

# SUBCOMMITTEE NO. 2

# Agenda

S. Joseph Simitian, Chair  
Dave Cogdill  
Alan Lowenthal



Day: Thursday April 15, 2010  
Time: 9:30 am or upon adjournment of session  
Room: Rose Ann Vuich Hearing Room (2040)

Consultant: Brian Annis

## Transportation

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## Crosscutting Issue – Motor Vehicle Account transfer to the General Fund

**Budget Issue:** Should the Legislature add a transfer item to the budget to transfer \$72 million from the Motor Vehicle Account (MVA) to the General Fund? This is not currently a proposal of the Administration.

**Issue Background:** The 2009 Budget Act included a \$70 million transfer from the MVA to the General Fund. This was a transfer instead of a loan and is allowable because the revenue transferred was not attributable to fee revenue nor was it restricted in expenditure by Article XIX of the Constitution – this part of MVA revenue is sometimes referred to as “non-Article XIX funds”. MVA revenue primarily comes from vehicle registration fees, and driver license fees, and supports the operations of the Department of Motor Vehicles (DMV), the California Highway Patrol (CHP), and the Air Resources Board (ARB). About \$72 million in 2010-11 revenue comes from the non-Article XIX sources of “sales of documents” and “miscellaneous services to the public.” This later category includes the sales of DMV data.

**MVA Fund Condition:** A primary consideration in determining the prudence of the MVA transfer to the General Fund is the short-term and long-term fund condition of the MVA. The January budget estimates the MVA will end the 2010-11 fiscal year with a reserve balance of \$91 million. Total annual revenues for the fund are about \$2.5 billion, so a balance of \$91 million might be considered a minimum reserve to adequately allow for unanticipated revenue or expenditure changes. In discussions with the Administration, it has come to light that there is about \$160 million in unscored savings to the MVA that would bring the reserve to about \$250 million.

### MVA savings (in millions) and some additional unscored issues or risks

	2009-10 Adjustment	2010-11 Adjustment	Total Adjustment
<b>Savings not scored in Governor’s Budget</b>			
Workforce Cap Savings		\$63	\$63
CHP savings related to radio replacement	\$53		\$53
Operating expense savings	\$26		\$26
Savings from capital outlay projects	\$12		\$12
MVA loan repayment related to AB 32		\$6	\$6
April Finance Letters		-\$3	-\$3
<b>TOTAL Savings not scored</b>	<b>\$91</b>	<b>\$66</b>	<b>\$157</b>
<b>Other Unscored Issues / Risks</b>			
Savings from Gov’s compensation proposals		\$126	\$126
Risk from furlough litigation		-\$76	-\$76
<b>TOTAL net for unscored issues / risks</b>		<b>\$50</b>	<b>\$50</b>

This adjusted reserve would seem to allow room to repeat the \$72 million MVA transfer to the General Fund and still maintain a prudent reserve for 2010-11. Adding the \$72 million transfer to the General Funds would result in the updated MVA reserve falling from about \$250 million to \$180 million – still \$90 million above the reserve anticipated in the January Budget.

The baseline Administration long-term fund condition statement maintains a positive balance through 2012-13 and then becomes insolvent in 2013-14. One factor in the 2013-14 deficiency is an assumption of \$99 million for future facilities and some future growth in CHP Officers (beyond those requested in this budget).

**Staff Comment:** As indicated above, the Legislature approved and the Governor signed the 2009 Budget Act with a \$70 MVA transfer to the General Fund. In this year's budget special session, the Legislature approved and the Governor signed legislation (AB X8 9) that directs "non-Article XIX" money in the State Highway Account to the General Fund for bond debt-service reimbursement. Given the remaining significant budget gap, the precedent for using non-Article XIX funds for General Fund relief, and this analysis of the MVA fund condition, the Subcommittee may want to consider taking a budget action to achieve \$72 million in General Fund relief by transferring MVA funds to the General Fund. It is possible the Administration may submit May Revision budget requests to the Legislature that would increase MVA expenditures, but it seems unlikely they would be of the magnitude to change this analysis of the MVA fund condition.

**Staff Recommendation:** Reflect the expenditure savings in the budget as appropriate - direct staff to work with the Administration on the specific adjustments. Approve a \$72 million transfer from the MVA to the General Fund as a one-time action.

**Vote:**

## 2720 California Highway Patrol

**Department Overview:** The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for State employees and property.

**Budget Summary:** The Governor proposes total expenditures of \$2.0 billion (no General Fund) and 11,494.4 positions, an increase of \$57 million and an increase of 205 positions.

**Activity:** (funding in millions):

Activity	2009-10	2010-11
Traffic Management	\$1,676	\$1,729
Regulation and Inspection	199	204
Vehicle Safety	45	46
Administration	306	307
<b>TOTAL</b>	<b>\$1,921</b>	<b>\$1,977</b>

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

Fund Source or Account	2009-10	2010-11
Motor Vehicle Account (MVA)	\$1,724	\$1,779
State Highway Account (SHA)	59	60
Reimbursements	113	114
Federal funds	19	18
Other special funds (no General Funds)	6	6
<b>TOTAL</b>	<b>\$1,921</b>	<b>\$1,977</b>

**Changes since the January 10, 2010, Governor's Proposed Budget:** The Administration submitted two April 1, Finance Letters that would increase expenditures by \$6.7 million (\$2.8 million Motor Vehicle Account), with no change to authorized positions. Both the January and April budget requests are included in this agenda. Additionally, the Administration has indicated expenditure savings in 2009-10 which are not included in the January 10 numbers. The expenditure savings were discussed in more detail in the prior section of this agenda.

**Issues Proposed for Vote-Only**

- 1. Operating Costs for Los Angeles Transportation Management Center (BCP #2):** The Administration requests a permanent augmentation of \$191,000 (Motor Vehicle Account) to meet the increased maintenance and operations costs for the Los Angeles Regional Transportation Management Center (LARTMC). The CHP shares this facility with the California Department of Transportation (Caltrans) so the two departments can coordinate responses to more effectively respond to public safety issues, and return highways to full operation. Funding of \$885,000 was approved for the CHP for LARTMC costs when the facility opened about five years ago; however, ongoing operations costs have been higher than anticipated and an additional \$191,000 is necessary to meet the CHP's share of facility costs.

**Staff Recommendation:** Approve this request.

- 2. Vehicle Insurance Premiums (BCP #4, as modified by April FL #2):** The Administration requests a permanent augmentation of \$4.2 million (\$4.0 million Motor Vehicle Account) to meet the increased vehicle insurance costs, which are determined by the Department of General Services (DGS). The DGS billing to CHP will increase to \$7.7 million – about \$4.2 million more than the CHP budget for this expense. Statute requires the state to self-insure for vehicle insurance and DGS acts as the insurer. Premiums are charged by DGS based on a five-year average of claims and judgments paid.

**Staff Recommendation:** Approve this request.

- 3. California Motorcyclist Safety Program (BCP #5):** The Administration requests a permanent augmentation of \$481,000 (California Motorcyclist Safety Fund) to allow CHP staff to conduct essential compliance visits at selected motorcycle training sites, to increase public outreach on motorcycle safety, and to sponsor research on motorcycle safety measures. The program is supported by a \$2 fee on motorcycle registrations. The CHP indicated that the number of motorcycle registrations dipped a decade ago, but has since recovered – registered motorcycles in the state were 675,000 in 1987, 391,000 in 1997, and 773,000 in 2007. Program revenue followed a similar pattern and the CHP indicated it had to permanently reduce outreach and research due to funding constraints in 1997. Revenue has since rebounded with the registrations, but motor cycle collisions and fatalities are also on the rise. The CHP requests to restore certain outreach and research activities discontinued over a decade ago with the goal of reducing motorcycle accidents.

**Staff Recommendation:** Approve this request.

- 4. Workers' Compensation (BCP #6).** The Administration requests \$4.1 million (Motor Vehicle Account) in 2010-11, and ongoing, to fund increased costs for workers' compensation adjusting services. The CHP's cost has increased to a new annual level of \$12.3 million. The fee amount is based on two factors: (1) the Master Agreement between the Department of Personnel Administration (DPA) and the State Compensation Insurance Fund (SCIF), which was recently renegotiated to a statewide cost of \$78 million per year, and (2) a department's share of open cases to the total caseload for all departments. The CHP has a total of 6,706 open workers' compensation cases which is about 16 percent of the statewide total.

**Background:** In 2007, the Sacramento District Attorney (DA) released a report on its review of CHP workers' compensation claims. The DA did not find sufficient evidence to charge fraud, but found *the workers' compensation system, as it was administered by the California Highway Patrol in these cases involving its top management, was riddled with opportunities for abuse and misuse.*

**Staff Comment:** The CHP indicates that it is still focused on fighting workers' compensation fraud within the department. In the period of 2005-2009, the CHP has referred a total 16 cases to the DA's Office for evaluation. The number of new CHP workers' compensation claims fell from an annual average of 1,750 in 2005-2007, to an average of 1,518 in 2008-2009.

**Staff Recommendation:** Approve the requests.

**Summary of Vote Only Issues:**

Issue #	Issue Description	Staff Recommendation	Vote
1	Traffic Management Center	Approve	
2	Vehicle Insurance Premiums	Approve	
3	Motorcycle Safety Program	Approve	
4	Workers' Compensation	Approve	

**Issues for Discussion and Vote:**

- 5. CHP Enhanced Radio System (CHPERS) (Governor's Budget and Capital Outlay Budget Change Proposals [COBCPs] 1 & 2).** The Administration requests \$84.6 million in state operations and \$31.3 million in capital outlay funding – for a total of \$115.9 million, for the fifth year of the public safety radio project.

**Background:** In 2006-07, the Legislature approved this five-year project that had an estimated total cost of \$491 million. As the project evolved, the CHP and its partner, the Office of the Chief Information Officer – Public Safety Communications Division (OCIO-PSCD) down-scoped the project to reduce costs, and the CHP now reports a revised total cost of \$360 million for a savings to the state of \$131 million. Some of this savings was already scored in the January 10 Governor's budget but about \$53 million is new savings. The project will enhance radio interoperability with other public safety agencies and provide additional radio channels for tactical and emergency operations. The project involves new radio transmission equipment at CHP facilities, on remote towers, and in CHP vehicles. As part of project approval, the Legislature required annual project reporting for the life of the project - due annually each March 1.

**Detail:** This year's budget request is expected to result in the completion of most project components on schedule and under budget. There will be additional expenditures of about \$13 million in the out-years for additional radio towers where the existing towers were not structurally strong enough to accommodate new equipment. COBCP 1 requests funding of \$3.3 million for preliminary plans and working drawings for eight tower replacement projects (it is the out-year construction of these towers that will cost an estimated \$13 million). COBCP 2 will fund construction of 25 tower replacements. The remainder of budget funding is for radio equipment and other costs.

**Staff Comment:** While several large State technology projects have failed or succeeded only after large cost overruns and delays, the CHPERS report suggests this project has managed through some unanticipated challenges and appears to be on track to successfully complete with cost savings.

**Staff Recommendation:** Approve the budget request.

**Vote:**

- 6. Officer Staffing Augmentation (BCP #18).** The Governor requests \$17.8 million (\$28.5 million ongoing) to add 180 CHP Officer positions (of this number, 85 uniformed positions would be added in 2010-11 and 95 would be added in 2011-12). The funding level includes about \$4.8 million for associated vehicles and equipment.

**Background:** Beginning in 2006-07, the Legislature started approving annual increases in CHP Officer positions. Through this process, about 600 Officers have been added, to bring the total number of authorized Officer positions to 6,491. With this year's request, the number of Officers added since 2006-07 would rise to 780 and the total number of Officers would rise to about 6,671. The Administration indicates their multi-year plan would continue to add additional Officer over the next few years via future budget requests until the total augmentation over the 2005-06 level is 1,000 Officers.

**Outcome for Traffic Safety:** As the Legislature has approved new CHP positions over the past four years, the Subcommittee has discussed goals and performance measures with the CHP. One goal was to staff all commands on a 24/7 basis – this goal has been achieved with the Officers approved in recent years. The BCP includes various measures of traffic outcomes, such as fatal collisions – that statistic was on the rise through 2005, but has since been falling (the annual number of deaths was 2,141 in 1998, it rose to 2,736 in 2005, but it has fallen to 2,091 in 2008). There are no specific goals for these types of statistics, but clearly the overarching goal is to see these positive trends continue.

**Uniformed Staffing Study:** Issues related to the efficiency of Officer staffing by location and the efficiency of the use of an Officer's time have also come up in Subcommittee discussions in past years. With a given number of Officer positions, the CHP has to decide where to assign the positions to maximize the public safety benefit. The LAO has also in the past looked at the efficiency of Officer time – for example, the amount of an Officer's time spent filling out reports instead of patrolling the highways. The CHP indicates it has hired a consultant to gather data and put together some recommendations on these issues. The report is complete, but the Administration is still reviewing before publicly releasing the information.

**Staff Comment:** The CHP should outline some of the positive trends in traffic safety and indicate what measures the Legislature should consider in determining the long-term optimal level of CHP staffing in a funding-constrained environment. Given the completed, but unreleased, staffing study, the Subcommittee may want to hold this open until that report is released. The report may contain information helpful to the evaluation of this budget request.

**Staff Recommendation:** Keep open pending the release of the staffing study.

- 7. Homeland Security Augmentation / License Plate Recognition System (April FL #1):** The Administration requests a permanent augmentation of \$3.9 million (federal funds) to allow the CHP to expend grant revenue from the federal Department of Homeland Security (DHS), to be distributed via the California Emergency Management Agency (CalEMA). These grants will be used to acquire security equipment and to provide training for coordinating the state security efforts with federal agencies. Items purchased would include commercial radiation detection devices, night vision goggles, and license plate recognition systems.

**License Plate Recognition (LPR) System:** Of the \$3.9 million requested, \$2.0 million would fund the purchase of 100 mobile LPR systems strategically located throughout the state and integrated into one LPR network. The CHP indicates this equipment could help track down a suspect, such as in an Amber Alert situation. The CHP also notes, the data would be retained “for a time.” Therefore, the system would also store license plate data for every vehicle that passes by an LPR. The CHP indicates they already have some LPR units in operation.

**Staff Comments:** Last year, this Subcommittee reviewed a Department of Motor Vehicles (DMV) budget request to implement facial-recognition software. The Subcommittee voted to add budget bill language that prohibits expenditure for this purpose unless subsequent legislation authorizes use of this technology. This CHP budget raises similar privacy issues. The Subcommittee may want to hear from the CHP on the privacy implications of this proposal and how broadly the CHP would use the data.

**Staff Recommendation:** Staff has no budget concerns with the request, but the Subcommittee may want to consider the policy implications of this new CHP database on vehicle location.

**Vote:**

**8. Construction or Renovation of State-owned Facilities (COBCPs #3, 4, & 5).**

The Administration requests \$13.0 million (Motor Vehicle Account) in 2010-11 for three capital outlay projects for state-owned facilities. When future construction costs are added, the total costs for these projects, in 2010-11 through completion, is \$52.6 million. Funding for some CHP COBCPs was rejected in the 2009 Budget Act to generate savings in support of the Motor Vehicle Account transfer to the General Fund.

**Detail:** According to the 2008 California Infrastructure Plan, the CHP occupies 102 area offices, 25 communications centers, 8 division offices, and 39 other facilities including the Sacramento headquarters and West Sacramento Academy. The Administration generally submits three budget requests over multiple years to complete a State-owned capital outlay facilities project. The first step is preliminary plans, the second step is working drawings, and the third step is construction. The three projects and phases are as follows:

- **Oakhurst Area Office – Replacement (Construction):** \$10.2 million is requested to replace the Oakhurst Area Office. The Legislature previously approved about \$2.0 million for preliminary plans, working drawings, and site acquisition.
- **Oceanside Area Office – Replacement (Working Drawings):** \$1.5 million is requested for a replacement facility in Oceanside. The Legislature previously approved about \$3.0 million for preliminary plans and site acquisition. The Administration will likely submit a COBCP for 2011-12 requesting approximately \$20.0 million for construction.
- **Santa Fe Springs Area Office – Replacement (Working Drawings):** \$1.3 million is requested for a replacement facility in Santa Fe Springs. The Legislature approved \$6.3 million for preliminary plans and land acquisition for this project in 2007-08. The Administration will likely submit a COBCP for 2011-12 requesting approximately \$19.6 million for construction.

**Staff Comment:** Given the number of aging facilities and growing number of CHP Officers, it is understandable that in any given year, the CHP has a number of facilities projects in process. This year the Motor Vehicle Account (MVA) balance may be sufficient to allow both a transfer of \$72 million to the General Fund and advancement on long-term capital outlay projects. If MVA funds are insufficient for both, the Subcommittee may want to prioritize the General Fund relief over the facilities projects.

**Staff Recommendation:** Approve the requests.

**Vote:**

## 2740 Department of Motor Vehicles

**Department Overview:** The Department of Motor Vehicles (DMV) regulates the issuance and retention of driver licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

**Budget Summary:** The Governor proposes total expenditures of \$954 million (no General Fund) and 8,477 positions, an increase of \$61 million over the revised 2009-10 level and an increase of 35 positions. The year-over-year budget change is primarily explained by a \$67 million spending reduction in 2009-10 due to furloughs and other employee compensation / retirement adjustments.

