

SUBCOMMITTEE NO. 2

Agenda

S. Joseph Simitian, Chair
Jean Fuller
Alan Lowenthal



Hearing Outcomes
(see actions under each budget issue)

Day: Thursday, April 28, 2011
Time: 9:30 a.m. or upon adjournment of session
Room: Rose Ann Vuich Hearing Room (2040)

Consultant: Brian Annis

Transportation

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2720 California Highway Patrol

Department Overview: The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for State employees and property.

January 10 Budget Summary: The Governor proposed total expenditures of \$1.9 billion (no General Fund) and 11,380.7 funded positions, a decrease of \$87 million and a decrease of 28 positions. The year-over-year budget change is primarily explained by the reduction in funding for the almost-complete public-safety radio project and by the workforce cap.

Current Budget Status: The Legislature acted on all of the CHP's January budget proposals (all were approved). The Governor proposed one technical change in an April Finance Letter which is described below.

Issues Suggested for Vote Only:

- 1. CHP Enhanced Radio System (CHPERS) (April Finance Letter #1).** The Administration requests a reappropriation of \$24.1 million for the sixth year of the public safety radio project, which is mostly complete. Due to snow and other challenges, equipment installation on some radio towers is being delayed beyond 2010-11.

Background: In 2006-07, the Legislature approved this five-year project that had an estimated total cost of \$491 million. As the project evolved, the CHP and its partner, the Office of the Chief Information Officer – Public Safety Communications Division (OCIO-PSCD) down-scoped the project to reduce costs, and the CHP revised total cost to \$343 million for a savings to the state of \$148 million. The project will enhance radio interoperability with other public safety agencies and provide additional radio channels for tactical and emergency operations. The project involves new radio transmission equipment at CHP facilities, on remote towers, and in CHP vehicles. As part of project approval, the Legislature required annual project reporting for the life of the project - due annually each March 1.

Staff Comment: The March 2011 report has been received and indicates the project will be completed in 2011-12 and with a revised cost level of \$351 million (due to timing issues, this report does not reflect an additional \$8 million in savings which has recently been identified).

Staff Recommendation: Approve the April 1 Finance Letter.

Action: Approved Finance Letter on a 3 – 0 vote.

Issue Suggested for Discussion and Vote:

2. Policy for License Plate Reader – Budget Trailer Bill: Last year the Subcommittee approved trailer-bill language that would place the CHP's internal policies for license plate readers (LPRs) in statute. LPRs are mounted on freeway signs or mobile units and capture the license plate number of passing vehicles. The language was additionally approved by the Budget Conference Committee and placed in the omnibus transportation budget trailer bill (AB 1614). The transportation budget trailer bill, which included many other provisions, failed passage in the Senate and the provisions were not enacted. Staff's understanding is that the LPR language was not a factor in the failure of the legislation.

Detail: The language was developed in consultation with the CHP and privacy advocates. The language in AB 1614 is copied below with new amendments indicated with underlines or strikeouts (amending Vehicle Code Section 2413):

(b) The Department of the California Highway Patrol may retain license plate data captured by a license plate reader (LPR) for no more than ~~72 hours~~ 90 days, except in circumstances when the data is being used as evidence or for legitimate law enforcement purposes.

(c) The Department of the California Highway Patrol shall only make the LPR data available upon formal written request from a law enforcement agency for lawful law enforcement purposes. The request shall only be processed by the appropriate departmental personnel trained in the LPR system and shall include a case number or incidence number. The Department of the California Highway Patrol shall not sell LPR data for any purpose and shall not make the data available to an agency that is not a certified law enforcement agency or an individual who is not a law enforcement officer. The data may only be used by a law enforcement agency for purposes of locating stolen vehicles or felony vehicles, vehicles with lost or stolen license plates, vehicles wanted in the connection to the commission of a public offense, missing persons and Amber Alerts and Blue Alerts ~~persons when either are reasonably suspected of being involved in the commission of a public offense.~~

(d) Department personnel shall verify all matches of wanted vehicles or persons through the California Law Enforcement Telecommunications System prior to making an arrest.

(e) The Department of the California Highway Patrol shall monitor internal use of the LPR data to prevent unauthorized use.

~~(f)~~ (f) The Department of the California Highway Patrol shall, as a part of the annual automobile theft report submitted to the Legislature pursuant to subdivision (b) of Section 10901, report the LPR practices and usage, including the number of LPR data disclosures, a record of the agencies to which data was disclosed and for what purpose, any breaches of the security system, and any changes in policy that affect privacy concerns.

Staff Comment: The Subcommittee may want to again consider adopting this placeholder trailer bill language – with highlighted modifications – for LPRs.

Action: *Approved the placeholder trailer bill language on a 2 – 1 vote, with Senator Fuller voting no.*

2740 Department of Motor Vehicles

Department Overview: The Department of Motor Vehicles (DMV) regulates the issuance and retention of driver licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

January 10 Budget Summary: The Governor proposed total expenditures of \$922 million (no General Fund) and 8,251 positions, an increase of \$9.6 million over the revised 2010-11 level and a decrease of 15.6 funded positions. The year-over-year budget change is primarily explained by employee compensation adjustments.

Current Budget Status: The Legislature acted on all of the DMV's January budget proposals (all were approved). The Governor proposed one technical change in an April Finance Letter which is described in Issue #2.

Issue Suggested for Discussion and Vote:

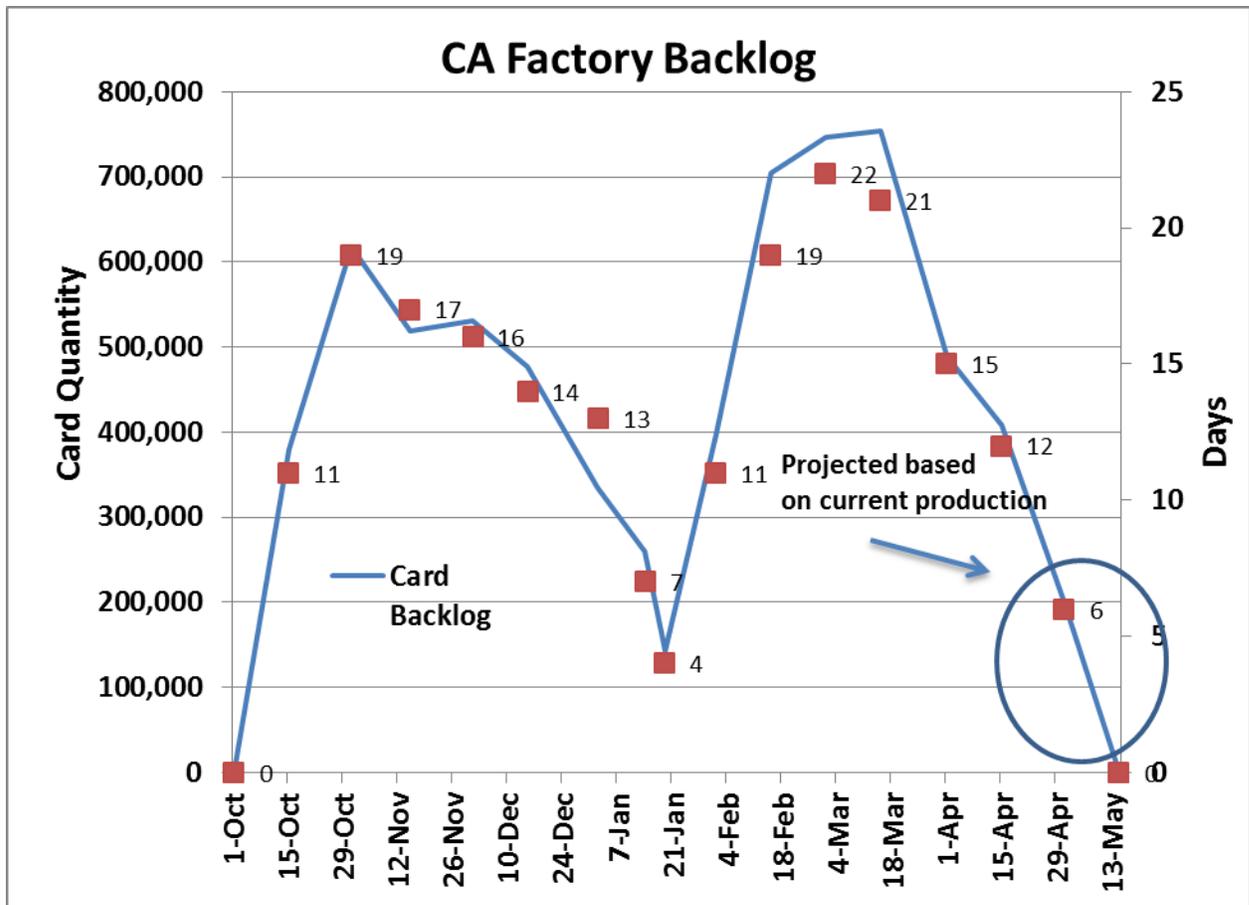
- 1. Informational Issue on Driver License Cards:** The DMV implemented a new driver license / identification (DL/ID) card design on September 30, 2010. The cards are manufactured by L-1 Identity Solutions. When the new cards were initiated, L-1 had difficulty producing the quantity and quality of cards required, and some drivers have faced delays in getting their new cards. The DMV has initiated staff overtime to provide quality assurance and has rejected some cards.

February 1 Hearing and February 15 Letter: At the Subcommittee #2 hearing on February 1, 2011, the DMV indicated the Department was starting to see improvements with the vendor. In a letter dated February 15, 2011, DMV informed the Committee that it was optimistic the backlog would be eliminated by the end of March 2011. Additionally, DMV extended the duration of the temporary driver license from 60 days to 90 days and served a Notice of Breach letter to L-1.

Current Status: DMV and the vendor missed the March 31 target for clearing the backlog and the chart on the following page was provided by DMV on April 21 to show the historic and projected backlog. The Administration is defining "backlog" as card orders that have been unreturned by L1 within the 48 hours required by the contract. DMV indicates the growth in backlog after January 21 was due to defective UV toner cartridges that caused the cards to print off color. A more comprehensive explanation of the various reasons for delay is outlined in a letter from L-1 Identity Solutions dated April 28, 2011. The Administration's data suggests the April 15 backlog was about 400,000 DL/ID cards and the average delay for those cards was 12 days.

As of April 26, DMV indicates the backlog is 217,000 cards and 7 days. Within this 217,000 backlog, approximately 20,000 are re-orders of defective cards. So most Californians are currently receiving their cards within about three weeks of the application, but about 20,000 Californians are facing wait times of four to six weeks, or more, to receive their cards. Last week's error rate for cards from L1 was about 3 percent, down from the peak error rate of about 20 percent.

Staff Comment: DMV indicates they have not paid L1 for any of the DL/ID cards pending liquidation of the backlog. DMV and the L1 representative should update the Subcommittee on the status of the cards, indicating why the March 31 target was missed, and when all quality issues will be resolved and the backlog cleared.



At the February 1, 2011, hearing, Subcommittee members expressed their high level of concern with the DL/ID card backlog and the necessity to quickly resolve the problem. Since the problem remains unresolved almost 3 months later, the Subcommittee may want to consider the following actions: (1) reduce the DMV’s Driver Licensing and Personal Identification Unit budget by 10 percent, or \$24 million, to keep the issue open in the budget and place the issue in the Budget Conference Committee if necessary; and (2) ask DMV to report progress weekly at scheduled Subcommittee #2 hearings on May 5 and May 12.

Staff Recommendation: Reduce DMV’s budget by \$24 million to keep the budget open by sending it to the Conference Committee, and direct staff to include DMV on the hearing agendas for May 5 and May 12 to receive weekly updates on the DL/ID program.

Action: Held open. The Chair directed staff to add DMV to the May 5 and May 12 hearing agendas, calculate a 20-percent reduction to DMV’s administrative funding, and asked that L1 Identity Solutions attend the May 5 hearing.

- 2. April Capital Outlay Finance Letters:** The Administration submitted three requests to reappropriate funds for state-owned DMV field office facilities. DMV operates a mix of State-owned and leased facilities. Expenditure of these funds was approved last year, and this reappropriation would allow the expenditures to move from 2010-11 to 2011-12.
- **Redding Field Office Reconfiguration Project (Construction Phase):** The Administration requests reappropriation of \$2.9 million (various special funds) for the construction phase of the Redding project. Prior costs of \$495,000 have already been incurred for preliminary plans and working drawings. Total project cost is estimated at \$3.4 million. The reconfigured facility will provide additional workload capacity and address physical infrastructure deficiencies.
 - **Fresno Field Office Replacement Project (Construction Phase):** The Administration requests reappropriation of \$18.7 million (various special funds) for the construction phase of the Fresno project. Prior costs of \$2.1 million have already been incurred for preliminary plans and working drawings. Total project cost is estimated at \$20.8 million. The new facility would replace the 50-year old customer service field office on the same site with a larger facility.
 - **Oakland Field Office Reconfiguration Project (Construction Phase):** The Administration requests reappropriation of \$2.1 million (various special funds) for the construction phase of the Oakland project. Prior costs of \$300,000 have already been incurred for preliminary plans and working drawings. Total project cost is estimated at \$2.4 million. The reconfigured facility would serve as a DMV Business Service Center and the Regional Administrator's Office.

Staff Recommendation: Hold open.

Action: Issue held open.

2665 High-Speed Rail Authority

Department Overview: The California High-Speed Rail Authority (HSRA or Authority) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The cost to build "Phase I" (from San Francisco to Anaheim) is currently estimated by the HSRA at \$43 billion (in year-of-expenditure dollars). Of the \$43 billion cost, about \$12.2 billion is currently "in hand" – \$9 billion from Proposition 1A of 2008 (Prop 1A) and \$3.2 billion in federal funds. The HSRA 2009 Business Plan indicates the remainder of project funding will come from the federal government (about \$14.8 billion), local governments (about \$4.5 billion) and private investment through selling the concession (about \$11 billion). The majority of work on the project is performed by contractors – there are approximately 604 contractors (full-time equivalents) and 37 State staff. Most of the State positions were authorized last year, and due to the hiring freeze and other factors, only about 19 positions are currently filled.

January 10 Budget Overview: The January Governor's Budget proposed funding of \$192 million for the HSRA (\$102.4 million Prop 1A and \$89.7 million federal funds). This compares to 2010-11 funding of \$221 million. The 2011-12 budget included 37.1 funded positions for HSRA, which is unchanged from the adjusted 2010-11 level.

Current Budget Status: The Legislature retained the Authority's baseline budget, but rejected all the Budget Change Proposals without prejudice to allow for further review. The High Speed Rail typically receives detailed workload proposals from its contractors in the spring, and that detail is still pending. The Legislature approved, and the Governor signed, the transportation budget trailer bill, AB 105, which includes reporting requirements and makes one-quarter of the 2011-12 budget authority contingent on submittal and review of the reports. AB 105 also included new authority for HSRA to establish up to six exempt positions.

Issues Suggested for Discussion

- 1. Statement on HSRA by Congresswoman Anna G. Eshoo, Senator S. Joseph Simitian, and Assemblyman Richard S. Gordon:** On April 18, 2011, the Senate Budget Subcommittee #2 Chair issued a joint statement on HSRA with Assembly Budget Subcommittee #3 Chair Assemblyman Gordon, and Congresswoman Eshoo. The complete statement is "Attachment A" at the end of this agenda.

Summary of Statement: The three signers state the following: "We call on the High-Speed Rail Authority and our local CalTrain Joint Powers Board to develop plans for a blended system that integrates high-speed rail with a 21st Century CalTrain.

To that end:

- We explicitly reject the notion of high-speed rail running from San Jose to San Francisco on an elevated structure or "viaduct"; and we call on the High-Speed Rail Authority to eliminate further consideration of an aerial option;
- We fully expect that high-speed rail running from San Jose to San Francisco can and should remain within the existing CalTrain right of way; and,
- Third and finally, consistent with a project of this more limited scope, the Authority should abandon its preparation of an EIR (Environmental Impact Report) for a phased project of larger dimensions over a 25 year timeframe. Continuing to plan for a project of this scope in the face of limited funding and growing community resistance is a fool's errand; and is particularly ill-advised when predicated on ridership projections that are less than credible."

Staff Comment: The HSRA should be prepared to fully address the issues raised in the joint statement.

Action: *Held issue open and the Chair ask HSRA Chief Executive Officer Mr. van Ark to return to the Subcommittee on May 5 for further testimony.*

- 2. Update on Federal Funds (Informational Issue):** The HSRA indicates that \$3.2 billion in federal funds have been awarded to California for high-speed rail. This funding comes from three grants: (1) \$1.85 billion of American Recovery and Reinvestment Act (ARRA) funds; (2) \$715 million in federal fiscal-year 2010 funds; and (3) \$616 million in redistributed ARRA funds. When state bond matching funds are added, a total of \$5.5 billion is available for initial construction.

Federal Budget for 2011 and 2012. The recently-enacted federal budget for 2011, zeroed out new funding for high speed rail. This federal action does not affect prior high-speed rail awards to California. President Obama's proposed budget for 2012 includes a national total of \$8.0 billion for high-speed rail.

Florida's HSR Funds: On April 4, 2011, California submitted its grant application to the federal government to receive a portion of \$2.0 billion in high-speed rail funds rejected by the State of Florida. Note – the funds rejected by Florida were actually \$2.4 billion, but the grant level was reduced by \$400 million as part of the federal fiscal-year 2011 budget. California is requesting \$1.4 billion in its application, and would match this with about \$300 million in state bond funds.

Use of Federal Funds: With the \$3.2 billion in federal funds received to date, and with \$2.3 billion in state bond funds, the HSRA proposes to begin construction of the high-speed rail line between Borden (which is 20 miles north of Fresno) and Shafter. If an additional \$1.4 billion in federal funds are awarded, the HSRA would extend the initial construction further north to Merced and further south to Bakersfield.

Staff Comment: The HSRA should update the Subcommittee on the status of federal funds.

Staff Recommendation: This is an informational issue.

Action: *This was an informational issue, no action.*

- 3. Update on HSRA Staffing (Informational Issue):** The HSRA indicates that about 19 of 37 authorized state staff positions are currently filled. AB 105, Statutes of 2011, authorizes the HSRA to hire up to six exempt positions after completion of a salary survey. Governor Brown signed Executive Order B-3-11 on February 15, 2011, which implements a hiring freeze, with specified exemptions.

Staff Comment: The HSRA should update the Subcommittee on the status of filling state positions, including: (1) positions currently filled; (2) status of the salary survey and filling of exempt positions; and (3) status of exemptions from the hiring freeze and target to fully staff the Authority. Finally, the Conference Report, SB 69, includes budget bill language that requires a May 1, 2011, report on opportunities to use state staff, including Caltrans staff, on HSRA work instead of contract staff. While this report may not be submitted prior to the April 28, 2011, hearing, the HSRA should be able to comment on the report's contents.

Staff Recommendation: This is an informational issue.

<i>Action: This was an informational issue, no action.</i>

4. Budget Change Proposals: The Administration submitted the following Budget Change Proposals:

- **Program Management Contract (Part of COBCPs #1-7):** The Administration requests a total of \$41.5 million from Prop 1A bond funds and federal funds for the 2011-12 cost of the program-management contract. The funding request is \$4.5 million higher than the amount provided for 2010-11.
- **Program Management Oversight Contract (BCP #1):** The Administration requests a total of \$3.0 million from Prop 1A bond funds for the 2011-12 cost of the program-management oversight contract. The funding request is \$1.0 million higher than the amount provided for 2010-11.
- **Public Information and Communication Services Contract (BCP #3).** The Administration requests a total of \$1.8 million from Prop 1A bond funds for the 2011-12 cost of specialty contracts with a private vendor in the areas of communications. The amount of the funding request is the same as the funding provided for 2010-11.
- **Financial Plan and Public Private Participation Contracts (BCP #4).** The Administration requests a total of \$750,000 from Prop 1A bond funds for the 2011-12 cost of financial consulting services, including development of a Public Private Partnership Program (P3) plan. A total of \$1.0 million was provided in the 2010-11 budget for this same purpose.
- **Interagency Contracts for DOJ and DGS (BCP #7).** The Administration requests an augmentation of \$1.1 million in Prop 1A bonds to add to base funding of \$359,000 for inter-departmental legal and general services performed by the Department of Justice (DOJ) and the Department of General Services (DGS).
- **Engineering contracts for preliminary design and environmental impact reports (Part of COBCPs #1-7):** Excluding the amount for the Program Management Contract (which is discussed separately as issue #4 in this agenda), the Administration requests a total of \$137.9 million for the 2011-12 cost of multiple contracts to continue work on the project-level environmental impact reports and preliminary design. The cost would be funded 50-percent Prop 1A funds and 50-percent federal stimulus funds.

Staff Comment: Additional detail on the vendors' 2011-12 workplans is still pending. Upon completion of the workplans, HSRA indicates there will probably be adjustments to the budgeted expenditures by segment via a May Revision Finance Letter. The financial consultant is not yet under contract, but HSRA hopes to sign this contract over the next few weeks and indicates the October 14, 2011, fiscal reporting deadline will be met.

Staff Recommendation: Hold open all BCPs pending additional detail.

Action: Held open all BCPs.

2600 California Transportation Commission

Department Overview: The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction of highway, passenger rail, and transit improvements throughout California. The CTC also advises and assists the Secretary of the Business, Transportation and Housing Agency and the Legislature in formulating and evaluating State policies and plans for California's transportation programs.

Budget Overview: The January Governor's Budget proposed expenditures of \$3.9 million and 18.1 positions for the administration of the CTC (no General Fund) – an increase of \$183,000 and no change in positions. Additionally, the budget includes \$25.0 million in Clean Air and Transportation Improvement Bond Act funds (Proposition 116 of 1990) that are budgeted in the CTC and allocated to local governments. The Administration submitted one Budget Change Proposal, which is described on the next page.

Current Budget Status: The Legislature approved the CTC's baseline budget, but rejected the Budget Change Proposal without prejudice to allow for further review. That BCP is issue #1 on the following page.

Issues proposed for Discussion / Vote:

- 1. Design Build / Public Private Partnership Review (BCP #1):** The Administration requests a limited-term, three-year, annual increase of \$400,000 (State Highway Account) to contract out with a financial consultant to assist in the review of proposed projects under the design build contract method and the public private partnership (P3) program. This request is related to SB X2 4 (Statutes of 2009, Cogdill), which mandates that the CTC establish criteria and review projects for inclusion in these programs. The 2010 Budget Act included a one-time appropriation of \$200,000 for this same activity. As indicated on the prior page, this budget request was rejected without prejudice during budget hearings in February, with the intent to review again during spring budget hearings.

Background: The CTC indicates it spent \$160,000 in consulting services to review the most-recent P3 project proposal – Doyle Drive in San Francisco. This year's BCP anticipates about two P3 projects for annual review with an average cost of \$200,000 each. The CTC indicates that projects utilizing toll financing will involve additional analysis beyond that used for Doyle Drive, and that will likely increase the cost of the analysis.

Caltrans Funding for P3 Analysis: A factor in the CTC's P3 workload is the number of P3 proposals developed by Caltrans. However, this is not the sole determinant, as local governments may also develop and submit P3 proposals. In a letter dated March 10, 2011, Caltrans requested that the Joint Legislative Budget Committee (JLBC) approve a 2010-11 shift of \$4.5 million for the Caltrans development of three P3 proposals. The Legislative Analyst reviewed this request and determined Caltrans would spend little or none of this amount in 2010-11. The JLBC advised the Administration that since most or all of the P3 expenditures would be in 2011-12, a May Revision Finance Letter and budget committee review would be the appropriate mechanism to consider budget funding. It is not known at this time if the Administration will submit a May Finance Letter for Caltrans P3 expenditures.

Staff Comment: It is unclear if Caltrans or any local governments will submit a P3 proposal to the CTC for review in 2011-12. However, to the extent proposals are submitted, it is consistent with statutory direction, and good policy, for the CTC to thoroughly analyze the proposals. Given this uncertainty on the P3 workload in 2011-12, the Subcommittee may want to consider flexible budget bill language for funding instead of a fixed appropriation.

Staff Recommendation: Reject the \$400,000 in funding and instead adopt Budget Bill Language authorizing DOF to augment the CTC budget up to \$400,000, with JLBC notification, if needed to evaluate projects.

Action: Approved staff recommendation on a 2 – 1 vote, with Senator Fuller voting no.

2660 Department of Transportation

Department Overview: The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The Department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

Budget Overview: The January Governor's Budget proposed total expenditures of \$12.8 billion (\$83 million General Fund) and 20,377 positions, a decrease of about \$332 million and a decrease of 249 positions over the revised current-year budget.

Current Budget Status: The Legislature approved the Caltrans baseline budget and a number of January Budget Change Proposals (BCPs) but rejected three proposals without prejudice to allow for further review. Those BCPs that were rejected without prejudice and new April 1 Finance Letters are included in this agenda.

Issues proposed for Vote Only:

- 1. California Household Travel Survey (April FL #7):** The Administration requests authority to receive \$2.8 million (over two years) in reimbursements from local planning entities and the California Energy Commission to complete the California Household Travel Survey (Survey). Caltrans is lead partner for the Survey that will update the 10-year travel model. The Survey supports transportation planning at the state and regional level and supports sustainable development and the objectives of SB 375. Caltrans is absorbing the baseline survey cost of \$7.2 million within its existing budget, but has coordinated with the other entities to add data to the survey to meet their needs and avoid the need for duplicative studies. With the reimbursement funding, 60,000 households will be surveyed instead of 43,000.

Staff Recommendation: Approve this request.

Action: *Approved request on a 2 – 1 vote with Senator Fuller voting no.*

Issues proposed for Discussion and Vote:

- 2. Continue limited-term positions for federal requirements (April Finance Letters):** The Governor requests an extension of position authority for a net of 21 positions and a total of \$3.8 million in redirected federal funds to continue work in various audit, accounting, and reporting areas related to Caltrans oversight of local governments' expenditure of federal dollars. The three requests are as follows:
- a. Environmental Reviews (April FL #3):** Caltrans requests \$591,000 to make permanent 6 expiring positions. These staff review the environmental documents for local projects funded with federal funds to comply with federal requirements. Caltrans indicates the federal workload is ongoing, and all of these positions approved in prior budgets are needed permanently.
 - b. Audits (April FL #4):** Caltrans requests \$2.9 million to extend by another 2 years, 12 expiring positions. Included in this funding, is \$1.8 million to continue contracting with the State Controller for audits. This funding supports two types of audits of local governments – indirect cost allocation plan audits (which ensure local governments appropriately bill for indirect project costs) and incurred cost audits (which are audits of state and federal reimbursement to locals for transportation projects). Caltrans indicates there have been local compliance problems in the past that could eventually result in federal sanctions if not addressed.
 - c. Accounting (April FL #5):** Caltrans requests various changes netting to \$285,000 to extend by 1 year, or 2 years, as specified, 7 limited-term positions involved in accounting for the federal American Recovery and Reinvestment Act (ARRA). These positions support local governments in their expenditure of ARRA funds by certifying and encumbering the funds, reviewing and processing invoices, and verifying the correct classification of expenditures in accounting records. Of the 7 existing positions in the Administration Division, 5 will be extended by 2 years and 2 positions will be extended by 1 year. Also in this request is the early elimination of 4 positions in the Local Assistance Division that are no longer considered necessary.

Staff Comment: Staff has no concerns with this proposal as it is extending federal funds to support federally required activities.

Staff Recommendation: Approve these Finance Letters.

Action: Approved request on a 2 – 1 vote with Senator Fuller voting no.
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- 3. Proposition 1B Budget Request:** The Governor requests \$2.4 billion in Prop 1B bond funds for programs administered by Caltrans - the Legislature approved this funding level as a placeholder amount. The table below, based on Caltrans's numbers, summarizes past action on Prop 1B and the Governor's proposal (dollars in millions):

Proposition 1B Category	Total 1B Amount	Total Approp'd thru 10-11 (after reversions)	2011-12 Requested Amount	New reversions in June 2011
Corridor Mobility Improvement Account (CMIA)	\$4,500	\$2,789	\$631	\$945
State Transportation Improvement Program (STIP)	\$2,000	\$1,993	\$0	\$1
State Highway Operations and Preservation Program (SHOPP)	\$500	\$308	\$0	\$44
State Route 99 Improvements	\$1,000	\$284	\$392	\$282
Local Bridge Seismic Retrofit	\$125	\$38	\$22	\$37
Intercity Rail	\$400	\$100	\$117	\$125
Grade Separations	\$250	\$250	\$0	\$3
Traffic-Light Synchronization	\$250	\$250	\$0	\$0
Trade Infrastructure	\$2,000	\$581	\$972	\$389
State/Local Partnership	\$1,000	\$339	\$200	\$210
Local Streets & Roads	\$2,000	\$1,950	\$37	\$70
Transit	\$3,600	\$2,450	\$0	\$0
TOTAL for these programs	\$15,625	\$11,332	\$2,371	\$2,107

* Number pending from the Administration.

June 2011 Reversions: The column at the far right indicates Prop 1B bond funds appropriated in prior budgets that have not been allocated and will revert June 30, 2011. The numbers are based on CTC allocations through March 2011, and represent new information since the January budget. For these dollars to be utilized against expenditures, the funds must be appropriated again. Based upon initial analysis, it appears that about \$1 billion in reverted funds will need a new appropriation in order to provided sufficient budget authority for anticipated project allocations in 2011-12.

Staff Comment: Caltrans should explain the reasons why \$2.1 billion dollars from prior budgets has not been allocated and the reasons for project delays. The Administration will likely have a May Revision Finance Letter to adjust Prop 1B appropriations. While the exact numbers may not be known at this time, the Administration should be prepared to discuss their analysis, and assumptions of bond sales and project delivery. Due to no bond sales this spring, a timely budget and timely fall bond sales is even more important for projects this year.

Staff Recommendation: Take no action – a May Revision Finance Letter is anticipated to adjust Prop 1B appropriation levels.

Action: Held open for May Revision.
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- 4. Proposition 1A Bonds – Funding for Intercity and Urban Rail (Governor’s Budget):** In the January Budget, the Administration requested \$27.8 million in Prop 1A bond funds for positive train control safety projects in various local and intercity rail corridors. The Legislature augmented that funding level by \$133.4 million to restore funds for programmed projects that were vetoed last year by Governor Schwarzenegger. Positive train control is a technology that provides for limited automation of train speed controls based on location and other factors. Proposition 1A is the Safe, Reliable High-speed Passenger Train Bonds Act of 2008. Most of the Prop 1A bonds are specifically for high-speed rail, but about 10 percent of the funds are available for other intercity and urban rail. According to the ballot summary: Prop 1A “provides \$950 million for connections to the high-speed railroad and for repairing, modernizing and improving passenger rail service, including tracks, signals, structures, facilities and rolling stock.”

Background: At the May 19, 2010, California Transportation Commission (CTC) meeting, the CTC adopted the Prop 1A program of intercity and urban rail projects for 2010-11 to 2012-13. The adopted program of projects includes the intercity rail services run by Caltrans in cooperation with Amtrak, as well as regionally-run rail services around the state. The CTC program includes positive train control projects, but also includes projects for double tracking, new rail cars, etc. The Schwarzenegger Administration did not propose any Prop 1A funding for this program in 2010-11, however, the Legislature added funding consistent with the CTC’s plan. The amount appropriated totaled \$234.4 million, but Governor Schwarzenegger vetoed the amount down to \$100.1 million. His veto message indicated that the funds not vetoed were only to be spent for positive train controls.

Staff Comment: Governor Brown’s proposed budget is consistent with Governor Schwarzenegger’s policy to only use these Prop 1A bonds to fund positive-train-control projects. However, the CTC’s program of projects included many ready-to-go intercity and urban rail projects that may be delayed without these Prop 1A bond funds. The CTC indicates it has adjusted its program of Prop 1A projects in both September 2010 and March 2011. The adjusted program of projects would require an additional amount of about \$101 million to cover allocations through June 2012. This would be in addition to the \$133 million augmentation the Legislature approved in February. Finally, past Prop 1B appropriations have included budget language allowing the appropriation to be increased by 25 percent administratively if projects are delivered for construction early – this approach could also be considered for Prop 1A intercity and urban rail projects.

Staff Recommendation: Approved a revised funding level for intercity and urban rail Prop 1A funds to conform to the adjusted CTC program of projects and add the 25-percent contingency language if projects are ready for construction early.

Action: *Approved staff recommendation on a 2 – 1 vote, with Senator Fuller voting no.*

- 5. Air Quality Mandates – Equipment Retrofit and Replacement (BCP #1):** In the January budget, the Governor requested an augmentation of \$63.2 million from the State Highway Account (SHA) on a one-time basis to comply with various air quality control mandates. The Legislature rejected this request without prejudice to allow additional time for review. The following Table summarizes the costs:

Summary of Equipment Compliance Costs				
Mandate	Compliance Strategy	# of Equip.	Cost (in 1000s)	Type of Request
ARB On-Road Heavy Duty Diesel Vehicles (On-Road)	Replace	497	\$60,381	One-Time
ARB Air Toxic Control Measures (ATCM)	Replace	3	\$1,404	One-Time
	Repower	1	\$40	One-Time
ARB Large Spark Ignition (LSI)	Replace	7	\$295	One-Time
US EPA Diesel Emission Standards (US EPA 10)		128	\$1,152	One-Time
Total		636	\$63,272	

Background: The 2010-11 budget appropriated \$57.3 million to bring 435 vehicles into compliance. It was later determined that the Department's overall compliance plan did not actually bring the Department into compliance with the Air Resources Board (ARB) requirements. Subsequently, the Department worked with the Air Resources Board to develop a new compliance plan. The new compliance plan focused on retrofits instead of replacements in 2010-11 and results in expenditure savings of about \$47 million in this fiscal year. The Department developed the 2011-12 request based on this new joint compliance agreement between the California Air Resources Board (ARB) and the Department.

Staff Comments: Neither Caltrans nor the ARB expect any changes to the compliance plan or ARB regulations. The Governor issued Executive Order B-2-11 on January 28, 2011, which requires state agencies to conduct an analysis of their fleets and equipment and submit the analysis to the Department of General Services (DGS). The executive order also requires the Department of Finance to adjust departmental budgets to reflect any savings. If Caltrans reduces its fleet pursuant to the order, there could be some resulting savings from reduced vehicle replacement. It is unclear if the DGS evaluation and calculation of savings by department will be completed and submitted to the Legislature with the May Revision. The Administration could alternatively score the savings within Budget Control Section 3.91 that allows savings across departments.

Staff Recommendation: Approve the January budget request. Direct staff to bring the issue back at a future hearing if the Administration identifies a fleet reduction and Caltrans savings as a result of the executive order.

Action: Held open for May Revision.
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- 6. Project Initiation Documents (PIDs) – Staffing and Funding (BCP #4):** In the January budget, the Administration proposed to increase budgeted positions for PIDs workload from 242 positions to 260 positions and also shift the funding for 66 of these positions from State Highway Account (SHA) to local reimbursements. The Legislature rejected this request without prejudice to allow additional time for review. The overall funding for PIDs would increase \$2.4 million – from \$30.6 million to \$33.0 million (with \$24.3 million SHA-funded and \$8.6 million reimbursement-funded). A “PID” is a preliminary planning document, or tool, that includes the estimated cost, scope, and schedule of the project—information needed to decide if, how, and when to fund the project.

Recent History of PIDs Issues in the Budget: In the proposed budget for 2009-10, Governor Schwarzenegger proposed to shift \$2.5 million in PIDs funding from SHA to local-reimbursed funding. The Legislative Analyst performed a zero-based analysis of the program and suggested it was significantly overstaffed and recommended that all PIDs work for projects that would be locally funded at the capital phase (local PIDs) should be funded with local reimbursements. The local reimbursement funding was intended to provide a mechanism to self-regulate the volume of PIDs workload (because locals would not request more PIDs than was warranted under capital-funding estimates) and a dialog would begin between Caltrans and locals on the appropriate PID scope and cost for local PIDs. In the 2009 May Revision, the Administration basically concurred with the LAO direction and proposed a staff decrease and reimbursements for local PIDs. The Legislature ultimately approved the staff reduction, but rejected the shift to reimbursements. There was no veto of the funding.

In the proposed budget for 2010-11, Governor Schwarzenegger again proposed to shift PIDs for locally-funded projects on the state highway system to reimbursements. The total PIDs resources were proposed at 309 positions with 78 positions reimbursed. The Legislature approved 11 positions to be reimbursed by the High-Speed Rail Authority, but believed the “local” PIDs should continue to be funded with SHA instead of reimbursements. The Governor vetoed the 67 positions budgeted with SHA funds, and indicated the positions should be reimbursed. Since the Governor cannot augment reimbursement authority through a veto, the final 2010-11 budget reflects the elimination of \$7.4 million SHA and 67 positions. However, if locals did desire to fund the work through reimbursements, there are administrative mechanisms to receive the reimbursements.

The proposed budget for 2011-12 again includes a shift of local PIDs funding from SHA to reimbursements. This time 66 positions and \$7.3 million are proposed to shift from SHA to local reimbursements. While this reflects Governor Brown’s budget, the new administration may not have had an opportunity to fully review this issue.

The table below shows the budgeted positions for PIDs with the original base level in 2008-09, the revised base for 2010-11, and the proposed level for 2011-12.

	PIDs Staffing as budgeted		
	<i>State Highway Account (SHA) funded</i>	<i>Reimbursement funded</i>	Total PID Workload
2008-09 Base	456 positions	0 positions	456 positions
2010-11 (Legislature's budget)	298 positions	11 positions	309 positions
2010-11 (after Governor's veto)	231 positions	11 positions*	242 positions
2011-12 Proposed	183 positions	77 positions	260 positions

* The prior Governor vetoed \$7.4 million SHA and 67 positions in the 2010-11 budget with the intent to administratively fund these same positions as reimbursed – if this was successful, then 78 positions might be funded with reimbursements in 2010-11.

Goals and Options: While there have been different approaches to finance PIDs, there are common goals for the PIDs program. The first goal is to appropriately staff Caltrans to produce the number of PIDs necessary to evaluate and program projects. Staffing should be sufficient to avoid any delays for funded projects, but also not too large so that scarce dollars are wasted on too many PIDs for projects without funds to build. The second goal is to size and scope each PID to provide sufficient information for decisions makers, but not include supplemental detail that is not needed for the decision makers and that adds cost and time. The LAO and the Department of Finance have believed these goals are best addressed for local PIDs by internalizing costs at the local level. An alternative option is to retain SHA funding and task the Administration with better management and allocation of PIDs workload, so that Caltrans staff are sized and deployed for local projects to match local capital resources. While the Senate has entertained the LAO and DOF approach, the Budget Conference Committee has ultimately decided in each of the last two years to maintain SHA funding for PIDs.

April 1, 2011, Report: Last year's budget included the adoption of Supplemental Report Language (SRL) to require that the Department report back to the Legislature on local PID workload during 2009-10 and 2010-11 so that there would be a stronger basis for evaluating the proposed policy shift. The report must include information on the PIDs requested by locals including funding source for the capital-phase of the project and timelines for the individual projects. The report indicates reimbursement agreements on 3 projects have been completed and another 15 are being negotiated. However, these represent only a small fraction of the anticipated reimbursable workload.

April 19, 2011, Caltrans Letter to Locals: In a letter dated April 19, 2011, Caltrans informed locals of interim guidance for the development of PIDs. The letter indicates that effective immediately all PIDs developed for the State Transportation Improvement Program (STIP) and special funded projects will use the Project Study

Report-Project Development Support (PSR-PDS) process. The letter says that the PSR-PDS is a streamlined PID document that does not require the same level of engineering detail as the traditional Project Study Report (PSR). The amended PID guidance on PSR-PDS development is expected to be completed by July 1, 2011.

Staff Comment: There is legitimate concern over the status of the PIDs work because reimbursement funding is not materializing at the levels the Administration indicated last May. Additionally, the contract required with locals for a PIDs reimbursement appears to currently be a lengthy process that can result in a six-month delay. The staff at Caltrans has been reduced to zero-base the workload and Caltrans has – as of April 19, 2011 – implemented a streamlined PID. It is unclear if the streamlined PID will result in a reduced staffing need.

Progress is underway for zero-basing and streaming PIDs workload – so the major reforms seem to be underway. Using local reimbursement as a mechanism to drive the reform may not be necessary and may produce new inefficiencies such as the need for reimbursement agreements.

Staff Recommendation: Approve the Governor's proposed staffing level of 260 positions for PIDs, but reject local reimbursements for PID, and fund from the State Highway Account. Direct staff to bring this issue back at a later hearing if the streamlined PIDs result in workload adjustments.

Action: Approved Staff Recommendation on a 2 – 0 vote with Senator Simitian and Senator Lowenthal voting aye.

- 7. Advertising on Changeable Message Signs (Informational Issue).** Last year, the Schwarzenegger Administration requested budget trailer bill language to allow advertising on highway Changeable Message Signs (CMSs). Caltrans applied to the federal government for a waiver to implement the program.

Action by the Subcommittee: The Subcommittee rejected the proposal and adopted budget bill language to specify that advertising on CMSs would be prohibited without future legislation that authorized the practice.

Provision __. Any advertising on freeway changeable message signs in 2010-11 and thereafter, shall be permitted only upon enactment of subsequent legislation that authorizes such activity.

Final 2010-11 Budget: Governor Schwarzenegger continued to advocate for the CMS language, and the budget package negotiated by the Governor and the legislative leaders included the deletion of the budget bill language and the addition of Governor Schwarzenegger's trailer bill language authorizing advertising on CMSs. However, the transportation budget trailer bill failed to achieve the required two-thirds majority vote on the Senate Floor and the CMS language was not enacted.

Current Status: Governor Brown has not proposed any budget action in this area. Caltrans indicates the waiver request to the federal government has been withdrawn.

Staff Comment: Caltrans should update the Subcommittee on this this issues, indicating the Brown Administration position, and the status of the waiver request.

Action: Held open. The Chair directed staff to prepare a letter to the Federal Highway Administration stating opposition to advertising on changeable message signs and to draft budget language for consideration at a future hearing.

Attachment A

Statement on California High-Speed Rail by:

Congresswoman Anna G. Eshoo

Senator S. Joseph Simitian

Assemblyman Richard S. Gordon

April 18, 2011

Since the passage of Proposition 1A in 2008, each of us has expressed our support for “high-speed rail done right,” by which we mean a genuinely statewide system that makes prudent use of limited public funds and which is responsive to legitimate concerns about the impact of high-speed rail on our cities, towns, neighborhoods and homes.

To date, however, the California High Speed Rail Authority has failed to develop and describe such a system for the Peninsula and South Bay. For

that reason, we have taken it upon ourselves today to set forth some basic parameters for what “high-speed rail done right” looks like in our region.

We start with the premise that for the Authority to succeed in its statewide mission it must be sensitive and responsive to local concerns about local impacts. Moreover, it is undeniable that funding will be severely limited at both the state and national levels for the foreseeable future.

Much of the projected cost for the San Jose to San Francisco leg of the project is driven by the fact that the Authority has, to date, proposed what is essentially a second rail system for the Peninsula and South Bay, unnecessarily duplicating existing usable infrastructure. Even if such a duplicative system could be constructed without adverse impact along the CalTrain corridor, and we do not believe it can, the cost of such duplication simply cannot be justified.

If we can barely find the funds to do high speed rail right, we most certainly cannot find the funds to do high speed rail wrong.

Accordingly, we call upon the High-Speed Rail Authority and our local CalTrain Joint Powers Board to develop plans for *a blended system that integrates high-speed rail with a 21st Century CalTrain.*

To that end:

- We explicitly reject the notion of high-speed rail running from San Jose to San Francisco on an elevated structure or “viaduct”; and we call on the High-Speed Rail Authority to eliminate further consideration of an aerial option;
- We fully expect that high-speed rail running from San Jose to San Francisco can and should remain within the existing CalTrain right of way; and,

- Third and finally, consistent with a project of this more limited scope, the Authority should abandon its preparation of an EIR (Environmental Impact Report) for a phased project of larger dimensions over a 25 year timeframe. Continuing to plan for a project of this scope in the face of limited funding and growing community resistance is a fool's errand; and is particularly ill-advised when predicated on ridership projections that are less than credible.

Within the existing right-of-way, at or below grade, a single blended system could allow high-speed rail arriving in San Jose to continue north in a seamless fashion as part of a 21st Century CalTrain (using some combination of electrification, positive train control, new rolling stock and/or other appropriate upgrades) while maintaining the currently projected speeds and travel time for high-speed rail.

The net result of such a system would be a substantially upgraded commuter service for Peninsula and South Bay residents capable of accommodating high-speed rail from San Jose to San Francisco.

All of this is possible, but only if the High-Speed Rail Authority takes this opportunity to rethink its direction.

Over the course of the past 18 months the Authority has come under considerable criticism from the California Legislative Analyst's Office, the Bureau of State Audits, the California Office of the Inspector General, the Authority's own Peer Review Group and the Institute of Transportation Studies at the University of California at Berkeley. The Authority would do well to take these critiques to heart, and to make them the basis for a renewed and improved effort.

Frankly, a great many of our constituents are convinced that the High-Speed Rail Authority has already wandered so far afield that it is too late

for a successful course correction. We hope the Authority can prove otherwise.

An essential first step is a rethinking of the Authority's plans for the Peninsula and South Bay. A commitment to a project which eschews an aerial viaduct, stays within the existing right-of-way, sets aside any notion of a phased project expansion at a later date, and incorporates the necessary upgrades for CalTrain - which would produce a truly blended system along the CalTrain corridor - is the essential next step.