Senate Budget and Fiscal Review—Scott Wiener, Chair
SUBCOMMITTEE NO. 5 **Agenda**

Senator Laura Richardson, Chair
Senator María Elena Durazo
Senator Kelly Seyarto
Senator Aisha Wahab

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State Capitol – Room 112

Consultant: Eunice Roh

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Items for Public Comment

Items for Discussion

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ITEMS FOR PUBLIC COMMENT

0521 California State Transportation Agency

Issue 1: California Office of Traffic Safety Federal Fund Authority

Governor's Proposal. The Budget includes an increase of federal authority of $40 million for the Office of Traffic Safety (OTS) to align with expected available federal funding. In addition, the OTS requests provisional budget bill language to allow traffic safety grant funding to be transferred between items.

Background. OTS implements competitive grant programs for traffic safety initiatives funded by the National Highway Traffic Safety Administration (NHTSA). The Infrastructure Investment and Jobs Act (IIJA) have increased the amount of funding for OTS from NHTSA in the last several years—for example, OTS saw a 22 percent increase in funding in 2022-23, and further increases in 2023-24 and 2024-25. OTS expects this trend to continue, and estimates a $40 million increase over the next five years. This budget authority allows OTS to expend how much federal funding it expects, and the provisional language allows the office to shift funding between state operations and local assistance, depending on which type of entity (local, regional, or state) receives the competitive grant from OTS.

Staff Recommendation. Hold open.

2660 California Department of Transportation

Issue 2: Enterprise Data Governance Technology Solution

Governor's Proposal. The Budget includes $9.7 million in 2025-26 from the State Highway Account (SHA) for consulting services, equipment, and software to implement the enterprise data governance technology solution.

Background. This request is for the second-year implementation costs of a project currently in Project Approval Lifecycle (PAL) Stage 3 for which there was an approved increase in 2024–25 to cover the first-year implementation costs. Specifically, this solution would provide the ability to 1) assess and report on data quality, 2) manage metadata and data dictionaries that describe what a dataset represents, its limitations and its structure, 3) catalog data to enhance findability and accessibility, 4) create and execute data ETL processes to automate data preparation and interoperability activities, and 5) manage and discover data-related terminology and definitions as used by the various business areas to minimize misunderstandings when using data. The requested limited-term resources will enable implementation of the solution covering ten Caltrans corporate systems as well as the first six months of maintenance and operations, during which time Caltrans staff will onboard additional corporate systems. A follow-on request will be submitted in the future for permanent funding for positions and licensing costs for long term maintenance and operations.

Staff Recommendation. Hold open.

Issue 3: FI$Cal Onboarding Planning

Governor's Proposal. The Budget includes $13.5 million one-time in 2025-26 to support the transition and onboarding to the Financial Information System for California (FI$Cal) System.

Background. This request is a continuation of requests for resources that were approved in 2022-23, 2023- 24, and 2024-25 to onboard onto the FI$Cal System. Resources received in 2022-23 supported 10 positions (seven in Accounting and three in IT) which completed the pre-planning onboarding phase. Resources received in 2023-24 started the onboarding process, reviewed, prioritized, and detailed functional and technical gaps with the FI$Cal Team; completed the first phase of configuration testing; and drafted Summary Design Solutions for 9 of the 18 critical gaps identified. Resources approved for 2024-25 continue reviewing, updating, and modifying 74 interfaces of 26 legacy systems and begin reviewing system modifications that are being developed to solution critical gaps. Resources requested for 2025-26 are needed to support increased workload over the onboarding period in reviewing, analyzing, and updating business and technical gaps, business requirements and business processes, developing system interfaces, data conversion, testing, training, reporting (including review of data warehouse requirements), cybersecurity, communication, and organizational change management.

Professional consulting services resources totaling $7,938,000 are also included in this request for Organizational Change Management consulting services to provide strategies for effecting change, controlling change, and helping staff adapt to change; Data Conversion consulting services to ensure data is successfully exported, cleansed, imported, and validated from Advantage and other Caltrans legacy systems that are being replaced by the System; Interface consulting services to build and validate the interfaces between the System and Caltrans Legacy systems; Data Reporting consulting services to address the need to develop an enterprise data warehouse and to compare Legacy Reports to System reports based on coding structures, business rules, and data element availability to create or re-engineer reports to align with mission critical needs, review Legacy Corporate Reports and determine Caltrans' Business Intelligence needs; Testing consulting services to test interfaces, data conversion, business processes and all the new FI$Cal system functionality that is being developed to support Caltrans' business processes and technical needs.

Staff Recommendation. Hold open.

Issue 4: Implementation of Recently Enacted Legislation

Governor's Proposal. The Governor's Budget includes $5.3 million ongoing from the State Highway Account (SHA) for 20 positions to implement AB 2086, AB 2525, SB 960, and SB 1488. Specifically, it includes the following:

- AB 2086: $1 million ongoing for three positions and website maintenance to integrate a financial element into the California Transportation Plan, add additional project-specific performance data on projects to the Rebuilding California Website.

- AB 2525: $190,000 ongoing for one position in Caltrans District 7 to expand the existing airspace lease program to include an emergency shelter or feeding program, a secure vehicle lot program, or any combination of those purposes with the City of Los Angeles.

- SB 960: $4 million ongoing for 15 positions to establish a new transit priority policy, design and operational guidance, and a framework for the development of performance targets and measures for transit priority facilities on the state highway system; establish an inventory program for the development of appropriate performance targets and measures for bike and pedestrian facilities that contributes to complete streets; developing guidance for conducting and documenting equitable engagement on projects with bike and pedestrian facilities; and establish a project intake, evaluation, and review process for bike, pedestrian, and transit priority facilities, sponsored by a local jurisdiction or transit agency.

- SB 1488: $150,000 ongoing for one position to support the increased frequency of sponsorship marketing plan submissions, address potential need for increased field enforcement and resolution of compliance challenges, as well as advocating for these displays with the Federal Highway Administration.

Staff Recommendation. Hold open.

Issue 5: Stormwater Asset Management

Governor's Proposal. The Budget includes $35.2 million in 2025-26 and $34.9 million in 2026-27 from the State Highway Account to perform inspections, maintenance, and repairs to its Stormwater Treatment Best Management Practices (TBMPs) as well as track their conditions and effectiveness in removing pollutants from highway runoff.

Background. The Caltrans Stormwater Management Program (SWMP) is responsible for managing stormwater runoff from the state highway system to reduce the number of pollutants that flow into the state's waterways. Caltrans works to control them in all its planning, design, construction, maintenance, and operations activities by using Stormwater TBMPs. TBMPs are permanent water quality controls used to remove pollutants from stormwater runoff prior to it being discharged from the state right of way. Caltrans is currently responsible for managing and maintaining more than 4,300 TBMPs statewide. The maintenance of a TBMP involves mowing vegetation, removing pollutants observed in the inspection, and performing minor repairs as necessary. Currently, 35 percent of the Department's active 4,342 TBMP inventory will reach their lower range lifecycle of 20 years in 2025.

Caltrans is also responsible to comply with the National Pollutant Discharge Elimination System (NPDES) permit requirements, which generally limits what the department can release into the state's waterways, and outlines monitoring and reporting requirements to ensure the pollutants do not impact the quality of the waters negatively, or the health of the people who live near and/or use the waterways. The most recent NPDES permit in 2022 included new requirements for Caltrans to implement beginning on June 30, 2025. This included requirements such as increased installations of TBMPs, trash reduction, retrofits, among others.

As such, the department requests funding for contracts for training inspection crews in the proper methods and procedures of conducting TBMP inspections rating, and database management; contract services for repairs and maintenance on TBMPs; rental vehicles to inspect, maintain, and clean TBMPs; and rental vehicle fuel. Caltrans requests two-year limited-term resources so that the department can pilot these activities and after which, the department may return with an ongoing request with a better understanding of the workload level.

Staff Recommendation. Hold open.

Issue 6: Transportation System Network Replacement

Governor's Proposal. The Budget includes $2.2 million in 2025-26 and $2.5 million in 2026-27 and ongoing to maintain and operate the Transportation System Network Replacement (TSNR). The Transportation System Network (TSN) is a safety data system that collects collision data, highway inventory, traffic volumes, and other roadway data. Currently, the Caltrans TSN only includes data from the State Highway System (SHS). However, the federal government requires states to collect roadway inventory information for all public roads, and not just on the SHS. As a result, Caltrans has begun developing and planning a replacement for the TSN, beginning in 2021-22. This request includes five positions as well as ongoing maintenance and operations costs.

Staff Recommendation. Hold open.

2665 HIGH-SPEED RAIL AUTHORITY

Issue 7: California High-Speed Rail Authority Office of Inspector General Reimbursement Authority

Governor's Proposal. The Budget includes $113,000 from the High-Speed Passenger Train Bond Fund reimbursement authority in 2025-26 and ongoing for High Speed Rail Authority's costs associated with administrative services on behalf of the independent Office of Inspector General, California High-Speed Rail (HSR-OIG). Given the size of HSR-OIG, certain administrative services are more cost-effective to be handled by the Authority. These types of services include business services and mail services; human resources technical support; budgeting technical support; accounting services; and information technology services. This reimbursement authority will allow the Authority to provide ongoing support for the HSR-OIG administrative functions. These services will be reimbursed at an hourly rate when services are rendered, which will be significantly more cost effective than if the HSR-OIG were to obtain the staffing required for all the administrative services required for the operations of the HSR-OIG.

Staff Recommendation. Hold open.

Issue 8: National Environmental Policy Act (NEPA) Assignment Support

Governor's Proposal. The Budget includes $2.5 million ongoing from the High-Speed Passenger Train Bond Funds (Proposition 1A) and associated reimbursement authority for 13 positions and costs associated with the renewed National Environmental Policy Act (NEPA) Assignment Memorandum of Understanding (MOU) executed with the Federal Railroad Administration (FRA) on July 22, 2024.

Background. In 2019, the FRA and the state of California completed a MOU for a five-year term for the High Speed Rail Authority (Authority) to assume FRA's responsibilities as lead agency under NEPA. The NEPA Assignment MOU provided that the FRA assigns, and the State assumes, environmental review responsibilities under NEPA and other federal environmental laws with respect to projects in California's High-Speed Rail system and projects that directly connect to stations on the high-speed rail system.

In 2024, the NEPA Assignment MOU was renewed for a 10 year period and broadened the types of local agency projects over which the Authority can take on the NEPA lead agency role. The new MOU states that eligible projects within this class may include grade separation projects on the California HSR System, and rail improvement projects connected to the California HSR System via existing rail corridors, such as the Coachella Valley Rail Corridor and the Los Angeles-San Diego-San Luis Obispo (LOSSAN) Rail Corridor. The MOU enables local agencies and railroads to benefit from the state's NEPA Assignment Program. On a project-by-project basis, FRA and the Authority can agree to include a local or railroad project. This opens the door to more projects than what was possible in the original MOU. Currently, the Authority is aware of eight potential projects of various size and complexity which local sponsors will seek applying to the Authority for inclusion in the NEPA Assignment Program.

This requires the Authority to seek new staff resources as current staff are focused on the Authority's projects and fulfilling scope of the original NEPA Assignment MOU terms. Specifically, the Authority requests 13 positions to handle this new workload, with 12 positions for the Environmental Services Branch and one position for the Legal Office. These positions are proposed to be initially funded from bond funds, but the Authority reports that these costs will be reimbursed by local entities (hence requesting for reimbursement authority). Overall, this shift in NEPA to the Authority is expected to result in greater efficiency for environmental reviews and time savings for critical infrastructure projects.

Staff Recommendation. Hold open.

Issue 9: Operational Technology and Data Integration

Governor's Budget. The Budget includes $1.2 million in 2025-26 and $1.8 million in 2026-27 and ongoing from the High-Speed Passenger Train Bond Funds for eight positions to design the frameworks and identify the standards essential for the implementation, integration, and security of the technology required to establish train operations in the Central Valley between 2030 and 2033.

Background. The Authority's Information Technology (IT) Office currently lacks the state resources needed to effectively plan upcoming technology and digital advancements as the Authority prepares for rail operations. In addition to the track work, agreements for operational control systems, including overhead contact, train controls, electrification, etc., are all scheduled for award in 2024 and 2025. Each system has components that must be designed and integrated into a collaborative operating system (collectively referred to as "Operational Technology or OT"), which controls efficient, safe, and reliable train operations. Aligning Information Technology (IT) with Operational Technology (OT) within a unified cybersecurity framework is essential to ensure successful train operating services between 2030 and 2033.

To prepare for the implementation of numerous operational technologies in addition to supporting the existing applications, the IT Office must work closely with its rail operations partners to ensure seamless digital integration before testing begins in 2028-29. As such, the Authority request funding for five positions in 2025-26 to begin architecting the solutions, data, and cybersecurity frameworks; and collaborating with rail engineers and other subject matter experts to establish standards that are necessary to ensure a well-integrated, safe, and efficient rail system.

Staff Recommendation: Hold open.

ITEMS FOR DISCUSSION

0521 California State Transportation Agency

Issue 10: California State Transportation Agency Freight Policy Team

Governor's Budget. The Budget includes $603,000 ongoing from the State Highway Account, Motor Vehicle Account, and Public Transportation Account to convert three limited-term positions to permanent for the Freight Policy Team, to manage oversight and coordination of freight policy across the state.

Background. The 2022 Budget included three limited-term positions and funding for CalSTA to establish a Freight Policy Team, as part of a broader package addressing ports and supply chain issues. This package included $1.2 billion for port and freight infrastructure, which was awarded to 15 grantees for long-term upgrades to increase the capacity to move goods throughout the state.

Prior to the Freight Policy Team, the responsibility and authority for freight policy was distributed across Caltrans, CARB, and GO-Biz. In addition, other departments, such as the California Energy Commission and the California Public Utilities Commission, are involved with programs related to the decarbonization of the freight sector. The Freight Policy Team was established to provide state leadership and coordinate with state and federal partners to advance state freight policy goals.

Currently, the CalSTA Freight Policy Team manages the State Freight Advisory Board; coordinates outreach to a diverse group of freight stakeholders representing public and private industry; develops legislative and regulatory recommendations; oversees freight related department research; applies for funding and financing; provides input into state infrastructure investment plans; and administers funding agreements. In addition, the team is beginning to manage and staff the California Freight Advisory Committee, which was previously delegated to Caltrans.

The Freight Advisory Committee advises the planning and programming of state freight-related surface transportation projects. Under CalSTA's direction, the Freight Advisory Committee would identify and elevate emerging issues (policy, economic, operational, workforce, and technological) with California's multimodal freight sector. It would serve as a sounding board for proposed projects, legislation, or regulations.

Staff Comments. In 2022, CalSTA originally requested ongoing funding and position authority for these three positions. However, the Legislature approved the positions on a three-year limited-term basis. This is in part to ensure the Legislature can evaluate the work of the new freight unit before approving permanent, ongoing funding. The Legislature may want to request additional information on what the Administration has learned in the last three years regarding the needs and duties of a state-level freight policy team, evidence of the necessity for and effectiveness of the team, and why ongoing resources are necessary.

Staff Recommendation. Hold open.

2660 California Department of Transportation

Issue 11: Clean California Community Cleanup and Employment Pathways Grant Program

Governor's Proposal. The Governor proposes $25 million from the General Fund on a one-time basis in 2025-26 to establish a new Clean California Community Cleanup and Employment Pathways Grant Program. The program would offer competitive grants to local governments and federally recognized tribal governments for litter abatement efforts. As opposed to the previous Clean California Local Grant Program, this new program would focus exclusively on local litter abatement and would not support infrastructure-related beautification projects. The program would prioritize funding for (1) projects that create employment pathways, such as those involving partnerships with workforce development organizations, and (2) communities that are designated as Clean California Communities or are actively working toward this designation.

Background. According to the LAO:

Clean California Included Funding for Litter Abatement and Beautification Projects. The 2021-22 budget package provided roughly $1.1 billion from the General Fund over a three-year period for Clean California, a statewide program centered around supporting litter abatement and beautification projects. The 2022-23 budget agreement committed an additional $100 million from the General Fund that was provided in 2023-24 to augment funding for the Clean California Local Grant Program. The statewide program was administered by Caltrans and the combined $1.2 billion was used for the following activities:

- ***State Litter Abatement ($418 Million).*** To augment Caltrans' ongoing litter abatement activities on the state highway system through its maintenance program.

- ***Clean California Local Grant Program ($400 Million).*** For competitive grants to local governments for beautification and cleanup projects within public spaces and local right of ways. Beautification projects included infrastructure improvements such as art installations, graffiti removal, and landscaping. Trailer bill language—Chapter 81 of 2021 (AB 149, Committee on Budget)—guided the implementation of this new program.

- ***State Beautification Projects ($287 Million).*** For Caltrans to implement beautification projects on the state highway system. Assembly Bill 149 guided the implementation of this new program.

- ***Program Support ($62 Million).*** For Caltrans staff to support Clean California activities.

- ***Public Education ($32 Million).*** For Caltrans to support a public education campaign aimed at reducing litter.

Caltrans Established the Clean California Community Designation. Along with the funded activities, Caltrans established a voluntary program to recognize certain localities as "Clean California Communities." We note that this initiative was not directed in statute, but rather was established by the department as part of its statewide outreach and engagement for Clean California. Local governments and nongovernment entities (such as neighborhood groups and community-based organizations) can obtain this designation by applying and completing a variety of steps.

These include activities such as (1) having a local leader sign a pledge, (2) establishing an informal advisory board, (3) conducting an initial litter assessment, (4) organizing community cleanups, and (5) creating a long-term plan for keeping communities clean.

LAO Assessment.

High Bar for Approving New Proposals Under Current Budget Conditions. The Governor's proposal to establish the new Clean California Community Cleanup and Employment Pathways Grant Program would commit a modest amount of discretionary General Fund in 2025-26. However, because our office currently estimates that the budget is roughly balanced, every dollar of new spending essentially requires offsetting reductions elsewhere in the budget. The Governor "makes room" for this proposal by making modifications to funds committed to other programs. As we discuss in our January 2025 report, *The 2025-26 Budget: Overview of the Governor's Budget*, overall, the Governor proposes $2.2 billion in actions that would create capacity in the General Fund to support $570 million of discretionary proposals (including this proposal), $150 million of tax expenditures, and a larger discretionary reserve than the state typically plans. These actions include shifting nearly $300 million in previous General Fund augmentations for climate- and environmental-related programs to instead be supported by the new Proposition 4 climate bond. While this would result in maintaining prior funding levels for these activities, it would preclude this amount of Proposition 4 funds from supporting expanded service levels or additional projects. Additionally, the budget faces a number of notable risks and uncertainties—including related to forecasted revenues, federal funding levels, and fire recovery costs—that could lead to the General Fund condition worsening over the coming months. Given this context, the Legislature will want to apply a higher bar to its review of new spending proposals than it might in a year in which the General Fund has more capacity to support new commitments. Overall, the Legislature will want to weigh the importance and value of the proposed new program against the activities to which it has already committed.

Local Litter Abatement Is Not a Core State Responsibility. The state is responsible for maintaining safe and clean conditions on its own property, such as on the state highway system. While addressing litter issues at the local level may be a worthwhile goal, it does not fall within the core responsibilities of the state—a distinction which is especially important in a budget environment with limited General Fund resources where the state may find it challenging to address its own areas of responsibility. Rather, addressing litter issues at the local level falls to local governments, which can raise funds, hire maintenance staff and solicit volunteers, and oversee practices within their own jurisdictions. Moreover, because it does not oversee local litter abatement, the state does not have a way to ascertain the magnitude of this problem. For the state highway system, Caltrans monitors data on the volume of litter collected and the number of service requests submitted by individuals related to litter. Caltrans does not collect similar data on an ongoing basis related to local streets and roads and public spaces more broadly. However, the department notes that based on discussions with local governments and feedback from the Clean California Local Grant Program, local governments continue to face persistent challenges related to litter.

One-Time Funding Unlikely to Address Persistent Issues Around Litter. One-time funding can provide short-term benefits by enabling cleanup in specific areas within a community, but it is unlikely to lead to sustained improvements without ongoing funding. The department indicates that by targeting funding to communities that are designated as Clean California Communities or are actively working toward that designation, the program can be focused on localities that have displayed a commitment to reducing litter and therefore hope to have a more enduring impact. However, this approach relies heavily on voluntary pledges that are not accompanied by long-term funding.

The department also indicates that it would require local governments to provide a match to receive this state funding. Yet, a one-time match similarly does not ensure lasting efforts to address litter.

LAO Recommendation.

Reject Funding to Establish Clean California Community Cleanup and Employment Pathways Grant Program. Given the limited General Fund available and uncertain budget context, we recommend the Legislature reject this proposal to create a new local litter abatement grant program. In our assessment, this proposal to create a new program does not meet the high bar for approving new discretionary General Fund spending because (1) local litter abatement is not a core state responsibility and (2) one-time funding is unlikely to address persistent local issues around litter. If litter abatement is an issue of high legislative priority, the Legislature could consider directing this funding to support state-level activities, such as for Caltrans' ongoing litter abatement activities on state highways, although that too would face a number of competing priorities and likely would necessitate making modifications to other existing spending commitments.

Staff Recommendation. Hold open.

Issue 12: Capital Outlay Support Transfer Authority

Governor's Budget. According to the LAO:

The department's proposed trailer bill language seeks to remove the existing uncertainty by adding language that DOF can "increase or decrease funding appropriated to [Caltrans'] capital outlay support program using items from both the annual Budget Act and any other appropriation provided the combined adjustments total $0." The proposal also would maintain the requirement to notify JLBC of any adjustments DOF authorizes. The administration indicates this proposal is intended as technical "cleanup" to clarify authority for its longstanding practice and is not intending to request new or expanded abilities.

LAO Assessment.

Annual Budget Bill Language Allows Caltrans to Make Midyear Adjustments to Align Capital Outlay Staffing with Appropriate Fund Source. The California Department of Transportation's (Caltrans') Capital Outlay Support (COS) Program provides the staff support necessary to deliver transportation infrastructure projects, such as for engineering and design, environmental analysis, and right-of-way acquisition. Each year, the budget act includes provisional language allowing Caltrans to adjust the mix of funds allocated to the program across various budget items, provided that these adjustments result in no net changes to total program expenditures. The department makes these adjustments with the intent of aligning funding authority and sources with actual transportation project schedules and project-specific staff work. For example, within a given year, the department might increase support for the COS Program from the State Highway Account by $15 million and decrease authority from federal funds for the program by a like amount, to reflect associated modifications in staff work for specific projects funded by those two sources. The Department of Finance (DOF) may authorize these adjustments no sooner than 30 days after notifying the Joint Legislative Budget Committee (JLBC).

Some Uncertainty Around Scope of Existing Authority. Historically, Caltrans has made these midyear COS-related budget adjustments across funds authorized through the annual budget act (budget act items) as well as those that are continuously appropriated to the department through statute (non-budget act items), reflecting the mix of fund sources the department uses to support its projects. However, the department indicates that questions have been raised about whether current law provides authority for it to make such adjustments with non-budget act items. This is because the annual budget act—through which this authority is granted—only references budget act items.

LAO Comments. Overall, we find that the rationale for the proposal is reasonable given that it provides clarity on technical adjustments the department currently undertakes. However, in our view, the proposed trailer bill language is overly broad and could authorize adjustments beyond the intended technical adjustments described. For example, the proposed language might authorize the department to adjust funding across programs outside of the COS Program, such as increasing funding for the COS Program and decreasing funding for Caltrans' Maintenance Program by a like amount.

While we do not believe this is the department's intent, the Legislature may find it beneficial to refine the proposed language to ensure it aligns more precisely with the administration's intended scope. For instance, the Legislature could modify the language to specify that adjustments can only be made within the COS Program.

Staff Recommendation: Hold open.

2665 HIGH-SPEED RAIL AUTHORITY

Issue 13: Project Update

Background. The California High-Speed Rail Authority's (Authority) mission is to plan, design, build, and operate a high-speed train system for California. The Authority is working toward three fundamental objectives:

1. Initiate high-speed rail passenger service as soon as possible.
2. Make strategic, concurrent transportation investments that will link over time and provide mobility, economic and environmental benefits at the earliest possible time.
3. Position ourselves to construct additional segments as funding becomes available.

Currently, the Authority has 119 miles of active construction in the Central Valley with dozens of active construction sites. 422 miles of the 500-mile Phase 1 system from San Francisco to Los Angeles/Anaheim have been environmentally cleared. The Authority has acquired almost all the right-of-way parcels needed for construction in the Central Valley. The design work for construction in the Central Valley is nearing fully complete.

The Governor's Budget includes $117 million for the Authority in 2025-26. The department is primarily funded from the Greenhouse Gas Reduction Fund and the High-Speed Passenger Train Bond Fund. The proposed budget would support 517 positions.

Staff Recommendation: Hold open.

2667 High-Speed Rail Authority, Office of Inspector General

Issue 14: Department Overview and Continuing Establishment of the Office of the Inspector General, High Speed Rail

Background. The High-Speed Rail Authority Office of Inspector General (HSRA OIG) is tasked with improving oversight and accountability of the California high-speed rail project by conducting independent, objective reviews and investigations of the High-Speed Rail Authority's planning, delivery, and operation of the project.

The Governor's Budget includes $4.3 million for HSRA OIG in 2025-26. The department's budget is entirely funded from the Public Transportation Account. The proposed budget would support 16 positions.

During the fiscal year 2024-25, the Office released three reports thus far: the Funding Review of the Merced to Bakersfield Segment, Schedule Review of the Merced to Bakersfield Segment, and Review of Pre-Construction Activities for the Merced and Bakersfield Extensions. Moving forward, the Office anticipates reviewing the 2025 Project Update Report, as well as working on two additional reports on the Cost Controls and Estimates for Merced to Bakersfield and Procurement and Contracting.

Continuing Establishment of the Office of the Inspector General, High Speed Rail. The Budget includes $1.3 million in 2025-26 and $338,000 in 2026-27 and ongoing from the Public Transportation Account to continue the establishment of the Office of Inspector General, High Speed Rail (OIG-HSR). This includes:

- $170,000 in ongoing funding for 1.0 permanent Staff Services Manager I (SSM I) to support the establishment and management the OIG-HSR's administrative functions, including recruitment, training, hiring, and procurement.

- $17,000 in ongoing funding to increase the classification of the OIG-HSR's general counsel position from Attorney III to Attorney IV to better align the classification with the position's duties.

- $8,000 in ongoing funding to provide the OIG-HSR access a needed legal research tool.

- $113,000 in ongoing funding to reimburse the Authority for the administrative services it will provide pursuant a pending interagency agreement.

- $30,000 in ongoing funding to right-size the department's operating expenses and equipment.

- $936,000 in one-time funding in 2025-26 to support the OIG-HSR's completion of the California Department of Technology's (CDT) Project Approval Lifecycle (PAL) of two IT projects. The first project is to establish a system for confidentially receiving and investigating whistleblower complaints consistent with OIG-HSR's statutory responsibilities, and the second project is to develop a software solution to document, track, and manage the audits, inspections, and reviews performed by the OIG-HSR in its oversight of the high-speed rail project (Project).

This budget request continues the establishment of the OIG-HSR following the department's completion of extensive analysis regarding the additional resources needed to perform audit and review work, the administrative functions required to support the OIG-HSR in the fulfillment of its mission, and resources necessary to implement a confidential whistleblower complaint receipt and investigation system consistent with its responsibilities in Public Utilities Code 187032(a)(3).

Staff Recommendation: Hold open.

VARIOUS DEPARTMENTS

Issue 15: Motor Vehicle Account Fund Condition

Governor's Proposal. According to the LAO:

Fund Shift to Prevent Insolvency, Continue Existing Support for CARB Program in 2025-26. To maintain a positive MVA balance in 2025-26, the Governor proposes to transfer funds into the account from two other state accounts totaling $166 million on a one-time basis. These transfers are intended to fully offset the estimated $166 million that MVA annually provides to support CARB's Mobile Source Program. (That program aims to reduce emissions from on- and off-road mobile sources, such as vehicles and construction equipment.) The two components of these transfers consist of:

- ***$85 million From the Air Pollution Control Fund (APCF).*** The proposal would transfer $85 million from APCF to MVA. The APCF is overseen by CARB and receives revenues from fees and penalties on vehicle and non-vehicle pollution sources. The account's funds generally are used to carry out CARB's duties and functions.

- ***$81 Million From GGRF.*** GGRF contains auction proceeds from the state's cap-and-trade program. The proposed funds to be transferred to MVA consist of $49 million from unallocated projected discretionary GGRF revenues and $32 million that would be "freed up" by shifting some prior planned GGRF expenditures for clean energy activities to the Proposition 4 climate bond. (More information about the climate bond fund can be found in our recent publication, *The 2025-26 Budget: Proposition 4 Spending Plan*.)

Reduces MVA Expenditures in Response to 2024-25 Budget Solutions. Through Control Sections 4.05 and 4.12, the 2024-25 budget package directed departments to identify expenditure reductions from vacancies and operational efficiencies regardless of fund source. The administration states that it has identified expenditure reductions from MVA-supported programs across CARB, DMV, and CHP totaling $28 million in 2024-25 and $33 million annually in 2025-26 and ongoing. While the administration has not yet provided specific details around which positions and activities it is reducing to achieve these savings—or how service levels might be impacted—it has stated that it is not reducing public safety positions at CHP. Absent these expenditure reductions, the MVA deficit in 2025-26 and future years would be larger.

Background. According to the LAO:

MVA Supports Various State Programs, Receives Revenues From Vehicle Registration Fees. MVA is the primary funding source for CHP and DMV. The account also provides some funding for the California Air Resources Board (CARB). The uses of most MVA revenues are constitutionally limited to the administration and enforcement of laws regulating the use of vehicles on public highways and roads, as well as certain other transportation activities. For 2025-26, MVA revenues are estimated to total about $5 billion. Of this amount, over $4 billion is projected to come from vehicle registration fees. The remainder largely is generated by other DMV fees such as driver license fees. (We note that DMV also collects various other fees at the time of vehicle registration that are not deposited into MVA, such as vehicle license fees, truck weight fees, and an additional registration fee charged to owners of zero-emission vehicles.)

Expenditures Outpacing Revenues. Since 2021-22, annual expenditures from MVA have exceeded the account's yearly revenues, resulting in a structural imbalance. Some of the major expenditure cost drivers have included (1) increased employee compensation costs which have been driven by both increases to staffing levels and growing salary and benefit costs at CHP, (2) workload related to the issuance of new driver licenses and ID cards that comply with federal standards (commonly referred to as "REAL IDs)," and (3) supplemental pension plan repayments that began in 2019-20. (These payments are related to a 2017-18 budget action that borrowed from the General Fund for a large one-time contribution to the state employee pension fund, requiring future repayment from all relevant funds that make employer pension contributions, including MVA. Over the next 30 years, MVA is expected to receive savings that outweigh these near-term loan repayment expenditures due to slower growth in employer pension contributions.)

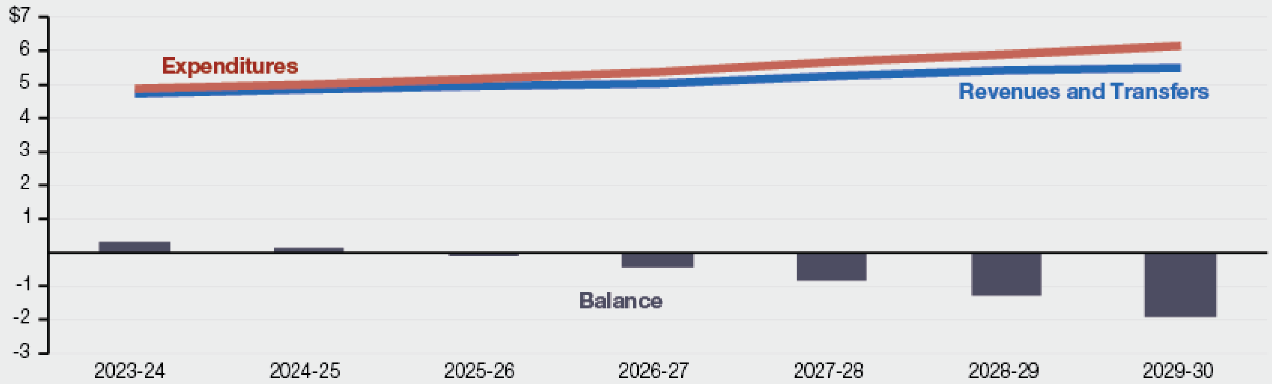
State Has Undertaken Previous Efforts to Help Address Deficits and Delay Insolvency. Over the last couple of decades, MVA has experienced periodic deficits and risks of insolvency. In response, the state has taken various actions to shore up the fund. Some of these past solutions provided temporary relief, such as the state making a one-time repayment of loans that previously were provided from MVA to the General Fund and delaying supplemental pension plan repayments to the General Fund (which temporarily reduced MVA expenditures but created additional out-year liabilities). Other actions provided longer-term solutions, including (1) ending a previous practice of transferring about $90 million annually from MVA to the General Fund, (2) authorizing vehicle registration fees to be adjusted annually based on the percent change in the California Consumer Price Index to account for inflation, (3) shifting certain programs from MVA to other fund sources, and (4) the state recently shifting away from using up-front cash from MVA to pay for CHP's and DMV's facility needs.

MVA Projected to Become Insolvent Beginning in 2025-26. Without action, MVA is projected to become insolvent in 2025-26 with deficits increasing in future years, as shown in Figure 3. Specifically, if left unaddressed, MVA is projected to have a deficit of $87 million in 2025-26, increasing to $1.9 billion by 2029-30.

Figure 3

Motor Vehicle Account Facing Insolvency in 2025-26

(In Billions)



Note: Estimates reflect LAO adjustments to Department of Finance projections and do not include Governor's proposals or resulting impacts.

LAO Assessment.

Several Trade-Offs Associated With Proposal. We have a identified a number of trade-offs raised by the Governor's proposed MVA transfers.

- ***Solves Shortfall in 2025-26 Without Impacting MVA-Supported Activities.*** Based on the administration's estimated expenditures, the proposed fund transfers would provide sufficient resources to keep MVA balanced in 2025-26 without needing to make changes to service levels for MVA-supported programs or increasing fees.

- ***Results in Less Funding Available for Other Activities.*** Shifting APCF and GGRF to MVA means that those funds are not available for other spending priorities across the budget which they typically help support. Additionally, one portion of the proposed GGRF transfer is dependent on shifting planned expenditures to Proposition 4, resulting in that amount of the bond being used to sustain existing commitments rather than to enhance state climate efforts.

- ***Does Not Address Underlying Problem.*** The Governor's proposal represents a one-year fix but would not provide an ongoing and sustainable solution to address the MVA funding shortfall. Moreover, the shortfall is projected to grow in future years. The administration indicates that APCF will not have sufficient funds available to support MVA beyond 2025-26. MVA will remain at risk of insolvency until the state addresses the underlying imbalance between its revenues and expenditures.

- ***Relies on Revenue Source Subject to Uncertainty.*** As we discuss in further detail in our publication, *The 2025-26 Budget: Cap-and-Trade Expenditure Plan,* GGRF revenues are subject to substantial uncertainty and are trending lower than forecasted in the current year. To the extent these declining revenue trends persist, GGRF may not have capacity to support new commitments—such as the proposed fund shift—without requiring reductions to the 2025-26 GGRF expenditure plan that was agreed to as part of the 2024-25 budget process.

Alternative Options Also Come With Trade-Offs. The Legislature could consider one or more alternative actions to keep the MVA balanced in 2025-26. However, each of these options also has associated trade-offs.

- ***Use Funding From Other Sources.*** Similar to the Governor's proposal, the Legislature could consider using funding from other sources to bolster MVA. For example, the Legislature could consider a transfer from the General Fund to MVA. However, any shift would result in less funding from the transferring fund left available for other activities. Moreover, the General Fund does not currently have much capacity to take on new expenditures without impacting existing commitments.

- ***Increase Revenues.*** The Legislature could take steps to increase MVA revenues, such as by increasing DMV fees. For example, based on the number of cars currently registered in California, every $1 increase in registration fees would raise about $36 million. However, this would increase costs for businesses and households that own cars.

- ***Reduce Expenditures.*** The Legislature could take steps to reduce expenditures from MVA. For example, the Legislature could temporarily suspend the supplemental pension repayments. However, this would not be sufficient on its own to address the fund condition and would lead to increased cost pressures in the near future because the principal and interest for the loan still would need to be repaid by June 30, 2030. Other expenditure reductions likely would reduce DMV and/or CHP service levels, which could affect both customer service (in the case of DMV) and safety (with regard to CHP). In addition, implementing sufficient expenditure reductions in time to keep the fund balanced in 2025-26 could be particularly challenging.

LAO Recommendation.

Weigh Trade-Offs and Address 2025-26 MVA Shortfall in a Way That Best Aligns With Legislature's Priorities. Any steps taken to address the MVA fund condition will come with trade-offs. However, given the operational funding shortfall, some action is needed in 2025-26 if the state wants to avoid significant impacts to public services. As such, we recommend the Legislature either adopt the Governor's proposal or some alternative for the budget year. The Legislature likely will want to closely monitor evolving budget conditions over the next few months—including GGRF revenue trends—as it weighs its various options.

Develop Plan to Ensure Fund Remains Solvent. In order to remain solvent, MVA expenditures and revenues must be brought into balance. As such, we recommend that the Legislature develop a plan to address MVA's structural deficit on an ongoing basis. To assist with developing such a plan, the Legislature could consider holding hearings this spring as part of the budget process to get a better understanding of the underlying causes of the MVA's insolvency risk, the potential options for a long-term solution to the fund condition, and the trade-offs associated with these options.

Staff Recommendation: Hold open.

2740 California Department of Motor Vehicles

Issue 16: Delay of Implementation of AB 3 (2021) Trailer Bill Language

Governor's Proposal. The Budget includes trailer bill language that would delay the implementation of AB 3 until July 1, 2029.

Background. The implementation of AB 3 requires the DMV to modify its core legacy systems to accommodate a new court-ordered license suspension for those convicted of participating in sideshows. However, due to the department's existing IT workload, the programming for AB 3 cannot be completed by the scheduled implementation date of July 1, 2025.

To address this challenge, immediate action is needed to extend the due date. Delaying implementation until July 1, 2029, avoids additional cost pressures on the Motor Vehicle Account and ensures the necessary changes can be completed on a timeline that will not negatively impact ongoing modernization efforts. It also allows the DMV to avoid building a separate IT system outside its core legacy systems and instead integrate this functionality into its DXP modernization project, expected to be completed before the proposed 2029 date.

It is important to note that AB 3 is just one enforcement tool within a broader set of recently enacted legislative measures to combat sideshows.

The proposal to delay the implementation of AB 3's IT system changes does not affect these other efforts, which include:

- Chapter 501, Statutes of 2024 (AB 1978)
- Chapter 502, Statutes of 2024 (AB 2186)
- Chapter 2807, Statutes of 2024 (AB 2807)
- Chapter 504, Statutes of 2024 (AB 3085)

These recent statutes strengthen enforcement actions by allowing law enforcement to seize vehicles and apply penalties on-site, providing immediate deterrence.

Staff Comment. The Motor Vehicle Account (MVA) continues to face serious structural deficits. The Administration has indicated additional legislation is potentially at risk of being delayed in implementation as a result of the MVA fund condition. The Legislature may want to assess how the Administration is making such decisions, and how legislation implementation should be prioritized to the extent that not all can be implemented in a timely manner. In addition, it may be prudent to discuss how the identified savings from operational efficiencies and vacancy reductions will impact the DMV's ability to meet its statutory deadlines.

Staff Recommendation: Hold open.