**Activity:** (in millions):

Activity	2009-10	2010-11
Vehicle/vessel identification and compliance	\$502	\$529
Driver licensing and personal identification	233	254
Driver Safety	111	120
Occupational Lic. And Investigative Services	45	49
New Motor Vehicle Board	2	2
Administration (distributed)	(100)	(107)
<b>TOTAL</b>	<b>\$893</b>	<b>\$954</b>

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

Fund Source or Account	2009-10	2010-11
Motor Vehicle Account (MVA)	\$502	\$553
Motor Vehicle License Fee Account (MVLFA)*	319	325
Reimbursements	15	14
State Highway Account (SHA)	49	56
Federal funds	2	3
Other special funds (no General Funds)	6	3
<b>TOTAL</b>	<b>\$893</b>	<b>\$954</b>

**Changes since the January 10, 2010, Governor's Proposed Budget:** The Administration submitted three April 1, Finance Letters that would increase expenditures by \$4.9 million (no General Fund), with no change to authorized positions. Both the January and April budget requests are included in this agenda. Additionally, the Administration has indicated expenditure savings in 2009-10 which are not included in the January 10 numbers. The expenditure savings were discussed in more detail on pages 1 and 2 of this agenda.

**Issues Proposed for Vote-Only**

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

**Staff Recommendation:** Approve this request.

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

**Staff Recommendation:** Approve this request.

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

**Staff Recommendation:** Approve this request.

- 4. Gold Star Family License Plates (April FL #3):** The Administration requests \$115,000 from the Special License Plate Fund to implement the Gold Star License Plate program. This program is newly established by SB 1455 (Chapter 309, Statutes of 2008, Cogdill) to provide specialized license plates to eligible family of a member of the Armed Forces who was killed in the line of duty. For families who wish to apply for these plates, there is no charge. The cost of the program would be borne by purchasers of other specialty plates.

**Staff Recommendation:** Approve this request.

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**Summary of Vote Only Issues:**

<b>Issue #</b>	<b>Issue Description</b>	<b>Staff Recommendation</b>	<b>Vote</b>
<b>1</b>	San Bernardino Dedicated Commercial Driver License (CDL) Test Center	Approve	
<b>2</b>	Document Imaging	Approve	
<b>3</b>	Website Infrastructure Project	Approve	
<b>4</b>	Gold Star Family License Plates	Approve	

**Issues for Discussion and Vote:****5. Budget Requests related to Driving Under the Influence (DUI) – (BCPs #8 and #10).** The Administration requests \$3.0 million (\$1.8 million federal funds, \$1.2 million Motor Vehicle Account) and 19 new positions for DUI programs.

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

**Staff Comment:** According to the DMV, in 2007 there were a total of 203,866 DUI arrests, of which 32,272 involved fatalities and/or injuries. The DMV indicates there will be a \$45 fee applied to individuals who obtain an ignition interlock device, which will generate \$1.3 million annually to fund the programs.

The analysis for AB 91 indicates a DMV estimate of one-time programming costs of \$300,000, and the bill requires that DMV obtain non-state funding for these costs prior to the implementation of the program. The BCP does not speak to this, but the Administration indicates the DMV received an Office of Traffic Safety grant of \$345,000 (federal funds) to complete the programming work. This grant was received within existing DMV budget authority. The DMV expects to have the programming work completed by July 1, 2010.

**Staff Recommendation:** Approve these requests.

**Vote:**

**6. Capital Outlay - Construction or Renovation of State-owned Facilities.** The Administration requests \$34.6 million (special funds) in 2010-11 for six capital outlay projects for state-owned facilities.

**Detail:** According to the 2008 California Infrastructure Plan, DMV occupies 98 state-owned facilities, 117 leased facilities, and shares an additional 12 facilities with other state agencies. The Administration generally submits three budget requests over multiple years to complete a State-owned capital outlay facilities project. The first step is preliminary plans, the second step is working drawings, and the third step is construction. The six projects and phases are as follows:

- **Oakland Field Office Reconfiguration (Working Drawings and Construction):** \$2.2 million is requested for 2010-11 (\$155,000 is requested for working drawings and \$2.1 million is requested for construction). The Legislature previously approved \$145,000 for preliminary plans. This project is related to a 2008-09 BCP to consolidate the Oakland telephone service center into a new Central Valley facility. With the space opened up in the existing Oakland facility, the DMV would then reconfigure the second floor of the existing Oakland field office to house a DMV Business Service Center.
- **Fresno DMV Field Office Replacement Project (Working Drawings and Construction):** \$19.9 million is requested for 2010-11 (\$1.2 million for working drawings and \$18.7 million for construction). The Legislature previously approved \$912,000 for preliminary plans. This project will replace the existing facility at 655 West Olive Avenue that is 46 years old and is deficient in size and does not comply with current safety and accessibility codes. The DMV intends to meet a Leadership in Energy & Environmental Design (LEED) silver certification.
- **Stockton Field Office Reconfiguration (Construction Phase):** \$3.5 million is requested for 2010-11. The Legislature previously approved \$309,000 for preliminary plans and \$310,000 for working drawings. Separately, a new Stockton field office is being constructed, and this BCP converts the existing facility (at 710 North American Street) into a stand-alone driver-safety office.
- **Victorville Field Office Reconfiguration (Construction Phase):** \$3.7 million is requested for 2010-11. The Legislature previously approved \$331,000 for preliminary plans and \$308,000 for working drawings. DMV proposes to address physical infrastructure deficiencies by adding additional production terminals and expanding parking capacity.
- **San Bernardino Field Office Reconfiguration (Construction Phase):** \$2.2 million is requested for 2010-11. The Legislature previously approved \$217,000 for preliminary plans and \$198,000 for working drawings. This project would add capacity to the existing office by shifting the current dealer vehicle registration workload to leased space and adding additional production terminals and lobby space.
- **Redding Field Office Reconfiguration (Working Drawings and Construction Phase):** \$3.1 million is requested for 2010-11 (\$237,000 for working drawings and \$2.9 million for construction). The Legislature previously approved \$258,000

for preliminary plans. This project would add capacity to the existing office by adding additional production terminals and lobby space.

**Staff Comment:** Given the number of aging facilities and growing state population, it is understandable that in any given year, the DMV has a number of facilities projects. Funding for some DMV COBCPs was rejected in the 2009 Budget Act to generate savings in support of the Motor Vehicle Account transfer to the General Fund. This year, the Motor Vehicle Account (MVA) balance may be sufficient to allow both a transfer of \$72 million to the General Fund and advancement on long-term capital outlay projects. If MVA funds are insufficient for both, the Subcommittee may want to prioritize the General Fund relief over the facilities projects.

**LAO Recommendation:** The Legislative Analysis recommends the Legislature reduce the amount of funding for capital outlay projects by \$23.7 million. The LAO reviewed the timeline for projects and found the Oakland, Fresno and Redding projects will not need construction funds until 2011-12. If construction funds are not needed until 2010-11, they should be requested in next year's budget process.

**Staff Recommendation:** Approved these requests, with the reduction recommended by the LAO.

**Vote:**

- 7. New Facility Leases for Field Offices (BCP #1):** The Administration requests a one-time augmentation of \$983,000 (various special funds) to relocate the following four field offices to new leased facilities: Roseville, Lancaster, Palmdale, and Fontana. The Lancaster and Palmdale offices would be consolidated into one large field office. The Administration intends to submit an additional BCP request next year for Department of General Services (DGS) fees, equipment, cabling, and telecommunication costs. The DMV indicates the moves are necessary to address capacity deficiencies.

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

**Staff Comment:** The Subcommittee may want to hear from the Administration on why the Roseville and Fontana projects have been converted from state-ownership to leases. In past years, the Administration has indicated the decision to own or lease was based on a long term analysis of demographics and levels of risk concerning future needs. A discussion on this point might be helpful as the Subcommittee considers the benefits of owning versus leasing.

Given the number of aging facilities and growing state population, it is understandable that in any given year, the DMV has a number of facilities projects. Funding for some DMV facility projects was rejected in the 2009 Budget Act to generate savings in support of the Motor Vehicle Account transfer to the General Fund. This year the Motor Vehicle Account (MVA) balance may be sufficient to allow both a transfer of \$72 million to the General Fund and advancement on long-term capital outlay projects. If MVA funds are not sufficient for both, the Subcommittee may want to prioritize the General Fund relief over the facility projects.

**Staff Recommendation:** Approve this request.

## 2700 Office of Traffic Safety

**Department Overview:** The Office of Traffic Safety (OTS) is responsible for allocating federal grant funds to State and local entities to promote traffic safety.

**Budget Summary:** The Governor proposes total expenditures of \$96.5 million (no General Fund) and 34.0 positions – about the same as the current year. The Administration did not submit any Budget Change Proposals (BCPs) for OTS.

### Issue Proposed for Discussion:

1. **Driving under the influence (DUI) checkpoints and vehicle seizures (informational issue):** Of the public safety grants OTS issues to local governments, about \$14 million is used annually for DUI enforcement checkpoints. While not required by federal law, OTS has adopted “best practice” guidelines for DUI checkpoints that include asking for driver licenses (DL). When it is determined a driver is not carrying a valid driver license, current California law directs the seizure of the vehicle and impound of the vehicle for 30 days. According to the Investigative Reporting Program at the University of California, Berkeley, fees and charges to recover vehicles range between \$1,000 and \$4,000. These fees and charges generate an estimated \$40 million annually that is paid to towing companies and local governments.

**Discussion points:** While the Legislature has approved budget funding for DUI checkpoints and has passed laws requiring vehicle seizures for unlicensed drivers, there are no provisions in state law suggesting DUI checkpoints should be used for DL checks. Since the Administration has implemented this policy without Legislative direction, the Subcommittee may want to hear from OTS on the budget and policy implications of this action. The below bullets suggest some key issues:

- Is it good policy to expand the DUI checkpoints into “DUI and DL checkpoints?” Does the DL examination reduce the number of drivers that can be checked for sobriety (due to additional time to review a license and seize a vehicle)?
- Is it legal to stop cars without probable cause for a DL check? – the U.S. Supreme Court has ruled that DUI checkpoints are legal and do not violate the unreasonable search and seizure provisions of the US Constitution, but is this also true for DL checkpoints? Are DL checkpoints similarly effective and necessary?
- Are vehicles being seized when a licensed driver is present, or can quickly arrive, to take control of the vehicle? If yes, how does seizing the vehicle meet a “community caretaker” test for public safety?
- Have seizure fees (\$1,000 to \$4,000) become unreasonably high, and is the revenue generation becoming the driving force instead of public safety?

**Staff Recommendation:** Take no action on the OTS budget. If the Subcommittee wishes to modify the OTS budget at a later date, the department can be brought back.

## 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.

**Prior Legislative Hearings:** This Subcommittee has had two joint hearings with the Transportation and Housing Committee this year on the topic of high-speed rail and the HSRA December 2009 Business Plan. The first hearing was January 19 in Sacramento and the second hearing was January 21 in Palo Alto.

**Summary table of the Governor's HSRA budget (as modified with April 1 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>
1	Baseline funding for state staff and operations (April FL for technical correction)	April FL 5	11.5	\$2.0
2	New HSRA state staff	BCPs 2, 6, 8, April FL 1&6	29.0	\$3.8
3	Program Management Contracts (including oversight contract)	BCPs 1&7	75.6	\$39.0
4	Contracts with other governmental units	BCP 12 April FL 2&3	na	\$5.0
5	Specialty contracts (for forecasts, communications, etc.)	BCPs 3, 4, 5, & 11	25.2	\$4.2
6	Engineering Contracts for design and environmental	COBCP 1&2 April CO 1	368.2	\$157.3
7	Acquisition of land / right of way	COBCP 1 April CO 1	na	\$250.0
	<b>TOTAL Budget Request</b>		<b>509.5</b>	<b>\$461</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 organized consistent with the grouping and sequence of issues in this table. Additional Legislative Analyst and Committee Staff issues are grouped at the end of the agenda (Issues 8 and 9).

**Issue Proposed for Vote Only:**

- 1. Baseline funding for state staff and operations – Technical Correction (April FL #5).** The Administration requests \$289,000 as a technical correction to restore existing permanent funding that was inadvertently deleted in constructing the 2010-11 budget.

**Staff Recommendation:** Approve the request.

**Vote:**

**Issues Proposed for Discussion:**

2. **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. The LAO sees merit in the HSRA's request for five new exempt positions (as drafted in AB 289) because of the complex and costly work of the Authority. The LAO believes that if new exempt positions are created, the implementing statute should describe the positions so the Legislature has sufficient control over the specific positions established. For example, statute might define one of the positions as the Chief Financial Officer.

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 to pay DGS.

**Staff Recommendation:** Hold open for additional review.

**3. Program Management Contracts:** The Administration requests a total of \$39 million from Prop 1A bond funds for the 2010-11 cost of two program-management service contracts.

**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:** Hold open for additional information and review.

- 4. Contracts with other governmental units:** The Administration requests a total of \$5 million from Prop 1A bond funds for the 2010-11 cost of workload performed by other state departments, local governments, and the federal government.

**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 – California Department of Transportation (Caltrans) Coordination: The Administration requests \$1.6 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 highways.

**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.

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

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

**Staff Recommendation:** Hold open for additional information and review.

- 5. Specialty Contracts.** The Administration requests a total of \$4.2 million from Prop 1A bond funds for the 2010-11 cost of specialty contracts with private vendors in the areas of communications and ridership/revenue and fiscal studies.

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

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

**Staff Recommendation:** Hold open for additional information and review.

- 6. 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:** Hold open for additional information and review.

- 7. 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. As this agenda was finalized, additional explanation from the Administration on the need for right-of-way funds in 2010-11 was still pending.

**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 indicates that the HSRA may be able to engage in a limited amount of negotiation for right-of-way in 2010-11, even though no purchases could occur until after the completion of the environmental process. So the requested appropriation would support the initiation of negotiations instead of land purchase in 2010-11. 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:** Hold open for additional information and review.

- 8. 2009 Business Plan (LAO Issue):** There were two joint hearings of this Subcommittee and the Transportation and Housing Committee in January concerning the HSRA December 2009 Business Plan. In the March 2, 2010, Transportation Budget Brief the LAO notes the following criticism of the plan:

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

**April 8, 2010, Business Plan Addendum:** At the April 8, 2010, HSRA Board meeting, Issue 8 on the agenda was a “Briefing on Draft Business Plan Addendum.” This was submitted to the Board for review prior to submittal to the Legislature. The plan was emailed to Subcommittee staff on April 13.

The document is available at this link:

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

**Staff Comment:** Given the recent release of this draft addendum, staff has not had an opportunity to perform a thorough review and discuss the addendum in detail with the HSRA. However, here are a few initial observations:

- It is encouraging that the HSRA produced this addendum to be responsive to concerns raised by the Legislature – it is not statutorily required.
- The document provides some additional timeline and milestone information for completion of environmental and initial design work, which is helpful for accountability.
- The document describes the prohibition on using state funds to subsidize the private operator and provides the HSRA perspective on why operations insurance and a revenue guarantee would not violate these provisions.
- The document includes more narrative on risk mitigation and reasonableness of the Plan’s estimates.

Insufficient time has passed since the release of the Addendum to allow a full review, but the Subcommittee may want to ask the LAO to make initial comments. This issue can be brought back at a future hearing as warranted.

**Staff Recommendation:** Hold open for additional information and review.

- 9. 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, there are three expenditure categories in the budget act, as indicated in the below table. This is an improvement over past budgets when all expenditures were placed in the state operations item without any scheduling.

State Operations Item	Capital Outlay Item
Undesignated	Phase I
	Subsequent Phase

**Alternative Scheduling:** The proposed scheduling may prove inadequate given the scope of the HSRA expenditures. The following table shows a possible scheduling approach that would provide additional transparency and legislative budget control. If the detailed schedule is adopted, and in the course of a fiscal year, the HSRA wants to shift expenditure authority across scheduled items, the Administration would have to provide 30-day notification to the Joint Legislative Budget Committee.

State Operations Item	Capital Outlay Item
Personal Services	Phase I Acquisition
Operating Expenses and Equipment	Phase I Design
	Phase I Construction
	Subsequent Phase Acquisition
	Subsequent Phase Design
	Subsequent Phase Construction

**Staff Comment:** The alternative is intended as an illustration for discussion, as Staff has not discussed specific language with the Administration. However, since the Administration is proposing to add new budget scheduling this year, it is appropriate to consider the multiple alternatives that would provide more or less budget control, and more or less transparency, in budget documents.

As an additional option, the Administration could schedule additional information in the accounting systems and the Budget Galley (the January Governor’s document with a three-year expenditure summary) – perhaps even to the project segment level, such as the Los Angeles to Anaheim segment. The Budget Act itself need not include all the detail that appears in the Budget Galley. The accounting and scheduling should be made transparent and easily accessible via inclusion in annual budget documents, instead of in supplemental reports.

**Staff Recommendation:** Keep open for further discussion.

# VIII. Gap Analysis

## New Executive Structure Would Address Areas of Greatest Complexity and Risk

**Notes:**  
 1) State employees or contractors.  
 2) Chart does not include administrative/office tech positions, so additional positions would be required to serve these functions, commensurate with workload. Overall "headcount" would vary in functions below the Director level, primarily small in the near-term, and growing only as workload required.  
 3) Also interfaces frequently to oversee / coordinate with other contracting state agencies and private consultants, in some cases.

