

SUBCOMMITTEE NO. 2

Agenda

S. Joseph Simitian, Chair
Jean Fuller
Alan Lowenthal



Hearing Outcomes

Agenda – Part B

Day: Thursday, May 5, 2011
Time: 9:30 a.m. or upon adjournment of session
John L. Burton Hearing Room (4203)

Consultant: Brian Annis

Transportation

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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 DMV proposed an April 1 Finance Letter to reappropriate \$23.7 million for three capital outlay facility projects. The projects are: (1) Redding Field Office reconfiguration at a cost of \$2.9 million; (2) Fresno Field Office replacement at a cost of \$18.7 million; and (3), Oakland Field Office reconfiguration at a cost of \$2.1 million. Those requests were included on the April 28, 2011, hearing agenda, but left open pending resolution of the backlog in the issuance of driver licenses and identification cards.

Issue Suggested for Discussion and Vote:

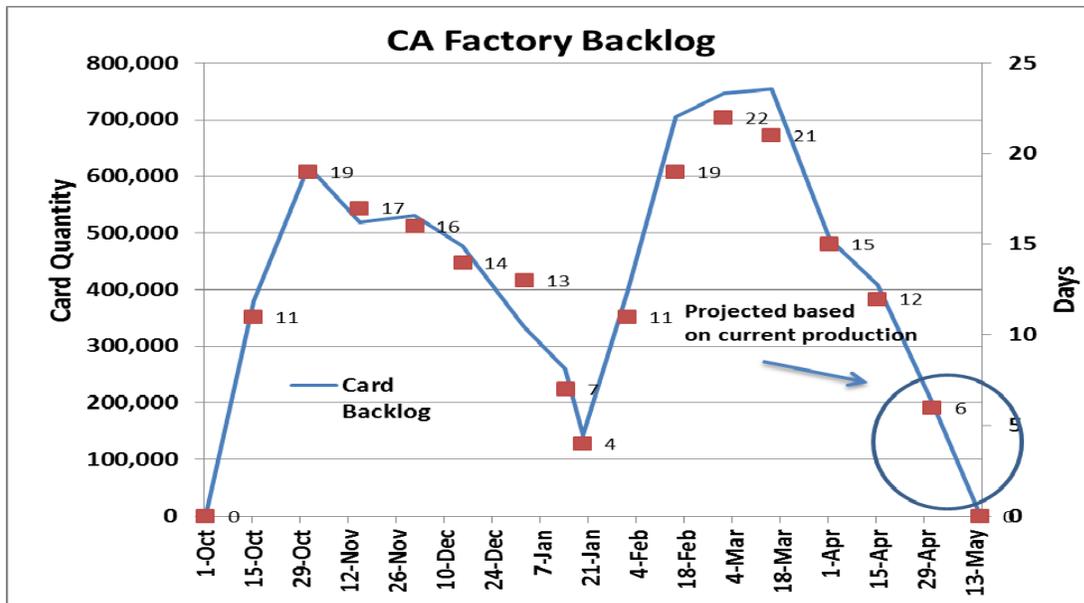
- 1. Informational Issue on Driver License Cards:** The DMV implemented a new driver license / identification (DL/ID) card design on September 30, 2010. The cards are manufactured by L-1 Identity Solutions. When the new cards were initiated, L-1 had difficulty producing the quantity and quality of cards 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 many cards.

February 1 Hearing and February 15 Letter: At the Subcommittee #2 hearing on February 1, 2011, the DMV indicated that it 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.

April 28 Hearing: At the Subcommittee #2 hearing on April 28, 2011, the DMV testified to the current status of the backlog, which is detailed below. The Subcommittee asked DMV and an L-1 representative to return at the May 5 and May 12 hearings for weekly updates on the status of the backlog, and for updates on the status of determining damages that L-1 owes to the State.

Current Status: The 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 L-1 within the 48 hours required by the contract. The 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 May 3, 2011, DMV indicates that the backlog has been completely eliminated. Californians should now be receiving their cards within about two weeks of application. Those who faced longer delays in the past due to card defects, should also have their cards in the mail. The elimination of the backlog is about 10 days ahead of the schedule provided on April 21, and indicated on the chart.



Staff Comment: The DMV indicates they have not paid L-1 for any of the DL/ID cards pending liquidation of the backlog. The DMV and the L-1 representative should update the Subcommittee on the status of the cards and the status of fiscal damages from L-1’s breach of contract.

At the April 28, 2011, hearing, the Chair asked staff to calculate the budget reduction that would result from a 20-percent reduction in the DMV’s administrative funding. DMV’s budget for “Administration” is \$103.4 million (various special funds, no General Fund), and 20-percent of that number is \$20.7 million.

While the backlog has been cleared as of May 3, 2011, the chart indicates that the backlog has fluctuated, so the Subcommittee may want to still receive a status report from DMV next week to ensure the backlog has not re-emerged.

Staff Recommendation: Hold issue open and ask DMV to report back at the May 12 hearing.

Action: No budget action was taken, but DMV was asked, and agreed, to consult with the Department of General Services, and report back in writing within 30 days to the Subcommittee on: (1) improvements the State can make to its contract terms to ensure better outcomes when a contractor fails to deliver on key components of a contract; and (2) the ability to renegotiate the L-1 contract to include liquidated damages for non-compliance with quality and timeliness requirements of the contract. L-1 was asked, and agreed, to respond in writing within two weeks on how they will “make things right” or fully compensate the State for average delays of 15 days and defect rates up to 20-percent for card production over a 7-month period – this should include an indication of whether L-1 will support a contract amendment to add liquidated damages for failure to meet the 48-hour production time and failure to meet quality standards.

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 (BCPs) without prejudice to allow for further review. The BCPs rejected totaled \$186 million and \$6.0 million was retained in the budget to cover the base funding for HSRA staff and inter-agency contracts. The High Speed Rail Authority 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."

April 28, 2011, Hearing: At the April 28 hearing, the Subcommittee and HSRA discussed the joint statement and legal issues – primarily, the travel-time requirements in Proposition 1A and the requirements of the California Environmental Quality Act (CEQA). At the end of the discussion, HSRA concurred that the proposal in the joint statement could be achieved within the requirements of Proposition 1A and within the requirements of CEQA.

Staff Comment: The HSRA should be prepared to continue discussion on the joint statement.

Action: No budget action was taken, but the HSRA was asked to return next week and testify at the May 12 hearing. The HSRA also was asked, and agreed, to provide a written outreach plan within 4 weeks for the Board's action to explore an alternate alignment for the Bakersfield to Los Angeles segment.

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.