Senator Lois Wolk, Chair
Senator Jim Nielsen
Senator Fran Pavley

Tuesday, May 19, 2015
9:00 a.m.
Hearing Room 112

Consultant: Farra Bracht

Transportation

Items Proposed for Vote-Only

Item	Department	Page
2660	California Department of Transportation	2
	Issue 1 – Abolish the Clean Renewable Energy Bonds Subaccount	2
	Issue 2 – Capital Outlay Support Provisional Language	3
2740	Department of Motor Vehicles	4
	Issue 1 – Motor Vehicle Account Fund Condition and Related Requests	4

Items Proposed for Discussion and Vote

Item	Department	Page
2660	California Department of Transportation	8
	Issue 1 – Affordable Sales Program	8
	Issue 2 – Increased Funding for Transportation Research (Caltrans and HSRA)	10
2665	High-Speed Rail Authority	11
	Issue 1 – Metrics, Reports, and Peer Review Group Qualifications	11
2740	Department of Motor Vehicles	14
	Issue 1 – Expansion of Green Sticker Cap for Low-Emission Vehicles	14

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ITEMS PROPOSED FOR VOTE ONLY

2660 Department of Transportation

Issue 1:	Proposal to Abolish the Clean Renewable Energy Bonds Subaccount (May Revision)

Governor's Proposal: Caltrans requests the transfer of all remaining moneys in the Clean Renewable Energy Bonds (CREB) Subaccount in the Special Deposit Funds to be transferred to the State Highway Account in the State Transportation Fund by July 1, 2015. Trailer bill is proposed to enact this change.

Background: The CREBs program was authorized as part of the federal Tax Incentives Act of 1995, to encourage energy conservation, develop energy infrastructure, increase domestic energy production, and the use of alternative energy sources. The CREBs program is administered by the United States Internal Revenue Service (IRS). CREBs are a type of tax credit bond in which interest on the bonds is paid in the form of tax credits by the United States government. The proceeds for the issuance of the CREBs are available to finance renewable energy and clean coal facilities projects.

On November 13, 2006, the IRS approved 93 CREBs applications submitted by Caltrans, with a total value of $45.6 million. Caltrans subsequently initiated efforts to re-evaluate and approve facilities for conceptual soundness and adjusted the scope, as necessary at each facility. The re-evaluation criteria consisted of the age and condition of the roof and design; the long-term building retention; structural integrity; and a cost-benefit analysis. Through this process, the number of photovoltaic projects was reduced to 70, with construction and installation costs estimated at $19.9 million. A Banc of America Bond sale for capital outlay costs was obligated for a total of $20 million, plus interest of $2.2 million (1.45% rate) over a 15-year period.

As of January 2013, the 70 projects funded under the CREBs program have been constructed and have a generating capacity of approximately 2.4 megawatts (MW) solar power. The photovoltaic panels have a life expectancy of at least 25 years.

It was Caltrans' anticipation that the CREBs program would begin generating electricity one year after the sale of the bonds and that the bond debt service be fully paid through avoided energy costs before the maturity of the bond. Although Caltrans has not met the original projected cost saving of the CREBs Program, after 25 years the bond debt and costs associated with the photovoltaic projects will be paid off. For the life of the system, it is projected that Caltrans will save approximately $6.4 million.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Approve as proposed.

Vote:

Issue 2: Capital Outlay Support Provisional Language (Legislative Proposal)

Proposal: Adopt provisional budget language to restore reporting on the amount of funding allocated for external consultant and professional services related to project delivery.

Background and Detail: By long standing practices, Capital Outlay Support staffing at Caltrans is split, with state staff performing 90 percent of the work and outside consultants performing approximately 10 percent of the work. The 2015-16 budget retains this split in resources.

In previous years, the budget bill contained a provision that specified the 10 percent of costs for contracted staffing. This provision was not included in the Governor's budget.

Staff Comments: Restoring this provision would increase budgeting transparency. Staff has no concerns with this proposal.

Staff Recommendation: Adopt budget bill language to specify the amount of Capital Outlay Support staffing that is done through contracts.

<u>Vote:</u>

2740 Department of Motor Vehicles

Issue 1: Motor Vehicle Account (MVA) Fund Condition and Related Budget Requests

Background: The MVA was created to support the state's activities related to the administration and enforcement of laws regulating the operation or registration of vehicles used on public streets and highways, as well as to mitigate the environmental effects of vehicle emissions.

In 2014–15, $3.1 billion is estimated to be deposited into the MVA with vehicle registration fees accounting for $2.7 billion (85 percent) and driver license fees accounting for $299 million (10 percent). The remaining revenue primarily comes from identification card fees, late fees associated with renewals, and miscellaneous fees for special permits and certificates. Between 2009–10 and 2014–15, revenues have increased at an average rate of five percent annually.

Vehicle registration fees consist of two components—a base fee of $46, and an additional fee of $24 that directly benefits CHP. The base vehicle registration fee was last increased in 2011, from $34 to $46. In 2014, the CHP fee increased from $23 to $24 and was indexed to the Consumer Price Index (CPI), allowing the fee to automatically increase with inflation. The current driver license fee is $33 and was last increased by $1 in 2014. The driver license fee is also indexed to the CPI.

The MVA primarily provides funding to three state departments—DMV, CHP, and the Air Resources Board (ARB)—to support activities authorized in the California Constitution. In recent years, expenditures from the MVA have increased. The major cost drivers include:

- ***CHP Officers' Salary Increases.*** The state and the union representing CHP officers negotiated a memorandum-of-understanding (MOU) in 2013 that provides salary increases for CHP officers annually from 2013–14 through 2018–19. The MOU specifies that the increases are determined by calculating the weighted average of the salaries of the state's five largest local police agencies. In 2013–14 and 2014–15, CHP officers received average salary increases of five percent—adding $110 million in costs for the MVA.
- ***CHP Air Fleet Replacement.*** As part of an ongoing air fleet replacement plan for CHP's air fleet of 26 aircraft, the Legislature approved $17 million in 2013–14, $16 million in 2014–15 and annually ongoing, to fund the replacement of CHP aircraft.
- ***CHP Field Office Replacement.*** In 2013–14, the Legislature approved a total of $6.4 million to initiate a multiyear plan to replace existing CHP field offices. The funding supported the acquisition of land for one new office and the advanced planning to replace five additional offices. In 2014–15, the Legislature approved $32.4 million to fund the acquisition of land for the five new offices initiated in the prior year, as well as $1.7 million for advanced planning for five additional replacement projects.

- ***Implementation of AB 60.*** In 2014–15, the Legislature provided resources for DMV to implement AB 60 (Alejo), Chapter 524, Statutes of 2013, which specifies that beginning January 1, 2015, DMV accept driver license applications from persons who are unable to submit satisfactory proof of legal presence in the U.S. Specifically, $67.4 million was provided in 2014-15 and $57.1 million in 2015–16.

In order to help the state meet its spending priorities during the recent recession, $480 million was loaned from the MVA to the General Fund—$300 million in 2010-11 and $180 million in 2012-13.

In recent years, MVA expenditures have increased at a higher rate than revenues deposited into the fund. Specifically, the MVA is estimated to have revenues of $3.1 billion and expenditures of $3.3 billion in 2014-15 resulting in operational shortfall of about $200 million that will require the use of the MVA's fund balance, which amounted to $415 million at the start of 2014–15. Such operational shortfalls are likely to continue in future budget years.

Governor's Proposals: The budget proposes to repay $480 million in loans that were previously made from the MVA to the General Fund. Specifically, the Administration proposes to repay $300 million in 2015–16 and $180 million in 2016–17. These loan repayments would provide the MVA with additional revenues that can be used to address operational shortfalls identified above—delaying when the MVA becomes insolvent.

The budget also includes proposals that would increase expenditures from the MVA in 2015–16, as well as in subsequent years. These proposals include the following:

- ***CHP Field Office Replacements ($136 Million).*** The Governor's budget proposes $135 million for construction activities for five previously approved CHP area offices and $1 million for planning and site selection activities for up to five CHP area offices. The out-year costs to complete these projects are $31.6 million.

- ***Initiate Multiyear DMV Office Replacement Plan ($4.7 Million).*** The Governor's budget proposes $4.7 million for pre–construction activities to replace three DMV offices. The out-year replacement cost of these three facilities is roughly $42 million. This proposal is the initial phase of the Administration's plan to replace eight DMV offices over the next several years. Specifically, the budget proposes:
  - $1 million to fund the acquisition plan phase of the Delano field office replacement project. The proposed facility would be 10,718 square feet with a total cost of $11.5 million. The current Delano field office is in a leased facility of 3,386 square feet that was built in 1954.
  - $1 million to fund the preliminary plan phase of the Inglewood field office replacement project. The proposed facility would be 15,042 square feet with a total cost of $14.9 million. The current Inglewood field office of 20,824 square feet was built in 1972, which includes DMV investigations offices that will not be included in the new facility—resulting in the smaller square footage.
  - $2.6 million to fund the acquisition plan phase of the Santa Maria field office replacement project. The proposed facility would be 13,342 square feet with a total

cost of $15.5 million. The current Santa Maria field office of 4,387 square feet was built in 1969.

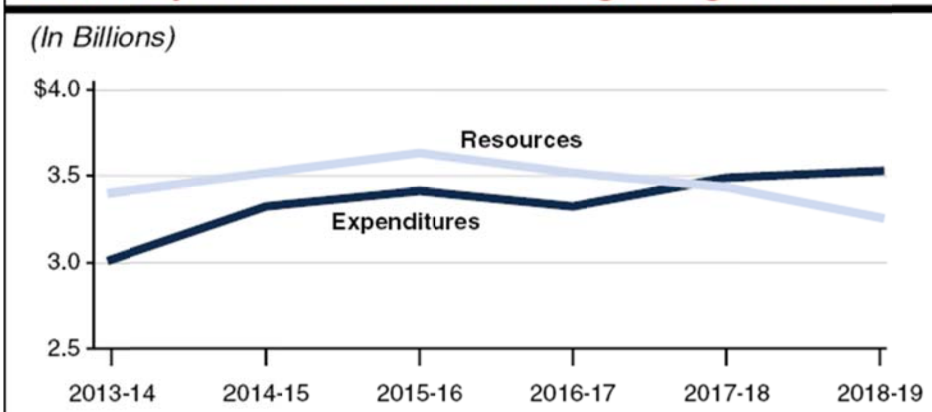
- ***New ARB Research Facility ($3.8 Million).*** The Governor's budget proposes $3.8 million from the MVA to partially support the costs of evaluating a site and developing performance criteria for a new ARB research facility in Southern California. (Total costs of these activities are $5.9 million, with the remaining $2.1 million supported with other fund sources.) The total cost of the project is estimated to be $366 million and the Administration indicates that a portion of this cost would be supported by the MVA. The LAO finds that the proposal is premature, as the Administration has not yet provided information that justifies the scope, costs, and need for the facility.

- ***CHP Salary Increase.*** The Governor's budget assumes a salary increase for CHP officers of 3.3 percent for 2015–16 and provides $41 million from the MVA to support these costs. Based on the MOU discussed above, CHP officers will likely receive additional salary increases in 2016–17, 2017–18, and 2018–19.

LAO Comments: While the Governor's proposed loan repayments from the General Fund to the MVA would offset operational shortfalls in the MVA in 2015–16 and 2016–17, the LAO's forecast of MVA revenues and expenditures indicates that the MVA's fund balance will be depleted by 2017–18—resulting in insolvency, as shown in the figure below. This forecast includes revenue estimates based on historical trends and expenditure estimates based on proposals already approved by the Legislature (such as the multiyear replacement of CHP's aircraft) and those proposed in the Governor's budget (such as the proposed replacement of DMV offices), as well as assumed in the Administration's 2015 Five–Year Infrastructure Plan. The forecast also includes out–year expenditures related to the annual CHP officer salary increases discussed above.

Figure 2

MVA Projected to Be Insolvent Beginning in 2017-18



MVA = Motor Vehicle Account.

Given the projected insolvency of the MVA in the near future—the LAO recommends that the Legislature begin to take steps now to help prevent this insolvency, especially given that the Governor's budget proposals for 2015–16 have fiscal implications in subsequent years. Below, are some of the options the LAO recommends for legislative consideration.

- *Reject some of the Governor's Capital Proposals.* The Legislature could reject some of the Governor's capital outlay proposals as a way to reduce MVA expenditures in 2015–16 and in future years. For example, the Legislature could not approve any new projects but allow previously approved projects to continue as planned (such as the CHP field offices approved for replacement in the 2014–15 budget). We note that such actions would leave various safety and operational challenges facing certain offices unaddressed.

- *Reduce Other Expenditures.* The Legislature could choose to reduce or delay other expenditures—meaning the base programs supported by the MVA. For example, by delaying expenditures to replace CHP aircraft in future years or reducing CHP salary increases in future years. In addition, the Legislature could reduce base operational costs for CHP and DMV, such as the replacement of equipment or ending certain programs. We note that during the recent recession, CHP delayed vehicle replacements in order to reduce MVA expenditures.

- *Increase Fees.* The Legislature could choose to generate additional revenues by increasing vehicle registration or driver license fees to mitigate the shortfall in the MVA. For example, the LAO estimates that roughly $30 million in additional revenue could be generated annually from a $1 increase in the base vehicle registration fee.

Staff Comments: Staff shares the LAO concerns about the future solvency of the MVA. The Senate Budget Subcommittees No. 2 and No. 4 rejected the ARB research facility which will help to relieve the pressure in the out years on the MVA.

Staff Recommendation: Approve all of the MVA-related proposals in the Governor's budget for CHP and DMV. In addition, modify the Administration's proposed provisional language related to the CHP acquisition of replacement offices to read:

1) *Site Identification of Replacement Offices*. On or before January 31, 2016, and prior to the submission of a 30-day notice for the purpose of securing purchase options on critical parcels, the department shall report to the appropriate fiscal committees of the Legislature and the LAO on the status of this year's Statewide Planning and Site Identification appropriation. Specifically, the report shall a) identify the communities where a search for land for a potential CHP office replacement is ongoing and b) describe the deficiencies of the CHP office in each selected community.

Vote:

ITEMS PROPOSED FOR DISCUSSION AND VOTE

2660 Department of Transportation

Issue 1: State Route 710 Affordable Sales Program

Governor's Budget Proposal: The Governor requests a one-time increase of $2.5 million and six positions for the Capital Outlay Support program for the State Route (SR) 710 Affordable Sales program to complete the Phase 1 sale of 42 properties. The following resources are being requested, in addition to provisional language to provide additional funding, if needed, at the approval of the Department of Finance and notification to the Joint Legislative Budget Committee:

- Six positions and $569,000;
- $250,000 for an interagency agreement with the California Housing Finance Agency (CalHFA);
- $100,000 for the Department of Housing and Community Development; and
- $1.6 million for service contracts for property sales services.

Background: Under current law, whenever Caltrans determines that any real property acquired for highway purposes is no longer necessary, it may sell the property under certain terms. For decades, Caltrans has proposed the SR 710 extension project to close a roughly 4.5-mile unconstructed gap in the freeway from just north of SR 10 in Los Angeles to SR 210 in Pasadena. This gap affects the cities of Alhambra, Pasadena, South Pasadena, and a portion of Los Angeles. The project has been in the planning stage since 1953 for a variety of reasons related to the federal environmental review process. Caltrans is currently considering several options for moving forward, including building a tunnel instead of a freeway, or not building anything at all. By 2014, Caltrans plans to identify how it intends to proceed. Caltrans currently owns 460 properties with the originally proposed right-of-way, which includes 330 single-family homes and 103 multifamily housing units.

Existing law, known as the Roberti Act (SB 86, enacted in 1979), and subsequent legislation, SB 416 (Liu), Chapter 468, Statutes of 2013, establish priorities and procedures for the disposition of surplus residential properties in the SR 710 corridor and the selling of these properties to specified income-qualified persons with the intent to preserve, upgrade, and expand the supply of low and moderate income housing. The laws have established a fairly complex process that the state must go through to dispose of these properties. Caltrans is in the process of developing regulations to establish a path going forward that is consistent with state law and anticipates these being completed by fall 2015.

The sale of the Phase 1 properties will serve as a guide for future Caltrans resource needs and help to identify the greatest challenges in disposing of these properties.

Staff Comments: Beginning the process of selling the State Route 710 properties will help to reduce the number of state staff that is currently performing property management services, as these properties are sold. Staff has no concerns with this proposal. In addition, the LAO has no concerns with the level of resources requested to implement this program, but recommends that the staff be provided from within the existing COS budget rather than increasing the number of COS positions, based on the previous concerns that the LAO has raised about the COS program being overstaffed. Given that additional funding for transportation projects may be forthcoming, it is reasonable to maintain the existing size of the COS program and add staff for this new activity.

Staff Questions for Caltrans:

1. Please describe the Roberti Act and SB 416 and the effect these two laws have on the disposal of State Route 710 properties.

Staff Recommendation: Approve as proposed.

Issue 2: Increased Funding for Transportation Research

Proposal: Increase funding for transportation research at Caltrans and the California High-Speed Rail Authority by $1.5 million combined. This funding will go towards a California High-Speed Rail Connectivity Research and Education Center.

Background: Caltrans solicits research proposals from public research institutions: public colleges, universities, and government agencies that bring solutions to the department's research problems. Currently, Caltrans provides funding to various University Transportation Centers, such as UC Berkeley (University of California Transportation Center and University of California Center on Economic Competitiveness in Transportation), San Jose State University (Mineta National Transit Research Consortium), and UC Davis (National Center of Sustainable Transportation. These organizations receive both state and federal funding that is estimated to total $3.8 million in 2015-16.

While, the primary focus of this research has been on state highways and transit, much less research has been conducted on high-speed rail. Given, the state's current effort to construct a high-speed rail system which is expected to cost $68 billion, the Legislature may wish to consider if funding research in this area is warranted.

Staff Comment. While additional research on high-speed rail may be valuable, at this time there is not funding within the State Highway Account at Caltrans for this type of effort and if the High-Speed Rail Authority were to provide such funding, Proposition 1A bond funds and cap-and-trade funds most likely could not be used for this purpose, and such funding would have to come from the Public Transportation Account, which primarily funds mass transportation.

Staff Questions for Caltrans and High-Speed Rail Authority:

1. Please comment on the merits and challenges of funding a "California High-Speed Rail Connectivity Research and Education Center."

Staff Recommendation:

<u>Vote:</u>

2665 High-Speed Rail Authority

Issue 1: Metrics, Reports, and Peer Review Group Qualifications (Legislative Proposal)

Legislative Proposal: At the March 26th hearing, the subcommittee directed the High-Speed Rail Authority (HSRA) to report back on three items:

- Metrics that the HSRA and the Peer Review Group (PRG) agree on for use in a dashboard that the Legislature can use to provide long-term oversight of the project;
- Efforts of a working group of staff from LAO, DOF, HSRA, and the Legislature to simplify or eliminate various HSRA reports currently required in statute that no longer add value;
- DOF progress on filling the Peer Review Group's four vacancies and any potential changes to statue to amend the specific requirements for various appointees.

Staff Comments: The HSRA has been responsive to the Legislature's requests as described below:

Metrics. The HSRA and the PRG developed agreed upon metrics that should help to better ensure monitoring and successful delivery of the project. The first update that includes this information will be made public and provided to the HSRA Board in September 2015.

Reporting Requirements. Staff finds the proposal, described below, to stagger the Project Update report with the Business Plan in opposite years is reasonable, provided the Business Plan is expanded to include relevant project update information. Additional project reporting occurs monthly in reports HSRA provides to the board and these are made publically available on the HSRA's website. The elimination of the Staff Management Report also is reasonable given that information on vacancies is provided at monthly board meetings and HSRA has addressed the problems that resulted in this legislative requirement.

The specific changes proposed for the HSRA's reporting requirements are:

- **Project Update Report**
  Make this an annual report due on or before March 1 in the year opposite the year the Business Plan is due (Business Plan is due every even year). Currently this report is due on or before March 1 and November 15 each year. Any information contained within the Project Update Report not currently contained in the Business Plan would be incorporated in the Business Plan.

- **Staff Management Report**
  Repeal the Staff Management Report in its entirety. This reporting requirement was imposed in the summer of 2012, when the HSRA staff was very small. The HSRA

has in place steps and procedures to oversee and manage contractors involved in the construction projects.

Peer Review Group Qualifications. Staff finds the proposed changes to the qualifications of the PRG reasonable and these changes may help to ensure that the vacant positions are filled more easily with individuals that are qualified to oversee the delivery of a large infrastructure project.

Regarding the Peer Review Group (PRG) membership qualifications, the following changes are proposed.

Section 185035 of the Public Utilities Code:

185035. (a) The authority shall establish an independent peer review group for the purpose of reviewing the planning, engineering, financing, and other elements of the authority's plans and issuing an analysis of appropriateness and accuracy of the authority's assumptions and an analysis of the viability of the authority's financing plan, including the funding plan for each corridor required pursuant to subdivision (b) of Section 2704.08 of the Streets and Highways Code.

(b) The peer review group shall include all of the following:

(1) ~~Two individuals with experience in the construction or operation of high-speed trains in Europe, Asia, or both~~ Two individuals with education and experience in the planning and construction of large transportation systems, such as high-speed rail or highway systems with similar characteristics, designated by the Treasurer.

(2) Two individuals, one with experience in engineering and construction of high-speed trains or similar large infrastructure projects and one with experience in project planning and finance ~~and one with experience in project finance~~, designated by the Controller.

(3) One representative from a financial services or financial consulting firm who shall not have been a contractor or subcontractor of the authority for the previous three years, designated by the Director of Finance.

(4) One representative with experience in environmental planning, designated by the Secretary of Business, Transportation and Housing.

(5) Two ~~expert representatives from agencies providing intercity or commuter passenger train services in California~~ individuals with experience providing or governing intercity or commuter passenger train services in California, designated by the Secretary of Business, Transportation and Housing.

(c) The peer review group shall evaluate the authority's funding plans and prepare its independent judgment as to the feasibility and reasonableness of the plans, appropriateness of assumptions, analyses, and estimates, and any other observations or evaluations it deems necessary.

(d) The authority shall provide the peer review group any and all information that the peer review group may request to carry out its responsibilities.

(e) The peer review group shall report its findings and conclusions to the Legislature no later than 60 days after receiving the plans.

Questions:
HSRA:

1. Please present the agreed-upon metrics, and the proposed changes to the reporting requirements and the Peer Review Group qualifications.

Staff Recommendation: Adopt placeholder trailer bill language to modify the HSRA's reporting requirements and to change the qualifications of the Peer Review Group as described above.

<u>Vote:</u>

2740 Department of Motor Vehicles

Issue 1: Expansion of Green Sticker Cap for Low-Emission Vehicles (Legislative Proposal)

Proposal: Increase the cap on the number of decal stickers in the Clean Air Vehicle "Green Sticker" program from 70,000 to 85,000.

Background: Allowing single-occupant, clean air vehicles access to High-Occupancy Vehicles (HOV) lanes was first authorized by AB 71 (Cunneen), Chapter 330, Statutes of 1999. The intent of the initial and subsequent legislation was to incentivize the purchase of clean air vehicles. Currently, the DMV distributes two types of decals.

- White Clean Air Vehicle decals are available to an unlimited number of qualifying Federal Inherently Low Emission Vehicles. Cars meeting these requirements are typically certified pure zero emission vehicles (100% battery electric and hydrogen fuel cell) and compressed natural gas vehicles.

- Green Clean Air Vehicle decals are available applicants that purchase or lease cars meeting California's transitional zero emission vehicles requirement, also known as the enhanced advanced technology partial zero emission vehicle requirement. Per SB 853 (Committee on Budget and Fiscal Review), Statutes 2014, Chapter 27, the green decal limit was increased by 15,000 to 55,000 decals effective July 1, 2014. Per AB 2013, (Muratsuchi), Chapter 527, Statutes of 2014, effective January 1, 2015, an additional 15,000 decals were made available for a new maximum of 70,000.

According to the DMV, the previous limit of 55,000 decals was reached at the end of September 2014. As of May 11, 2015, the DMV has issued 68,992 Green Clean Air Vehicle decals, resulting in only 1,996 available decals until the current 70,000 decal limit is reached, which is anticipated before the end of the calendar year. There is also a pending urgency bill – SB 39 (Pavley) – this session on this same matter.

Staff Comments: This proposal would increase the number of green stickers by 15,000 and prevent this program from running out of decals. Caltrans is not opposed to increasing the cap to a total of 85,000 decals, yet is cognizant of potential lane degradation. This bill would have no fiscal impact on DMV.

Questions for Caltrans:

1. Increasing the use of single occupancy vehicles in HOV lanes has the potential to decrease through-put. How does Caltrans plan to balance the Governor's zero-emission vehicle goals with lane degradation?

Staff Recommendation: Adopt placeholder trailer bill language to increase the number of green vehicle stickers by 15,000 to 85,000.

Vote: