,614	1,477
General Fund (Proposition 42 – Caltrans share)	531	0
Federal Revenue Bonds (GARVEEs)	498	496
Public Transportation Account	165	413
Other funds	134	150
<b>TOTAL</b>	<b>\$13,759</b>	<b>\$13,867</b>

**March 11, April 8, and May 13 Hearings / May Finance Letters:** The Subcommittee heard the Caltrans budget on March 11, April 8, and May 13, approving some requests, rejecting others, and keeping other issues open for further review. The Administration submitted a number of new requests with the May Revision, which are before the Subcommittee today for the first time.

**Defer Action on Loans to Full Budget Committee:** In the May Revision, the Administration requests various new loans and loan-repayment deferrals in the transportation area to provide 2010-11 General Fund relief of about \$1.2 billion. Those loans are not on this agenda, but will be discussed in the Full Budget Committee in the context of other difficult budget choices.

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**Issues proposed for Vote Only:**

(see the summary table on page 7 for actions)

**1. Fleet Reduction (May FL #18):** The Administration requests a decrease of \$1.6 million (State Highway Account) and a reduction of five positions to reflect budget savings from the Governor's Executive Order (EO) S-14-09. That Executive Order prohibited state agencies from ordering or purchasing any new vehicles for non-emergency use and required all state agencies and departments to reduce their overall light duty fleet by at least 15 percent. The question of budget savings from EO S-14-09 was discussed at the April 8, 2010, hearing and Caltrans indicated at that time that their fleet was being reduced by 426 vehicles, but that they would not expect any ongoing savings. With this May letter, the department is indicating ongoing savings of \$1.6 million and five positions due to the purchase of fewer replacement parts, as well less labor for repair and maintenance.

**Staff Recommendation:** Approve the request.

**2. Federal Funds for Intercity Rail (May FL #22):** The Administration requests \$99.5 million in American Recovery and Reinvestment Act (ARRA) funds granted to California under the High-speed Intercity Passenger Rail Program and four new positions to proceed with the 11 projects selected to receive the federal grants. The federal money would support investments in infrastructure, facilities, and equipment for the existing State-supported train services on the Capitol, San Joaquin, and Pacific Surfliner intercity rail corridors. Caltrans indicates the projects will improve travel times, increase on-time performance, enhance multi-modalism, and improve air quality on the corridors.

**Staff Recommendation:** Approve the request.

- 3. 2009-10 Proposition 42 Revenue Adjustment (May Revision Letter):** The Administration requests a technical adjustment to update the Proposition 42 allocation for 2009-10. Proposition 42 revenue (a portion of the sales tax on gasoline) is projected to be \$11.7 million higher than the \$1,422 million estimated at the time of the January budget. Pursuant to the allocation formula in the Constitution, the \$11.7 million will be directed: \$2.2 million to the Public Transportation Account, \$4.4 million to cities and counties for local streets and roads, and \$4.4 million to Caltrans in support of the State Transportation Improvement Program (STIP).

**Staff Recommendation:** Approve the forecast adjustments.

- 4. Caltrans Workload for High-Speed Rail Encroachment on State Highway System (Part of May Revision FL #20):** The Administration requests reimbursement authority of \$2.7 million (High-Speed Passenger Train Bond Funds) and 28 positions to perform oversight on the High Speed Rail Authority (HSRA) system along any segments where the train corridor would enter the right-of-way of the state highway system. Caltrans would provide oversight to the environmental work and design work being performed on these segments. This May request is distinct from an April FL for Caltrans where \$1.7 million and 14 positions were proposed also to do reimbursable work related to HSRA – in that request the positions would complete Project Initiation Documents, which are done by the Caltrans Planning Division. In this case, the positions and funding is requested for Capital Outlay Support activities.

**Staff Recommendation:** Conforms to action on High-Speed Rail.

- 5. San Francisco-Oakland Bay Bridge Replacement – Special Costs (Part of May Revision FL #20):** The Administration requests (1) \$1.1 million, one-time, for out-of-country travel for Caltrans staff to coordinate and monitor the fabrication of steel and cable in China, Japan, and Korea for the signature span of the new bridge, and (2) \$4.0 million to fund project-specific liability insurance to replace an expiring policy. For the out-of-country travel, the Legislature has approved this one-time funding in the past, and future funding requests are likely for a few more years. For the liability insurance, the department indicates the cost share is still under negotiation, but should range between \$2.8 million and \$4.0 million.

**Staff Recommendation:** Approve the request.

- 6. Consolidation of Pavement Functions (Part of May Revision FL #20):** The Administration requests a net-zero shift of \$3.9 million and 29 positions from the Capital Outlay Support (COS) Program to the Maintenance Program. The Administration indicates that the existing workload on pavement standards, policies, guidance, and testing are better placed in the Maintenance Program.

**Staff Recommendation:** Approve the request.

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**Summary of Vote Only Issues:**

<b>Issue #</b>	<b>Issue Description</b>	<b>Action</b>	<b>Vote</b>
<b>1</b>	Fleet Reduction (May FL #18)	Approve	2 - 0
<b>2</b>	Federal Funds for Intercity Rail (May FL #22)	Approve	2 - 0
<b>3</b>	2009-10 Proposition 42 Revenue Adjustment (May Revision Letter)	Approve	2 - 0
<b>4</b>	Caltrans Workload for High-Speed Rail Encroachment on State Highway System (Part of May Revision FL #20)	Conforms to action on High-Speed Rail	2 - 0
<b>5</b>	San Francisco-Oakland Bay Bridge Replacement – Special Costs (Part of May Revision FL #20)	Approve	2 - 0
<b>6</b>	Consolidation of Pavement Functions (Part of May Revision FL #20)	Approve	2 - 0

- 1. Capital Outlay Support (COS) Workload (Part of May FL #20).** The Administration requests a net budget reduction of \$42.3 million (various funds), a *reduction* of 750 state staff positions (by the end of 2010-11), a *reduction* of 102 Full Time Equivalents (FTEs) in overtime, and an *increase* of 66 FTEs in contract resources. This request would result in a total COS budget of \$1.6 billion and 10,943 FTEs in state and contract resources (9,363 state staff positions, 348 overtime FTEs, and 1,232 FTEs of contract staff). Due to state positions being eliminated over the course of the 2010-11 fiscal year, funding is provided for partial-year positions and the funding cut is equivalent to 498 FTEs. The request includes an assumption of an 6.2 efficiency gain in staff output, which is not included in the base estimates in the letter, but which the Administration also characterizes as “achieved efficiencies.”

**Non-Workload Adjustments in the May Letter:** In addition to the staffing adjustments, the Administration requests other changes in the May Letter:

- **Funding Shift:** The Administration requests to augment federal funding for COS by \$115.6 million and decrease State Highway Account funding by \$102.9 million, and make changes to various other funds. The federal shift is part of an effort to accelerate federal funds received by the State and also relates to bid savings.
- **Flexibility Language:** The Administration requests expanded authority to shift COS budget authority across different fund types and different project categories.
- **Delete Contract Reversion Language:** The Administration requests to delete longstanding reversion language to return budget authority for contract staff that is not spent within the fiscal year.
- **Direction to Achieve 15-percent Contract Staff Cost Savings and Direct to Maintenance:** The Administration requests budget language to direct Caltrans, to the extent possible, to negotiate or renegotiate contracts for staff resources to achieve a 15-percent savings level. No savings is budgeted. Proposed budget bill language would allow the Administration to direct any savings to pavement maintenance.

**Background on Annual COS Budget Request:** Each year, Caltrans zero-bases its project workload based on the program of projects adopted by the California Transportation Commission. Relative to other areas of the budget, COS staffing sees large fluctuations in staffing as transportation funds ebb and flow – Proposition 1B and American Recovery and Reinvestment Funds being recent examples of new revenues that could not have been anticipated in the years prior to their enactment. The COS workload is addressed primarily by state staff (in regular time and overtime), who historically have performed 90 percent of the project work. The remainder of the workload is addressed by contract staff, who historically have performed 10 percent of the workload. While state staff is less expensive than contract staff (\$113,000 for state staff versus \$226,000 for contract staff in the Finance Letter), a contingent of contract staff has been seen as beneficial to perform specialty work, such as the Bay Bridge Replacement, and to provide more flexible staffing across districts and at times of large workload adjustments.

**LAO March Report:** In March, the LAO released a report critical of Caltrans' COS program. The report was discussed at the April 8 hearing. The LAO comments from that report include the following:

- The workload that is assumed in the department's annual COS budget request has not been justified.
- Although comparisons are difficult, Caltrans appears to be incurring significantly higher costs for COS activities than similar agencies.
- Comparisons of one Caltrans region to another suggest that COS staffing in at least some regions is excessive. There appears to be little relationship between the number of positions in a region and the size of its capital program.
- Caltrans lacks systems and processes to manage and control COS costs.

**LAO Recommendations from March Report:** The LAO made the following recommendations:

- Adopt statutory language to require Caltrans to provide additional COS workload information beginning with the 2011-12 budget.
- Caltrans should adopt cost controls for COS and report at the hearing the steps the department is taking to control costs.
- The Bureau of State Audits (BSA) should audit Caltrans staff charging of work hours to projects to determine if these records are accurately kept.
- Reduce COS by 1,500 position equivalents (state positions and contract resources). This LAO recommendation is subject to change if the Administration is able to provide workload justification for additional staff resources.

**LAO Comments on the May FL Request:** The LAO indicates that the Administration has provided substantially more data to support the COS budget request than in prior years. Furthermore, Caltrans staff indicates that the data compiled to support the budget request will be useful to the COS program managers, who are now also reviewing the data. While Caltrans has provided substantially more information to support its COS budget request for 2010-11, the information is incomplete and does not allow for a comprehensive review of the request. Thus, it is impossible to evaluate how the budget-year expenditures on these projects fit into the project's approved spending plan. The incomplete data also hinders the use of program performance measures, such as evaluating the support to capital ratio.

**LAO Recommendations on May FL Request:** The LAO made the following recommendations:

- Approve the May Revision request, but adopt budget bill language allowing Caltrans to spend three-fourths of the funding and requiring additional information be provided to the Legislature (through the JLBC process) before the remaining one-fourth of funds could be spent. The information in the report would depend on what information the Legislature has requested, but is still outstanding as of the close-out of this issue.

- Adopt trailer bill language requiring Caltrans to provide, on an ongoing basis, the supplemental information to support the annual COS budget request.
- Request that the Bureau of State Audits (BSA) perform an audit of the performance, management, and budgeting of the COS program.

**Staff Comment:** The table below highlights the base administration proposal and an alternative suggested by staff. The key changes to the Governor’s proposal are to (1) reject the augmentation in contract staff; (2) budget half the administration’s assumption of bid savings for staffing services; (3) restore 230 state staff resources to work on SHOPP shelf projects consistent with revised 2010 SHOPP and restore 66 state staff resources to backfill for rejections of contract augmentation; and (4) shift 50 workload units from contract resources to state staff to maintain the longstanding 90/10 split in workload. Overall, the staff adjustments would result in both additional budget savings \$9.2 million and an additional 230 FTE’s worth of workload accomplished to prepare SHOPP projects. The FTE reduction is 304 instead of 534 and the number of positions eliminated is 212 instead of 750. The May Revision staffing does not include workload related to the April 2010 CTC adoption of the revised 2010 SHOPP, which incorporates \$1.7 billion in additional resources due to bid savings. So the 230 FTEs for SHOPP “shelf” will likely be used and needed to advance the new SHOPP projects.

	<b>Personal Services Regular Staff</b>	<b>Personal Service Cash Overtime</b>	<b>A&amp;E Contract Staff</b>	<b>Dollar Adjustment</b>
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**Governor's May Revision Proposal**

Full Time Equivalents (FTEs)	-498	-102	66	
Resulting Overall FTEs	9363	348	1232	
Percent FTEs by category	85.6%	3.2%	11.3%	
<b>Dollar Adjustment</b>				<b>-\$42,276</b>

**Staff Recommended Adjustments to May Revision**

Reject new Contract Staff			-66	-\$14,900
Budget half of Administration Contract Savings assumption (i.e. a reduction of 7.5 percent in costs)				-\$20,317
Retain 230 State Staff for additional "shelf" work consistent with revised SHOPP plus 66 FTE contract adj.	246	50		\$31,628
Adjustment to maintain 90/10 staffing split	50		-50	-\$5,650
<b>Dollar Adjustment Staff Recos</b>				<b>-\$9,239</b>

**Staff Recommended COS Budget (May Revision plus Leg Adjustments)**

Total FTEs Post Leg Adjustments	-202	-52	-50	
Resulting Overall FTEs	9659	398	1116	
Percent FTEs	86.4%	3.6%	10.0%	
<b>Overall Dollar Adjustment to January Budget</b>				<b>-\$51,515</b>

In terms of the non-workload adjustments requested, the federal funds shift is an appropriate mechanism to accelerate the receipt of federal funds. The ability to shift COS authority amount fund types also seems appropriate given that the May Letter is not fully adjusted to reflect the Administration's efficiency gains. The proposed revisions to budget bill language would appear to allow the Administration to encumber contract funds across fiscal years, which does not seem appropriate when each year's request is zero-based. Approve budget bill language to target 15 percent savings in staffing contracts. Staff presents an alternative way to augment pavement maintenance in issue #2 on the next page and suggests that budget bill language be rejected that would allow Finance to shift bid savings to maintenance.

Overall, the data presented by the Administration with the May Revision represents a positive step forward. As the LAO notes, the analysis and refinement of the information should continue beyond the budget actions for 2010-11. The Department should fully sunshine its workload estimates and its performance measures for achieving project work on time and on budget.

#### **Staff Recommendation:**

##### On Workload:

- Adopt the staffing adjustments recommended by staff and displayed on the table on the prior page with any necessary and conforming technical adjustments.
- Adopt the LAO recommendations with regard to budget bill language, trailer bill language, and a BSA audit to insure that performance management is fully incorporated into the COS program and budget.

##### On Non Workload:

- Approve the requested fund shifts to accelerate the receipt of federal funds.
- Approve the requested flexibility language on a one-time basis to allow shifts between fund times based on workload.
- Reject deletion of reversion language for staffing contracts.
- Approve bid savings target of 15 percent, but reject language to direct savings to pavement maintenance.

***Action: Approved staff recommendation on a 2 – 0 vote, indicating that the audit should also include forward-looking advice to Caltrans for measuring performance, and Caltrans should improve periodic reporting and status reports on project delivery (beyond the reporting to be added to trailer bill language). As a technical note, the action to reject the shift from savings to pavement maintenance included both the base Finance Letter shift and any shifts due to contract savings – maintenance funding is augmented by \$50 million in issue #2 on the next page.***

- 2. Budget Savings Measures.** The Governor issued Executive Order (EO) S-09-09 to direct departments to generate budget savings from reduced operating expenses and equipment (OE&E) expenditures. However, those savings for 2009-10 and 2010-11 are generally not built into department budgets. Caltrans OE&E for the adopted 2009-10 budget was about \$2.1 billion. The Executive Order required departments to submit a plan to reduce new contracts, extended contracts, or purchases from statewide master contracts in 2009-10 by at least 15 percent. Caltrans's adopted plan applied the 15 percent amount to the non-exempted amount of \$47 million to generate savings of \$7.1 million.

**Other Caltrans Savings:** Despite the relatively modest savings associated with these EOs, Caltrans indicates it has been aggressive in reducing travel, training, information technology purchases, and other such costs that have reduced OE&E costs by a full 10 percent. About \$220 million was saved in this manner in 2008-09, and is reflected in the January Governor's budget as savings in the past year. Many of these savings measures are still in place and Caltrans anticipates savings of over \$100 million in 2009-10 and significant additional savings in 2010-11. However, no savings is currently reflected in the Caltrans budget for 2009-10 and 2010-11.

**Action at the April 8 Hearing:** The Subcommittee adopted a placeholder action that would score savings of \$100 million in 2009-10 and \$100 million in 2010-11, and directed staff to continue working with Caltrans to refine the numbers.

**Staff Comment:** Caltrans should be commended for achieving significant savings in operating costs. The placeholder actions seems appropriate as final Subcommittee action given that Caltrans indicates it will achieve well over \$100 million in 2009-10 savings. As discussed at the May 13 hearing, Caltrans has also achieved great savings on recent project bids. The overall savings has been used to advance highway construction projects and most "shovel ready" projects have received funding allocations. Another area where the savings can be applied to further take advantage of bid savings and create jobs is major maintenance contracts in the Maintenance Program. These projects to seal pavement and other preventative maintenance are estimated to save \$5 in future State Highway Operations and Protection Program (SHOPP) costs for every \$1 spent today. The Subcommittee may want to consider an augmentation to base funding of \$214 million for major maintenance contracts as a use of the budget savings – the remainder would be available for SHOPP projects.

**Staff Recommendation:** (1) Adopt as final action, the placeholder action to score \$200 million over two years from Caltrans operations and equipment savings; (2) Augment major maintenance funding by \$50 million; and (3) make technical conforming changes as required.

**Action:** *Approved staff recommendation on a 2 – 0 vote. Technical conforming changes would include updating the funding amount for pavement maintenance in Provision 6 of item 2660-001-0042, and adding new provision to that item to indicate that unallocated reduction is from operating expenses and equipment savings.*

**3. Project Initiation Documents – Workload & Funding (BCP #17 & April FL #2):**

In the January Budget, the Administration requested to shift 96.5 positions and \$12.5 million from State funding (State Highway Account) to local reimbursement for department workload associated with Project Initiation Documents (PIDs), or initial planning documents, for locally-funded projects. In the April FL #2, the Administration requests to modify the request by reducing the shift to reimbursements by 29.5 positions and \$5.0 million. The April letter additionally requests 14 new two-year limited-term positions and \$1.7 million in reimbursement authority to perform workload for the High Speed Rail Authority (HSRA) and the Natural Resources Agency. Finally, the April letter requests to shift two existing positions from Planning to Traffic Operations to better align the funding with the activity.

<b>Updated Administration Proposal (through April Finance Letter)</b>				
	Existing Staff Resources		New Staff for HSRA & Resources Agency	
	Positions	Funding (1,000s)	Positions	Funding (1,000s)
State Highway Account	-67.0 positions	-\$7,438		
Reimbursements	+67.0 positions	+\$7,438	14.0 positions	\$1,683
Net Change	0 positions	\$0 dollars	14.0 positions	\$1,683

**Issue Background:** This proposal is consistent with an LAO recommendation from last year to shift funding to local reimbursement for the preparation of PIDs by Caltrans on locally-funded projects on the state highway system. A primary criticism of the current approach is that locals request more PIDs than is optimal because they incur none of the cost. The shift was rejected last year and budget bill language required Caltrans to establish a workgroup with local agencies to identify cost sharing options. Staff understands this workgroup was unable to achieve consensus.

**Staff Comment:** The Subcommittee should hear from the LAO, the Administration, and the public, on this issue. Another option for consideration would be a cost-sharing option with locals – for example, 20-percent local cost sharing for PIDs. This would achieve the goal of locals internalizing the costs of PIDs before requesting a study, but also retaining the incentive to utilize Caltrans for PID work. Trailer bill language is necessary to implement the Administration’s proposal or any other level of reimbursement shift.

**Staff Recommendation:** Approve BCP #17 as modified by April FL #2. However, the positions related to HSRA should conform to the final action on the HSRA budget.

**Action:** *Approved staff recommendation minus \$1,000 to put the issue into Conference Committee on a 2 – 0 vote.*

- 4. Advertising on Changeable Message Signs (January Governor's Budget).** The Administration requests budget trailer bill language to allow advertising on highway Changeable Message Signs (CMSs). No Budget Change Proposal was provided to explain or justify this request. No revenue is scored in the Governor's budget for this proposal, and no revenue estimate has been provided by the Administration.

**Information from the Administration trailer bill language:** According to the Administration trailer bill language, "the department would obtain private sponsors and advertisers who would provide additional transportation funding in return for the right to place advertisements on the updated emergency message signs in a manner that does not detract from the signs' public-service announcement function." The language indicates the proposal would require either a waiver from the Federal Highway Administration or a change in federal law. The language indicates the private sponsor and Caltrans would share advertising revenue, but the language does not specify what the state share would be. The language specifies Caltrans would not be required to adopt regulations, but would rather post guidelines on its website.

**Staff Comment:** The Administration should update the Subcommittee on this proposal and indicate if it has a revenue estimate, or if there has been any response from the federal government with regards to a waiver. There are traveler information and safety concerns with this proposal. Some CMSs are used to display travel times from one destination to another (which is not necessarily a safety issue, but is valuable information to travelers) – would this content be replaced with advertising? The signs would also pose concerns related to distracted driving and highway beautification. Finally, the Administration's proposal does not appear to provide any benefit to the state General Fund and would therefore not be a budget solution.

**Staff Recommendation:** Given the policy concerns and no General Fund benefit, reject this proposal.

**Action:** *Rejected the trailer bill language and adopted the following budget bill language:*

**Provision \_\_.** *Any advertising on freeway changeable message signs in 2010-11 and thereafter, shall be permitted only upon enactment of subsequent legislation that authorizes such activity.*

- 5. Inspection and review of state bridges (BCP #16 & April FL #7).** In BCP #16, the Administration 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. 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. In April FL # 7, the Administration requests 5 new positions and \$868,000 special funds and federal funds to add staff for physical inspection of bridges. This backfills for staff redirected to do the more-frequent review of the San Francisco-Oakland Bay Bridge, and to recognize new federal requirements and the state's aging infrastructure. The request also includes a redirection of about \$4.8 million in federal bridge funds from local apportionment to state inspections. State funds would be reduced by a net of \$1.2 million.

**Detail on Request:** 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 in BCP #16 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 load-rating 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.

**Assembly Action:** The Assembly approved FL #7. For BCP #16 on load ratings, the Assembly noted the Administration's May Revision request to reduce staff in Capitol Outlay Support, and took action to add 19 positions instead of 9 positions which will allow the load ratings to be completed in 6 years instead of 10 years.

**Staff Comment:** This issue was discussed at the April 8 hearing and left open to explore options to accelerate the load-rating of state bridges, as recommended by the LAO. The Assembly action doubles staff assigned to this workload to complete the work twice as fast.

**Staff Recommendation:** Approve April FL #7 on physical bridge inspections and conform to Assembly on BCP #16 for bridge load ratings.

**Action:** *Approved staff recommendation, but rejected the redirection of \$1.3 million from the litter pickup budget, and instead augmented budget funding by \$1.3 million.*

6. **Proposition 1A funding for Intercity Rail (Staff Issue):** At the May 19, 2010, California Transportation Commission (CTC) meeting, the CTC adopted the Proposition 1A program of intercity rail projects for 2010-11 to 2012-13. Proposition 1A is the Safe, Reliable High-speed Passenger Train Bonds Act of 2008. Prop 1A is a \$9.95 billion bond measure that includes \$950 million for capital projects on other passenger rail lines to provide connectivity to the high-speed train system and for capacity enhancements and safety improvements to those lines. The adopted program of projects includes the intercity rail services run by Caltrans in cooperation with Amtrak, as well as regional-run rail services around the state. The Administration has not submitted any Prop 1A funding requests for the intercity rail.

**Staff Comment:** Staff understand the adopted program of projects is consistent with the provisions of statute and that about \$234 million in intercity rail capital projects will be ready for an allocation in 2010-11. The Administration should testify at the hearing why there is no Prop 1A funding in the Governor's Budget.

**Staff Recommendation:** Approve Prop 1A funding of \$234 million for 2010-11 so ready-to-go rail safety and service-improvement projects can move forward.

**Action:** *Approved the staff recommendation on a 2 – 0 vote. Clarified that the CTC list of projects includes both intercity rail and connector rail, and that the funding would be available for both types.*

## 2665 High-Speed Rail Authority

**Department Overview:** The California High-Speed Rail Authority (HSRA or Authority) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The cost to build the initial phase (from San Francisco to Anaheim) is currently estimated by the HSRA to cost \$43 billion (in year-of-expenditure dollars). Of the \$43 billion cost, about \$11.3 billion is currently “in hand” – \$9 billion from Proposition 1A of 2008 (Prop 1A) and \$2.3 billion in federal stimulus funds. The HSRA 2009 Budget Plan indicates the remainder of project funding will come from the federal government (~\$15.7 billion), local governments (~\$4.5 billion) and private funding through selling the concession (~\$11 billion). The work of the department is primarily performed by contractors. Even with the 29 new positions requested by the Governor this year, the HSRA state staff would only total 40.5 positions. The number of position-equivalents in contract staff in 2009-10 is 469 positions.

**January Budget:** The January Governor’s Budget proposed funding of \$958 million for the HSRA (\$583 million Prop 1A and \$375 million federal funds). This compares to 2009-10 funding of \$139 million (all Prop 1A funds). The 2009-10 budget included 11.5 authorized positions for HSRA and the January budget proposes 40.5 positions for 2010-11.

**April Finance Letters:** The Administration significantly modified its proposed HSRA budget on April 1 – the proposed funding was cut in half, from \$958 million to \$461 million. The largest budget adjustment was reducing acquisition (or right-of-way purchases) from \$750 million to \$250 million. The Administration also changed the funding split such that half of the capital outlay costs are Prop 1A and half are federal funds.

**May Finance Letter:** The Administration submitted one May Finance Letter, that would augment funding to reimburse Caltrans for Capital Outlay Support (COS) work where the state highway system and the high-speed rail corridor intersect or adjoin.

**Prior Legislative Hearings:** The Subcommittee heard the HSRA budget on April 15, and left all issues open, save a technical request.

**Summary table of the Governor's HSRA budget (as modified with April and May Finance Letters (FLs)):** The core permanent funding for the HSRA is only about \$2.0 million, which is the funding for the current staff of 11.5 positions and the related office lease and equipment. Therefore, 99 percent of the HSRA budget for 2010-11 is included in budget change proposals (only the \$2.0 million is baseline and not included in a BCP or April FL). The below table summarizes the HSRA budget by category.

<b>Agenda Issue Number</b>	<b>Activity</b>	<b>BCPs or April FL</b>	<b>Positions or Contractor Equivalent</b>	<b>Funding Amount (in millions)</b>
	Baseline funding for state staff and operations (April FL for technical correction)	April FL 5	11.5	\$2.0
1	New HSRA state staff	BCPs 2, 6, 8, April FL 1&6	29.0	\$3.8
2	Program Management Contracts (including oversight contract)	BCPs 1&7	75.6	\$39.0
3	Contracts with other governmental units	BCP 12 April FL 2&3 May FL 7	na	\$7.7
4	Specialty contracts (for forecasts, communications, etc.)	BCPs 3, 4, 5, & 11	25.2	\$4.2
5	Engineering Contracts for design and environmental	COBCP 1&2 April CO 1	368.2	\$157.3
6	Acquisition of land / right of way	COBCP 1 April CO 1	na	\$250.0
	<b>TOTAL Budget Request</b>		<b>509.5</b>	<b>\$464</b>

\* Position data is state "positions" for 2010-11 and the contractor equivalent is "personnel year equivalents" for 2009-10 (contractor position information for 2010-11 was not available).

The remainder of this agenda is generally organized consistent with the grouping and sequence of issues in this table.

**Crosscutting Issue for Discussion and Vote:**

**Reporting Language for the 2010-11 Budget (Staff Issue):** Last year, the Subcommittee adopted budget bill language that required the HSRA to report to the Legislature with updates and additional analysis on how the Authority plans to implement the high-speed rail system. The reporting was helpful in bringing new information to light and also raising new concerns that have been discussed in legislative oversight hearings. An April 2010 audit by the Bureau of State Audits (BSA) has raised new concerns about the HSRA planning, oversight, and management. Like last year, there are issues where further analysis and reporting are warranted. The Subcommittee may want to consider a reporting mechanism for the 2010-11 budget that is similar to that in the 2009 Budget Act.

**Staff Comment:** The structure of last year's language, and that suggested by staff for this year, fully allows the HSRA to move forward with project implementation. Since the reporting issues relate to multiple budget requests, the suggested language is outlined in this cross-cutting agenda item.

**Outline for Budget Bill Language Reporting:** An outline of some suggested reporting issues and mechanisms follows:

Provision X - August Reporting

Make \$1M for Ridership / Revenue Study contingent on submittal and Joint Legislative Budget Committee (JLBC) review of the following report:

- Completion of the UC Berkeley Institute of Transportation Studies (ITS) review of the ridership model - submittal of a report by HSRA on how the recommendations of the ITS will or will not be incorporated into future forecasts. Additionally, a report on the changes to the model development by the contractor and UC Davis ITS, and how that specifically relates to the UC Berkeley ITS recommendations.

Report due within 30 days of budget enactment – 60-day JLBC review.

Provision Y – January Reporting

Make ~\$17 million (1/3 of State Ops appropriation) contingent on submittal and JLBC review of the following report:

- Revenue Guarantee – lay out legal reasoning for why a revenue guarantee is consistent with Prop 1A. Assuming a revenue guarantee is inconsistent with Prop 1A, estimate the revised amount of funding that would be provided by the private partner, and alternative financing approaches to make up for any lost revenue.
- Performance of Community Outreach – report on contract expenditures for community outreach including detail by type of expenditure and activity. Detail on

meetings by community, and summary of correspondence, email, media, website, and other outreach efforts.

- Financial Plan update with alternative funding scenarios – report on alternative funding options if no significant federal funds are received beyond ARRA and no revenue guarantee is allowable – alternative with constrained funding (such as what gets built with only Prop 1A plus ARRA), and discussion of alternative new revenues.
- Strategic Plan – Provide a copy of the strategic plan that is being developed pursuant to the requirements of the State Administrative Manual.
- Auditor Finding on the Program Manager – an April 2010 Bureau of State Auditor (BSA) report raised issues with the fiscal controls and reporting of the Program Manager. Report detail on performance measures for the Program Manager to ensure issues include review of invoices another other contractor accountability as cited by the Auditor have been resolved.
- Other BSA Recommendations and Finding – Reporting on resolution to audit issues not included in the above bullets.

Report to be submitted January 3 – 60-day JLBC review.

**Staff Recommendation:** Approve the outline budget bill language (formal budget bill language will be provided later by staff to the Department of Finance).

***Vote: Approved the staff recommendation, on a 2 – 0 vote, with the following changes and additions:***

- ***January reporting was changed to February 1 reporting, and contingent budget funding was changed from one-third of the state operations budget to one-quarter of all budget funding.***
- ***Added budget bill changes and trailer bill language to do the following in the area of the peer review committee:***
  - ***Designated \$250,000 of budget funding as available for the costs of the peer review group.***
  - ***Require the HSRA to designate a specific position as a liaison to the peer review group and require HSRA to provide staff support and other requested information and assistance to the peer review group.***
  - ***Require the peer review group to meet by August 1, 2010, and provide a report to the Legislature by January 1, 2011.***
  - ***Require the peer review group to select a chairperson.***
  - ***Specify the peer review members are entitled to standard per diem (\$100 per day), plus reimbursement for travel costs, pursuant to standard practices.***
  - ***Clarify in statute that the peer review group is responsible for reviewing the systemwide plans as well as the segment plans.***
  - ***Specify the peer review group can request legal advice from the Legislative Counsel via a request made through the Assembly or Senate Chairs of the transportation policy committees or the transportation budget subcommittees.***

**Issues Proposed for Discussion:**

1. **New HSRA State Staff:** The updated Administration budget request (including April Finance Letters) in the area of state staff totals of \$3.8 million from Prop 1A bond funds and adds 29 state positions. The HSRA hired the firm KPMG to perform an organizational assessment of future staffing needs and organization. The function organization chart from that study is the last page of this agenda.

**Detail:** The six requests are as follows:

- BCP #2 – Staff for Preliminary Engineering and Design/Project Environmental Review: The Administration requests \$1.4 million for 12 positions to review engineering and design work of the consultants to ensure that state and federal laws, regulation, and processes are followed. Included in the 12 positions, is a Chief Financial Officer and a Chief Program Manger.
- BCP #6 – Right-of-Way Preservation and Acquisition: The Administration requests \$190,000 for two Right-of-Way Agent positions to identify at-risk properties and begin the preservation and procurement process.
- BCP #8 – Management and Administrative Staff: The Administration requests \$2.0 million for 13 positions. Included in the funding is \$254,000 for interdepartmental service to augment funding for Department of Justice services. The new positions will fill the following roles: regional directors, information officer, senior/associate management auditor, staff/associate information systems analyst, staff services manager, and support staff.
- April FL #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.
- BCP #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.

**Impact of Workforce Cap:** The HSRA indicates that the Governor's Workforce Cap Executive Order position reduction would result in the HSRA keeping two of the requested positions vacant – an Associate Engineer from BCP #2 and a Legal Secretary from BCP #8. So the real increase in positions would be 27 instead of 29.

**KPMG Organizational Assessment.** The State paid KPMG to perform an organizational assessment of the HSRA, and a functional organizational chart is attached on the final page of this agenda. Comparing the budget requests to the

KPMG chart suggests the HSRA is filling some of the suggested functions, for example BCP #2 includes a Chief Program Manger and a Chief Financial Officer, and BCP #8 includes three Regional Directors. However some functions remain excluded, such as a General Counsel or Senior Counsel.

**Additional Exempt Staff:** AB 289, as amended January 25, 2010, by Assemblymember Galgiani, would allow the Governor to make five appointments to the HSRA who would be exempt from civil service. So, like 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.

**Staff Comment:** Staff growth at the HSRA seems justified giving the increasing workload of the department, along with the need to bring expertise in-house. It also seems reasonable to set the pay for the Executive Director position at a parity level with similar governmental positions across the country to attract a quality and experienced individual. However, the HSRA should justify the need for the level of compensation requested for the Executive Director.

The January Budget assumed the new positions would be established on July 1, 2010, and budget documents reflect this. However, the Administration indicates that the establishment date has been accelerated and that the Administration went ahead and administratively established 27 new positions on March 1, 2010.

**LAO Recommendation:** The LAO withholds recommendation on these staffing requests pending more information from the HSRA on the short-term and long-term staffing needs of the organization.

With regard to the right-of-way positions in BCP #6, 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.

With regard to the accounting positions in April FL #1, the LAO indicates the funding need is overstated because it does not recognize the base funding that HSRA has currently has to pay DGS.

**Staff Recommendation:** Approve new positions, but recognizing the Executive Director will be on board in the current fiscal year, reduce the budget year amount by \$150,000 to reflect moving costs funded in the 2009-10 budget. Reduce funding for accountants to recognize base funding in the budget for accounting services.

**Action:** *Approved staff recommendation on a 2 – 0 vote.*

**2. 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.

**Detail:** 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)

<b>Program Management Team</b>	<b>Total</b>
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
<u>Total Authority Cost</u>	<u>37,000,000</u>

- 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.

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

**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:** Approve the request. (Note full-year funding for these contracts is contingent on the reporting suggested in the crosscutting HSRA agenda issue on page 19).

**Action:** *Approved staff recommendation on a 2 – 0 vote.*

- 3. Contracts with other governmental units:** The Administration requests a total of \$7.7 million from Prop 1A bond funds for the 2010-11 cost of workload performed by other state departments, local governments, and the federal government.

**Detail:** 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.
- April FL #2 – Peninsula Corridor Joint Powers Board (Caltrain) Coordination: The Administration requests \$1.6 million 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
- April FL #3 and May FL #7– California Department of Transportation (Caltrans) Coordination: The Administration requests \$4.3 million to fund the provisions of a Memorandum of Understanding (MOU) with Caltrans, whereby Caltrans will perform new workload related to project coordination and oversight where the high-speed rail project interfaces with state highway.

**Staff Comment:** The resources agencies and Caltrans requests seem consistent with current state practice in other areas. The Peninsula Corridor request would seem to set a precedent for further HSRA MOUs with other local governments along the HSRA route. If the HSRA is intending to reimburse all local governments along the route for local governments' participation in planning activities, this would seem to add tens of millions of dollars in new costs to the project. The 2009 Business Plan assumes local governments will step up and fund \$4.5 billion of project costs. If local governments have to be compensated to participate in planning and coordination activities, this would seem to suggest that the \$4.5 billion future contribution from local governments is unlikely.

**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 the Caltrain workload should be accomplished in 2010-11 so the authority should be one-time.

**Staff Recommendation:** Approve request.

**Action:** *Approved staff recommendation on a 2 – 0 vote.*

- 4. 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.

**Detail:** 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 on their communities.
- 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.
- 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.

**Staff Comment:** Staff understands that HSRA has contracted with the Institute of Transportation Studies (ITS) 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.

**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:** Approve request. (Note funding for the Ridership and Revenue contracts is contingent on the reporting suggested in the crosscutting HSRA agenda issue on page 19).

**Action:** *Approved staff recommendation on a 2 – 0 vote.*

- 5. Engineering contracts for preliminary design and environmental impact reports:** The Administration requests a total of \$157.3 million for the 2010-11 cost of multiple contracts to continue work on the project-level environmental impact reports and preliminary design. For work on the Phase I, San Francisco to Anaheim corridor, the cost would be 50-percent Prop 1A funds and 50-percent federal stimulus funds. Work on the “various successive phases” would be funded all from Prop 1A funds.

**Detail:** The two requests are as follows:

- CO BCP #1 as amended by April CO FL #1 – Phase I Corridor: The Administration requests \$148 million (\$74 million Prop 1A and \$74 million federal stimulus funds) to continue funding for the engineering and environmental work on the six segments in the Phase I HSRA corridor.
- CO BCP #2 – Various Successive Phases Corridors: The Administration requests \$9.3 million in Prop 1A funds to continue funding for the engineering and environmental work on the three segments in the later-phases corridors (Sacramento to Merced, Los Angeles to San Diego, and Altamont Pass).

**Staff Comments:** Since the 2009 Business Plan includes no information on how to finance successive phases of the HSRA (Sacramento to Merced, Los Angeles to San Diego, and Altamont Pass), it is unclear that the requested \$9.3 million is a prudent expenditure. While there is already a sunk investment in these corridors, the HSRA plans to spend \$163 million through 2013-14 on these corridors. If there is no plan to proceed with these phases, then the environmental and design plans will eventually go out-of-date and may have to be redone. The HSRA should explain the benefit of the successive phase environmental and design work if there is no plan to construct those segments. The HSRA should also disclose the cost estimate to complete those other segments.

**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:** Approve requests.

**Action:** *Approved staff recommendation on a 2 – 0 vote.*

- 6. Acquisition of land / right-of-way:** The Administration requests 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.

**Detail:** The modified request is as follows:

- CO BCP #1 as amended by April CO FL #1 – Phase I Corridor: The Administration requests \$250 million (\$125 million Prop 1A and \$125 million federal stimulus funds) to continue funding for the engineering and environmental work on the six segments in the Phase I HSRA corridor. The April 1 Finance Letter reduced the Governor's January budget request which was \$750 million (\$375 million Prop 1A and \$375 million federal stimulus funds).

**Staff Comment:** It is unclear if even the reduced funding level of \$250 million is necessary for 2010-11, because the timeline does not suggest the HSRA will be ready to purchase right-of-way in the budget year. Environmental documents must be "completed" (a Record of Decision/Notice of Decision [ROD/NOD] must be adopted by the Board) and that is not scheduled to occur in 2010-11. At the April 8, 2010, HSRA Board meeting, part of the public information was a document titled *Briefing on Draft Business Plan Addendum* that indicates the first ROD/NOD to be completed would not occur until August 2011. The federal stimulus funds must be obligated by September 2011, but obligation is not expenditure. Rather, the HSRA must complete the environmental phase and enter a cooperative agreement with the Federal Railroad Administration by September 2011. According to the Department of Finance, there is nothing that precludes a HSRA from completing due diligence, appraising the land, performing tests, and negotiating with property owners in the absence of the portion of the appropriation necessary for the acquisition transaction.

**LAO Recommendation:** After reviewing the January budget proposal, the LAO recommended the funding level be reduced to \$250 million. Subsequent to that recommendation, the Administration provided April Capital Outlay Finance Letter #1 that reduced expenditures to \$250 million. The LAO recommends adding provisional language to specify that the funds are for negotiation for right-of-way, and that funds shall not be available for expenditure until after environmental documents are completed for the associated segments of the process.

**Staff Recommendation:** Provide funding of \$1,000 per segment with budget bill language that would allow for an augmentation of up to \$250 million total with JLBC reporting which would include a description of the right-of-way purchase and use, the status of environmental review for that segment, and the timeline for acquisition.

**Action:** *Approved funding of \$1,000,000 per segment with ability to augment up to a total of \$250 million with JLBC reporting for either pre-procurement activity or actual right-of-way purchase (on a 2 – 0 vote).*

**7. Scheduling HSRA Expenditure in the Budget Act (Staff Issue):** The Subcommittee may want to consider scheduling HSRA expenditures in the budget act at a more-detailed level than that proposed by the Administration. As proposed, the budget only specifies funding for two activities, state operations and capital outlay. As the HSRA grows in size and diversity of activity, more detailed scheduling of budget funds increases transparency and improves oversight. At the April 15 hearing, staff was directed to work with the Administration to develop a budget scheduling template.

**Suggested Budget Bill Scheduling Template:**

2665-004-6043—For support of High-Speed Rail Authority, payable in accordance with and from the proceeds of the Safe, Reliable High-Speed Train Bond Act for the 21st Century, payable from the High-Speed Passenger Train Bond Fund..... \$ \_\_\_\_\_

Schedule:

- (1) 10-Administration.....(\$\_\_\_\_)
- (2) 20-Program Management and Oversight Contracts..... (\$\_\_\_\_)
- (3) 30-Public Information and Communications Contracts....(\$\_\_\_\_)
- (4) 40-Fiscal and other External Contracts...(\$\_\_\_\_)

2665-304-6043—For capital outlay, High-Speed Rail Authority, payable from the High-Speed Passenger Train Bond Fund..... \$ \_\_\_\_\_

Schedule:

- (1) 20.10.010-Segment A: San Francisco to San Jose—Acquisition.....(\$\_\_\_\_)
- (2) 20.20.010- Segment B: San Jose to Merced—Acquisition.....(\$\_\_\_\_)
- (3) 20.30.010- Segment C: Merced to Fresno—Acquisition.....(\$\_\_\_\_)
- (4) 20.40.010- Segment D: Fresno to Palmdale—Acquisition.....(\$\_\_\_\_)
- (5) 20.50.010- Segment E: Palmdale to Los Angeles—Acquisition.....(\$\_\_\_\_)
- (6) 20.60.010- Segment F: Los Angeles to Anaheim—Acquisition.....(\$\_\_\_\_)
- (7) 20.70.010- Segment G: Los Angeles to San Diego—Acquisition.....(\$\_\_\_\_)
- (8) 20.80.010- Segment H: Merced to Sacramento—Acquisition.....(\$\_\_\_\_)
- (9) 20.90.010- Segment I: Altamont Pass —Acquisition.....(\$\_\_\_\_)
- (10) Amount payable from the Federal Trust Fund (Item 2665-304-0890)..... (\$\_\_\_\_)

2665-305-6043—For capital outlay, High-Speed Rail Authority, payable from the High-Speed Passenger Train Bond Fund..... \$ \_\_\_\_\_

Schedule:

- (1) 20.10.010-Segment A: San Francisco to San Jose—Design.....(\$\_\_\_\_)
- (2) 20.20.010- Segment B: San Jose to Merced—Design.....(\$\_\_\_\_)
- (3) 20.30.010- Segment C: Merced to Fresno—Design.....(\$\_\_\_\_)
- (4) 20.40.010- Segment D: Fresno to Palmdale—Design.....(\$\_\_\_\_)
- (5) 20.50.010- Segment E: Palmdale to Los Angeles—Design.....(\$\_\_\_\_)
- (6) 20.60.010- Segment F: Los Angeles to Anaheim—Design.....(\$\_\_\_\_)
- (7) 20.70.010- Segment G: Los Angeles to San Diego—Design.....(\$\_\_\_\_)
- (8) 20.80.010- Segment H: Merced to Sacramento—Design.....(\$\_\_\_\_)
- (9) 20.90.010- Segment I: Altamont Pass —Design.....(\$\_\_\_\_)
- (10) Amount payable from the Federal Trust Fund (Item 2665-304-0890)..... (\$\_\_\_\_)

**Staff Comment:** The above template language was developed in coordination with the LAO, HSRA, and Department of Finance. The scheduling will allow interested parties to know expenditures by segment and see different expenditures types for the operations appropriation. Note, the above template does not include the budget bill language which is separately discussed in this agenda.

**Staff Recommendation:** Adopt revised scheduling of expenditures.

**Action:** *Approved staff recommendation on a 2 – 0 vote, with technical changes as necessary.*

**Motion by Senator Lowenthal related to Memorandums of Understanding (MOUs) between HSRA and local entities.**

**Action:** *Adopted budget bill language (on a 2 – 0 vote) that would make implementation of an MOU contingent on: (1) future appropriation by the Legislature of funding for the activities covered by the MOU; (2) certification of environmental documents for the segment covered by the MOU; and (3) completion of review and Legislative reporting by the peer review group on the applicable segment.*

