Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Jim Beall, Chair
Senator Hannah-Beth Jackson
Senator Jim Nielsen

Day: Thursday, March 14, 2013
9:30 a.m. or Upon Adjournment of Session
Room: 2040

Consultant: Mark Ibele

Agenda

Transportation

Overview of Transportation Issues and Financing

Proposed Vote-Only Calendar:

Proposed Discussion / Vote Calendar:

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Overview of Transportation Issues and Financing
Legislative Analyst's Office

Transportation Budget Summary—Selected Funding Sources

(Dollars in Millions)

	2011–12 Actual	2012–13 Estimated	2013–14 Proposed	Change From 2012–13	
				Amount	Percent
Department of Transportation					
General Fund	$83.4	$83.4	$83.4	—	—
Special funds	3,758.8	3,760.8	4,004.0	$243.2	6.5%
Bond funds	1,703.1	3,766.2	2,297.9	–1,468.3	–39.0
Federal funds	4,720.5	4,482.5	4,602.2	119.8	2.7
Local funds	1,150.3	1,167.6	1,798.7	631.1	54.1
Totals	**$11,416.1**	**$13,260.5**	**$12,786.3**	**–$474.2**	**–3.6%**
High-Speed Rail Authority					
Bond funds	$74.2	$73.5	$2,281.8	$2,208.2	3,003.2%
Federal funds	37.6	2,358.7	958.5	–1,400.2	–59.4
Totals	**$111.8**	**$2,432.2**	**$3,240.2**	**$808.0**	**33.2%**
California Highway Patrol					
Motor Vehicle Account	$1,649.3	$1,747.3	$1,778.6	$31.4	1.8%
Other special funds	146.1	179.7	163.0	–16.7	–9.3
Federal funds	13.7	18.3	18.4	0.1	0.3
Totals	**$1,809.2**	**$1,945.3**	**$1,960.1**	**$14.8**	**0.8%**
Department of Motor Vehicles					
Motor Vehicle Account	$816.2	$867.5	$946.5	$79.0	9.1%
Other special funds	96.3	93.1	46.4	–46.7	–50.1
Federal funds	2.5	7.5	5.1	–2.4	–31.4
Totals	**$915.0**	**$968.0**	**$998.0**	**$30.0**	**3.1%**
State Transit Assistance					
Public Transportation Account	$369.0	$415.2	$392.0	–$23.2	–5.6%
Bond funds	767.0	598.2	479.7	–118.5	–19.8
Totals	**$1,136.0**	**$1,013.3**	**$871.7**	**–$141.7**	**–14.0%**

Note: Totals may not add due to rounding.

Item Number **Department or Agency**

0521 Transportation Agency

Agency Overview: The newly constituted Transportation Agency is a product of the Governor's Reorganization Plan #2 (GRP 2) and will be fully in place effective July 1, 2013. The new agency is a combination of departments now housed under the Business, Transportation and Housing (BT&H) Agency—Department of Transportation (Caltrans), Department of California Highway Patrol (CHP), Department of Motor Vehicles (DMV), and Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun (BOPC). In addition the Agency adds two current stand-alone entities—the High Speed Rail Authority (HSRA) and the California Transportation Commission (CTC). The Agency Secretary is the Governor's cabinet member for major policy and program matters involving transportation and oversees the operations of the Agency's departments and programs. The Agency also administers the California Traffic Safety Program.

Budget Summary: The Governor's Budget proposes expenditures of $101.5 million, all from special funds, federal trust funds and reimbursements. Most of the resources ($97.4 million) are used for the California Traffic Safety Program. Administrative costs of the Agency are $4.1 million in the budget year.

Items Proposed for Discussion and Vote:

1. **Governor's Reorganization Plan #2: Transportation Agency (Governor's Budget BCP#1):** The Governor's Budget proposes establishing budgetary authority and funding for the new Transportation Agency pursuant to GRP 2. The proposal will result in operational efficiencies, reduce agency staff to 26 compared to the current staffing level of 30, and achieve more focus on transportation issues.

   Background: The new Transportation Agency will include seven departments, all of which are transportation-focused. Other non-transportation departments currently in the BT&H Agency will be moved to the new Business, Consumer & Housing Agency and the Governor's Office of Business and Economic Development. The new Transportation Agency is intended to provide more focus and direction for transportation efforts.

   Staff Comment and Questions: The Governor's proposal for a dedicated Transportation Agency represents a distinct improvement over previous reorganization efforts. The Committee may wish to request a status report from the Agency and an indication of any current or recent achievements that have occurred as a result of the new organizational structure. The report from the Agency may include, at the Committee's request, an overview of its goals and how the new structure will work towards those goals.

Questions: *(1) How has and will the new organization design result in furthering transportation goals and objectives in the state? (2) Have you any examples of "early wins" that demonstrate the value of the new agency design?*

Staff Recommendation: Approve the request for funding and budgetary authority for the newly-established Transportation Agency.

Vote:

2. **Moving Ahead for Progress in the 21st Century Act (Informational Item):** The new federal Surface Transportation Act, Moving Ahead for Progress in the 21st Century Act (MAP-21), signed into law in July 2012, represents the most significant overhaul of federal surface transportation policy since the Intermodal Surface Transportation Efficiency Act (ISTEA) in 1991. Since that time there have been two multi-year transportation acts, the Transportation Efficiency Act for the 21st Century (TEA-21) in 1999 and the Safe, Accountable, Flexible, Efficient Transportation Equity Act-A Legacy for Users (SAFETEA-LU) in 2005. However, both of those measures largely built on the ISTEA framework and neither implemented major structural change. In contrast, by any measure, MAP-21 represents a major structural shift. The measure consolidates the total number of program funding streams from more than 100 to six core programs, and simultaneously increases flexibility in the use of the funding. The Act does not, however, significantly change the total amount of federal funding available to the state. MAP-21 also requires the Federal Highway Administration (FHWA) to establish various performance measures that will be used to evaluate states' progress toward various goals, such as pavement condition and collision/fatality reduction. However, many of these performance measures are not expected to be available until sometime in 2014.

   Under MAP-21, California is slated to receive an estimated $3.5 billion in total federal apportionments for federal fiscal year (FFY) 2013, which began October 1, 2012. This is approximately equal to the 2012 level and represents nearly 9.5 percent of the national total. In addition, local transit agencies in California will, cumulatively, receive approximately $1.0 billion in federal apportionments. However, under language recently adopted by the House of Representatives to fund the government beyond March 27, 2013, MAP-21 appropriations for the balance of 2013 could actually be cut. The Senate has indicated its intent to seek full funding for MAP-21 but as of the drafting of this report, that issue remains unresolved.

   The state is slated to receive a similar level of apportionments in FFY 2014. However, unlike prior surface transportation bills which typically cover five or six FFYs, MAP-21 is a two-year bill, meaning that anticipated federal funding levels beyond 2014 are uncertain. In recent years, revenues into the federal Highway Trust Fund (FHTF)—the primary source of federal transportation funding—have declined to the point that they are insufficient to support existing funding levels. In order to sustain 2012 funding levels in MAP-21, Congress authorized an $18.8

billion General Fund augmentation to the FHTF. Should Congress fail to enact a solution to address this structural funding gap, California (along with other states) could face a substantial drop in federal funding as soon as 2015.

Historically, federal Surface Transportation Act funding in California has been split between the state and locals with the state receiving approximately 63 percent state of overall funding and the locals 37 percent. With the consolidation of funding into six core programs, the Administration, in fall 2012, proposed maintaining this overall split for FFY 2013, in order not to impact ongoing funding for previously programmed projects. The Administration also determined that despite the consolidation, no immediate changes to state law would be required to implement this status quo scenario.

Staff Comment and Questions: Through consolidation of more than 100 federal funding streams into six core programs with significantly increased flexibility, MAP-21 may represent an opportunity for California to examine its funding priorities and ensure that the state is using its transportation funds on the most critical priorities. While heeding the caution that MAP-21 does not provide any additional revenue, and thus any spending increase in one area necessarily would require a reduction to existing programs or projects, the Legislature may wish to explore whether some restructuring or reprioritizing may be desirable.

The Administration has expressed a desire to refrain from enacting any major changes to state law until FHWA releases the performance measures that will drive the prioritization and use of federal funds going forward. However, the Legislature may wish to consider whether or not any immediate changes are necessary or appropriate. Moreover, even if the governor's proposed 'status-quo' budget is the prudent course in the short-term to ensure that already programmed projects are not adversely impacted, any potential changes could be phased-in over multiple years.

While the Administration has not proposed any statutory changes, they have engaged in ongoing discussions with stakeholders, including local and regional agencies, to address concerns regarding funding levels within the core MAP-21 programs.

> *<u>Questions:</u> (1) Can the department or agency comment on the status of funding under MAP-21 and the new design for the funding stream? What is the LAO perspective? (2) What are the options or alternative permutations for the state local split for the federal funding stream? (3) What is the impact of the most recent development regarding the full federal funding under the proposal?*

Staff Recommendation: Informational item.

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. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

Budget Overview: The Governor's Budget proposed total expenditures of $12.8 billion ($83.4 million General Fund) and 19,773.5 positions. The largest sources of funds for the Department come from the State Transportation Account and the Federal Trust Fund. State sources of revenue for the department are diesel sales tax, gasoline fuel excise tax and weight fees. State sources of revenue constitute about $7.2 billion of the total available resources.

Item Proposed for Vote Only:

1. **Cash Accounting for Special Funds (Budget Trailer Bill):** The Governor's Budget proposes technical trailer bill language to clarify that, with respect to five specified funds—the Public Transportation Account (PTA), State Highway Account (SHA), Transportation Investment Fund (TIF), Transportation Deferred Investment Fund (TDIF), and the Traffic Congestion Relief Fund (TCRF)—the Department may use cash accounting procedures in reporting the fund balances to the State Controller and for budget purposes.

   Background: Legislation was originally enacted in 2002 authorizing Caltrans to use such procedures for the SHA. The law was amended in 2005 to its current form, including the other four accounts. The Administration indicates, however, that during a recent review of the statute, staff determined that the existing authority is not as clear as was originally intended. The proposed trailer bill language would remove any ambiguity with regard to Caltrans' authority to use a cash accounting method for reporting on the specified funds.

   Staff Comment: The proposed budget trailer bill would have no impact on Caltrans' existing accounting practices, but rather clarify existing authority.

   Staff Recommendation: Adopt placeholder trailer bill language**.**

   Vote:

Items Proposed for Discussion and Vote:

2. **Division of Local Assistance—Zero Based Budget (Governor's Budget BCP#1):** As a component of an effort to establish a zero based budget (ZBB) for Caltrans' Division of Local Assistance (DLA), the Governor's Budget has requested a staffing reduction of 23 positions for 2013-14, an additional reduction of two positions for 2014-15, and the exchange of $13.8 million in federal local subvention funds for State Highway Account funds beyond current levels. Three of the 2013-14 position reductions, as well as the 2014-15 reduction of two positions relate to the proposal to consolidate several existing funding programs into a new Active Transportation Program (ATP), presented as a separate agenda item. The proposal includes a request to convert 26 positions that ensure program compliance with state and federal mandates from limited-term to permanent.

   Background: The DLA is responsible for the distribution of over a billion dollars of state and federal funds to local and regional agencies. Specifically, DLA assists these agencies in ensuring that funding requirements are met, project applications are processed, and projects are delivered in accordance with federal and state mandates.

   In response to Governor's Executive Order (EO) B-13-11 and 2010-11 Supplemental Reporting Language (SRL), the Department of Finance (DOF) initiated a program-by-program ZBB review of Caltrans, beginning with the DLA. The EO requires departments to incorporate program-evaluation methods into the budget process. Such methods may include ZBB, development of performance measures, strategic planning, audits and program reviews. The SRL requires Caltrans, within 180 days of state-level implementation of a new Federal Transportation Act, to develop a baseline view of DLA's workload, including a listing of major activities performed, the level of resources needed to complete each activity, and how the workload aligns with current staffing levels.

   Detail: As a result of the Caltrans analysis, efficiencies were identified that enable a reduction of 15 positions across the 12 districts. Efficiencies and streamlining within headquarters have allowed for a reduction of five additional positions. The proposal also notes that the new federal law, Moving Ahead for Progress in the 21st Century (MAP-21) has significantly changed the way that federal funding flows to the state and has added flexibility and potential efficiencies to project delivery. Because the Federal Highway Administration (FHWA) has yet to finalize its guidance regarding implementation of the new law, the DLA will monitor changes and request additional resource changes in the future, as needed.

   As noted, the proposal includes a reduction of three positions in 2013-14 and two positions in 2014-15 related to the proposed consolidation of five grant programs into a new ATP. According to the Administration, the reductions would result from the eventual consolidation of the duties of eight existing positions to three positions. The existing positions proposed for consolidation include the following:

- Safe Routes to School (SR2S) Coordinator
- Assistant SR2S Coordinator
- Bicycle Facilities Program Manager
- Bicycle Transportation Account Program Coordinator
- Environmental Enhancement and Mitigation (EEM) Coordinator
- Transportation Enhancement Coordinator
- District Program Coordinators (two positions allocated across Caltrans' 12 districts).

The new positions proposed to be created include the following:

- ATP Coordinator
- Assistant ATP Coordinator
- District Program Coordinator

Some of the positions proposed for consolidation have existing duties beyond those directly associated with project administration. For example, the Bicycle Program Manager serves as the liaison to the California Bicycle Advisory Committee, a stakeholder group comprised of local officials and advocates. Additionally, federal law requires every state to fund a Bicycle-Pedestrian Coordinator responsible for promoting increased use of non-motorized facilities, as well as public education and safety. Finally, the Department's SR2S Coordinator serves as the liaison to its Safe Routes Advisory Committee, as well as coordinating with entities responsible for technical assistance and research involving best practices for safe routes projects.

The Administration indicates that the streamlining efforts associated with the ATP justify the resource reductions and that no adverse impacts have been identified, although duties will be reduced from current levels. It indicates that the Department will continue to assign a person or persons as the bicycle and pedestrian coordinators, but acknowledges that the duties of these positions may be consolidated and include other activities such as ATP coordination. With respect to the SR2S Coordinator, the Administration notes that this position is no longer required under federal law and that, while existing SR2S projects will continue to be supported, the non-ATP related duties of that position will no longer be supported after the proposed consolidation.

Caltrans' ZBB review also analyzed the department's so-called subvention exchange process. Federal law allows for local subvention funds (federal funds passed through the state to local agencies) to reimburse Caltrans for project support services provided by the DLA on behalf of local agency projects. However, federal regulations require that all such funds be applied to the budget of a specific project. Because of the structure and organization of the DLA, it is administratively infeasible to track the division's workload on a project-by-project basis, and thus, federal subvention funds cannot be used directly to support DLA work. To address this issue, the DLA, with FHWA approval, implemented the subvention exchange process in 2009-10. Through this process, DLA first calculates the total resources projected to be expended on behalf of local agencies for reimbursable activities. This level of funding is then debited off the top of the federal subvention funds prior to distribution. These funds are then swapped for State Highway Account (SHA) funds. The subvention funds are applied to the budgets of various state projects while the SHA funds, which need not be applied to specific project budgets, are used to fund DLA. The exchange basically reduces state costs by enabling local agencies to reimburse DLA for support of their projects. In the current year, Caltrans has exchanged $10.0 million of local subvention funds, and as a result of the ZBB analysis, has identified an additional $13.8 million in services that are eligible for exchange in 2013-14.

Staff Comment and Questions: Over the course of four years, the ZBB process will be used to analyze each of Caltrans' major programs to identify efficiencies and streamline, where appropriate. Thus, the current proposal is the first of a number of similar efforts that the Legislature can expect to consider over the next few years. While 20 of the proposed position reductions relate to identified efficiencies in existing workload activities, three of the proposed reductions for 2013-14 and the two proposed for 2014-15 would result from the creation of the proposed ATP. This component of the proposal, and the related consolidation of staff, does raise concerns regarding potential impacts to Caltrans' efforts to effectively support active transportation.

While the proposal suggests that the consolidation of five grant programs into one justifies a 62.5 percent reduction in staff resources, a review of the job descriptions of the positions slated for elimination indicates that some include substantial workload beyond grant administration. For example, the SR2S Coordinator duty statement indicates that at least 45 percent of the workload involves activities such as public awareness, training, interacting with internal and external stakeholders, and outreach to regional, state and national SR2S organizations. This position coordinates the Caltrans SR2S Advisory Committee, which recommends program improvements and best practices. It also serves as Caltrans' point of contact with the Technical Assistance Resource Center (TARC), which was set up by Caltrans in 2008 to support local agencies in developing effective projects.

Similarly, at least 55 percent of the Bike Facilities Program Manager's workload appears to involve duties other than administration of the BTA, including bicycle safety awareness, advocacy, training and support to internal staff and external agencies and providing expertise on bicycle transportation law, policy and programs. According to the duty statement, this individual serves as Caltrans' expert on bicycle transportation. It should be noted that federal law mandates that every state fund a Bicycle and Pedestrian Coordinator position.

The Administration has acknowledged that, under the proposed consolidation, some of non-grant administration duties of the affected positions would be reduced while others (including the SR2S Coordinator duties) would no longer be supported. This raises questions about the future of TARC, including whether California would remain a national leader on SR2S issues without a state level coordinator. Since the purpose of the ATP proposal is to heighten the profile of active transportation, such substantial reductions may send a confusing message. The Committee may wish to defer action on the ATP related reductions pending resolution of the issues related to the proposal itself. It may also wish to seek additional information from the Administration demonstrating how Caltrans' overall efforts to support active transportation would be preserved under this proposal.

Questions: *(1) How does the department plan to address the additional workload from the eight to three position reduction in the ATP that is not related to program administration? (2) What is the department's response to the observation regarding federal law requirements for the bicycle position, as well as how this will affect California's commitment to active transportation?*

Staff Recommendation: Approve reduction of 20 positions related to efficiencies identified in existing DLA workload, additional subvention exchange, and conversion of limited-term positions to permanent. Do not approve the five position reductions related to ATP program consolidation. Direct staff to obtain additional information regarding how Caltrans' commitment to active transportation will be preserved and enhanced in light of the reduction in dedicated staff resources imbedded in this proposal.

Vote:

3. Active Transportation Program (Budget Trailer Bill): The Governor's Budget proposes creation of the Active Transportation Program (ATP) through the consolidation of five existing programs into a single $134.2 million program. The five programs to be consolidated include the federal Transportation Alternatives Program (from MAP-21), which includes the Recreational Trails program, the state and federal Safe Routes to School Programs, the state Environmental Enhancement and Mitigation (EEM) Program, and the state Bicycle Transportation Account (BTA). This proposal is related to the resource reduction in the issue discussed above.

Background and Detail: By consolidating several small grant programs into a new larger program, this proposal is intended to enhance the profile of active transportation projects, defined as any method of travel that is human-powered. It also seeks to increase program efficiency by eliminating the need to administer these programs individually and to focus funding on high-priority projects to reduce greenhouse gas emissions, consistent with the objectives of Chapter 728, Statutes of 2008 (SB 375). The Administration indicates that, compared to the current arrangement, the ATP will have a greater capacity and more flexibility to fund larger projects by streamlining program workload and reducing duplication of support activities (such as individual program guideline development and maintenance, training, reporting, and information systems maintenance). Consistent with this approach, the Governor's Budget proposes to eliminate, over two years, five staff positions within Caltrans currently associated with administration of these programs.

The proposal seeks to achieve efficiency through creation of a single set of program guidelines and a single application and project selection process through which designated 'best projects' among all eligible categories would be identified and funded. Specifically, the proposed trailer bill language would require the California Transportation Commission (CTC) to develop guidelines and selection criteria for the new ATP, through a consultation process with specified entities including Caltrans, the Strategic Growth Council, the Department of Housing and Community Development, the Natural Resources Agency, the Air Resources Board, the Department of Public Health and the Office of Traffic Safety, as well as with metropolitan planning organizations and regional transportation planning agencies. The proposed language specifies a non-exhaustive list of eligible project types, including many types that are eligible under one or more existing programs. The language also specifies a non-exhaustive list of proposed selection criteria, most of which also are drawn from the criteria for the existing programs. The language does not specify how the various criteria should be applied in comparing the relative benefits of different project types.

Staff Comment and Questions: The Administration's proposal has some merit and there are likely to be some synergies involved in a unified program; however, there are also concerns. Collapsing multiple active transportation grant programs into one program with a single set of guidelines and selection criteria could have unintended adverse impacts for the types of projects funded by the current programs. The existing component programs have common elements, but each has different goals and objectives which are reflected in each program's individual guidelines and selection criteria. For example, the twin goals of the SR2S program are to both increase the number of K-12 students walking or biking to school and also improve safety for those students who do so. In contrast, BTA's primary objective is improving safety and accessibility for existing bicycle commuters. EEM funds a variety of project types, including landscaping and urban forestry designed to offset vehicle emissions, mitigation property acquisition, and roadside recreational enhancements. While such projects may have an active transportation component, this is not a primary objective of the program.

The proposal suggests that the ATP guidelines and project selection criteria will provide a framework through which these disparate types of projects will be compared and prioritized, as a single program. However, it is unclear how projects intended to achieve very different goals will be compared and the proposal includes no specifics. Nor is it apparent how the proposal's intent to prioritize projects that facilitate compliance with the Sustainable Communities and Climate Protection Act of 2008 (SB 375) may influence project selection. Without more specificity, it is impossible to determine how projects that meet the targeted goals and objectives of the individual component programs would fare.

To the extent that the Committee believes that ensuring the basic integrity and purpose of the various programs proposed for consolidation is important, it may wish to defer action on the proposed trailer bill language pending additional information. The Committee may wish to request that the Administration, in consultation with affected stakeholders, develop proposed program guidelines that preserve the basic goals and objectives of the component programs and ensure, at a minimum, a base funding level for each project type.

<u>Questions:</u> (1) How will comparisons of programs across categories be carried out, especially in view of the different goals and objectives? (2) Is it possible various programs be guaranteed a particular minimum level of funding or could some receive no funding at all? (3) Can you describe how the environmental mitigation portion fits in with ATP? (4) Would additional resources be required to administer the new proposed program, for example at the California Transportation Commission?

Staff Recommendation: Hold issue open. Request the Administration, in consultation with affected stakeholders, to develop program guidelines that more clearly specify eligible uses and selection criteria. Consider establishing a base minimum funding level for each project type.

<u>Vote:</u>

4. **Planning Program—Zero Based Budget (Governor's Budget BCP#2):** The Governor's Budget proposes to ZBB Caltrans' Division of Transportation Planning. To accomplish this, the Governor, requests a net increase of 10 positions and $8.4 million, for 2013-14. The proposal consists of a five position reduction and eight position redirection in the traditional planning program; staff workload adjustments for efficiencies that reduce positions by 19 in planning and increase positions by 36 in the Project Initiation Documents (PIDs) activities to accommodate workload; and, a reduction of two positions in other units. The net result is an increase in the program of 10 positions.

   Background and Detail: Caltrans' Division of Transportation Planning (DOTP) is responsible for implementing statewide transportation planning. DOTP includes five core programmatic areas: community planning, regional and interregional planning, system and freight planning, state planning and project scoping. DOPT is responsible for a wide variety of activities, including but not limited to review of local and tribal development proposals, general plans, provision of input to federal and regional entities regarding regional transportation plans, review of air quality and climate change scenarios, development of long-range highway system plans, preparation of the 25 year state transportation plan, and development of PIDs for both State Highway Operations and Protection Program (SHOPP) and non-SHOPP projects.

The first ZBB effort in DOTP began in 2009 and established an initial workload baseline for 2010-11. In 2009, the LAO raised several concerns with the PIDs program, specifically that Caltrans had not based staffing on workload, that it had no criteria for selecting SHOPP PIDs, and that there were gaps in the way it managed its PIDs work. The 2009 Budget Act required Caltrans to convene a stakeholder working group and identify options to streamline the process. Since that time, Caltrans has made efforts to address the LAO's concerns. It has reduced its inventory of completed PIDs by aligning completed PIDs with updated/revised SHOPP priorities. Caltrans now aligns staffing levels based on PID inventory and identified SHOPP PIDs based on the 10-Year SHOPP Plan. Caltrans has also undertaken efforts to streamline the development process for certain kinds of PIDs. Nevertheless, LAO continues to have concerns with the program, as noted below.

The Governor's Budget proposes an increase of 35 positions for SHOPP PID work, driven by the mix of projects in the 2013 10-Year SHOPP plan, and including the work associated with developing PIDs for projects due in the 2014 and 2016 SHOPP programming cycles. The primary reasons for the increase are that: (1) Caltrans no longer maintains a large inventory of completed PIDs, (2) the Department is behind in PIDs development due to a shortfall of personnel dollars, and (3) the mix of projects has shifted compared to prior fiscal years. The proposal also includes a net increase of one position for non-SHOPP PID work.

In addition to the positions request, the Governor is seeking an increase in SHA funding to true-up the PIDs personnel dollars. The program is currently experiencing a $6.2 million shortfall in its 2012-13 base that developed because, while Caltrans had adequate authorized staffing levels to handle ongoing workload, the personnel dollars were inadequate to fully fund those positions at the classifications hired by Caltrans. This proposal would align personnel dollars with existing classifications in the 2012-13 SHA PIDs program base, and accomplish this using $2.1 million in savings elsewhere in DOTP and additional an $4.1 million in SHA funding.

The overall ZBB of DOTP would partially offset the increased staffing in the PIDs program through the reduction of 24 positions elsewhere within DOTP. These reductions are the product of aligning staffing with workload, creating efficiencies where feasible and redirecting staff where appropriate. This includes a reduction of one position due to efficiencies created by moving from a one-year to a two-year BCP cycle for the PIDs program. An additional reduction of two positions is to be realized outside of DOTP from efficiencies achieved from the consolidation of the Division of Transportation Systems Information with the Division of Research and Innovation. This proposal results in a requested net increase of 10 positions overall.

The Governor's Budget indicates that in an effort to ensure that staff is performing work at the correct classification level, California Department of Human Resources (CalHR) will perform a review of the division to ensure consistency in compliance with state staffing requirements.

LAO Perspective: The LAO notes several concerns with the Governor's Budget proposal as well as the overall PIDs program. The LAO avers that the Administration understates the efficiencies that result from streamlining the PIDs and indicates the presence of an additional savings of $2.9 million and 21 positions. It indicates that the Department is unable to manage the current resources, as evidenced by the mismatch between funding levels and workload, and in addition, misattributes cost allocations between state funds and local reimbursements. Finally, the LAO urges that necessary budget adjustments pursuant to these issues occur in 2014-15. The LAO recommends modifying the current Caltrans request by reducing the PIDs program by $2.9 million and 21 positions.

Staff Comment and Questions: The proposal reflects the Administration's effort to streamline Caltrans' operations and realize efficiencies where possible. While the requested increase in PIDs resources is significant, it may not be unreasonable given that Caltrans has depleted its backlog of PIDs projects in recent years—the product of Proposition 1B and federal stimulus funding. Caltrans' efforts to streamline its PIDs program is ongoing, and although substantial progress has been made, the Department's personnel expenses overrun in the PIDs program and other issues are of concern. If it were necessary to hire at a classification level above that for which the program was budgeted, it is unclear why the department did not request an increase. The position review by CalHR is warranted and should ensure that workload and resources are properly aligned going forward. The Committee may wish to explore further the prudence of the proposal to move to a two-year BCP cycle for the PIDs program. Given that the program is still working to properly align resources, continued review on an annual basis may be appropriate.

> *<u>Questions:</u> (1) How would the department respond to the reduction proposed by the LAO? What would be the impact on PIDs? What is the LAO basis for the cost savings estimates? (2) Would this reduction result in a staffing equivalent to the current year? (3) How should the allocation between state funding and local reimbursements be made and can this be adjusted to reflect an appropriate balance in the budget year? (4) Why was the resources-workload imbalance not addressed in prior years? How can the Committee be assured that this will be addressed? (5) Would a two-year budget cycle for PIDs be appropriate?*

Staff Recommendation: Hold issue open, pending receipt of additional information from the Department and the incorporation of concerns and issues that have been raised.

<u>Vote:</u>

5. **Indirect Cost Allocation Plans—Incurred Cost Audits (Governor's Budget BCP#3):** The Governor's Budget requests a conversion of eight limited-term positions to permanent and to exchange $1.9 million in local federal subvention funds for an equivalent amount of State Highway Account Funds. These positions

were originally approved in fiscal year 2009-10 and approved for a two-year extension in 2011-12.

Background and Detail: Caltrans has a legal and fiduciary duty to ensure that all state and federal funds are expended in compliance with applicable laws, regulations and agreements. This includes an average of $1.3 billion in federal and state funds expended annually by local government agencies (LGA) within the state. Tools used to ensure proper federal reimbursement of LGAs include both Indirect Cost Allocation Plans (ICAP) and Incurred Cost Audits (ICA).

Federal regulations allow LGAs to seek reimbursement for indirect costs (administrative overhead) associated with eligible projects but require that the agency have an approved ICAP in place to justify those costs. Since 1994, Caltrans has been delegated by the Federal Highway Administration (FHWA) to approve ICAPs. ICAs are periodic audits of reimbursements by Caltrans to an LGA to determine if costs are adequately supported and consistent with all contract provisions, laws, regulations, policies and procedures. Improper reimbursement of LGAs can have significant consequences, particularly when federal funds are involved. If FHWA determines that reimbursements have occurred in error or for unallowable expenditures, Caltrans must reimburse these costs and seek reimbursement from the LGA. Improper reimbursement reduces the funding available for eligible project costs.

In 2009, Caltrans sought an increase of 12 positions to approve ICAPs and conduct ICAs because it had determined that its existing resources were insufficient to manage the existing workload and a substantial backlog had occurred. The department indicated that, based on its existing staffing levels, it would take 30 years to audit just the top 30 LGAs (out of at least 699 that receive funding through Caltrans). As a result, the department estimated that it was at risk of reimbursement for as much as $194 million per year due to errors and unallowable costs. The Legislature approved the positions as limited-term and reauthorized in 2011-12.

Because these positions perform work on behalf of local agencies, Caltrans is reimbursed for eligible work through the subvention exchange process (as described above.) To fund this, the Governor proposes to exchange $1.9 million in local federal subvention funds ($809,000 in personnel expenses and $1.1 million in operating expenses), for SHA funds.

Staff Comment: The positions were approved as limited-term because at the time it was unknown whether or not the increased workload would be permanent. The proposal seeks to convert eight of the positions to permanent status because it is apparent that the increased workload will be ongoing. According to the proposal, the limited duration of the positions has made them difficult to fill and has contributed to a high level of turnover. Under the law, an employee may not serve in a limited-term position for more than 24 months and, subsequently may not be rehired for an extended term, making it difficult for Caltrans to attract and retain qualified staff.

While Caltrans has been authorized for 12 positions since 2009, as recently as 2011-12, the vacancy rate was over one-third, at 4.3 positions. It is anticipated that converting the positions to permanent status will increase continuity and improve staff knowledge, experience, and level of productivity. The request for eight permanent positions approximates the current staffing level and projected workload. Because of the subvention exchange, this workload is effectively funded by the local agencies that benefit.

Staff Recommendation: Approve the conversion of eight limited-term positions to permanent, and the subvention exchange, as proposed

Vote:

6. **Proposition 1B Capital Needs (Governor's Budget BCP#4):** The Governor is requesting a total of $238.4 million in capital funding for projects in five categories within the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006 (Proposition 1B). This proposal represents a ZBB and is based on the projects in each program for which the project proponent anticipates requesting an allocation of funding during 2013-14. This request is being made to ensure that adequate resources are appropriated to meet the anticipated need during the upcoming year.

   Background: Proposition 1B was approved by the voters in 2006 and dedicates $19.9 billion over a ten-year period to fund a variety of projects, including the State Transportation Improvement Program (STIP), the SHOPP, congestion relief efforts, public transportation, reduction of air pollution and improved port security. It also provides funding to local agencies for road maintenance and improvements, safety, congestion relief, and seismic safety. Of the total funds, authorized under Proposition 1B, $12.0 billion is reserved for 10 programs funded through Caltrans. Appropriations are made annually to those programs based on anticipated project funding needs for that year. Through June 30, 2012 approximately $8.6 billion in appropriations had been allocated by the CTC for projects through these ten programs. Request detail is presented in the table below:

2013-14 Proposition 1B Capital Needs Requests

Fund	2013-14 Request (in thousands)
Trade Corridors Improvement Fund	$74,127
Public Transportation Modernization, Improvement and Service Enhancement Account—Intercity Rail	$30,517
Local Bridge Seismic Retrofit Account	$15,000
State Highway Operations and Protection Program	$77,965
State Route 99	$40,789
Total	**$238,398**

Staff Comment: This proposal represents anticipated funding requests as of the date of proposal development. Project schedules change and estimates sometimes need to be revised. In addition, the LAO has noted that Caltrans may have significant unspent balances from funds appropriated during 2012-13, which may reduce the funding needed for 2013-14. Given the need to clarify these issues, the Committee may wish to hold this item open until the spring when Caltrans may have a clearer picture as to the level of previously appropriated funding that may be available to be applied to 2013-14 project needs.

Staff Recommendation: Hold issue open.

<u>Vote:</u>

7. **Use of Miscellaneous Revenues for Debt Service (Budget Trailer Bill):** The Governor's Budget has proposes trailer bill language to make permanent the annual transfer of miscellaneous transportation revenue, such as rental income and the sale of surplus property, from the SHA to partially offset the cost of servicing transportation-related general obligation bond debt.

   Background: As part of the 2010-11 Budget, legislation was enacted that directs miscellaneous transportation revenue to partially offset transportation-related debt service. Previously, these miscellaneous funds had flowed from the SHA to the PTA and eventually became available for transit related capital improvement purposes through the State Transportation Improvement Program (STIP). However, with the state facing severe General Fund budget cuts, these funds were redirected to debt service. Under current law, this redirection, which totals approximately $67 million annually, is slated to sunset at the end of FY 2012-13, after which the funds would flow back to the PTA. The proposal would eliminate the sunset, thereby making the funding shift permanent.

   Staff Comment: In making permanent the transfer of miscellaneous special fund revenue to the General Fund for transportation-related debt service—a strategy that was originally proposed for three years as a budget balancing scheme—the Governor's Budget implicitly acknowledges that GO bond debt service represents a long-term, and growing, funding challenge for the state. Because the special fund revenues are being used to service transportation related debt, it can reasonably be argued that this is an appropriate measure. On the other hand, some transportation stakeholders contend that the state has huge transportation needs, particularly in the area of public transportation, and these revenues represent an opportunity to address these needs. The Committee may wish to consider whether it would be appropriate, rather than making the transfer of these revenues permanent, to instead simply extend the sunset. Given the state's continuing budgetary tightness and fiscal constraints, it is prudent to continue the shift of miscellaneous revenues to provide for General Fund debt service relief. However, there would appear to be no apparent down-side to extending the sunset for an additional one or two years as opposed to on a permanent basis.

Staff Recommendation: Approve alternative trailer bill language to extend shift of miscellaneous transportation revenue to the General Fund only for an additional year.

Vote:

8. Enhanced Transportation Bonds—Weight Fees (Budget Trailer Bill): The Governor's Budget proposes trailer bill language that would provide a new form of bond security for certain transportation bonds issued pursuant to Prop 1B. The proposed budget trailer bill would create a mechanism through which the first pledge for debt service on designated bonds would be from a newly-created transportation debt service fund funded from weight fees. The General Fund would serve as a back-stop for any required debt service that was not covered by amount in the transportation debt service fund. Such a bond structure is known in the municipal finance industry as a "double-barreled" or combination bond. Such bonds are secured by a defined revenue source as well as the full faith and credit of an issuer that has taxing power, and has both general obligation and revenue pledges. The administration has indicated that this double-barreled structure provides additional security for investors in the bonds and a potentially higher credit rating, resulting in reduced interest costs.

Background: The proposal is related to versions 1 and 2 of the fuel tax swap. Proposition 22 of 2010 imposed additional restrictions regarding eligible uses of tax revenue derived from gasoline and diesel fuel sales, and in most cases, made that revenue ineligible for payment of GO debt on transportation related bonds (as directed under version 1 of the fuel tax swap). Version 2 of the swap, in AB 105, Statutes of 2011, reenacted the fuel tax swap legislation to conform to Prop 22 and discontinue the use of fuel revenue for GO debt. Instead, truck weight fee revenue was substituted as a source of payment for GO debt. In general, the fuel tax swap legislation lowered the sales tax on gasoline and increased the excise tax on gasoline. This transportation refinancing was revenue neutral for consumers but made transportation funds more flexible to fund a greater variety of transportation programs, including restoration of certain mass transportation programs. Another benefit of the fuel tax swap was that Prop 42 funding for highways and local roads was preserved.

Current law permanently directs truck weight fee revenue to the General Fund for eligible debt service in a given fiscal year. In the absence of this provision, the weight fee revenue would otherwise be used to fund highway repair projects and the administration of Caltrans. Annual truck weight fee revenue currently exceeds eligible debt service, but excess truck weight fee revenue was transferred to the General Fund in 2010-11 and 2011-12 as a pre-funding of out-year bond debt. Both types of transfers to the General Fund, either for current-year or for out-year GO bond debt, provide a General Fund budget benefit in the year the transfer is made. This proposal adds an additional tool for servicing transportation debt by adding weight fees as a first pledge.

Staff Comment and Questions: The Governor's proposed trailer bill would not have an impact on the amount of General Fund savings that have been achieved by shifting weight fees to the General Fund in order to pay for debt service. Instead any new bonds or refinancing bonds designated under the enhanced program would be paid first from the transportation debt service fund, thus reducing the impact on the General Fund. The only change provided in the trailer bill is to pledge these revenues first, using the General Fund a back-stop, instead of transferring the fees to the General Fund. Weight fees in excess of required current debt service would continue to be shifted to the General Fund as pre-funding of future debt service. The projected total weight fee revenue for 2012-13 is $932 million and for 2013-14 is about $946 million. The projected advance payment on debt service is $331.8 million and $38.7 million in 2012-13 and 2013-14, respectively.

> *Questions:* *(1) When will debt service on bonds that are eligible exceed the amount of weight fees? (2) Are enhanced bonds a means of extending the time period for such coverage?*

Staff Recommendation: Approve the Administration's placeholder trailer bill language to provide for enhanced security for designated transportation bonds.

Vote:

2665 High-Speed Rail Authority

Department Overview: The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that would be fully coordinated with other public transportation services. Until California voters approved the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, also known as Prop 1A, the HSRA was a small entity with limited funding that focused its efforts primarily on program level studies and other analyses. Since approval of Prop 1A, and the receipt of $3.5 billion in additional federal funding through the American Recovery and Reinvestment Act (ARRA) in 2009 and 2010, the HSRA's size and scope of work has grown substantially. Federal funding requires a substantial state match and would not be available to the HSRA absent Prop 1A.

HSRA is led by a Chief Executive Officer, and governed by a nine-member Board, five of whom are appointed by the Governor, two by the Senate Committee on Rules, and two by the Speaker of the Assembly. It currently has 71.5 authorized staff positions (up from 32.4 in 2011-12) and, while in the past it has struggled to fill many of these jobs, it has made substantial progress in filling key management jobs over the past year. Last fall, it hired the last of three regional directors and the Chief Program manager. Effective July 1, 2013, pursuant to the GRP 2, the department will report to the new Transportation Agency.

Budget Summary: HSRA operates five programs: department administration; program management and contract oversight; public information and communications; fiscal and other external contract; and blended system projects. The HSRA has expanded from 32.4 positions in 2011-12, to 71.5 positions in the current year, basically reflective of additional responsibilities as funding has increased. Funding for the department is from federal funds and state bond funds for both operating and capital expenditures. Operating support increased from $14.7 million in 2011-12 to $24.5 million in the current year. Capital expenditure grew from $97.1 million in 2011-12 to an estimated $2.4 billion in 2013-14. Following the multi-billion dollar appropriation in the 2012-13 budget to complete preliminary design and commence construction of the initial project phase, the Governor's Budget makes only minor modifications. The budget adds 15.5 staff positions, most of which are in the area of software and information systems. Capital expenditures are expected to be $3.1 billion.

Background: Under Prop 1A, approximately $9.9 billion in general obligation bond funding is authorized for the project. The funds are subject to appropriation by the Legislature. Of this total amount, $950 million is set aside for capital improvements to existing intercity urban and commuter rail systems to provide direct connectivity to high-speed rail. These are incorporated as part of high-speed rail or provide safety or capacity enhancements. The remaining $9.0 billion in Prop 1A is specifically set aside for the high-speed rail project. Up to $450 million is available for general administration and up to $675 million is available for initial construction activities, such as environmental studies and preliminary engineering; no match is required for this $1.1

billion. The remaining $8 billion is available for construction; however, a non-bond match of at least 50 percent is required for each corridor or segment. The bond act specifies certain characteristics for the design of the system, including electrified trains capable of sustaining speeds of no less than 200 miles per hour and capacity to achieve travel times between San Francisco and Los Angeles Union Station of 2 hours, 40 minutes. Phase 1 of the project by segment is shown in the LAO graphic below.

Figure 12

High-Speed Rail Construction to Start in 2013

In April 2012, the HSRA released its revised 2012 Business Plan, which represented a significant shift in direction. Its prior draft Business Plan, released in November of 2011, had outlined a five step strategy to complete Phase 1 of the project, from San Francisco to Anaheim, and tagged the cost of this phase at $98 billion. The April 2012 revised Business Plan was billed by the HSRA as a significant refinement of the original plan, and which would enhance local rail service immediately and, over the long-term, cut costs by $30 billion for Phase 1, to a total of $68 billion. According to the revised plan, construction of the entire 520-mile system would be completed in 2028. Key features of the revised plan include the following:

- Construction of a 300-mile initial Operating Section of electrified rail from Merced to the San Fernando Valley, beginning in 2013 and completed within 10 years.
- Improvements to existing rail service in the Bay Area and Los Angeles regions (the bookends), including conversion of local diesel-powered rail systems to electric power and safety improvements such as positive train control.
- Cost reduction of $30 billion relative to the 2011 draft plan, achieved through use of a blended approach, various cost savings, and revised inflation assumptions.

Following release of the revised 2012 Business Plan, the governor released his revised budget which proposed the following appropriations:

- $5.9 billion ($3.2 billion federal funds, $2.6 billion Prop 1A bond funds) to construct an initial 130 mile segment of the high-speed rail project between Madera and Bakersfield.
- $253 million ($48 million federal funds, $204 million Prop 1A bond funds) for completion of environmental and preliminary design work for various segments of the system. This includes $152.4 million to complete environmental review for each of the 10 segments comprising the system, as well as $100.2 million to fund full preliminary design of the Merced-Fresno and Fresno-Bakersfield segments and partial design of other segments.
- $819 million (Prop 1A connectivity bond funds) for intercity (Caltrans funded) and local rail operators to improve existing rail operations to improve connectivity to the future high-speed rail system. This appropriation consists of $106 million for intercity projects to increase travel speeds and frequencies and $713 million for enhancements to local systems that will directly benefit the HSR project.

These appropriations were included in SB 1029 (Chapter 152, Statutes of 2012) along with an additional package of $1.1 billion in bond funds for investment in the bookends in northern and southern California regions needed to improve travel times for trains providing service as part of the blended system. These projects include $600 million primarily for electrification of the Caltrain corridor between San Francisco and San Jose and $500 million for projects to improve the Metrolink corridor between Palmdale and the San Fernando Valley. The legislation included extensive language that restricts expenditures or requires reporting to various control entities and to the Legislature. Review or approval is required at specified points in the process from the Secretary of Business, Transportation and Housing Agency (or its successor), the Public Works Board (PWB), the DOF, and the Joint Legislative Budget Committee, as well as other legislative committees.

The HSRA received final approval of the environmental documentation for the segment between Merced and Fresno in September 2012 and in January 2013 received approval from the PWB to acquire the necessary land, or right–of–way, between Madera and Fresno. The HSRA currently expects to receive final approval of the environmental documentation for the segment between Fresno and Bakersfield in the fall of 2013. The HSRA is using a design–build procurement process to complete the final engineering design and to construct the rail line. Under design–build, the state contracts with a general contractor to design and build the project. The project in the Central Valley is divided into four contiguous construction packages. A fifth construction package will lay track along the entire corridor after the other construction packages are completed. Five bids for the design and construction of the first construction package—the rail line between Madera and downtown Fresno—were received in January 2013 and HSRA expects to award the contract this summer. Awards for the remaining construction packages are expected to be made in 2014.

HSRA and the agency provided an update on the project status, management, oversight and inspection at a joint hearing of Senate Budget and Fiscal Review, Subcommittee No. 2 on Resources, Environmental Protection, Energy and Transportation and the Senate Transportation and Housing Committee on February 26, 2013. The background paper is located at:
http://sbud.senate.ca.gov/sites/sbud.senate.ca.gov/files/SUB2/2262013Sub2JtHearingHighSpeedRail.pdf

Item Proposed for Vote Only:

1. **Outreach and Communications (Governor's Budget BCP#5):** The Governor's Budget requests funding of $500,000 to continue statewide environmental and design-build construction package outreach and communications services in conjunction with the high-speed rail project. The funding would be used to supplement the HSRA staff.

   Background: The Budget Act of 2012 authorized 4 positions, and an additional one-time $500,000, to enable the HSRA to transform its efforts from a contract service model to a service model supported with state employees. This proposal would continue the same level of funding as received in the current year. The private contractor activities would include participating in general outreach and communications work, developing and implementing outreach strategies for acquisition for right-of-way, and designing a planning meeting involving stakeholders.

   Staff Comment: Given the ongoing activities of the HSRA, and in particular the critical construction phase which is about to begin, the proposal raises no concerns.

   State Recommendation: Approve the request.

   Vote:

Items Proposed for <u>Discussion and Vote</u>:

2. **High-Speed Rail Authority—Project Update Report (Informational Item):** Under Provision 4 of Items 2665 (High-Speed Rail Authority) of the Budget Act of 2012 in SB 1029 (Chapter 152, Statutes of 2012) the HSRA is to submit to the Legislature on a semi-annual basis a status report on the progress for the high-speed rail system during each period in which appropriated funds are encumbered. The report provides updates on a section-by-section basis (for Phase 1—San Francisco to Anaheim and Phase 2—Los Angeles to San Diego), updated financial information, current and projected schedule, major milestones achieved and prospective, central outstanding issues, and key risk areas and risk mitigation plans.

   In the report, there were noted significant delays in the current and projected timetable. For example, the construction package for Package 1 was shifted from early 2013 to summer 2013. Additional revised dates are part of other sections of the project. Much of this has been addressed and incorporated into the project planning. However, the flexibility of the timetable and specifically the impact of any delays on the HSRA budget and financial condition are a continuing key area of concern for the Legislature. In addition, the HSRA report identifies key risk areas, including:

   - Business Risk—Variability in ridership and revenues; Costs of project
   - Investment Risk—Factors affecting capital requirements
   - Financing and Funding Risk—Factors affecting project financing
   - Litigation Risk—Status of and impact of suits

   Staff Comment: In its presentation before the joint hearing of Senate Budget and Fiscal Review, Subcommittee No.2 on Resources, Environmental Protection, Energy and the Transportation and Senate Transportation and Housing Committee, HSRA focused on state oversight. However, the goal of budget hearings is to go a step further and translate the information and products obtained in this oversight effort into budgetary and fiscal terms. To further this objective, the Committee may want to request the HSRA to provide an assessment of the current schedule and risk factors and how these are being addressed in order to mitigate any negative budgetary or other fiscal impacts.

   Staff Recommendation: Informational item.

3. **Staff Management Plan Implementation (Governor's Budget BCP#1):** The Governor's Budget proposes an increase of 20 positions and $1.6 million (Prop 1A bond funds) for administrative and programming functions. The positions are largely related to technology and address transportation planning, business services, audits, information technology, small business advocacy, financial operations and project

oversight. The proposal is in furtherance of the HSRA staff management plan to build in-house expertise and become less reliant on outside resources. The proposal would result in displacing existing reliance on interagency agreements and consulting services.

Background: In October 2012, HSRA provided a staff management report to the Legislature, as required by legislation. In this report, HSRA indicated that most of its managerial vacancies had been filled, and also provided strategic guidelines for its continued transformation from a planning organization to an organization responsible for delivering the largest capital outlay project in the state. The HSRA also reconfirmed its commitment to maintaining a lean organizational structure in which the engineering design and construction is performed by external consultants. Relying heavily on external consultants requires effective oversight by state staff. Accordingly, the HSRA also reported that it will need to add roughly 60 permanent state staff over the next two years to manage these contracts and oversee the increasingly large number of external consultants. Specifically, the above report stated that HSRA will request an additional 30 engineering positions, 13 planning positions, and about 20 finance and administrative positions to help integrate high–speed rail with local transportation systems, manage the various contracts, and provide oversight of the design–builders. The Governor's budget proposes 20 additional positions including two positions for transportation planning and 18 positions for finance and administration. These 20 proposed positions are consistent with the HSRA's approach described above.

LAO Perspective: The LAO indicates that the proposed positions are justified on a workload basis, and observes that increases in the number of contract management and oversight staff require additional business support activities that are best done in-house.

Staff Comment: The proposal raises no concerns with staff.

Staff Recommendation: Approve the request for additional administrative positions and $1.6 million in additional resources.

Vote:

4. **Financial Consulting Services (Governor's Budget BCP#2):** The Governor's Budget proposes additional funding for the continuation of the financial consulting services. The funding request is for $3.8 million (Prop 1A bond funds) and pays for an additional year with the current financial consultant KPMG. The consultant's duties would include providing financial advisory services to HSRA to develop analyses to support financial planning efforts and potential procurements for the project, including: options analyses, finance plans for specific corridors, credit enhancement opportunities, and the impact of phasing. These duties relate to the

2012 Business Plan, Central Valley procurement support, funding analysis, Phase 1 procurement support, and Caltrain electrification.

Background: The HSRA hired the current financial consultant in June 2011 to assist with the development of the business and funding plans of the high-speed rail project. In addition to assisting with the funding and financing aspects of the project, the financial consultant assisted with the development and validation of the ridership and revenue projections found in the 2012 Business Plan and the review and analysis of financial statements for construction firms submitting proposals in response to the HSRA request for qualifications for the initial construction segment.

LAO Perspective: External financial consultancy provides some specialized and intermittent services that would be difficult for state staff to perform; however, the LAO finds that some of the identified tasks (such as revising the existing financial plans and writing several chapters of the next iteration of the business plan) would be more appropriate for, and less costly if performed by, existing state staff. Consequently, the LAO recommends the Legislature reduce funding for financial services consulting by $1.25 million in Proposition 1A bond funds—from $3.75 million to $2.5 million (the amount of the 2012–13 appropriation).

Staff Comment: The workload analyses and data provided by the HSRA to date do not provide a convincing basis upon which to provide a 50 percent increase in the contract amount from the prior year. In addition, although costs savings for specialized financial services may be realized through external contracts, more routine analyses should be performed internally in concert with the department's overall management and staffing direction. On the other hand, an arbitrary reduction to the prior year amount seems without sufficient analytical basis to warrant support at this time. The proposal requires additional data and comment from the Department or DOF as well as the LAO in order to facilitate a sound decision.

Questions: *(1) Can the HSRA provide additional detail that would warrant the proposed increase in the outside contract? (2) What is the expectation in the future—and the timing—to incorporate any of these activities within the HSRA?*

Staff Recommendation: Hold issue open.

Vote:

5. **Program Management Oversight—Transition to State Staffing (Governor's Budget BCP#4):** HSRA is requesting in the Governor's Budget, $4.1 million (Prop 1A bond funds) to continue through the budget year its existing contract with the firm that provides project management oversight services (PMO). The Governor's budget indicates that the services of the retained firm—TY Lin—is needed to provide staff augmentation to the HSRA for management and oversight of the program management team's (PMT) contract and to perform administrative support for

certain internal HSRA activities. The proposal also includes budget bill language (BBL) that would allow the HSRA to transition certain duties to state staff.

Background: The current contractor was retained in 2010, and has had previous extensions of its contract since that initial period. Actual expenditures on the contract were $1.3 million in 2009-10, $2.9 million in 2010-11 and $3.0 million in 2011-12. The authorized expenditure level in 2012-13 is $5.0 million. The PMO would continue its duties to: monitor PMT performance; review work methods, products, and schedules of the PMT and regional consultants; and, coordinate critical milestones for engineering and design work. The PMO also has performed programmatic reviews involving management tools, performance and deliverables. In previous hearing, the HSRA has been urged to bring additional expertise onto the state payroll and reduce reliance on outside contractors.

LAO Recommendation: The LAO recommends approving the request for contract funding because it is necessary to continue this critical oversight function. It also recommends rejecting the BBL, because it would not allow for appropriate legislative oversight of the establishment of new permanent state positions.

Staff Comment and Questions: HSRA's proposed BBL comes unaccompanied by a detailed staffing plan that would indicate what the personnel and resource need is and the particular expertise that would be used to carry-out the oversight duties. Having a clear and detailed plan is needed in order to ensure that the most cost–effective approach is taken. The proposed BBL would authorize HSRA to transfer funds appropriated for the program management and oversight contract to state administration to fund these additional positions without appropriate legislative oversight. Although the BBL is in keeping with expressed legislative interest, it is open-ended and provides no additional opportunity for legislative input. HSRA should provide additional staffing information regarding the proposed conversion at the hearing. The Committee may want to consider alternative BBL that could provide some flexibility under constrained circumstances.

> *<u>Questions:</u> (1) is there, or will there be, an additional detailed staffing plan update that would flesh-out the proposed BBL?*

Staff Recommendation: Approve PMO contract of $4.1 million with existing contractor. Do not approve proposed BBL and request additional staffing information plans and timing from HSRA.

<u>Vote:</u>