Senate Budget and Fiscal Review—Senator Mark Leno, Chair
SUBCOMMITTEE NO. 2 **Agenda**

Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Thursday, May 7, 2015
9:30 a.m. or Upon Adjournment of Session
Hearing Room 112

Consultant: Farra Bracht

PART B: Transportation

Items Proposed for Vote-Only

Resources—Environmental Protection—Energy—Transportation

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Items Proposed for Discussion and Vote

ITEMS PROPOSED FOR VOTE ONLY

0650 Governor's Office of Planning and Research (OPR), Strategic Growth Council (SGC)

Item 1: Administrative, Monitoring, and Evaluation Support (January Budget)

Governor's Proposal: The OPR requests $255,000 (Greenhouse Gas Reduction Funds) for two permanent positions—one associate intergovernmental program analyst and one senior intergovernmental program analyst. These staff would oversee the administrative requirements associated with transferring, tracking, oversight, audits, and reporting related to coordination of existing SGC programs and the Affordable Housing and Sustainable Communities (AHSC) program.

Background: Pursuant to SB 862 (Committee on Budget and Fiscal Review), Chapter 36, Statutes of 2004, the SGC is required to develop and administer the AHSC program and to leverage the programmatic and administrative expertise of relevant state agencies and departments. The Council's responsibilities include developing guidelines, reviewing applications, and providing funding as part of greenhouse gas reduction efforts associated with cap-and-trade funds.

SB 862 also transferred administrative oversight and staffing of the SGC from the Natural Resources Agency to OPR and the 2014 budget act appropriated $800,000 Greenhouse Gas Reduction Funds for six existing staff positions to support the ongoing work of SGC. This work is related to three grant programs funded by Proposition 84. These programs are 1) Sustainable Communities Planning Grant and Incentives Program; 2) Urban Greening for Sustainable Communities Grant Planning and Projects Program; and 3) Modeling Incentive Awards. As of June 30, 2014, the final rounds of funding for these programs will be awarded, committing the last of the Proposition 84 local assistance funding. According to SGC it continues to support existing grantees through program evaluation and technical assistance.

Staff Comments: This item was first heard on March 26th and held open because the budget request for the two positions did not provide a workload justification. Since that time, a workload justification for the existing positions and the two proposed positions has been provided which validates the need for additional staff.

Staff Recommendation: Approve as budgeted.

Vote:

2660 California Department of Transportation (Caltrans)

Item 1: Increased Amtrak Intercity Rail Operating Costs (April Finance Letter)

Governor's Proposal: Caltrans requests an increase of $7.6 million in operating expenses from the Public Transportation Account for increased operating and capital equipment costs on the three state-supported Intercity Passenger Rail services (Pacific Surfliner, San Joaquin, and Capital Corridor routes), as well as adding additional train service to the San Joaquin Intercity Rail route.

Background: The state has been providing operating support for intercity rail service since 1976. Under annually-renewed contracts, the state finances the operation of three intercity rail routes (1) the Pacific Surfliner route running from San Diego to Los Angeles, Santa Barbara, and San Luis Obispo; (2) the San Joaquin route running from Bakersfield to the Bay Area/Sacramento; and (3) the Capitol Corridor route running from San Jose to Oakland and Sacramento/Auburn. These three lines are operated under contract by Amtrak and funded by the state.

The requested increase includes $3.9 million to continue the current levels of intercity passenger rail operations for a year. The amount requested for operating costs is less than in past years because a credit of several million dollars was applied towards the total cost.

The request also includes $3.7 million to expand passenger rail service on the San Joaquin route. The seventh San Joaquin train will run from Bakersfield to Oakland, bringing the number of round trips from four to five on the Stockton to Oakland segment, and from six to seven total round trips between Stockton and Bakersfield. There will continue to be two round trips from Bakersfield to Sacramento. This expansion is part of the 2013 California State Rail Plan and this request provides funding for six months of expanded service.

Staff Comment: Staff has no concerns with this request.

Staff Recommendation: Approve as proposed.

Vote:

Item 2: Legal Services for the California High-Speed Rail Authority (April Finance Letter)

Governor's Proposal: The Governor requests 16 two-year limited-term positions (six attorneys, four paralegals, four legal secretaries, and two staff services analysts) and $1.8 million in State Highway Account reimbursement authority for services rendered on behalf of the California High-Speed Rail Authority (HSRA).

Background: The HSRA is planning to build, design, construct, operate, and maintain a high-speed rail system. Caltrans, in 2012, began providing legal services to HSRA using eight positions for a two-year limited-term that expired on June 30, 2014. As part of last year's budget, this agreement was extended another two years at a cost of $3.1 million.

The high-speed rail project has moved into development and implementation, including parcel acquisition, which is resulting in an increased need for legal services beyond what was anticipated last year. It is anticipated that over 1,200 parcels of land will be acquired for the first phases of construction by June 2017. The HSRA estimates that 75 percent of those parcels will go through eminent domain lawsuits. These cases will be assigned to Caltrans' four legal offices on a rotational basis and the proposed staff will be allocated evenly across the four offices.

Under the interagency agreement, Caltrans provides legal services for HSRA on a broad range of topics that include:

- Acquisition of right-of-way.
- Purchase of real property through negotiations or eminent domain authority.
- Represent HSRA before the Public Works Board or other appropriate governmental bodies, as necessary.
- Arrangements for the protection, relocation, or removal of conflicting facilities.
- Railroad law, including interactions with the Public Utilities Commission and the Surface Transportation Board, and assistance in negotiations with railroads for both property acquisition and crossing agreements.
- Coordination with the Department of General Services regarding the Property Acquisition Law.

Staff Comment: The HSRA's use of Caltrans' legal services is a cost-effective way to provide some of HSRA's legal services, especially given Caltrans expertise in certain areas, such as right-of-way acquisition. Staff has no concerns with this proposal.

Staff Recommendation: Approve as proposed.

Vote:

Item 3: Proposal to Abolish the Transportation Investment Fund (Fund 3008) and the Pedestrian Safety Account (Fund 2500) (April Finance Letter)

Governor's Proposal: Caltrans requests the transfer of all the Transportation Investment Fund (TIF), Fund 3008 remaining assets and liabilities to the State Highway Account (SHA) by June 30, 2016 and for the fund to be abolished effective January 1, 2017. This proposal also requests the abolishment of the Pedestrian Safety Account, Fund 2500, by January 1, 2016. Trailer bill is proposed to enact these changes.

Background: The TIF was established by the Traffic Congestion Relief Act of 2000 to facilitate General Fund transfers of the state portion of the sales tax on gasoline to supplement the Traffic Congestion Relief Fund and to fund transportation programs such as local streets and roads, transit operations, and intercity rail. With the gas tax swap enacted as part of the 2009-10 budget package, the state sales tax on gasoline was eliminated, which was the only revenue source for this fund. All existing TIF resources ($224.9 million in the Governor's budget) have been committed to existing projects.

The Pedestrian Safety Account was established in 2000 to make grants available to local government agencies for pedestrian safety projects. The initial grant of $8 million was transferred from the SHA in 2002-03. As part of the 2014 budget, the Pedestrian Safety Account will transfer the remaining $2 million in the fund to the SHA. The account no longer receives any revenue and all related projects have been completed.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Approve as proposed.

<u>Vote:</u>

2720 Department of California Highway Patrol

Item 1: Modified Limousines: Inspection Program (April Finance Letter)

Governor's Proposal: The Governor proposes $383,000 from the Motor Vehicle Account (MVA) to purchase equipment to implement SB 611 (Hill), Chapter 860, Statutes of 2014, which requires the California Highway Patrol (CHP) to establish a modified limousine inspection program. Seven positions will be redirected from existing resources to staff the program. Budget bill language is requested to allow for the authorization of additional positions and funding in 2015-16 should program participation be greater than estimated.

Background: The CHP provides safety oversight of commercial vehicle operations, including large portions of the passenger and property transportation industry. This includes on- and off-highway inspection programs conducted by uniformed and non-uniformed personnel. SB 611 requires that by July 1, 2016, the CHP shall conduct safety inspections of modified limousine terminals that are operated by passenger stage corporations at least once every 13 months. A "modified limousine" is any vehicle that has been modified, altered, or extended in a manner that increases the overall wheelbase of the vehicle, exceeding the original equipment manufacturer's published wheelbase dimension for the base model and year of the vehicle, to accommodate additional passengers with a seating capacity of not more than 10 passengers including the driver, and is used in the transportation of passengers for hire.

The inspection program shall include the safe operation of the vehicle, the installation of safety equipment, the retention of maintenance logs, accident reports, and records of driver discipline, compliance with federal and state motor vehicle safety standards, the examination of a preventative maintenance program, and, if ownership of the modified limousine has been transferred, the transmission of relevant safety and maintenance information of the limousine.

The CHP has prepared a workload estimate based on preliminary data collected by the Public Utilities Commission (PUC). The PUC is currently working on improving its data collection which may result in a revised workload estimate in 2015-16. Based on the three-year renewal cycle of passenger transportation operating authority, a better estimate of workload should be known three years after implementation of this program.

The department is in the process of developing emergency regulations which are expected to be implemented in June 2015. As part of the regulations, a fee will be established and the revenues will reimburse the MVA for the initial expenses for staff and equipment, so that the operation of this program is revenue neutral to CHP.

Staff Comments: Staff has no concerns with this proposal.

Staff Recommendation: Approve as proposed.

Vote:

Item 2: Radio Console Replacement Reappropriation (April Finance Letter)

Governor's Proposal: The Governor requests reappropriation of $4.9 million approved from the MVA in 2014-15, for the first year of a multi-year project to replace dispatch radio consoles at CHP's 25 statewide call centers.

Background: The CHP's call centers are equipped with dispatch radio console systems to facilitate mission critical voice communications between dispatchers, CHP patrol personnel, and allied agencies. Public safety communications equipment lasts approximately 8 to 10 years and must be upgraded in its entirety to ensure compatibility. As equipment surpasses its useful life, reliability deteriorates, outages become more frequent, maintenance costs increase, and replacement parts become difficult or impossible to procure. Much of CHP's existing equipment is no longer supported by the manufacturer and is considered obsolete.

This project would ultimately replace the radio console systems (177 existing consoles plus acquiring an additional 22) at all 25 centers by 2020-21, at an estimated cost of $51.8 million, as shown in the table below. The proposal will allow for the installation of the new consoles at CHP's dispatch training facility and resources at the Public Safety Communications Office (PSCO) for testing, evaluation, and trouble-shooting of issues that may arise. Funding to continue the project will be requested in 2017-18.

Radio Console Project Costs
(Dollars in Millions)

Year	Equipment Cost	# of Radio Consoles	PSCO Costs	Total Cost
2015-16	$2.9	12	$2.0	$4.9
2016-17	**Evaluation**			
2017-18	10.2	42	1.2	11.4
2018-19	9.1	37	1.1	11.2
2019-20	10.2	64	1.9	12.3
2020-21	9.6	44	2.0	11.9
Grand Total	**$42.1**	**199**	**$8.0**	**$51.8**

Totals may not add due to rounding.

Vendor responses to the initial request for information led the CHP, working with the California Department of Technology, and the California Office of Emergency Services, to delay the release of a request for proposal until March 2015, with contract to be awarded by November 2015, and purchase in December 2015.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Approve as proposed.

Vote:

Item 3: Mountain Pass Commercial Vehicle Enforcement Facility Staffing (April Finance Letter)

Governor's Proposal: The Governor requests $1.9 million from the MVA to fund 24 existing non-uniformed positions and 25 existing uniformed positions to be assigned to the new Mountain Pass Commercial Vehicle Enforcement Facility (CVEF).

Background: The CVEF's help to ensure public safety and preserve the state's highways. Highway pavement and structure life depends on the weight and frequency of the traffic using the roads. Heavy trucks cause far greater damage to the pavement and bridges than cars. It has been estimated that it takes approximately 9,600 cars to equal the pavement damage caused by one legal truck weighing 80,000 pounds, and a 10 percent overload roughly increases pavement damage by as much as 40 percent.

The CHP has primary regulatory responsibility over the commercial vehicle industry in California and, as a result, it operates CVEFs. There are 51 CVEFs in 37 locations throughout the state, plus 73 mini-sites. Four of these are Class A facilities, and Mountain Pass will be the fifth Class A facility. Class A facilities are located at strategic ports of entry into the state and have independent CHP command identity. The facilities normally operate 24 hours per day, seven days per week. Class A facilities may also be used by other agencies, such as the Air Resources Board, Board of Equalization, Department of Motor Vehicles, and the county court clerk, and at some sites the Department of Food and Agriculture is co-located.

These facilities generally have weigh-in-motion and static scales for weighing vehicles, and covered areas for inspection of vehicles and equipment. The facility has open areas for storage, and a parking area. Class A facilities are typically commanded by a lieutenant and staffed by sergeants, officers, commercial vehicle inspection specialists, clerical staff, maintenance workers, and/or custodians.

Operation of the Mountain Pass CVEF is anticipated to begin July 2015. The facility will operate 24/7 due to its isolated nature and anticipated volume of traffic of 1.25 million trucks annually. It is located in a rural area of San Bernardino County on Interstate 15, 40 miles south of Las Vegas, between Yates Well Road and Nipton Road, 4.5 miles south of the California/Nevada border. The uniformed staff requested for the facility includes a lieutenant, sergeants, and officers. The non-uniformed staff includes commercial vehicle inspection specialists, office technicians, maintenance workers, and an automotive technician.

Staff Comment: Staff has no concerns with this proposal. The level of staff requested is consistent with the other four Class A facilities and is necessary to operate this facility, which will help to ensure the safe and efficient operation of California's roadways.

Staff Recommendation: Approve as proposed.

Vote:

Item 4:	**Reappropriations (May Capital Outlay Finance Letter)**

Governor's Proposal: The Governor requests budget bill language be added to reappropriate the 1) California Highway Patrol Enhanced Radio System (CHPERS): Replace Towers and Vaults Phase 1-Premliminary Plans and Working Drawings and 2) CHPERS: Replace Towers and Vaults Phase 2-Construction and to extend the encumbrance period through June 30, 2018.

Background: The CHPERS is a project to replace CHP's towers for their radio systems. Of the 15 sites in Phase 1, two have encountered difficulties necessitating the reappropriation of funding for preliminary plans and working drawings. Because of the complexities facing these two sites, it is anticipated that design authority will need to be available through June 30, 2018.

Of the six sites comprising Phase 2, one site, Truckee, is no longer needed. Two other sites recently completed the environmental review process, will have signed leases by the United States Forest Service by the end of May, and are starting on working drawings. These two sites should proceed to bid by the end of the calendar year. In order to keep these sites on schedule, it is requested that construction authority be reappropriated.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Approve as proposed.

Vote:

2740 Department of Motor Vehicles

Item 1: Centralized Customer Flow Management and Appointment Systems Reappropriation (April Finance Letter)

Governor's Proposal: The Governor proposes the reappropriation of nearly $10.0 million (MVA) from 2014-15 to 2015-16 for the Centralized Customer Flow Management and Appointment Systems (CCFMAS) project.

Background and Detail: The DMV provides services to the public through many portals that include mail, telephone, internet, and in-person. There are 174 field offices and 13 industry partners that support in-person visits. The ability to manage workload in the field office depends on the ability to manage resources, processing time, and workload. Field operations in 137 offices currently rely on a software-based queue management tool.

In 2011, the department began a technology project to replace the existing tool with a more modern and integrated appointment and queue management system. This project—the CCFMAS project—was approved by the California Technology Agency in December 2011. The CCFMAS will be a new centralized web-based customer flow management system with an interfacing appointment application that will enable the department to manage customers through a "virtual queue". The project was approved and funded in the 2012 budget act for a total of $11.5 million, of which nearly $10.0 million was appropriated in 2014-15 associated with the contract award.

In October 2012, a consultant was used to develop a request for proposal (RFP) to procure the new system. The RFP was released in January 2014 with solicitations due back in August 2014. The project experienced a set-back because the final bid submissions were determined to be non-responsive and the procurement was cancelled. The DMV issued a new RFP on January 16, 2015 and is scheduled to award the contract in June 2015. The project is expected to be implemented by September 21, 2017.

Staff Comment: Staff has no concerns with this proposal. This adjustment is necessary in case there is delay in the current year in awarding the contract.

Staff Recommendation: Approved as proposed.

ITEMS PROPOSED FOR DISCUSSION AND VOTE

2660 California Department of Transportation (Caltrans)

Item 1:	**Capital Outlay Support: Project Delivery Workload (April Finance Letter) & Project Initiation Document Program (previously discussed on 4/16/2016)**

Proposal: The Administration proposes a decrease of $25.2 million from various transportation funding sources and 178 full-time equivalents (FTEs) for the Capital Outlay Support (COS) Program from the 2014-15 Governor's budget. Caltrans' proposed workload is a decrease from the approved fiscal year 2014-15 workload levels of 197 FTEs, which is approximately two percent less.

In addition, the subcommittee discussed the Governor's budget request for 362 positions and $53.8 million (State Highway Account) for Caltrans to develop roughly 600 PIDs in 2015–16. This reflects a net increase of 25 new positions and $3.4 million from the levels provided to the department in 2014–15. Specifically, the budget reflects the following changes.

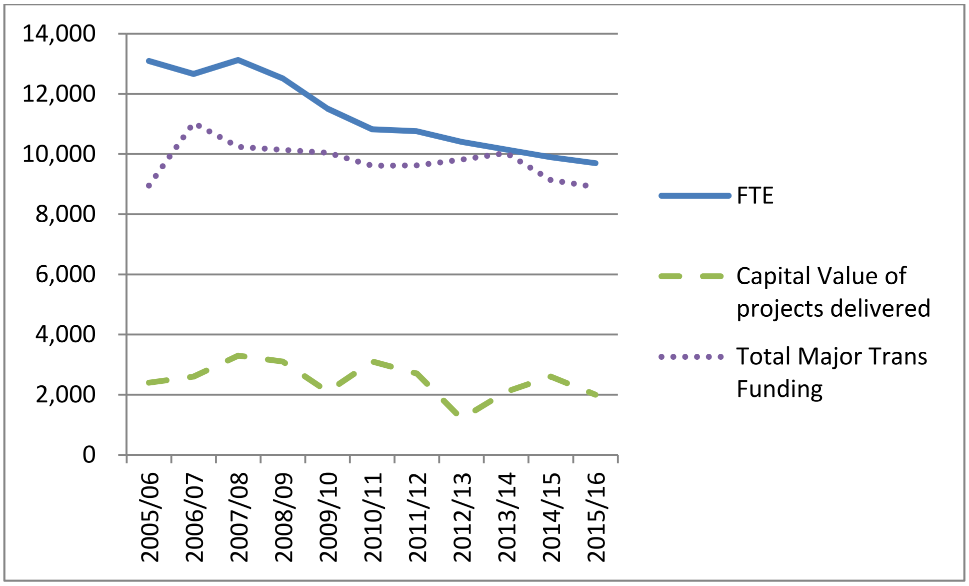
- $2.6 million and 18 additional positions to develop roughly 40 additional PIDs resulting from an estimated annual increase in SHOPP funding of $300 million.

- $2 million and 14 additional positions to develop additional PIDs for projects with a total estimated cost of $500 million to complete construction. According to Caltrans, this would provide them with a shelf of projects to the extent that additional funding above what is currently estimated for SHOPP unexpectedly becomes available. If such funding does not become available, the developed PIDs would be programmed as part of the next SHOPP cycle. Under the Administration's plan, Caltrans would add new PIDs to the shelf when the existing shelf of projects is programmed, such that the department will continually maintain a $500 million shelf of PIDs.

- $1.2 million reduction and seven fewer positions due to other workload adjustments.

Background and Detail: Capital outlay is the funding mechanism for construction contracts and right-of-way acquisition on projects that preserve and improve the state highway system. The COS program provides the funding and resources necessary to develop and deliver the projects to construction, as well as administer and oversee the projects once they are in construction. The COS program also provides oversight, or independent quality assurance, of projects developed by local entities on the state highway system. The COS budget supports over $40 billion in capital outlay projects. The total level of full-time equivalent positions for COS has decreased by 3,231 FTEs since its peak in 2007-08, as shown in the figure below.

Capital Outlay Support Full-Time Equivalents Decreasing Over Time



Positions are based on full-time equivalents (FTE).

<u>Efforts to Align Investments and Resources</u>
In recent years, Caltrans has made efforts to better align its investments and resources with the amount of funding that is available for transportation projects. As the figure above shows, staffing levels have generally declined as the amount of funding available for transportation projects has declined. In addition, technology projects have given the department better tools for managing resources. For example, the recently implemented Project Resourcing and Schedule Management project (PRSM) contains resource-loaded workplans for all active projects which are the basis for COS workload estimates. Quality assurance processes are underway to ensure that the quality of the data in this system continues to improve. Caltrans has also delegated full authority to districts in the final processing of construction contracts to improve project delivery and streamline decision-making.

<u>Implementation of COS Zero-Based Budget Review Recommendations</u>
Caltrans provided with its COS request an update of its implementation of recommendations that were issued as part of the zero-based budget review conducted in 2014-15. Caltrans has addressed many of these recommendations. In addition, some key recommendations which should help to further improve Caltrans' management of its staff resources, are anticipated to be implemented by December 2015. These include developing a predictive tool for developing a range of project budget estimates, developing a framework for when districts should use a corridor director at a district to deliver many concurrent projects located within a defined roadway segment, and development of a centralized project management statewide web portal that will help to eliminate duplication and inconsistencies between districts.

The position changes for the COS budget request are shown below.

Capital Outlay Support Program Workload Changes (FTEs)

Workload Categories	Jan. 10 2015-16	May Revise 2015-16	Change 2015-16
State Highway Operation and Protection Program	4,250	4,713	463
SHOPP Candidates	0	90	90
State Transportation Improvement Program	1,337	1,131	(206)
Partnership (Includes Measure/Locally Funded)	1,239	1,133	(106)
Phase II / Toll Seismic / Other Toll	315	291	(24)
Real Property Services	97	97	0
Proposition 1B Bond	612	297	(315)
American Recovery and Reinvestment Act	24	2	(22)
Traffic Congestion Relief Program	12	12	10
High Speed Rail	41	41	0
Highway Users Tax Account (HUTA)	55	0	(55)
West Mission Bay Drive Bridge	0	1	1
Geotechnical Borehole Mitigation	0	12	12
Materials Engineering & Testing Services	27	27	0
Overhead and Corporate	1,866	1,840	(26)
Total Capital Outlay Support Workload	**9,875**	**9,697**	**(178)**

Staff Comment: As transportation funding has declined, the anticipated workload for the COS program has declined. Caltrans is also making concerted efforts to better manage its COS resources to better align resources with workload. The COS request has taken into consideration reduced workload stemming from the reduction of funding available for transportation projects and the needs for staff resources to complete projects that are currently underway. At some point in the near future, however, how to deliver Caltrans' projects successfully will become a critical issue considering that 56 percent of Caltrans' engineers are eligible for retirement (age 50 or older). Options include focusing on succession and workforce planning within Caltrans or increasing state contracting for this type of work.

The LAO raised concerns on April 16th regarding the 14 proposed positions for the project initiation document program to build a shelf of projects that could be used were additional funding available. However, committee staff finds that it is reasonable for Caltrans develop a modest shelf especially when legislative proposals are under consideration that would increase funding for transportation projects. Such an increase in funding may necessitate an increase in COS resources in the future.

Questions:

Caltrans:

1) Please provide a summary of your April 15th COS request.

2) Please explain how PRSM is improving the management of staff resources and describe any areas that need improvement to ensure the efficient use of staff resources.

Staff Recommendation: 1) Approve as proposed the April finance letter for the Capital Outlay Support program and 2) approved as proposed the Governor's request for the Project Initiation Document program.

Vote:

Item 2: State Transit Assistance Transit Funding Eligibility (Legislative Proposal)

Proposal. The subcommittee will consider a one-year extension of the suspension of certain eligibility criteria for transit operators to receive funding, while a policy bill on the issue moves through the legislative process.

Background and Detail. Current law includes a provision (Public Utility Code Section 99314.6) that imposes a restriction of the use of State Transit Assistance (STA) funds by local transit operators if the operator's total operating cost per revenue vehicle hour is more than the previous year's cost, as adjusted by the Consumer Price Index. If an agency exceeds this threshold, funds provided by the STA program can only be used for capital expenditures and not for operations. This provision was suspended from January 2010 until the end of the 2014-15 fiscal year, as the Legislature was enacting the gas tax swap and reducing other sources of transit funding. Many agencies that receive STA funding anticipate being subject to this restriction because of recent increases in health care benefits and pension costs. As a result, some operators will face reduced STA funds in 2015-16 that can only be used for capital purposes.

