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

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

Thursday, May 8, 2014
9:30 a.m. or Upon Adjournment of Session
Hearing Room 112

Consultant: Farra Bracht

PART A

PROPOSED VOTE-ONLY

Resources—Environmental Protection—Energy—Transportation

ITEMS PROPOSED FOR VOTE ONLY

2660 Department of Transportation

Department Overview: The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive state system of 50,000 road and highway lane miles and 12,559 state bridges, funds three intercity passenger rail routes, and provides funding for local transportation projects. The department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and Equipment.

Budget Overview: The Governor's budget proposes total expenditures of $10.9 billion ($83.0 million General Fund) and 19,543.5 positions. The largest sources of funds for Caltrans come from the State Highway Account, State Transportation Fund, and the Federal Trust Fund. State sources of revenue for the department are state gasoline and diesel excise taxes, the sales tax on diesel fuel, and weight fees. State sources of revenue constitute about $6.1 billion of the total available resources.

Item 1: Proposition 1B Capital Needs Updated Cost Savings (April Finance Letter)

Proposal: Caltrans is requesting an increase of $242,996,000 for the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) Program to reflect the updated administrative and project cost savings available to support additional transportation projects. In addition, provisional language that would be added to reflect this change and provide flexibility to fully use the funding authorized by Proposition 1B. The language would also allow additional projects to be funded if additional administrative and project savings materialize above the estimates in this request.

This request proposes the following changes:

- Addition of Item 2660-104-6055 in the amount of $1,000
- Addition of Item 2660-304-6055 in the amount of $101,999,000
- Increase Item 2660-104-6056 by $12,499,000
- Increase Item 2660-304-6056 by $12,499,000
- Increase Item 2660-304-6058 by $101,999,000
- Increase Item 2660-304-6072 by $13,999,000

These changes along with the $963,501,000 requested in the Governor's January budget provide a total of $1,206,497,000 in Proposition 1B funds for 2014-15.

In addition, the proposal includes budget bill language to facilitate the use of Proposition 1B savings, including adding line items for the Corridor Mobility Improvement Account. This language is in addition to the language requested in the January budget for Proposition 1B funds.

Staff Comment: Staff has no concerns with this request. This proposal would allow Caltrans to take advantage of program savings so that it could fund additional transportation improvements.

Staff Recommendation: Approve the increased appropriation of $242,996,000 in Proposition 1B funds and the proposed provisional language.

Vote:

Item 2: District 12 Rent Savings

Proposal: Caltrans is requesting a one-time reduction of State Highway Account funds of $39,776 in 2014-15 and a permanent reduction of $119,327 beginning in 2015-16 for the Maintenance Program.

Background: In 2009, Caltrans entered into a lease-purchase agreement for a modular building, which houses Caltrans staff in Stanton, California. The building is located on Caltrans property and is used for District 12 administrative functions. The annual lease payment is $119,327. On January 17, 2014 in a Capital Outlay Budget Change proposal for 2014-15, Caltrans requested to exercise the lease-purchase option. On behalf of Caltrans, the Department of General Services (DGS) will exercise the lease-purchase option and acquire the modular building for one dollar ($1.00).

Staff Comment: Staff has no concerns with this request. The proposed reduction is due to rent avoidance from a lease purchase option exercised for a modular building in Stanton, California. This option is cost-effective and helps avoid future rental costs.

Staff Recommendation. Approve the proposed reduction of $39,776 of State Highway Funds in 2014-15, and the ongoing reduction of $119,327 beginning in 2015-16.

Vote:

Item 3: Increased Amtrak Intercity Rail Operating Costs

Proposal: Caltrans requests an increase of $10.5 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).

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 Federal Passenger Rail Investment and Improvement Act of 2008 required Amtrak, in consultation with the state, to develop and implement a standardized methodology for the allocation of operating and capital equipment costs on state-supported routes by October 2013. This new costing methodology has resulted in a 13 percent increase in operating costs over 2013-14. Almost half of this increase is attributable to updated capital equipment costs.

Staff Comment: Staff has no concerns with this request.

Staff Recommendation: Approve an increase of $10.5 million from the Public Transportation Account to fund increased operating costs for Amtrak intercity rail.

Vote:

2720 Department of California Highway Patrol

Item 1: Air Fleet Replacement (January BCP #1)

The California Highway Patrol (CHP) has requested multi-year funding from the Motor Vehicle Account (MVA) to establish an on-going replacement program for the CHP air fleet. The proposal requests a one-time augmentation of $16 million in 2014-15; a one-time augmentation of $14 million in 2015-16 and 2016-17; and a permanent augmentation of $8 million in 2017-18 and beyond, as shown in the table below. Last year, CHP received $17 million to replace four aircraft.

California Highway Patrol
Air Fleet Replacement Schedule
(Dollars in Millions)

Fiscal Year	Quantity of Aircraft	Funding
2013-14	4	$17
2014-15	4	16
2015-16	3	14
2016-17	3	14
2017-18	2	8
2018-19	2	8
2019-20	2	8
2020-21	2	8
2021-22	2	$8

Background and Detail. The CHP's Air Operations Program (AOP) provides support for enforcement, pursuit management, hazardous material response, and inter-operable communications with allied agencies, traffic congestion relief, stolen vehicle recoveries, conducting searches, and transporting emergency medical supplies. CHP's air fleet currently consists of 15 airplanes and 15 helicopters. These were acquired using mostly federal funds, as shown below.

Airplanes (15 total)	Funding Source
14	Office of Traffic Safety Grant
1	Homeland Security Grant
1	Asset Forfeiture
-1	Airplane lost in accident
Helicopters (15 total)	
2	Motor Vehicle Account (MVA)
1	Military Surplus
6	Office of Traffic Safety Grant/ MVA
6	Homeland Security Grant

Last year, the department received $17 million (MVA) to replace four of the oldest aircraft in its fleet—three helicopters and one airplane. At the time, CHP committed to conducting an overall needs assessment and providing a schedule for the replacement of its fleet.

The CHP estimated that, when department specifications are met, a helicopter will cost $4.5 million and an airplane will cost $3.5 million. The department indicates that each unit begins to experience additional maintenance issues once flight time exceeds 10,000 hours, which occurs in about ten years. At this time, the oldest airplane and helicopters in its fleet have logged nearly 15,000 hours and almost 17,000 hours, respectively. The department indicates its desire to reduce the amount of equipment 'downtime,' resulting from increased maintenance hours and difficulties in obtaining necessary replacement parts. It also expresses the desire to standardize its fleet. The intent of this request would be to replace aircraft as they accrue over 10,000 flight hours.

LAO Comment. The LAO raises four concerns with this proposal:

(1) While the report provided by CHP on its air fleet includes various information (such as each aircraft's record of maintenance and fuel costs), the report does not provide sufficient information justifying the size of the air fleet being proposed.

(2) The Governor's proposal "locks in" the size of the fleet at 26 aircraft in the future and that the aircraft will require replacement on a set schedule. However, it is uncertain if this size fleet would be needed in the future. There might be a need for a smaller or larger fleet size in the future for reasons such as less assistance requested by allied agencies or future aircraft lasting longer than planned.

(3) Under the Governor's proposal, the new aircraft would be purchased with monies from the MVA, which generates its revenues primarily from driver license and vehicle registration fees. The Governor's proposal raises the issue of whether it is appropriate for the MVA to be the sole funding source for this purpose. Under Article XIX of the State Constitution, any revenues from fees and taxes on vehicles or their use—such as driver license and vehicle registration fees—can only be used for the state administration and enforcement of laws regulating the use, operation, or regulation of vehicles used upon the public streets and highways. It is unclear whether all of the activities supported by CHP's air fleet meet this requirement, such as patrolling the state's electrical and water infrastructure.

(4) According to CHP, requests to assist various allied agencies (such as local law enforcement offices) increased several years ago as these agencies faced fiscal constraints during the economic downturn in operating and maintaining their own existing air fleets. Given the high cost to the state in maintaining CHP's air fleet and that the budgets of the allied agencies may have begun to recover, the Legislature may want to consider requiring certain allied agencies to reimburse CHP for some or all of the costs it incurs in providing them with air support. The LAO also notes that requiring such reimbursements might encourage allied agencies to be more efficient and selective when requesting air support assistance from CHP.

Staff Comment. The CHP's air fleet is aging and should be gradually replaced over a period of time. The CHP has provided a report that 1) describes its fleet of helicopters and airplanes,

2) provides justification for the 10,000 hour replacement guideline, and 3) provides a general replacement schedule. However, this report does not justify the size of the air fleet that is needed now and in the future. According to CHP, its goal is to have each aircraft log an average of 1,000 flight hours each year. Based on this, a fleet of 26 aircraft provides an annual total of 26,000 flight hours. However, it is unclear what the basis is for this goal and what outcomes are associated with this goal. Moreover, CHP states that the size of the fleet and locations of aircraft are based on a number of factors including, but not limited to, effective and efficient aircraft response to varied missions, response time, geography, political considerations, CHP ground unit deployments, allied agency resources, facility costs, and airport regulations. However, CHP has not provided an analysis that uses these factors to justify the size of its fleet.

It would be reasonable for such a study to be conducted in advance of additional purchases and that these purchases should be informed by the study. However, given that last year's request to conduct a similar study did not result in the desired outcomes, it is unclear if a second request would result in a better report.

In the past, CHP's fleet was funded with mostly federal funds. Given that there might be federal funds available in the future and that the actual size of the fleet CHP needs is unknown, it would be premature at this time to commit the MVA to funding the future purchase of aircraft beyond the budget year.

Staff Recommendation. Approve on a one-time basis the requested augmentation for 2014-15 of $16 million in Motor Vehicle Account funds to purchase four aircraft.

<u>Vote:</u>

Item 2: Statewide Advance Planning and Site Selection (January BCP #1)

The Governor's budget calls for $1.7 million in funding (Motor Vehicle Account funds) to identify suitable parcels for replacing up to five facilities ($1.3 million) and develop studies ($400,000) for those sites. It is expected that the results of advance planning and site selection will drive future requests for site specific replacement offices.

Background. Working with the Department of General Services (DGS), the CHP categorized its 111 total offices according to seismic risk. Risk was based on engineering studies of risk resulting from a seismic event and expressed on a 1-7 scale, with 7 representing a condition that would necessitate immediate evacuation and 1 indicating only nugatory structural impacts. Facilities with a 5 or 6 denotation would likely be unsafe during or following a seismic event. The studies indicated that 80 of CHP facilities are of seismic level 5 and 6.

Site searches for CHP facilities have been problematic in the past due to constraints and demands. It has proven to be difficult to locate parcels of the required 3-5 acres, with appropriate freeway access, and unhindered by traffic, rail or other impediments. This has been particularly troubling in urban areas in Los Angeles, San Diego, and the San Francisco Bay Area. Acquisition of land, and subsequent construction, has often been delayed as a result of these limitations.

Build-to Suit Leases or Direct Capital Outlay. Field office replacements can be procured in one of a few ways. The most common ways are 'build-to-suit' leases and direct capital outlay. With the build-to-suit procurement method, CHP contracts with a private developer to construct a facility and agrees to lease the facility from the developer for a predetermined number of years. At specified times during the built-to-suit lease, CHP has the option to purchase the facility from the developer. With the direct capital outlay procurement method, DGS uses funds from the Motor Vehicle Account (MVA) to both purchase the property and contract with a private developer to design and build the CHP facility. Under direct capital outlay, the state owns the facility and does not have ongoing lease payments.

In 2012, in a letter response to a notification from DGS of its intent to execute three separate build-to-suit lease agreements on behalf of the CHP, the Chair of the Joint Legislative Budget Committee (JLBC) raised several issues, including (1) the absence of an updated CHP facilities plan that outlines its facility needs and priorities, and (2) the lack of an assessment of the relative benefits of financing projects with the build-to-suit process or capital outlay. The department, at that time, indicated that facility needs and priorities will be addressed in the 2013 Five-Year Infrastructure Plan and no systematic analysis was made available to the Legislature regarding capital outlay and build-to-suit approaches. The JLBC expressed that such an assessment is essential to ensure that the most cost-effective method is chosen when building new CHP facilities. To address this concern, supplemental report language was adopted in 2013 requiring the Department of Finance (DOF), in consultation with DGS, to report to the Legislature, by April 1, 2014, guidelines that help determine whether a proposed new facility should be procured using capital outlay or through a build-to-suit lease.

California's Five-Year Infrastructure Plan. The Administration released its Five-Year Infrastructure Plan in January 2014. For CHP, the plan proposes $398 million from the MVA for the second through sixth year of the statewide field office replacement program. According to the document, the funding will be used to develop budget packages and select sites for up to 25 projects, acquire land and start design on 20 of those projects, and begin construction on 10 of those projects.

LAO Comment. The LAO recommends that the Legislature withhold action on the Governor's proposal pending receipt of (1) the Administration's forthcoming report on direct capital outlay and build–to–suit procurement methods and (2) a list in priority order of the area offices proposed for replacement and the criteria used to determine such prioritization.

Staff Comment. This proposal continues a process approved in the 2013 Budget Act to identify five CHP offices for replacement. However, the proposal does not justify why a capital outlay approach to procure the facilities is being used rather than build-to-suit. Guidelines are under development, as discussed earlier. It would be reasonable to hold this item open until those guidelines are received. Moreover, these guidelines should be used when making procurement decisions in the future.

Update. The Facility Procurement Methodology report containing the procurement guidelines was received on April 3, 2014. These guidelines apply to all state facilities with capital outlay projects overseen by the State Public Works Board.

Staff Recommendation: Approve the request for $1.7 million in funding (Motor Vehicle Account funds) to identify suitable parcels for replacing up to five facilities ($1.3 million) and develop studies ($400,000) for those sites.

Vote:

Item 3: California Highway Patrol Enhanced Radio System—Reappropriations for Phases 1 and 2 (April Finance Letter)

Background and Detail: California Highway Patrol Enhanced Radio System (CHPERS) Phase 1 and Phase 2 projects are intended to address deteriorating radio communications infrastructure and improve radio interoperability among various public safety agencies. The projects were for tower and vault replacements at 21 sites. Of these 21 sites, five have had delays.

The Administration requests that Motor Vehicle Account funding for CHPERS from the 2009, 2010, and 2011 Budget Acts be reappropriated in continued support of the project. The reappropriation request is for both Phases 1 and 2 of the project. The amount requested for reappropriation for Phase 1 is $4.8 million and the amount requested for reappropriation for Phase 2 is $11.2 million.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Approve the request to reappropriate prior year funds for the California Highway Patrol Enhanced Radio System project.

Vote:

Item 4: Santa Fe Springs Project—Shift in Procurement Method (April Finance Letter)

Background and Detail: The Administration requests to revert $4.9 million, the remaining capital outlay authority for the CHP Santa Fe Springs Replacement Facility project, and that provisional language be added to authorize the option of a lease-purchase agreement for a potential build-to-suit project to replace the existing Santa Fe Springs Area Office. This action reflects a shift in the procurement method for this project to replace an outdated and undersized facility. The request is due to an inability to acquire land under the capital outlay process.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Approve the request to shift the procurement method for the Santa Fe Springs Replacement Facility from capital outlay to build-to-suit leasing, revert $4.9 million from the Motor Vehicle Account in unexpended capital outlay authority, and add budget bill language to authorize a lease-purchase agreement as an option for the build-to-suit lease.

Vote:

Item 5: CHP Office Replacement Projects (April Finance Letter)

Background and Detail: The 2013 Budget Act provided funding to identify up to five sites where capital outlay would be feasible based on the likelihood of finding replacement property. Based on the results of this site search, the Administration proposes to relocate five CHP offices that no longer meet the CHP's programmatic requirements, nor the seismic performance criteria required for state-owned buildings. For these five offices, the existing property is too small for an on-site replacement.

The Administration requests $32.4 million in Motor Vehicle Account funding for 2014-15 to provide acquisition and design authority for the office replacement projects. The total replacement costs for these offices are estimated to be $167.6 million. The requested funding and estimated total funding for the replacement of these five offices is summarized in the figure below.

CHP Area Office	Total Project Cost	2014-15 Amount Requested
Truckee	$35.3	$5.9
Santa Barbara	34.2	9.9
San Diego	45.0	12.1
Crescent City	23.7	2.4
Quincy	29.4	2.2
Total	**$167.6**	**$32.4**

The Administration also requests that budget bill language be added to allow these five projects to move forward using the design-build procurement methodology. Traditionally, agencies have used a project delivery method known as design-bid-build for construction projects. Under design-bid-build, an agency contracts separately for the design and construction of a project. The agency must award the construction contract to the lowest responsible bidder. Alternatively, under a design-build project delivery method, an agency contracts with a single firm to provide both design and construction services. The Administration expects to reduce the project schedule by approximately 13 months by using design-build procurement.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Approve the request for $32.4 million from the Motor Vehicle Account to replace five CHP area offices and budget bill language to allow the use of design-build procurement methodology.

Vote: