

## SUBCOMMITTEE NO. 2

## Agenda

Senator Bob Wieckowski, Chair  
Senator Mike McGuire  
Senator Tony Mendoza  
Senator Jim Nielsen



Thursday, March 23, 2017  
9:30 a.m. or upon adjournment of session  
State Capitol - Room 112

Consultant: James Hacker

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**VOTE-ONLY CALENDAR**

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**2660 – California Department of Transportation**

1. **Planning Program Project Initiation Documents ZBB.** The budget includes a biannual Zero-Based Budget (ZBB) for the Planning Program's Project Initiation Documents workload. This ZBB requests 332 permanent positions and \$58 million from a variety of special funds to complete Project Initiation Document workload over the next two years. This is a reduction of 30 positions and \$4.2 million from the 2015-16 ZBB.
2. **High-Speed Rail Project Reimbursement Authority.** The budget requests \$2.3 million (State Highway Account) per year for 14 two-year limited-term positions to provide ongoing legal services to the High Speed Rail Authority in real property acquisition and maintenance.

**2665 – California High-Speed Rail Authority**

1. **High Speed Rail Property Management.** The budget requests a baseline appropriation of \$750,000 from the High-Speed Rail Property Fund to fund expenses related to Authority ownership of property. As of August 2016, the Authority has acquired 738 of the 1,482 parcels required to complete the project's first four construction packages. These parcels were acquired to create the necessary right-of-way for construction of the high speed rail line. However, not all parcels can be immediately transferred to construction contractors for demolition and construction, requiring the Authority to act as a short-term landlord until such activities can take place. All short-term lease revenues collected by the Authority are deposited in the Property Fund; however, the Authority currently lacks the ability to use these revenues for property management.

**2670 – Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun**

1. **Rent Increase.** The budget requests a budget augmentation of \$129,000, increasing by \$8,000 per year for eight years, for increases in the cost of office rentals in the Board's San Francisco office. The Department of General Services negotiated the increased rent at the Board's current location after determining that no other available office space existed that was appropriate for the Board's purposes, cost-effective, and located in San Francisco or Alameda Counties (as required by statute). The negotiated lease includes a firm four year commitment from BOPC, after which BOPC may terminate the lease with 60 days' notice. BOPC has indicated that they will submit a negative BCP should they choose to terminate the lease.

**2720 – Department of the California Highway Patrol (CHP)**

1. **Integrated Database Management System Funding.** The budget requests one-time funding of \$894,000 (MVA) to cover costs associated with the department's use of the California Department of Technology's (OTech) Integrated Database Management System (IDMS). IDMS currently hosts three legacy CHP applications: a timekeeping application, a database related to commercial vehicle highway incidents and safety, and a department-wide message-passing system. OTech bills departments for IDMS use by dividing the total cost of maintaining the system between the number of users each client department has. Over time, many departments have migrated off the IDMS system, leaving fewer users across which to spread costs. This has resulted in an increase in CHP costs over time. CHP has indicated that they are in the process of migrating the final three systems off of IDMS, and will be fully off the service by June 2017, at which point further IDMS funding will no longer be necessary.

2. **Reimbursements.** The budget requests a permanent budget augmentation of \$14 million in MVA reimbursement authority to ensure collection authority for all reimbursable activity undertaken by CHP. The department's billings for reimbursable activities have exceeded reimbursement authority since 2013-14, requiring the department to absorb excess costs in its general operating budget.

#### **2740 – Department of Motor Vehicles**

1. **Inglewood Swing Space.** The budget requests \$2 million (MVA) one-time costs and \$407,000 (MVA) in ongoing costs for temporary field office swing space to house Inglewood field office staff while the previously-approved Inglewood Field Office On-Site Replacement project, which involves demolishing the old office and building the new office on the same site, is completed. A portion of the ongoing costs will also pay for a permanent relocation of the Inglewood Investigations division, which will not have space in the Inglewood field office upon completion of the On-Site Replacement.

## 0521 SECRETARY FOR THE CALIFORNIA TRANSPORTATION AGENCY

The California State Transportation Agency develops and coordinates the policies and programs of the state's transportation entities to achieve the state's mobility, safety and environmental sustainability objectives from its transportation system.

**Governor's Budget:** The budget includes \$336 million and 54 positions for the California State Transportation Agency in 2017-18. This is a reduction of roughly \$200 million from 2016-17, largely from the shifting of Greenhouse Gas Reduction Fund resources from the agency budget to a Control Section. Specifically, the budget proposes an increase of \$400 million from the Green House Gas Reduction Fund through Control Section 15.14 to be allocated for the Transit and Intercity Rail Capital Program as part of the Governor's Transportation Package. In addition, an increase of \$85 million from accelerated loan repayments to the Public Transportation Account is included in the package.

### EXPENDITURES BY FUND (in millions)

#### 3-YR EXPENDITURES AND POSITIONS

	Positions			Expenditures		
	2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
0270 Administration of Transportation Agency	23.1	21.0	21.0	\$3,825	\$5,019	\$5,019
0275 California Traffic Safety Program	30.2	33.0	33.0	95,907	118,753	96,933
0276 Transit and Intercity Rail Capital Program	-	-	-	-	425,952	234,480
<b>TOTALS, POSITIONS AND EXPENDITURES (All Programs)</b>	<b>53.3</b>	<b>54.0</b>	<b>54.0</b>	<b>\$99,732</b>	<b>\$549,724</b>	<b>\$336,432</b>
<b>FUNDING</b>				<b>2015-16*</b>	<b>2016-17*</b>	<b>2017-18*</b>
0044 Motor Vehicle Account, State Transportation Fund				\$2,362	\$2,897	\$2,897
0046 Public Transportation Account, State Transportation Fund				5	9,006	85,006
0890 Federal Trust Fund				95,454	118,397	96,577
0995 Reimbursements				1,905	2,403	2,403
3228 Greenhouse Gas Reduction Fund				6	417,021	149,549
<b>TOTALS, EXPENDITURES, ALL FUNDS</b>				<b>\$99,732</b>	<b>\$549,724</b>	<b>\$336,432</b>

## Issues Proposed for Discussion

### Issue 1: Governor's Transportation Package

**Governor's Proposal:** The budget incorporates a transportation funding package similar to the one the Governor proposed during the transportation special session. The budget proposes to provide new funding of \$1.9 billion in 2017-18, and \$4.3 billion on an annual ongoing basis. The annual funding package provides \$2.1 billion from a new \$65 fee on all vehicles; \$1.1 billion by setting the gasoline excise tax at 21.5 cents (with future adjustments for inflation); \$425 million from an 11-cent increase in the diesel excise tax; \$500 million in additional cap-and-trade proceeds; and \$100 million from cost-saving reforms to be implemented by Caltrans as shown in the figure below. The \$1.9 billion of additional funding in 2016-17 includes \$235 million from the acceleration of General Fund loan repayments over the next three years (\$706 million in total repayments), rather than repaying these loans over the next 20 years.

#### Governor's Budget Transportation Funding and Reform Package

Funding Source	Annual Amount	Comments
Road improvement charge	\$2.1 billion	A new \$65 fee on all vehicles that equally funds state and local transportation priorities.
Gasoline excise tax	\$1.1 billion	Sets the gasoline excise tax at the historical average of 21.5 cents beginning in 2018-19 and going forwards adjusts annually for inflation.
Diesel Excise tax increase	\$425 million	Increases the diesel excise tax by 11 cents beginning in 2018-19 and going forwards adjusts annually for inflation.
Cap-and-trade	\$500 million	Provides additional funding for the Active Transportation Program (\$100 million) and transit capital improvements (\$400 million).
Caltrans efficiencies	\$100 million	Implements cost-savings reforms.

The 2017-18 proposals for spending the increased funding are:

- **Local Streets and Roads.** The increased funding will provide \$206 million to cities and counties for local road maintenance.
- **Active Transportation Program.** The budget provides \$100 million cap-and-trade revenues for the Active Transportation Program which funds projects encouraging active transportation such as bicycling and walking, with at least 50 percent of the funds going to disadvantaged communities.
- **Transit and Intercity Rail Capital.** The budget provides \$400 million from cap-and-trade revenues for transit capital investments that provide greenhouse gas reductions, with at least 50 percent of the funds going to disadvantaged communities.

- **Highway Maintenance and Repair.** The budget provides an increase of \$351 million (\$42 million from loan repayments) for repairs and maintenance on the state highway system.
- **Trade Corridor Improvements.** The budget provides an increase of \$358 million (\$108 million from loan repayments) for Caltrans to fund projects along the state's major trade corridors.
- **Corridor Mobility Program.** The budget provides \$300 million for the Corridor Mobility Program, including \$25 million for local planning grants, to focus on multi-modal investments in key congested commute corridors that demonstrate best practices for public transit and managed highway lanes, such as priced express or high occupancy vehicle lanes.

**Reforms and Efficiencies.** The budget proposes to improve Caltrans' performance by establishing measurable targets for improvement. It also proposes to streamline project delivery by making various changes that include advancing project environmental mitigation, and implementing more innovative procurement methods.

## BACKGROUND

### Overview of Transportation Funding in California

The California state highway system includes 50,000 lane-miles of pavement, approximately 13,000 bridges, 205,000 culverts and drainage facilities, 87 roadside rest areas, and 29,183 acres of roadside landscaping. In addition, California's 58 counties and 480 cities are responsible for 304,000 miles of local streets and roads, as well as numerous local bridges. Approximately 180 public agencies provide public transit, such as intercity bus and passenger rail, resulting in about 1.3 billion passenger trips each year. The programs described in this section relate to state highways, local roads, and mass transit, and include the Department of Transportation (Caltrans) and the California Transportation Commission (CTC).

These areas of transportation are funded from local, state, and federal sources as shown in the figure below. In addition, the California Highway Patrol (CHP), the Department of Motor Vehicles (DMV), as well as various programs within the Air Resources Board (ARB), are funded with revenues from vehicle registration and driver licenses' fees. High-speed rail funding is excluded here.

### California Transportation Funding Major Sources

Funding Source	Comments
Local Revenues	Locally-imposed revenues such as add-on sales tax, property tax, developer fees, and transit fares. Some funds used to reimburse Caltrans for locally-supported work on the highway system.
Federal Revenues	Primarily federal gas tax revenue (18.4 cents/gallon). Includes funds for highways and transit.
Motor vehicle fuel taxes	Allocated to the state and local governments. In 2017-18, the state gasoline tax is expected to be 29.7 cents and the diesel excise tax 16.3 cents.
Fees on cars and drivers	Primarily from vehicle registration and driver licenses. Supports the operations of the DMV, CHP, and ARB.
Truck weight fees	Revenue pays for debt service on transportation-related general obligation bonds.
Cap-and-trade	Supports transit operations and capital projects, and active transportation.
Diesel sales tax	Primarily supports local transit operators.
GO bonds	State general obligation bonds, primarily from Proposition 1B.

#### Special Session on Transportation Funding

The Legislature convened in 2015 a special session on transportation funding to address the funding shortfall for maintaining the current system of state highways, transit, and local streets and roads. For example, the State Highway Operation and Protection Program (SHOPP), which funds highway maintenance and repairs, has an annual funding shortfall of about \$6 billion. Various options to increase state funding and achieve efficiencies at Caltrans were proposed during the Special Session by both the Legislature and the Administration. Generally, the total amount of funding the proposed plans would generate each year (for a variety of transportation purposes) varied from the low billions to up to \$7 billion. The special session ended without the passage of a funding package.

#### Options to Increase the Accountability and Efficiency of Caltrans

In addition to increasing funding for transportation infrastructure, many of the options considered during the special session would increase the accountability of Caltrans' work and allow for other efficiencies. Over time, increasing the accountability and efficiency of Caltrans has the potential to decrease the amount of funds that are potentially mismanaged, reduce cost-over runs, and reduce total project costs. The savings from implementing such activities would be less in dollar terms than the funding proposals described earlier. However, improving the department's performance, and better ensuring that the limited funding available for transportation is put to the best use, should also be a priority.



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The CTC included several recommendations for improving transparency, accountability, and efficiency in transportation spending in its 2015 and 2016 annual reports. These include:

- Require the State Highway Performance Plan to include measurable targets for improving the state system, and require Caltrans to provide regular reports on its progress to the California State Transportation Agency and the CTC. Give the CTC the responsibility to allocate both project development and delivery costs for Caltrans projects.
- Allow direct contracting between Caltrans and federally-recognized Native American tribes in California for transportation program purposes.
- Provide flexibility for Caltrans to contract for more engineering and right-of-way workload. Permit Caltrans to prequalify consultants by type of work and draw from a list of those consultants as work becomes available. Authorize Caltrans and its partners to use alternative procurement methods permanently and without limits.
- Expand the use of “advance mitigation” and other expedited environmental review processes to streamline the environmental planning and compliance portion of transportation project development.
- Require Caltrans to implement efficiency measures with the goal of generating \$100 million per year in savings to invest in maintenance and rehabilitation of the state highway system.

## ISSUES TO CONSIDER

The current level of funding is inadequate to maintain the state’s transportation system and it is important for the Legislature to address this. The Legislature may want to consider several issues as they review the funding package proposed in the budget:

- **Amount of Funding.** According to the Governor’s budget, the cost of deferred maintenance for the state highway system is \$59 billion and the annual funding shortfall for maintenance and repair of these roads is \$6 billion. The proposed transportation funding package, however, only provides \$4.3 billion per year. Given the scale of the problem, and the state’s fiscal outlook, the Legislature may want to consider what an appropriate level of funding for transportation projects would be.
- **Use of Funding.** The proposed transportation package provides \$4.3 billion per year, spread across highways, public transit, local streets and roads, and active transportation such as biking and walking. However, as stated above, the annual funding shortfall for highways alone is nearly \$6 billion. Given this shortfall, the Legislature may want to consider options for prioritizing spending in various transportation categories to ensure that the limited funding available is directed at the highest priority projects.
- **Source of Funding.** The gas tax is the traditional funding source for transportation infrastructure because it follows the “user pays” principle by tying the use of a public good with the cost of maintaining it – the more miles driven, the more gas burned and the more gas tax paid. The gas tax has remained the primary funding source for transportation projects, even as gas mileage has risen and inflation has reduced the value of the collected tax. Any effort to raise additional revenue for transportation will likely include increasing existing taxes and fees or the creation of additional taxes and fees. Obtaining the votes necessary to pass such a package may be challenging. The Legislature may want to consider other options for raising revenues, such as

raising fees, though such fees may not follow the “user pays” principle as closely as the existing fuel tax.

## 2600 CALIFORNIA TRANSPORTATION COMMISSION

The California Transportation Commission is responsible for programming and allocating funds for the construction and improvement of highways, passenger rail systems, and transit systems throughout California. The Commission advises and assists the Transportation Agency and the Legislature in formulating and evaluating state policies and plans for California's transportation programs. The Commission also initiates and develops state and federal transportation policies that seek to secure financial stability for the state.

**Budget Overview:** The budget provides \$29.6 million and 20 positions for the CTC in 2017-18, an increase of three positions and roughly \$500,000. This is mostly due to an increase in resources provided by the Governor's transportation proposal and other staffing proposals.

### 3-YR EXPENDITURES AND POSITIONS

	Positions			Expenditures		
	2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
1800 Administration of California Transportation Commission	17.4	17.1	20.1	\$2,956	\$4,049	\$4,551
1805 Clean Air and Transportation Improvement	-	-	-	4,861	25,000	25,000
<b>TOTALS, POSITIONS AND EXPENDITURES (All Programs)</b>	<b>17.4</b>	<b>17.1</b>	<b>20.1</b>	<b>\$7,817</b>	<b>\$29,049</b>	<b>\$29,551</b>
<b>FUNDING</b>				<b>2015-16*</b>	<b>2016-17*</b>	<b>2017-18*</b>
0042 State Highway Account, State Transportation Fund				\$1,017	\$1,660	\$1,913
0046 Public Transportation Account, State Transportation Fund				1,760	1,845	1,878
0703 Clean Air and Transportation Improvement Fund				4,861	25,000	25,000
0995 Reimbursements				105	426	426
3290 Road Maintenance and Rehabilitation Account, State Transportation Fund				-	-	216
6055 Corridor Mobility Improvement Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006				18	6	6
6056 Trade Corridors Improvement Fund				17	35	35
6058 Transportation Facilities Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006				16	-	-
6059 Public Transportation Modernization, Improvement and Service Enhancement Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fd of 2006				4	12	12
6060 State-Local Partnership Program Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006				8	6	6
6062 Local Bridge Seismic Retrofit Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006				1	6	6
6063 Highway-Railroad Crossing Safety Account, Highway Safety, Traffic Reduction, Air Quality and Port Security Fund of 2006				3	22	22
6064 Highway Safety, Rehabilitation, and Preservation Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006				7	19	19
6072 State Route 99 Account, Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006				-	12	12
<b>TOTALS, EXPENDITURES, ALL FUNDS</b>				<b>\$7,817</b>	<b>\$29,049</b>	<b>\$29,551</b>

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**Issue 1: Transportation System Planning and Oversight**

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**Governor’s Proposal:** The budget requests \$395,000 per year from various special funds for one new permanent position, the conversion of one limited-term position to permanent, and \$20,000 in contracting funds to implement a variety of legislative mandates. Specifically, the requested positions will administer the state’s Active Transportation Program (ATP) and the implement new requirements for regional and statewide transportation planning.

**Background:** The ATP is a competitively-awarded state grant funding program with the goal of funding projects that increase walking and biking. The program receives approximately \$123 million in state and federal funds annually and is funding categories open to any project statewide, projects from small urban and rural organizations, and projects from Metropolitan Planning Organizations. The CTC’s role includes adopting project guidelines, adopting fund estimates for the program, allocating funds to projects, and evaluating and reporting on the status of the overall program to the Legislature. The ATP was created by SB 99 (Committee on Budget and Fiscal Review), Chapter 359, Statutes of 2013, and AB 101 (Committee on Budget), Chapter 354, Statutes of 2013, which amalgamated several existing state and federal programs, most of which were formula-driven rather than competitive. The CTC is currently redirecting one full-time position to administer the program.

SB 486 (DeSaulnier), Chapter 917, Statutes of 2014, gave the CTC a major role in the development of the California Transportation Plan, which guides the development of numerous regional and statewide transportation plans. Specifically, it provided that the CTC may prescribe study areas for analysis and evaluation by Caltrans, and may establish guidelines for updates to the California Transportation Plan. The bill also requires the CTC to approve the Interregional Transportation Strategic Plan and the Interregional Transportation Improvement Program. Additionally, SB 64 (Liu), Chapter 711, Statutes of 2015 required the CTC to review any recommendations in the California Transportation Plan and “prepare specific, action-oriented, and pragmatic recommendations for transportation system improvements.” Prior to the passage of SB 486 and SB 64, the CTC had no role in the development or administration of any of these plans. The 2015-16 budget resourced the CTC with one limited-term position, which is set to expire in June 2017, to implement the planning provisions of SB 486 and SB 64.

The state is responsible for the maintenance and rehabilitation of the 50,000 mile state highway system, as well as the associated bridges, culverts, and other infrastructure. Caltrans describes its plans for the rehabilitation and reconstruction of this infrastructure in the State Highway Operations and Protection Program (SHOPP). The SHOPP is a \$10 billion four-year portfolio of projects that allocate funds to a variety of high-priority rehabilitation projects that require more extensive design and construction work than a simple maintenance project.

SB 486 requires the CTC to adopt the four-year SHOPP Program and approve the 10-year SHOPP Plan. Additionally, Caltrans, in consultation with the CTC, is required to prepare an Asset Management Plan to guide SHOPP project selection in phases, with the first phase included in the 2016 SHOPP. As part of this process the CTC is further required to adopt targets and performance measures to guide state transportation investments. The Asset Management Plan, performance measures and targets, and the CTC’s Fund Estimates together help inform future project prioritization and programming decisions.

The CTC received one permanent position in the 2016-17 budget to implement the SHOPP-specific requirements of SB 486.

**Staff Comment:**

***Conversion of Limited-Term Position to Permanent is Reasonable.*** Based on workload data provided by the CTC, and on the provisions of SB 486 and SB 64, the CTC's request for two permanent positions is generally reasonable. The CTC was given one limited-term position for the planning requirements of SB 486 and SB 64, which is set to expire in June 2017. The responsibilities given to CTC by these bills are ongoing, and a permanent position is appropriate to administer them.

***ATP Created Significant New Workload at CTC.*** The creation of the ATP created significant new workload at the CTC. While several of the legacy active transportation programs that were combined into the ATP were administered by the CTC, they were predominantly formula-based programs and therefore created relatively limited workload. SB 99 and AB 101 shifted these programs into a competitive structure, requiring more active administration by the CTC and creating significant workload, without providing additional resources to administer the program. To date the CTC has administered the program by permanently redirecting one position to administer the program on a full-time basis, redirecting other positions as needed during periods of high workload, and contracting with the Community College Foundation to provide temporary administrative support when necessary. CTC workload data indicates that administering the ATP requires roughly two full-time positions year-round. An additional permanent position, and continued contractor support, can help minimize the redirection of personnel from other CTC programs during periods of high workload.

***CTC Workload May Increase in the Future.*** In addition to the workload created by the ATP and the planning requirements of SB 486 and SB 64, the CTC has been tasked with an increased oversight role in statewide transportation planning and programming. SB 486 gave the CTC a more active role in the planning and programming of SHOPP funds, as well as the continued development of Caltrans' Asset Management Plan. The CTC was provided with a single position in the 2016-17 budget to coordinate this work, and has indicated that they will continue to track SHOPP-related workload to determine if additional resources are required in future budget years.

Additionally, several transportation funding proposals have included changes to the CTC's role. These include establishing the CTC's independence from the California Transportation Agency, expanding the CTC's role in programming SHOPP funds, and increasing CTC involvement in other transportation programs. All of these proposals may increase CTC workload in out years, and may require further resources to implement.

## 2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION

The California Department of Transportation (Caltrans) designs and oversees the construction of state highways, operates and maintains the highway system, funds three intercity passenger rail routes, and provides funding for local transportation projects. Through its efforts, Caltrans supports a safe, sustainable, integrated, and efficient transportation system to enhance California's economy and livability.

**Budget Overview:** The budget proposes \$10.9 billion to support 19,000 positions at Caltrans. This is an increase of nearly \$1.3 billion, mostly due to the allocation of funds provided by the Governor's Transportation Package. In total, the Governor's Transportation Package allocates \$358 million for Trade Corridor Enhancement, \$351 million for state highway repairs and maintenance, \$300 million for the Corridor Mobility Improvement Program, which includes \$25 million for local planning grants. In addition to the funding in Caltrans' budget, the package provides \$485 million for the Transit and Intercity Rail Capital Program, \$206 million for local road repairs and maintenance, and \$100 million for greenhouse gas reduction projects in the Active Transportation Program.

### 3-YR EXPENDITURES AND POSITIONS

	Positions			Expenditures		
	2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
1830019 Aeronautics	24.7	24.0	24.0	\$6,531	\$8,629	\$7,993
1835010 Capital Outlay Support	7,596.4	8,160.6	8,160.6	1,957,449	1,788,038	1,790,811
1835019 Capital Outlay Projects	-	-	-	3,669,748	2,975,152	3,639,224
1835020 Local Assistance	251.4	267.5	266.5	1,204,544	2,067,487	2,504,610
1835029 Program Development	192.8	222.2	224.2	66,213	79,430	77,974
1835038 Legal	253.2	278.6	276.6	120,339	127,115	128,078
1835047 Operations	1,325.0	1,061.2	1,061.2	264,004	248,571	250,857
1835056 Maintenance	6,300.4	6,014.3	6,014.3	1,657,773	1,512,461	1,665,430
1840019 State and Federal Mass Transit	56.0	62.7	62.7	157,497	194,291	122,063
1840028 Intercity Rail Passenger Program	40.0	47.7	43.7	189,098	392,893	522,265
1845013 Statewide Planning	613.0	658.9	628.9	113,465	132,999	130,128
1845022 Regional Planning	46.2	38.5	38.5	86,499	92,767	94,767
1850010 Equipment Service Program	699.5	634.6	634.6	273,581	191,956	191,965
1850019 Equipment Service Program - Distributed	-	-	-	-273,581	-191,956	-191,965
9900100 Administration	1,527.2	1,573.5	1,577.5	776,537	374,442	390,021
9900200 Administration - Distributed	-	-	-	-776,537	-374,442	-390,021
<b>TOTALS, POSITIONS AND EXPENDITURES (All Programs)</b>	<b>18,925.8</b>	<b>19,044.3</b>	<b>19,013.3</b>	<b>\$9,493,160</b>	<b>\$9,619,833</b>	<b>\$10,934,200</b>

<b>Issue 1: Information Technology Infrastructure Refresh</b>
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**Governor’s Proposal:** The budget requests one-time funding of \$12 million (State Highway Account) to replace outdated information technology infrastructure equipment that has reached the end of its end of life.

**Background:** Caltrans IT Infrastructure was developed, and is maintained, in accordance with a Finance Letter for network infrastructure approved in 1997-98, which budgeted \$21 million in one-time funds, and \$5.8 million for ongoing maintenance and operations for the department’s IT infrastructure. Caltrans IT infrastructure has grown significantly in the intervening years to support the demands of business operations without a significant increase in the IT budget.

Caltrans IT infrastructure supports daily operations at more than 600 locations statewide. Operations supported by aging infrastructure include: management of freeway traffic, ramps lanes, and lights, maintenance of highways and bridges, changeable message signs, and other public communication efforts. Additionally, IT infrastructure supports the daily operations of Caltrans staff.

As of June 16, 2016, Caltrans had 10,938 IT infrastructure devices, with a value of approximately \$60 million. Approximately 55 percent of these devices, including 5,483 network devices, 447 servers, and 108 storage appliances, will reach their design End of Life (EOL) by June 2017. A number of recent IT failures have created significant interruptions to Caltrans operations. These include an outage in the Caltrans Construction Management System, which resulted in a department-wide assessment of necessary IT reforms.

Caltrans has identified 1,081 pieces of high-priority IT infrastructure to replace, with a combined cost of \$11.9 million. These replacements are detailed below.

Device Type	Quantity	Average Hours to Replace	Level of Effort to Replace (Hours)	Full Time Equivalent FY 17-18	Costs (000's)
Network	869	18	15,642	9	\$ 6,002
Server	126	42	5,292	3	3,013
Storage	86	80	6,880	4	2,906
<b>Total</b>	<b>1,081</b>	<b>140</b>	<b>27,814</b>	<b>16</b>	<b>\$11,921</b>

**Staff Comments:** Functional IT infrastructure is crucial to Caltrans daily operations. Caltrans has experienced significant IT failures in recent years with increasing frequency. Caltrans has provided an accounting of the number and type of IT devices to be replaced, and the cost for doing so, which supports this request, and have indicated that procurement of the required pieces of IT infrastructure will be completed by June 2017.

However, this request does raise a number of questions. Specifically, given recent advances in technology, are most cost-effective options for addressing aging IT infrastructure available? And, should the Legislature choose to fund this request, how does Caltrans plan to maintain the requested

infrastructure to ensure the department can maintain the IT function without repeating the major interruptions experienced in recent years?

***Alternative Solutions Exist.*** The BCP provides an alternative option of migrating all servers and storage capacity to the California Department of Technology's (OTech) CalCloud program, without replacing servers and storage appliances at Caltrans. Caltrans has indicated that this would limit long-term maintenance costs and free up staff for more high-priority IT projects. However, Caltrans has also indicated that many applications are not designed for the cloud, and may require significant reworking to ensure compatibility. OTech has indicated that this alternative will require ongoing annual costs, would migrate specific applications to CalCloud, and may not necessarily include all of the most aged and vulnerable equipment. To determine those costs, a more in-depth review of the Caltrans IT applications and infrastructure is currently underway. Specifically, Caltrans is working with CDT to review the entire Caltrans IT infrastructure design, applications and equipment, and expects to have a plan and cost for Alternative 2 by this spring.

***Long Term Maintenance Plan Unclear.*** Additionally, it is unclear what Caltrans' long-term plan would be for maintaining the requested infrastructure. Caltrans is requesting these funds to replace a large batch of IT infrastructure that was purchased years ago and allowed to reach EOL in a single wave, rather than maintaining and replacing the infrastructure as needed to spread replacement costs over multiple years.

OTech utilizes a Lifecycle Management Program and publishes equipment lifecycles that follow industry standards and best practices for ensuring equipment is monitored and replaced prior to failure. Caltrans has indicated that they plan to follow OTech's lead and adopt an IT Asset Lifecycle Replacement Program to emphasize IT asset management and avoid IT equipment failure and disruptions to business operations. Caltrans has not provided a due date for this plan.



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**Issue 2: Information Technology Enterprise Security**

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**Governor's Proposal:** The budget requests \$4 million (State Highway Account) and six permanent positions to create, implement, and administer the Information Technology Cyber Security Program. This request includes:

- Six permanent positions beginning in 2017-18.
- \$1.7 million for contracting costs in 2017-18; \$1.1 million in 2018-19; and \$500,000 in ongoing contractor costs in out years.
- \$1.4 million in one-time operating costs for hardware and software purchases, with \$425,000 in ongoing hardware and software purchases.
- Ongoing training expenses of \$5,000 per year per position.

**Background:** Caltrans is becoming increasingly dependent on its information technology assets, which are themselves becoming more complex, interconnected and exposed to cyber threats. Caltrans is mandated by numerous compliance directives to protect the security, confidentiality, integrity, and availability of the information and technology assets under its control. Audits and assessment by a variety of state and federal organizations have identified potentially-significant gaps in Caltrans' compliance with these state and federal IT security directives.

In recent years, a number of unsophisticated and generally untargeted cyberattacks have led to system outages, interrupted Caltrans service, and compromised potentially valuable information, such as login credentials and network information. Caltrans has indicated that a more sophisticated and targeted attack that results in 24 hours of system downtime could cost more than \$40 million in lost productivity and economic costs, as well as creating significant potential safety challenges on the state highway system.

Caltrans has previously created and filled the position of Information Security Officer, but has indicated that the Department lacks the resources necessary to close the gaps identified in previous audits and cybersecurity reviews.

**Staff Comments:** While the department's proposal has merit, the proposed implementation plan lacks detail. Specifically, Caltrans has proposed a high-level plan for the development of the Caltrans Security Roadmap, which will guide the creation and management of the proposed Cybersecurity Program. The proposed plan lacks key detail around implementation dates and costs. Caltrans has indicated that a portion of the requested contracting funds will support the development of a detailed roadmap, using the proposed plan as a guide. Without this detailed roadmap, it is difficult to assess whether the ongoing funding requested in this proposal is appropriate.

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**Issue 3: Toll Bridge Maintenance Reimbursements**

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**Governor’s Proposal:** The budget requests an increase of up to \$24.5 million in reimbursement authority for toll bridge maintenance work on locally-operated toll bridges. Existing staff will continue to perform the maintenance work.

**Background:** Funding responsibility for Bay area toll bridge maintenance was given to the Bay Area Toll Authority (BATA) on January 1, 1998. Caltrans has historically continued to perform the work, subject to BATA reimbursement. The BATA reimbursement agreement for tow services was suspended in 2001 to allow BATA to recover the cost of the seismic retrofit work on the Richmond-San Rafael Bridge. AB 144 (Hancock), Chapter 94, Statutes of 2005, amended the responsibility to administer and oversee all maintenance services on state-owned toll bridges to BATA upon completion of seismic retrofit work, including the work on the two spans of the San Francisco-Oakland Bay Bridge.

Caltrans has indicated that current State Highway Account (SHA) reimbursement authority is insufficient to cover all of the maintenance work required for the toll bridges. Caltrans believes that all applicable retrofit work has been completed and maintenance costs, including tow costs, are now BATA’s responsibility per AB 144. However, any such transfer of funding responsibility would require a new Memorandum of Understanding between Caltrans and BATA.

Caltrans has further indicated that increasing the SHA reimbursement authority would allow Caltrans shift SHA funds currently paying for Bay Area toll bridge maintenance to pavement maintenance project elsewhere in the state. Specifically, the department is proposing to apply SHA resources to 17 pavement projects throughout the state, representing approximately 250 lane miles of pavement.

**Staff Comments:** The seven Bay Area toll bridges are state-owned, though BATA owns the toll revenue. It is reasonable for Caltrans to request BATA toll reimbursement for maintenance work performed on the bridges. However, there appears to be considerable disagreement between Caltrans and BATA on the appropriate level of reimbursements. Specifically, BATA has provided the following comments:

- Under the terms of AB 144 and the current cooperative agreement between BATA and Caltrans, BATA is responsible for bridge maintenance on the state-owned toll bridges beginning with the completion of the seismic retrofit of the bridges. We take no issue with Caltrans requesting additional reimbursement authority for that legitimate purpose. However, based on the proposal, it appears a substantial part of the request is due to the inclusion of over \$8 million in annual tow service costs, which are not considered “maintenance” work and are not referenced in the cooperative agreement or the statute.
- Furthermore, the obligation to cover maintenance costs under AB 144 begins once the seismic retrofit program work on each bridge is complete. Technically, this transfer of responsibility for the San Francisco-Oakland Bay Bridge does not begin until the demolition of the original east span of the San Francisco-Oakland Bay Bridge is completed, work that is ongoing and not anticipated to be completed until later this year.

- Finally, the BCP references a renegotiated MOU with BATA. Caltrans has not initiated detailed conversations with BATA regarding opening up the terms of the existing cooperative agreement. Therefore, as far as BATA is concerned, this proposal is a surprise and premature.

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**Issue 4: Sustainability Program and ZEV Infrastructure**

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**Governor’s Proposal:** The department is providing an informational BCP to highlight actions underway to implement the Strategic Management Plan’s Sustainability, Livability, and Economy goals. Specifically, this informational BCP highlights actions underway to implement the Governor’s Zero Emission Vehicle (ZEV) Action Plan item to install 30 direct current (DC) fast-charging stations by December 2018.

**Background:** The Governor’s 2016 Zero Emission Vehicle Action Plan, among other goals, calls for the installation of 30 new public “direct current (DC) fast-charging stations”—electric vehicle charging stations that can recharge the battery of an electric vehicle to an 80 percent charge in 30 minutes—at highway rest stops or other Caltrans properties. The plan establishes a goal of constructing these charging stations by December 2018. To date, Caltrans has constructed one DC fast charging station that was funded with grants received from other public entities and the local utility provider.

The Governor’s budget includes provisional language to allow Caltrans to spend up to \$40 million—\$20 million from the State Highway Account (SHA) and \$20 million from federal funds—to construct DC fast charging stations at seven locations in 2017-18. Specifically, the provisional language provides this funding from the State Highway Operation and Protection Program (SHOPP)—the state’s program for rehabilitating and operating state highways. The seven locations would provide a total of fourteen charging stations, or an average of two charging stations at each location. The proposal is the first year of a two-year effort to build charging stations at 30 locations as stated in the Zero Emission Vehicle Action Plan. Caltrans plans to request funding for the remaining 22 locations as part of the 2018-19 budget process.

The department indicates that the provisional language would provide flexibility as the precise amount of federal or SHA funding needed is not known at this time for several reasons. First, the department plans to pursue various grants and other funding sources that would reduce the need for SHA or federal funds. Second, Caltrans is still in the process of developing per location cost estimates for the charging stations, which are expected to range from \$1.1 million to \$3.8 million for each location.

**Staff Comments:** While the Governor’s Zero Emission Vehicle Action Plan and its proposed activities are consistent with statewide priorities on climate and clean energy, this request raises several issues.

***Proposal Lacks Detail.*** The proposal lacks certain details, making it difficult for the Legislature to evaluate the proposal. Specifically, the proposal does not identify the 30 locations proposed for electric vehicle charging stations, including the seven locations proposed for construction in 2017-18. Without this information it is impossible for the Legislature to determine the potential benefits from the proposal or to ensure that the overall scope of the effort will be effective. In addition, the proposal lacks specificity with regard to the associated costs for each charging station and only provides a large range of potential costs. Based on the range of costs identified, it appears that the construction of all 30 stations would range from about \$30 million to about \$110 million.

***Use of SHOPP Funding Is a Policy Change With Broader Implications.*** State law establishes SHOPP as the state’s program of capital projects to rehabilitate and operate state highways. Caltrans generally does not use SHOPP funds to assist motorists with the operation of their vehicles, such as by providing fueling stations. As such, the Governor’s proposal would use provisional budget language to create an

entirely new category of potential SHOPP projects. This approach circumvents various requirements in state law for Caltrans to plan and identify needs and priorities in SHOPP. Specifically, state law requires the development of a ten-year plan that identifies longer-term needs and goals, the identification of a four-year program of specific projects to be funded, and the review and approval of the program of projects by the California Transportation Commission (CTC). The proposed electric vehicle charging stations are not included in the current ten-year SHOPP plan, or in the four-year program of specific projects. Funding the installation of these stations would therefore lead to the deferral of other highway repair and rehabilitation projects to future years.

***Proposal Not Coordinated with Similar Efforts.*** Caltrans is not the only entity proposing to invest in ZEV charging infrastructure. For example, the three largest investor-Owned Utilities (IOUs) in the state are proposing to spend a combined \$197 million over the next several years to install ZEV charging infrastructure for public use. It is unclear how or if the Caltrans proposal coordinates with these efforts.

**LAO Comments:** The LAO has provided the following recommendations:

***Ensure Consistency With Legislative Priorities.*** We recommend that the Legislature determine whether the administration's goal of building electric vehicle charging stations at highway rest stops is consistent with its policy and funding priorities prior to taking action on the Governor's proposal. In doing so, the Legislature will want to have better information on the costs and benefits associated with the proposal to inform its budget deliberations. Specifically, we recommend that the Legislature require Caltrans to provide at budget hearings a more refined estimate of the total cost of a proposed project and identify the locations where the charging infrastructure will be installed.

***Direct Caltrans to Report on Other Funding Sources.*** After receipt of this information, if the Legislature decides to approve the request, it will then want to determine an appropriate funding source. In order to assist the Legislature in identifying potential funding sources, we recommend that the Legislature require Caltrans to report at budget hearings about other funding sources it has considered and provide an update on its efforts to identify other potential sources of funding.

## 2665 CALIFORNIA HIGH SPEED RAIL AUTHORITY

The California High-Speed Rail Authority's mission is to plan, design, build, and operate a high-speed train system for California. Planning is currently underway for the entire high-speed train system, which consists of Phase 1 (San Francisco to Los Angeles/Anaheim) and Phase 2 (extensions to Sacramento and San Diego). The Authority has entered into design-build contracts and continues to acquire real property and right-of-way accesses for the first section of the high-speed train system, extending 119 miles from Madera to just north of Bakersfield.

**Budget Overview:** The budget provides \$1.9 billion for the High-Speed Rail project in 2017-18. This is a reduction of roughly \$100 million from 2016-17, mostly due to reductions in expenditures for blended system projects.

### 3-YR EXPENDITURES AND POSITIONS

	Positions			Expenditures		
	2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
1970 High-Speed Rail Authority Administration	185.8	184.4	184.4	\$35,624	\$38,635	\$39,402
1975 Program Management and Oversight Contracts	-	-	-	-	1	1
1980 Public Information and Communications Contracts	-	-	-	169	500	500
1985 Fiscal and Other External Contracts	-	-	-	-	3,750	3,750
1990 Blended System Projects	-	-	-	-	632,000	500,000
<b>TOTALS, POSITIONS AND EXPENDITURES (All Programs)</b>	<b>185.8</b>	<b>184.4</b>	<b>184.4</b>	<b>\$35,793</b>	<b>\$674,886</b>	<b>\$543,653</b>
<b>FUNDING</b>				<b>2015-16*</b>	<b>2016-17*</b>	<b>2017-18*</b>
0890 Federal Trust Fund				\$-	\$32,000	\$-
3228 Greenhouse Gas Reduction Fund				-	103	103
6043 High - Speed Passenger Train Bond Fund				35,793	642,783	542,800
9331 High-Speed Rail Property Fund				-	-	750
<b>TOTALS, EXPENDITURES, ALL FUNDS</b>				<b>\$35,793</b>	<b>\$674,886</b>	<b>\$543,653</b>

### SUMMARY OF PROJECTS

		State Building Program Expenditures	2015-16*	2016-17*	2017-18*	
1995	<b>CAPITAL OUTLAY Projects</b>					
0000131	CA High Speed Train System Planning		94,253	198,259	85,820	
	Performance Criteria		94,253	198,259	85,820	
0000132	Initial Operating Segment, Section 1		875,688	-277,231	-8,810	
	Acquisition		143,244	67,408	-	
	Design Build		732,444	-344,639	-8,810	
0000727	Phase 1 Blended System		105,560	601,734	474,897	
	Design Build		105,560	601,734	474,897	
<b>TOTALS, EXPENDITURES, ALL PROJECTS</b>			<b>\$1,075,501</b>	<b>\$522,762</b>	<b>\$551,907</b>	
<b>FUNDING</b>				<b>2015-16*</b>	<b>2016-17*</b>	<b>2017-18*</b>
0890	Federal Trust Fund		\$46,774	\$104,279	\$-	
3228	Greenhouse Gas Reduction Fund		69,729	652,839	474,897	
6043	High - Speed Passenger Train Bond Fund		958,998	-234,356	77,010	
<b>TOTALS, EXPENDITURES, ALL FUNDS</b>			<b>\$1,075,501</b>	<b>\$522,762</b>	<b>\$551,907</b>	

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## Issues Proposed for Oversight Discussion

<b>Issue 1: 2017 Project Update and Funding Plans</b>
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**Background:**

The High-Speed Rail Authority was established in 1996 by SB 1420 (Kopp), Chapter 796, Statutes of 1996, for purposes of planning and constructing a high-speed train system to connect the state's major population centers. The project was partially funded following the passage of the High-Speed Rail Passenger Bond Act (Proposition 1A) in 2008, which allowed the state to sell \$9 billion in general obligation bonds for the development and construction of the high speed rail line while imposing certain requirements on the project, such as the requirement that the system operate without a subsidy and provide specified minimum travel times along particular routes. State law also requires the public provision of a Business Plan and Funding Plans for the project.

***High Speed Rail Business Plans Required by Law.*** Pursuant to state law, beginning in 2012 and every two years thereafter, HSRA is required to prepare and submit to the Legislature a business plan outlining key elements of the high - speed rail project. At minimum, the plan must include project development information, including a description of the type of service being developed, the timing and sequence of project phases and segments, and estimated capital costs. It must also include estimates and descriptions of the total anticipated federal, state, local, and other funds that HSRA intends to access to construct and operate the system, forecasts of financial scenarios based on projected ridership levels, and maintenance and operations costs. Additionally, it must identify all reasonably foreseeable risks to the project and outline HSRA's strategies for managing those risks.

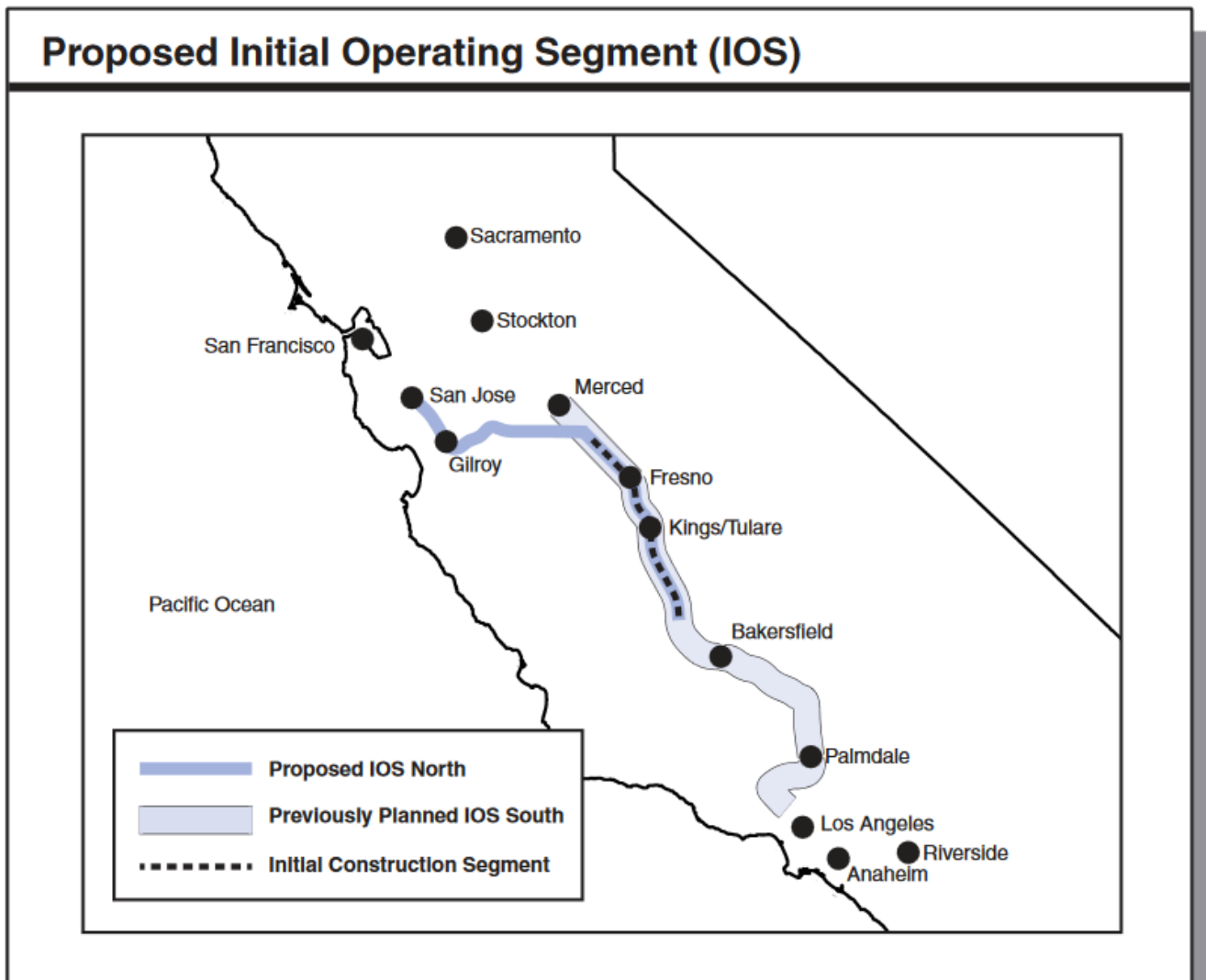
Statute requires the project to be developed in phases, with Phase I connecting San Francisco to Anaheim. A subsequent Phase II would extend the system to San Diego in the south and add a separate link to Sacramento in the north. The 2012 Business Plan outlined a framework for development of Phase I at a cost of approximately \$68 billion, including an Initial Operating Segment (IOS) that would connect the Central Valley with the Los Angeles Basin within 10 years.

The 2012 plan proposed to accelerate the benefits of high-speed rail through a "blended approach" which utilizes and upgrades existing rail infrastructure wherever possible, combined with increased early investment in the bookends. The purpose of this early investment was to enhance regional rail service in two major population centers while simultaneously paving the way for future high-speed rail service. At that time, the primary rationale for a southern-oriented IOS (as opposed to a northern connection to San Francisco) was that the densely populated Los Angeles Basin could provide the high levels of ridership needed to operate the system without a subsidy. The intent was to complete the northern connection to San Francisco once the IOS was operational and ridership levels could be demonstrated. The 2014 Business Plan maintained the project's cost estimates at \$68 billion, proposed a number of potential revenue sources, and revised HSRA's ridership and revenue forecasts, but did not significantly alter the construction plan.

***2016 Business Plan Made Significant Changes to the 2012 and 2014 Plans.*** The 2016 Business Plan is the first provided by HSRA since construction has commenced on the ICS and the Legislature appropriated a portion of revenues from the Cap-and-Trade program to the project. It provides updated cost and schedule information informed by lessons learned through the work completed to date.

In addition, it proposes significant changes to the construction plan and sequencing originally outlined in the 2012 Business Plan. Key elements of the plan include the following:

- Change to northern orientation for IOS now to travel from the central valley to San Jose (see figure below)
- Full funding plan for northern IOS
- Updated cost and schedule estimates for Phase 1 (including projected savings)
- Expanded project scope in Burbank-to-Anaheim Corridor (using projected savings)
- Concepts for full funding of the total Phase 1



Source: Legislative Analyst's Office

**2017 Funding Plans Reflect the 2016 Business Plan.** On January 3<sup>rd</sup>, 2017 the High Speed Rail Authority (HSRA) submitted proposed funding plans to the Department of Finance and the Joint Legislative Budget Committee for the San Francisco to San Jose Peninsula Corridor and the Central Valley segments of the proposed high speed rail project. Under the provisions of Proposition 1A, the Director of Finance must review the plans within 60 days and determine whether they meet the



requirements to allow HSRA to spend Proposition 1A funds on the project segments. The two funding plans are detailed below.

	<i>San Francisco – San Jose</i>	<i>Central Valley Segment</i>
State Funding	\$741 million	\$4.84 billion
Federal Funding	\$978 million	\$2.97 billion
Local Funding	\$262 million	N/A
<b>Total</b>	<b>\$1.98 billion</b>	<b>\$7.81 billion</b>

A major component of the San Francisco – San Jose Peninsula Corridor plan was the electrification of this segment —totaling \$1.98 billion.

The electrification of Caltrain has been one of the top priorities for Bay Area business groups for decades. Electrification will cut commute times, save fuel costs, improve air quality and reduce traffic congestion in the short-term, while providing a critical link between San Jose and San Francisco for the statewide high-speed rail system in the long-term. Among various funding sources for the electrification project, this plan identified approximately \$600 million in Proposition 1A bond funds and \$647 million in federal “Core Capacity funds.”

However, on February 17, the Federal Transit Administration (FTA) deferred the execution of the Core Capacity grant agreement in order to be considered part of the development of the federal budget proposal for the 2018 fiscal year, thus jeopardizing \$647 million in project funding identified in the plan.

The federal government recently published a budget proposal that included significant cuts to a variety of transportation grant programs. This puts the availability of significant federal funding in doubt. HSRA has indicated that, while the Central Valley Segment does not depend on any further federal funding to complete, the San Francisco – San Jose Peninsula Corridor (and any future segments) would need to identify new sources of funding before work could proceed.

**Current Status.** From July 2006 to June 2016, California invested \$2.3 billion in constructing high-speed rail, of which 94 percent has gone to companies and people in California —investments that have involved more than 600 companies and generated up to \$4.1 billion in economic activity, 52 percent of which occurred in disadvantaged communities. As of March 17, 2017, HSRA had acquired 1,075 of the 1,702 parcels required for the first four construction packages on the Initial Operating Segment, and had 11 active construction sites across 119 miles of right of way.

## 2720 Department of the California Highway Patrol

The California Highway Patrol (CHP) promotes the safe, convenient, and efficient transportation of people and goods across the state highway system and provides the highest level of safety and security to the facilities and employees of the State of California.

**Budget Overview:** The budget requests \$2.3 billion and 10,748.7 positions for 2017-18. This is an increase of roughly \$6 million and 10 positions, mostly related to requests for funding related to technology replacements and cybersecurity.

The CHP, along with the Department of Motor Vehicles (DMV), is primarily funded by the Motor Vehicle Account (MVA), which is primarily funded by vehicle registration fees. The Legislature increased the vehicle registration fee as part of the 2016-17 budget to prevent the MVA from becoming insolvent. The Department of Finance's five-year projections (2017-18 through 2021-22) estimate there will be sufficient funding available in the MVA to pay for projected expenditures. However, over the next few years, the MVA would be barely balanced and likely face a modest operational shortfall in certain years.

### 3-YR EXPENDITURES AND POSITIONS

	Positions			Expenditures		
	2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
2050 Traffic Management	8,239.0	8,282.3	8,298.3	\$2,001,600	\$2,010,717	\$2,017,572
2055 Regulation and Inspection	1,042.4	1,047.0	1,047.0	231,019	239,958	239,253
2060 Vehicle Ownership Security	221.4	222.4	222.4	50,690	52,611	52,410
9900100 Administration	1,173.7	1,181.0	1,181.0	144,260	202,262	202,294
9900200 Administration - Distributed	-	-	-	-144,260	-202,262	-202,294
<b>TOTALS, POSITIONS AND EXPENDITURES (All Programs)</b>	<b>10,676.5</b>	<b>10,732.7</b>	<b>10,748.7</b>	<b>\$2,283,309</b>	<b>\$2,303,286</b>	<b>\$2,309,235</b>
<b>FUNDING</b>				<b>2015-16*</b>	<b>2016-17*</b>	<b>2017-18*</b>
0042 State Highway Account, State Transportation Fund				\$75,343	\$75,176	\$75,195
0044 Motor Vehicle Account, State Transportation Fund				2,084,774	2,096,273	2,088,212
0293 Motor Carriers Safety Improvement Fund				2,394	2,100	2,100
0840 California Motorcyclist Safety Fund				1,986	3,191	3,191
0890 Federal Trust Fund				16,374	20,776	20,761
0942 Special Deposit Fund				41	2,336	2,336
0974 California Peace Officer Memorial Foundation Fund				143	300	300
0995 Reimbursements				102,254	103,134	117,140
<b>TOTALS, EXPENDITURES, ALL FUNDS</b>				<b>\$2,283,309</b>	<b>\$2,303,286</b>	<b>\$2,309,235</b>

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**Issue 1: Academy Phone System Replacement**

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**Governor’s Proposal:** The budget requests a one-time augmentation of \$2.8 million (MVA) to upgrade the antiquated phone equipment and related infrastructure at the CHP Academy and related facilities. It includes a request for provisional authority for an additional \$1 million, upon the approval of the Department of Finance and notification of the Joint Legislative budget Committee, for costs associated with design, asbestos abatement, and general construction.

**Background:** The phone systems for the CHP Academy, Fleet Operations, Telecommunications Section (TS) North Shop, and Supply Services were installed in 1979. The existing phone system at the Dignitary Protection Section – North command and the Capitol Protection Section was installed in 1998. These systems are approaching their end of life, and have been subject to several system failures in recent years.

All new and upgraded phone systems purchased by the department now use Voice over Internet Protocol (VoIP), which allows phone traffic to be rerouted to other locations should a catastrophic system failure occur, allowing communications to continue even during a partial outage. The Academy has been designated as an alternate command post for various government offices during emergency situations in which a functioning phone system is crucial.

**Staff Comments:** CHP has indicated that the cost estimate of \$2.8 million comes from private vendors who have provided quotes for the requested work. As the majority of the cost lies in rewiring the listed facilities, many of which date to the 1970s, asbestos exposure is a risk of the project. It is therefore likely that CHP will use the requested provisional authority.

CHP has indicated that they are likely to use the “Form 20” process to perform the work funded in this request, and will therefore not require a lengthy procurement process.

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**Issue 2: Cloud-Based Disaster Recovery Solution**

**Governor's Proposal:** The budget requests two positions and \$1.2 million (MVA) in 2017-18, and \$979,000 ongoing costs, to establish a cloud-based disaster recovery solution for the CHP data center and related IT services.

**Background:** State Administrative Manual (SAM) Section 5325 requires that all state-owned data be kept secure and available during a disaster. The CHP's current disaster recovery relies on an antiquated tape backup solution to provide off-site data backup. The backup data is stored on magnetic tapes, boxed, and shipped to an offsite storage facility. In the event of a disaster and subsequent failure of CHP's data center, it could take up to three months to procure new equipment, retrieve tapes from offsite storage, and begin to restore critical data and applications.

CHP has indicated that the department currently utilizes the equivalent of 0.25 permanent positions to maintain the current tape-based backup system.

**Staff Comments:** The current tape backup system creates a significant risk to the continuity of CHP operations should a major disaster occur. The proposed Cloud-Based Disaster Recovery Solution would help mitigate this risk and enable the department to better comply with SAM 5325.

However, it is worth noting that this proposal is not cost-saving. It would replace the 0.25 positions and roughly \$16,000 in program resources currently devoted to the tape-based backup system with two permanent full-time positions and \$979,000 in ongoing costs.

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**Issue 3: Privacy and Risk Management Office**

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**Governor’s Proposal:** The budget requests 12 permanent positions, two limited-term positions, and \$1.8 million (MVA) to establish a Privacy and Risk Management Program to protect personally-identifiable information stored in CHP systems.

**Background:** The CHP relies on high-speed networks and computing devices to easily share and access information necessary to the completion of its mission. State Administrative Manual (SAM) Section 5300 requires state organizations to establish an Information Security program, Privacy and Risk Management Program, and Business Disaster Recovery / Business Continuity Program. Additionally, CHP is required to comply with multiple regulations, including the Information Practices Act, which requires agencies to establish appropriate and reasonable administrative, technical, and physical safeguards to ensure confidentiality of records and to protect against anticipated threats or hazards. The department is also required to maintain the integrity of any personally identifiable information (PII) it collects to protect individuals against identity theft. Recent security assessments have identified significant gaps in CHP’s cybersecurity efforts as they pertain to privacy protections and risk management, and have identified specific areas where improvement is needed.

Additionally, previous staffing studies by the Department of Finance have noted that state organizations comparable to CHP in terms of size, complexity, and mission typically employ 25-30 IT staff in information security offices separate from typical IT programs to perform compliance monitoring, security oversight, and policy review. The CHP currently has a single position devoted to this work.

**Staff Comments:** CHP has broken this request into several broad components. This includes two limited-term positions to initially monitor, track, and develop projects to mitigate identified risks to the department’s IT infrastructure assets, as well as permanent resources to implement required reforms and perform broader computer and hardware management and server security functions. It is reasonable to perform an initial risk management review to ensure that the proposed program’s efforts are properly targeted. However, it is possible that the risk review could identify risks not considered in this proposal, or determine that the identified risks are not as serious as believed. Such a finding could result in significant rescoping of the proposed program’s efforts in future years.

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**Issue 4: CAPITAL OUTLAY PROPOSALS**

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**Governor's Proposal:** The Governor's budget provides about \$144 million from the MVA to fund site acquisition for new CHP offices in Humboldt and Quincy, and to construct new offices in El Centro, Hayward, Ventura, and San Bernardino. Specifically the budget includes:

- 1. Statewide Planning and Site Identification.** The budget requests \$800,000 (Motor Vehicle Account – MVA) to fund site identification efforts to identify suitable parcels for the replacement of up to three additional field offices and to develop suitability studies for those offices. The budget also requests provisional language to allow augmentation of up to \$2 million for the purpose of entering into purchase options for the identified parcels, should such an option become necessary and reporting requirements have been met.
- 2. Keller Peak Tower Replacement.** The budget requests \$223,000 (MVA) for the preliminary plans phase of a project to replace the Keller Peak radio tower, which was destroyed by inclement weather in January of 2016. Working drawings will be funded in 2018-19 and construction in 2019-20. Total project cost is estimated to be \$2.3 million.
- 3. Humboldt Area Office Replacement.** The budget requests \$2.5 million (MVA) for the acquisition and performance criteria phase of the Humboldt Area Field Office Replacement project. The department is proposing to relocate the existing facility, which no longer meets the needs of the CHP, and which is too small for an on-site replacement. The department is proposing to use a Design-Build contracting method for the office replacement. The department plans to fund the Design-Build contract in 2018-19. Total project cost is estimated to be \$36.8 million.
- 4. Quincy Replacement Facility.** The budget requests \$2.1 million (MVA) for the acquisition and performance criteria phase of the Quincy Area office replacement project. The department is proposing to relocate the existing facility, which no longer meets the needs of the CHP, and which is too small for an on-site replacement. The department is proposing to use a Design-Build contracting method for the office replacement. The department plans to fund the Design-Build contract in 2018-19. Total project cost is estimated to be \$34.1 million.
- 5. El Centro Area Office Replacement.** The budget requests \$30.4 million (MVA) for the Design-Build phase of the El Centro Area Office Replacement project. The department is proposing to relocate the existing facility, which no longer meets the needs of the CHP, and which is too small for an on-site replacement. The department is proposing to use a Design-Build contracting method for the office replacement. The department received \$4.3 million in 2016-17 for the acquisition and performance criteria phase of the project. Total project cost is estimated to be \$34.7 million.
- 6. Hayward Area Office Replacement.** The budget requests \$38.1 million (MVA) for the Design-Build phase of the Hayward Area Office Replacement project. The department is proposing to relocate the existing facility, which no longer meets the needs of the CHP, and which is too small for an on-site replacement. The department is proposing to use a Design-Build contracting method for the office replacement. The department received \$15 million

in 2016-17 for the acquisition and performance criteria phase of the project. Total project cost is estimated to be \$53.1 million.

7. **Ventura Area Office Replacement.** The budget requests \$37.1 million (MVA) for the Design-Build phase of the Ventura Area Office Replacement project. The department is proposing to relocate the existing facility, which no longer meets the needs of the CHP, and which is too small for an on-site replacement. The department is proposing to use a Design-Build contracting method for the office replacement. The department received \$7.3 million in 2016-17 for the acquisition and performance criteria phase of the project. Total project cost is estimated to be \$44.4 million.
8. **San Bernardino Area Office Replacement.** The budget requests \$33.2 million (MVA) for the Design-Build phase of the San Bernardino Area Office Replacement project. The department is proposing to relocate the existing facility, which no longer meets the needs of the CHP, and which is too small for an on-site replacement. The department is proposing to use a Design-Build contracting method for the office replacement. The department received \$5.4 million in 2016-17 for the acquisition and performance criteria phase of the project. Total project cost is estimated to be \$38.5 million.
9. **Santa Ana Area Office Replacement.** The budget requests provisional language to allow CHP, in cooperation with the Department of Finance and the Department of General Services, to enter into a build-to-suit lease / purchase or lease with option to purchase agreement for a new Santa Ana Area Office. The current facility no longer meets the department's needs and is too small for an on-site replacement.

**Background:** The Administration's recent Five-Year Infrastructure Plan—which proposes state spending on infrastructure projects in all areas of state government through 2021–22—includes ongoing projections of the CHP's area office replacement needs. Specifically the plan proposes a total of \$497 million over the next five years. The Administration plans to spend \$264.3 million for the study, acquisition, performance criteria, and design-build phases and lease costs at specified locations. Another \$233 million is projected to be spent on yet-to-be-identified office replacement projects. Under the plan, \$144.2 million is proposed in 2017–18, dropping by \$69.7 million (about 48 percent) in 2018–19 to \$74.5 million. Thereafter, funding remains relatively steady, ranging between \$80 million and \$102 million annually.

**Plan to Replace CHP Offices Initiated in 2013–14.** The CHP operates 103 area offices across the state, which usually include a main office building for CHP staff, CHP vehicle parking and service areas, and a dispatch center. Beginning in 2013–14, the Administration initiated a plan to replace a few CHP field offices each year for the next several years. The Legislature has approved funding in accordance with this plan each year since 2013–14. Specifically, the 2013–14 budget included \$1.5 million for advanced planning and site selection to replace up to five unspecified CHP area offices. Based on the results of this advanced planning, the 2014–15 budget provided (1) \$32.4 million to fund the acquisition and preliminary plans for five new CHP area offices in Crescent City, Quincy, San Diego, Santa Barbara, and Truckee; and (2) \$1.7 million for advanced planning and site selection to replace up to five additional unspecified CHP area offices. The 2015–16 budget provided \$136 million

to fund the design and construction of the area offices in Crescent City, Quincy, San Diego, Santa Barbara, and Truckee, as well as \$1 million for advanced planning and site selection to replace five additional unspecified area offices. The 2016–17 budget provided about \$30 million for the acquisition and preliminary plans for the area offices in El Centro, Hayward, San Bernardino, and Ventura and \$800,000 for advanced planning and site selection.

***Vehicle Registration Fee Increase Intended to Stabilize MVA.*** As part of the Governor’s 2016–17 budget proposal, the Administration estimated a MVA shortfall of about \$310 million in 2016–17 (assuming no new revenue or expenditures), with this amount increasing in future years. If left unaddressed, the ongoing shortfalls would result in the MVA becoming insolvent in 2017–18. In response, the 2016–17 budget package includes trailer legislation (1) increasing the base vehicle registration fee by \$10 (from \$46 to \$56) beginning April 1, 2017 and (2) indexing the fee to automatically increase with inflation.

**Staff Comments:** CHP owns and operates a large stock of aging infrastructure, including radio towers, field offices, and office complexes. While the recent MVA fee increase is likely to prevent the fund from becoming insolvent in the near future, it is likely to remain narrowly balanced over the next several years. However, the Administration has indicated that the MVA has an adequate fund balance to fully fund the planned capital outlay projects at both CHP and DMV without causing the fund to become insolvent through 2021-22.



## 2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers and protects consumers by issuing vehicle titles and regulating vehicle sales.

**Budget Overview:** The budget requests \$1.03 billion and 8,268 positions for 2017-18. This is a decrease of roughly \$20 million and 130 positions.

The DMV, along with the Department of the California Highway Patrol (CHP), is primarily funded by the Motor Vehicle Account (MVA), which is primarily funded by vehicle registration fees. The Legislature increased the vehicle registration fee as part of the 2016-17 budget to prevent the MVA from becoming insolvent. The Department of Finance's five-year projections (2017-18 through 2021-22) estimate there will be sufficient funding available in the MVA to pay for projected expenditures. However, over the next few years, the MVA would be barely balanced and likely face a modest operational shortfall in certain years.

### 3-YR EXPENDITURES AND POSITIONS

	Positions			Expenditures		
	2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
2130 Vehicle/Vessel Identification and Compliance	3,897.1	3,879.5	3,878.4	\$592,327	\$564,627	\$561,649
2135 Driver Licensing and Personal Identification	2,757.1	2,299.6	2,171.0	334,194	303,907	287,840
2140 Driver Safety	1,149.1	1,177.7	1,182.7	133,987	127,684	127,771
2145 Occupational Licensing and Investigative Services	437.9	448.8	448.8	57,094	54,869	54,887
2150 New Motor Vehicle Board	9.5	13.0	13.0	1,412	1,627	1,626
9900100 Administration	560.4	574.3	574.3	95,984	102,514	102,090
9900200 Administration - Distributed	-	-	-	-95,984	-102,514	-102,090
<b>TOTALS, POSITIONS AND EXPENDITURES (All Programs)</b>	<b>8,811.1</b>	<b>8,392.9</b>	<b>8,268.2</b>	<b>\$1,119,014</b>	<b>\$1,052,714</b>	<b>\$1,033,773</b>
<b>FUNDING</b>				<b>2015-16*</b>	<b>2016-17*</b>	<b>2017-18*</b>
0001 General Fund				\$-	\$3,888	\$-
0042 State Highway Account, State Transportation Fund				11,064	11,522	6,565
0044 Motor Vehicle Account, State Transportation Fund				1,069,755	1,002,096	986,485
0054 New Motor Vehicle Board Account				1,412	1,627	1,626
0064 Motor Vehicle License Fee Account, Transportation Tax Fund				14,785	13,723	16,421
0516 Harbors and Watercraft Revolving Fund				5,168	2,434	5,317
0890 Federal Trust Fund				954	2,875	2,810
0995 Reimbursements				15,876	14,549	14,549
<b>TOTALS, EXPENDITURES, ALL FUNDS</b>				<b>\$1,119,014</b>	<b>\$1,052,714</b>	<b>\$1,033,773</b>

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**Issue 1: Driver License Eligibility (AB60)**

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**Introduction:** The budget requests \$8.6 million (MVA) and 91 permanent positions to continue to implement the requirements of AB 60 (Alejo), Chapter 524, Statutes of 2013.

**Background:** Assembly Bill 60 requires that DMV accept driver license applications from California residents who are unable to submit satisfactory proof of legal presence in the US (such as a social security number), provided they meet all other application requirements and provide proof of identify and residency. Assembly Bill 60 licenses look the same as other California driver licenses, except for a notation on the upper right portion of the license. California residents with an AB 60 license can use the license to operate a vehicle on California roadways and as identification for state or local purposes. Assembly Bill 60 licenses are not a valid form of identification for federal purposes, such as to verify identity in order to board a commercial air flight.

In order for DMV to implement AB 60, the Legislature has provided temporary funding and positions since 2014- 15 to the department. In the current year, these resources consist of \$14.8 million and 258 positions, which are set to expire on July 1, 2017. Since the implementation of AB 60 on January 1, 2015, and through January 31, 2017, DMV has issued 836,000 AB 60 licenses. Due to pent up demand, the majority of AB 60 licenses, about 605,000, were issued in the first year alone.

**LAO Comments:** The LAO has reviewed this proposal and provided the following analysis:

***Proposal Assumes Future Workload Will Be Lower Than Current Level.*** The level of resources proposed in the Governor’s budget assumes that 2,000 people will visit DMV each week on an ongoing basis to apply for an AB 60 license. However, over the last few months, the average number of weekly visits to DMV from November 2016 through early February 2017 for AB 60 licenses was 2,700, or about 35 percent higher than the level assumed in the Governor’s budget. Thus, the proposal assumes that workload associated with AB 60 will decline in the spring and level off at a rate of 2,000 visits each week beginning in 2017- 18.

***Impact of Federal Immigration Policy Changes on AB 60 Workload Remains Uncertain.*** In the coming months and years, it is uncertain how potential changes in federal immigration policies could change the size of the population of California residents who qualify for an AB 60 license. For example, an increase in federal immigration enforcement could result in fewer individuals being eligible than otherwise. On the other hand, it is possible that the population eligible for AB 60 licenses could increase, such as to the extent immigrants from other states relocate to California. It is also unclear whether federal immigration policy changes would result in more or fewer eligible California residents applying for an AB 60 license. For example, some eligible residents may be uncomfortable identifying themselves to a government agency, while others may be more motivated to apply for an AB 60 license in order to ensure that they are complying with the state’s driving laws.

***Withhold Action Pending Updated Workload Numbers This Spring.*** Due to uncertainty about the number of AB 60 applicants, as well as the Governor’s assumption that the number of applicants will decline over the next several months, the Legislature will want to have updated information before making a decision on the level of resources to provide for DMV’s future AB 60 workload. Accordingly, we recommend that the Legislature direct DMV to report at

budget hearings this spring with updated information on the actual AB 60 workload levels experienced by DMV. This information will help the Legislature assess whether the level of resources included in the Governor's proposal is appropriate or requires modification. Accordingly, we recommend the Legislature withhold action on the Governor's proposal pending the updated workload information.

***Ensure Ongoing Reporting Has Sufficient Information on Workload.*** Given the potential uncertainty with AB 60 workload, we recommend that the Legislature require DMV to report annually, beginning March 1, 2018, on the number of field office visits for AB 60 licenses and the number of licenses issued each year. This information will ensure that the Legislature receives detailed information on AB 60 workload and outcomes in future years.

**Staff Comments:** Staff generally concurs with the LAO analysis. The DMV proposal estimates roughly 2,000 applications per week; however, DMV data indicates that the department currently receives roughly 2,700 applications per week. DMV has indicated that they have sufficient capacity to absorb workload related to any applications over the estimated 2,000. However, given the unknown direction and impact of federal immigration actions, there is significant uncertainty about the accuracy of DMV's long-term estimate of 2,000 applications per week.

**Issue 2: Ignition Interlock Device Program (SB 1046)**

**Introduction:** The budget requests five limited-term positions and \$730,000 (MVA) in one-time funds for 2017-18, seven positions and \$671,000 (MVA) in 2018-19, and 26 positions and \$1.9 million (MVA) in 2019-20.

**Background:** SB 1046 (Hill), Chapter 783, Statutes of 2016 extends the previously-authorized IID pilot and requires, from January 1, 2019, to January 1, 2026, repeat DUI offenders, and first time offenders under judicial discretion, to install Ignition Interlock Devices (IIDs) in their vehicles for six to 48 months. Specifically, it extends, until July 1, 2018, the existing four-county pilot project requiring a person convicted of a DUI to install an IID, and requires, beginning July 1, 2018, every DUI or alcohol-related reckless driving offender to install an IID for a specified period of time, depending on the nature of a violation, in every motor vehicle they own or operate as a condition of having his or her driver's license reinstated. The bill authorizes DMV to collect an administrative fee to cover its reasonable costs. Under the existing four-county pilot, the department charges a \$45 fee.

**Staff Comments:** During the consideration of SB 1046, the DMV estimated program costs based on data from the *2015 Annual Suspension and Revocation Report*, which identified over 117,000 DUI suspensions/revocations and approximately 126,500 APS suspensions imposed by DMV during that calendar year, that are broadly in line with this BCP.

DMV has indicated that the department plans to cover the entirety of IID program costs through the administrative fee authorized by SB 1046. However, setting and implementing the fee requires the department to go through the relevant regulatory rulemaking process at the Office of Administrative Law. The DMV has indicated that they plan to complete this process in time for the January 1, 2019 implementation date required by SB 1046, at which point MVA funding will no longer be necessary.

**Issue 3: Automobile Dismantling Task Force (AB 1858)**

**Introduction:** The budget requests \$294,000 (MVA) in 2017-18, \$282,000 (MVA) in 2018-19, and \$147,000 (MVA) in 2019-20, to implement the requirements of AB 1858 (Santiago), Chapter 449, Statutes of 2016, which establishes an interagency task force to investigate the occurrences of unlicensed and unregulated vehicle dismantling activities.

**Background:** AB 1858 requires DMV to collaborate with the Board of Equalization (BOA), CalEPA, the Department of Toxic Substance Control (DTSC), the State Water Resources Control Board (SWRCB), CalRecycle, and the California Air Resources Board (CARB) until January 1, 2020, to review and coordinate enforcement and compliance activity related to unlicensed, unregulated, and underground automobile dismantling activities. It also requires that DMV and its partner agencies submit a report to the Legislature on unlicensed and unregulated vehicle dismantling activities on or before January 1, 2019.

**Staff Comments:** During the consideration of AB 1868, the DMV provided costs estimates that are broadly in line with this BCP. Additionally, the department estimates that the current Investigations unit has the capacity to absorb the work required by this bill by utilizing overtime and blanket funding authority.

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**ISSUE 4: CAPITAL OUTLAY PROPOSALS**

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**Governor's Proposal:** The Governor's budget provides about \$26 million from the MVA to initiate or continue several DMV field office replacement and renovation projects as well as the construction of perimeter fencing at nine existing DMV field offices. Specifically the budget includes:

- 1. Perimeter Security Fences.** The budget requests \$3.95 million (MVA) for the design and construction of perimeter fences at nine DMV-owned facilities across the state. These facilities have had frequent issues with unauthorized after-hours access to DMV facilities, which have at times threatened the health and safety of DMV employees. DMV has identified 18 total structures with such issues, and plans to build perimeter fencing, at comparable cost, for the nine facilities not covered by this request in 2018-19. This request also includes Budget Bill Language to extend the encumbrance period for these funds to June 30, 2019, in the event that projects require more than a year to complete design as required by the Department of General Services.
- 2. San Diego (Normal Street) DMV Field Office Replacement.** The budget requests \$1.5 million (MVA) to continue the previously-approved 2016-17 Capital Outlay BCP to execute an on-site replacement of the San Diego Normal Street Field Office. The planning phase was approved and funded in 2016-17, with the construction phase to be funded in 2018-19. Total project cost is estimated to be \$22 million.
- 3. Inglewood Construction Phase.** The budget requests \$15.1 million (MVA) to fund the construction phase of the Inglewood Field Office Replacement project. The planning phase was approved and funded in 2015-16 and the working drawings phase in 2016-17. Total project cost is estimated to be \$17.2 million.
- 4. Oxnard Field Office Renovation.** The budget requests \$418,000 (MVA) to fund the preliminary plan phase for a reconfiguration / renovation project at the department's Oxnard Field Office. The department has indicated that this work is required to address several infrastructure and code deficiencies. The department will request a further \$394,000 in 2018-19 for working drawings and \$5 million in 2019-20 for construction. Total project cost is estimated to be \$5.8 million. Because the project will involve a lengthy closure of the Oxnard Field Office, the department will submit a future request for funding for temporary space in 2018-19.
- 5. Statewide Planning and Site Identification.** The budget requests \$750,000 (MVA) for statewide planning and site selection activities to identify suitable parcels for replacing two field offices, and to fund planning studies for the two replacement projects and three reconfiguration / renovation projects. It also includes a request for provisional language to allow an augmentation of up to \$1 million for purchase options on the identified parcels, should such an option be necessary.
- 6. Reedley DMV Field Office Replacement.** The budget requests \$2.2 million (MVA) to fund the acquisition phase of the previously-approved Reedley Field Office Replacement Project. Following acquisition of the required parcel, the preliminary plan phase will be

funded in 2018-19, working drawings in 2019-20, and construction in 2020-21. Total project cost is estimated to be \$18.4 million.

**Background:** The Administration's recent Five-Year Infrastructure Plan—which proposes state spending on infrastructure projects in all areas of state government through 2021-22—includes ongoing projections of DMV's office replacement needs. Specifically the plan proposes a total of \$657 million over the next five years.

As part of the Governor's 2016-17 budget proposal, the administration estimated a MVA shortfall of about \$310 million in 2016-17 (assuming no new revenue or expenditures), with this amount increasing in future years. If left unaddressed, the ongoing shortfalls would result in the MVA becoming insolvent in 2017-18. In response, the 2016-17 budget package includes trailer legislation (1) increasing the base vehicle registration fee by \$10 (from \$46 to \$56) beginning April 1, 2017, and (2) indexing the fee to automatically increase with inflation.

**Staff Comments:** DMV owns and operates a large stock of aging field offices and workspaces. While the recent MVA fee increase is likely to prevent the fund from becoming insolvent in the near future, it is likely to remain narrowly balanced over the next several years. However, the Administration has indicated that the MVA has an adequate fund balance to fully fund the planned capital outlay projects at both CHP and DMV without causing the fund to become insolvent through 2021-22.