Staff Comments. The California Transit Association has requested the extension of the current suspension of certain eligibility criteria to receive funding for one fiscal year to allow the policy process time to consider options for eliminating or adjusting the eligibility criteria. SB 508 (Beall) has been introduced to adjust the eligibility criteria for STA funding, but that bill would not be effective until January 1, 2016. The bill would change the eligibility criteria by making it more of a "sliding-scale" so the restriction of the funding reflects the degree of increase in operation costs.

The following draft trailer bill language is proposed to accomplish the California Transit Association's request for a one-year extension of the exemption:

Section 99314.6 of the Public Utilities Code is amended to read:
(a) Except as provided in Section 99314.7, the following eligibility standards apply:
(1) Except as provided in paragraph (2), (3), funds shall not be allocated for operating or capital purposes pursuant to Sections 99313 and 99314 to an operator unless if the operator meets either of the following efficiency standards:
(A) The operator shall receive its entire allocation, and any or all of this allocation may be used for operating purposes, if the operator's total operating cost per revenue vehicle hour in the latest year for which audited data are available does not exceed the sum of the preceding year's total operating cost per revenue vehicle hour and an amount equal to the product of the percentage change in the Consumer Price Index for the same period multiplied by the preceding year's total operating cost per revenue vehicle hour.
(B) The operator shall receive its entire allocation, and any or all of this allocation may be used for operating purposes, if the operator's average total operating cost per revenue vehicle hour in the latest three years for which audited data are available does not exceed the sum of the average of the total operating cost per revenue vehicle hour in the three years preceding the latest year for which audited data are available and an amount equal to the

product of the average percentage change in the Consumer Price Index for the same period multiplied by the average total operating cost per revenue vehicle hour in the same three years.
(2) If an operator does not meet either efficiency standard under paragraph (1), the operator shall receive its entire allocation and the funds shall be allocated pursuant to this paragraph. The portion of the allocation that the operator may use for operations shall be the total allocation to the operator reduced by the lowest percentage by which the operator’s total operating cost per revenue vehicle hour for the applicable year or three-year period calculated pursuant to subparagraph (A) or (B) of paragraph (1) exceeded the target amount necessary to meet the applicable efficiency standard. The remaining portion of the operator’s allocation may shall be used only for capital purposes.
(2) (3) The transportation planning agency, county transportation commission, or the San Diego Metropolitan Transit Development Board, as the case may be, shall adjust the calculation of operating costs and revenue vehicle hours pursuant to paragraph (1) to account for either or both of the following factors:
(A) Exclusion of costs cost increases beyond the change in the Consumer Price Index for fuel; alternative fuel programs; power, including electricity; insurance premiums and payments in settlement of claims arising out of the operator’s liability; or health insurance premiums or contributions to self-insurance programs; pension contributions or related defined benefit programs; or state or federal mandates, including the additional operating costs required to provide comparable complementary paratransit service as required by Section 37.121 of Title 49 of the Code of Federal Regulations, pursuant to the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12101 et seq.), as identified in the operator’s paratransit plan pursuant to Section 37.139 of Title 49 of the Code of Federal Regulations.
(B) Exclusion of startup costs for new services for a period of not more than two years.
(3) Funds withheld from allocation to an operator pursuant to paragraph (1) shall be retained by the transportation planning agency, county transportation commission, or the San Diego Metropolitan Transit Development Board, as the case may be, for reallocation to that operator for two years following the year of ineligibility. In a year in which an operator’s funds are allocated pursuant to paragraph (1), funds withheld from allocation during a preceding year shall also be allocated. Funds not allocated before the commencement of the third year following the year of ineligibility shall be reallocated to cost effective high priority regional transit activities, as determined by the transportation planning agency, county transportation commission, or the San Diego Metropolitan Transit Development Board, as the case may be. If that agency or commission, or the board, determines that no cost effective high priority regional transit activity exists, the unallocated funds shall revert to the Controller for reallocation.
(b) As used in this section, the following terms have the following meanings:
(1) “Operating cost” means the total operating cost as reported by the operator under the Uniform System of Accounts and Records, pursuant to Section 99243 and subdivision (a) of Section 99247.
(2) “Revenue vehicle hours” has the same meaning as “vehicle service hours,” as defined in subdivision (h) of Section 99247.
(3) “Consumer Price Index,” as applied to an operator, is the regional Consumer Price Index for that operator’s region, as published by the United States Bureau of Labor Statistics. If a regional index is not published, the index for the State of California applies.

(4) “New service” has the same meaning as “extension of public transportation services” as defined in Section 99268.8.
(c) The restrictions in this section do not apply to allocations made for capital purposes.
(d) The exclusion of costs cost increases described in paragraph (2) (3) of subdivision (a) applies solely for the purpose of calculating an operator’s eligibility to claim funds pursuant to this section and does not authorize an operator to report an operating cost per revenue vehicle hour other than as described in this section and in Section 99247, to any of the following entities:
(1) The Controller pursuant to Section 99243.
(2) The entity conducting the fiscal audit pursuant to Section 99245.
(3) The entity conducting the performance audit pursuant to Section 99246.
(e) The restrictions in this section shall not apply to the allocation of funds made pursuant to Sections 99313 and 99314 after January 1, 2010, and through the ~~2014–15~~ 2015-16 fiscal year.

Question for the Department of Finance:

1. If the extension of the exemption is not adopted, will the funds that public transit operators receive through the cap-and-trade program also be subject to these restrictions?

Staff Recommendation: Adopt placeholder trailer bill language to extend the suspension of the State Transit Assistance eligibility criteria for one year.

Vote:

Item 3: Fresno County Proposition 42 Maintenance of Effort

Proposal: The Subcommittee will consider eliminating an obligation that requires Fresno County to make an expenditure of $5.5 million Proposition 42 maintenance of effort (MOE) on streets after 2020.

Background and Detail: Proposition 42, approved by voters in March of 2002, continued the Traffic Congestion Relief Act which allocated the sales tax on motor vehicle fuel as Traffic Congestion Relief Funds (TCRF) for transportation programs and road maintenance. The measure included a MOE for cities and counties to receive these funds, which was the equivalent of the amount expended by the entity for street purposes during the 1996-97, 1997-98 and 1998-99 fiscal years.

In 2010, the Legislature adopted SB 524 (Cogdill), Chapter 716, Statutes of 2010, which exempted Fresno County from the MOE requirement for Proposition 42 for 2008-09 and 2009-10. As part of last year's budget package, action was taken to extend the sunset for this exemption to June 20, 2020 at which time Fresno County's General Fund would have to repay its road fund approximately $5.5 million. As part of that discussion, the County discussed making an offsetting investment to continue funding current indigent health services that would have otherwise had to be reduced to fund expenditures on streets.

On November 14, 2014, the Fresno County Board of Supervisors adopted a policy to invest $5.5 million in funding to continue indigent health services and to seek forgiveness of the Proposition 42 MOE obligation.

Staff Comments: The County will incur costs that equal the amount of the original MOE requirement and thus it could be argued that County has satisfied its obligation to the state by continuing existing indigent health care.

Staff Recommendation: Adopt placeholder trailer bill language to permanently eliminate the $5.5 million Proposition 42 maintenance of effort requirement for Fresno County.

Vote:

2665 High-Speed Rail Authority

Item 1: Program Management Staffing (April Finance Letter)

Governor's Proposal. The Budget Act of 2014, gave HSRA the authority to add up to 35 staff provided adequate justification was submitted to the Department of Finance and the Legislature. Pursuant to this, a notification of plans to establish the equivalent of 8.8 positions (partial-year funding for the 35 positions) was submitted to the Legislature on January 23, 2015. This request is for $6.6 million from the High-Speed Rail Bond Fund to permanently establish these 35 positions beginning in 2015-16.

Background. High-speed rail is the largest, single infrastructure project the state has ever undertaken. The department has 209 authorized positions, including the 35 positions in this request. The staffing model being used to deliver the high-speed rail project is in stark contrast to the approach used at Caltrans. Rather than relying on a large number of permanent staff, the HSRA is relying on a massive team of consultants that includes legal professionals, civil engineers, architects, mechanical-electrical consultants, structural engineers, construction contractors, and construction managers.

The workload related to the 35 positions includes planning and design activities, right-of-way acquisition, and environmental work. The 35 positions being proposed span across most areas of the department and are as follows:

- Planning and Integration Division (3 positions),
- Project Management Division (4 positions),
- Engineering Division (3 positions),
- Environmental Planning Division (1 position),
- Real Property Division (6 positions),
- Design and Construction Division (6 positions),
- Operations/Maintenance Division (2 positions),
- Contract Compliance Division (4 positions),
- Risk Management and Project Controls Division (2 positions), and
- Positions to assist the three Regional Directors (4 positions).

As of April 2015, the overall vacancy rate at HSRA is nearly 30 percent, as shown in the figure below, and in a key area—the program management office—the vacancy rate is nearly 30 percent. A high vacancy rate is not a new issue for HSRA and the program has been plagued by this problem for many years.

Authorized and Vacant Positions at HSRA as of April 2015

Division	**Positions Authorized**	**Vacant Positions**	**Vacancy Rate**
Executive Office	16	4	25.0%
Administrative Office	26	3	11.5%
External Affairs Office	43	24	55.8%
Financial Office	42	5.5	13.1%
Legal Office	6	0	0%
Program Management Office	76	26	34.2%
Total	209	62.5	29.9%

Staff Comment: While, it may be reasonable to use a project delivery model that relies heavily on contractors and relatively few state staff, it is critical that the state has an adequate number of staff to oversee contractors and guide the project, and that those positions are filled with well-qualified experienced staff. The addition of staff in key programmatic areas should help to better ensure successful delivery of the project.

Questions:

HSRA:

1. What is HSRA doing to fill currently authorized, but vacant positions?

2. Why does a high vacancy rate persist at HSRA?

Staff Recommendation: Approved as proposed.

<u>Vote:</u>

Item 2: Project Delivery Positions (April Finance Letter)

Governor's Proposal: The HSRA is requesting $3.5 million in High-Speed Rail Bond Funds to establish ten permanent positions and interdepartmental contract funding ($1.8 million of the total) for the Department of Transportation (Caltrans). These positions will provide additional legal, project management, and oversight of the high-speed rail project and assist with the planning, development, and execution of upcoming phases.

Background and Detail: (See the write up for the previous Issue No. 1.) The ten permanent positions being requested are in the following areas:

- Legal Division (five positions),
- Office of Human Resources (one position), and
- Program Management Division (four positions).

The $1.8 million request for funding for legal services corresponds to the request from Caltrans for 16 two-year limited-term positions to provide a variety of legal services for HSRA.

Staff Comment: Staff has no concerns with this proposal beyond those discussed in the previous item related to HSRA filling vacant positions.

Staff Recommendation: Approve as proposed.

Vote:

2740 Department of Motor Vehicles

Item 1: Information Technology Security Resources (April Finance Letter)

Governor's Proposal: The Governor requests eight permanent positions; two two-year limited-term positions; and $2.5 million (MVA) to strengthen the security of its information technology (IT) systems. This amount includes $750,000 in one-time funds for an assessment of the ability of the Privacy Protection Office (PPO) and the Information Securities Office (ISO) to collectively address the protection and appropriate management of personal information and $200,000 (one-time) for network tools and equipment.

Background and Detail: The DMV is responsible for the administration of statewide programs that use and rely on electronically stored and hard copy information. The DMV and millions of Californians query and update information in these records through transactions that result in the collection of over $7 billion in revenue for the state each year ($1.5 billion on-line). According to the DMV, it maintains records on 38 million Californians in its various databases. Last year, there was an alleged breach of DMV systems, citing DMV as the common point of purchase for many fraudulent credit cards. The DMV initiated a six-month long investigation which cost about $1.1 million. The DMV estimates that if it had had to notify all of its customers via mail, the cost would have been about $14 million. This investigation yielded positive results for DMV, as no evidence of a breach was identified, but it also identified several areas that needed improvement for the security of DMV information systems.

Today, DMV relies heavily on automated systems to monitor information systems and provide notifications to technical personnel for further processing. This is a post-incident process, occurring after incidents have been registered by automated systems and notifications have been sent to technical personnel.

The DMV does not have an effective real-time security monitoring and remediation program with a focus on protecting DMV's information assets on the department's internet connected systems. To counter the threats to DMV's information assets, it would like to establish a 24 hours a day/seven days a week Security Operations Center. This would be the first in California state service. The idea is that this approach would shift DMV from its current "reactive" approach to a "proactive" approach. The DMV asserts the benefits of a real-time system include the ability to manage attacks as they are in process, actively manage and route network traffic and protect information assets. The permanent staff proposed to operate the center would not be performing day-to-day maintenance and operations functions; rather, they would focus on protecting DMV's information assets through monitoring, analysis, and reporting. Also, these staff will remediate deficiencies and address outstanding items from DMV's 2014 risk assessment. The two limited-term positions will focus primarily on remediating DMV's firewall systems.

The budget request includes $750,000 to hire an external party to assess the organizational structure and workload of the ISO and PPO.

LAO Comments: The LAO finds the request for the two limited-term positions and contract funding for an assessment reasonable and recommends approval. These resources would allow DMV to address previously identified issues and conduct an assessment of the resources needed to make further increases in information system security.

Regarding the request for the eight permanent positions, the LAO finds this request is premature because DMV's actual need for additional staff will not be known until after the completion of the assessment. As a result, the request might provide too few or too many resources. In addition, the Legislature approved a pilot program, as part of the 2014-15 budget, to evaluate information system security issues more broadly across state government. The results of this pilot, expected in the next year or two, may also inform decisions on how best to improve information system security, including strategies on how to develop additional expertise using state staff. The LAO recommends that the Legislature reject the requested eight permanent positions and instead direct DMV to report at budget hearings on the level of funding necessary to provide the additional level of information system security by contracting out for these services. The LAO also recommends that the Legislature have DMV report back after the completion of the assessments with a comprehensive plan for increasing information system security.

Staff Comments: This proposal raises legitimate concerns about the security of the data at the DMV, in addition to raising questions about how to best ensure the security of data at other departments that collect and retain personal information, such as the Franchise Tax Board and the Department of Consumer Affairs. Generally, these services can be provided in-house, or they can be provided by a vendor, or a combination of the two.

The LAO raises the issue that the appropriate level of staff needed to provide these services may be better known after the assessment is complete and recommends rejection of the eight permanent positions. However, not approving any resources to provide real-time monitoring and remediation potentially could result in the DMV not being able to quickly address and minimize the damage of a security breach. Approving the eight positions that would perform real-time monitoring on a two-year limited term basis would help to address this risk; however it is difficult to attract qualified applicants for these positions when they are advertised as limited-term. In addition, according to the Administration, any assessment is almost certain to include staff at the department and eight staff, is the minimum necessary to provide 24 hours a day/ 7 days a week operations.

Questions:

For DMV:

1. How is this proposal different from what DMV currently does to protect data?

2. Why has DMV chosen to provide these security services using state staff rather than contracting out for these services? What would be the cost to contract out for these services?

For the Administration:

1. What do other state departments that maintain databases of personal identifying information do to ensure the security of that data?

Staff Recommendation: Approve as proposed and adopt supplemental reporting language that has DMV report back after the completion of the assessments with a comprehensive plan for increasing information system security.

Vote: