Senator Maria Elena Durazo, Chair
Senator Josh Newman
Senator Kelly Seyarto

Thursday, March 9, 2023
9:30 a.m. or upon adjournment of session
State Capitol – Room 112

Consultant: Eunice Roh

Item **Department** **Page**

VOTE-ONLY ITEMS

DISCSSION ITEMS

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

VOTE-ONLY

0521 CALIFORNIA STATE TRANSPORTATION AGENCY

Issue 1: CALSTA Information Security and Privacy

Governor's Proposal. The Budget includes $1.3 million from various transportation funds ($780,000 from the State Highway Account, $260,000 from the Motor Vehicle Account, and $260,000 from the Public Transportation Account) ongoing to establish an information security team, procure cybersecurity software, and provide ongoing training. The information security team is proposed to be made up of a Privacy Officer, risk Officer, and a Security Compliance Officer. This team would be responsible for agency-wide cybersecurity oversight, and ensure compliance with all applicable federal and state security and privacy laws, regulations, standards, and policies. Currently, CalSTA has the Chief Information Security Officer (CEA B) from Caltrans serving as the part-time Agency Information Security Officer and also serving as the Agency Risk, Compliance, and Privacy Officer. Given the sensitive nature of the personal information CalSTA has within its purview, the agency requests additional resources for a standalone information security team.

Staff Recommendation: Approve as budgeted.

2600 CALIFORNIA TRANSPORTATION COMMISSION

Issue 2: Advisory Committee Compensation

Governor's Proposal. The Budget includes $200,000 from various transportation funds ($75,000 from the State Highway Account and $125,000 from the Public Transportation Account) and associated statutory changes to authorize a per diem for serving on an advisory committee of the Commission. Unlike other state boards and commissions, the California Transportation Commission (CTC) does not have the statutory authority to provide a per diem to members of the advisory committees. Under this proposal, CTC would like to offer a $100 per diem to members of two committees: Road Usage Charge Technical Advisory Committee and Interagency Equity Advisory Committee. Providing per diems allows CTC to be able to attract and retain advisory committee members with the appropriate expertise, and also mitigate financial constraints that may affect an individual's ability to serve on a committee. The Commission requests a statutory $100 per diem for advisory committee members, modeled after Health and Safety Code Section 39603(a)(2)), which provides for members of advisory groups serving the California Air Resources Board to receive $100 per day.

Staff Recommendation: Approve as budgeted.

Issue 3: Implementation of SB 1121 (Chapter 508, Statutes of 2022) – State and local transportation system: needs assessment

Governor's Proposal. The Budget provides $524,000 from various transportation accounts to develop the state and local transportation system needs assessment, as required by Chapter 508, Statutes of 2022 (SB 1121, Gonzalez). Of the total amount, $224,000 is proposed to fund one limited-term position for three years and $300,000 for a one-time consultant contract. Pursuant to the provisions of

SB 1121, the assessment must identify the cost to operate, maintain, and provide for the necessary future growth of the state and local transportation system for the next 10 years. The CTC must submit an interim assessment to the Legislature by January 1, 2024, and a completed Assessment by January 1, 2025, and every five years thereafter. The requested resources would allow CTC to hire staff and consultant support with the necessary expertise to ensure the timely completion of the assessment. This request is consistent with the fiscal estimate of the bill at time of enactment.

Staff Recommendation: Approve as budgeted.

2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION

Issue 4: Administration Program Support

Governor's Proposal. The Budget includes $4.4 million from the State Highway Account and 23.5 positions for administration support to address increased workload requirements commensurate with departmental program growth. Over the last five years, the California Department of Transportation's (Caltrans') total budget has grown approximately 72 percent, mainly due to increased state and federal funding for transportation infrastructure. In addition, Caltrans' administrative workload demand has increased due to issues, such as COVID-19 requirements, energy and sustainability mandates, and new technology. However, despite the recent budget growth and increase in administrative workload, funding for administration support has not grown commensurately. Adequate funding of administration support is necessary for Caltrans to recruit, test, and hire, meet mandates, provide necessary training to staff; manage and operate facilities, and make payments to employees, vendors, and contractors within legally mandated timeframes.

Staff Recommendation: Approve as budgeted.

Issue 5: Central Valley Legal Office

Governor's Proposal. The Budget includes $3.4 million from the State Highway Account and 17 positions on an ongoing basis to support increased legal workload and establish a legal office in the Central Valley. The Legal Division has experienced an increase in workload in recent years—according to Caltrans, the division's workload increased about 48 percent within the last five years. The increase is due to many factors, including increased funding for transportation projects and initiatives, such as increasing broadband and addressing homelessness. An additional legal office in the Central Valley is proposed to address this increase in workload as well as reduce the amount of time traveling by attorneys (since currently, attorneys from the Sacramento Legal Office covers the largest geographic area).

Staff Recommendation: Approve as budgeted.

Issue 6: Enterprise Data Technology Solution Stage 4

Governor's Proposal. The Budget includes $422,000 from the State Highway Account to complete Project Approval Lifecycle (PAL) Stage 4 for the Enterprise Data Governance Technology Solution project. Caltrans instituted a formal enterprise data governance program beginning in late 2017, which included the Caltrans Data is Authoritative Trusted and Accessible (CTDATA) initiative. Currently, each business area develops processes and methods of data management, documentation, and sharing separately through an array of manual and automated approaches. Caltrans an enterprise-level data governance system allows Caltrans to adopt a consistent and comprehensive practice to how data is governed and managed. The 2022-23 Budget included funding for PAL Stage 3 for this project. This proposal would fund the fourth and final stage of the PAL process. This stage provides a basis for Caltrans to evaluate and reconfirm that the business objectives will be achieved, ensure the alternative solution selected continues to yield the highest probability of success, and baseline the project's timeframes, projected schedule, and costs, and start project implementation. Another request will be submitted to fund the implementation, maintenance, and operation of the selected solution.

Staff Recommendation: Approve as budgeted.

Issue 7: Project Initiation Documents

Governor's Proposal. The Budget includes a biennial zero-based-budget (ZBB) for Project Initiation Documents (PIDs) that requests a total of 420 positions and $81 million ($77.3 million in personal services and $3.8 million in operating expenses) for each fiscal year to develop, review, and approve PIDs. A PID must be developed and approved by Caltrans before a capital project can be programmed and constructed on the State Highway System. This request represents a net increase of 50 positions, equating to a total increase of $8.9 million, compared to the funding provided in the 2021-22 Budget. This total increase is in part due to the influx of federal dollars for transportation infrastructure projects from the Infrastructure Investment and Jobs Act (IIJA). Caltrans estimates that additional PIDs will be needed to successfully deliver the increased funding.

Staff Recommendation: Approve as budgeted.

Issue 8: Public Affairs and Legislative Affairs Support

Governor's Proposal. The Budget provides $1.3 million and 9 permanent positions (3 for Public Affairs and 6 for Legislative Affairs) to process and respond to state-mandated California Public Record Act (CPRA) requests and legislative bill analysis workload. There has been an increase in workload due to SB 1, the COVID-19 pandemic, and Clean California, and it is anticipated that additional requests will come through for telework, and the installation of broadband on state transportation right of way. For example, the number of CPRA requests processed by Caltrans increased from 4,191 in 2020-21 to 5,896 in 2021-22. For legislative affairs, Caltrans' inquiry volume has increased from an average of 320 inquires per year over three years, to more than 430 inquiries last year, a 35 percent increase. According to Caltrans, the requested positions and resources would allow them to more quickly respond to CPRA requests as well as provide bill analyses, respond to legislative inquiries, and conduct legislative outreach in a more timely manner.

Staff Recommendation: Approve as budgeted.

Issue 9: Transportation System Network Replacement

Governor's Proposal. The Budget includes $5.8 million from the State Highway Account and 11 positions to continue developing and implementing the California Transportation System Network (TSN) safety data system. The federal government requires Caltrans to collect the roadway inventory information for all public roads. Caltrans must comply with federal mandates and avoid the loss of federal funding by developing an updated Transportation System Network system with the required capabilities. The current TSN does not meet federal requirements for data collection and coverage of all public roads and needs updating. This request is for the third year of system development, and Caltrans plans to return with another budget request in future budget years to complete the project and for ongoing maintenance and operation costs.

Staff Recommendation: Approve as budgeted.

Issue 10: Wildlife Connectivity AB 2344

Governor's Budget. The Budget includes $1.3 million for 8 permanent full-time positions to implement the new Transportation Wildlife Connectivity Remediation Program pursuant to Chapter 964, Statutes of 2022 (AB 2344, Friedman). Currently, Caltrans conducts wildlife connectivity assessments on a project-by-project basis. However, AB 2344 significantly expands the scope of Caltrans' work on wildlife connectivity by establishing the Transportation Wildlife Connectivity Remediation Program, which requires Caltrans to develop a comprehensive statewide inventory of connectivity needs in addition to other related requirements. According to Caltrans, this funding would allow the department to meet the various implementation deadlines included in AB 2344, including publishing the inventory by July 1, 2024, assessing all projects entering Project Initiation Phase on or after July 1, 2025 for potential wildlife connectivity barriers, and reporting to the Legislature by July 1, 2028.

Staff Recommendation: Approve as budgeted.

2720 California Highway Patrol

Issue 11: Permanent Funding for Privacy and Risk Management Program Positions

Governor's Proposal. The Budget includes $402,000 ongoing from the Motor Vehicle Account to make permanent two existing positions to support the Privacy and Risk Management Program, which is tasked with protecting personally identifiable information stored within the CHP IT infrastructure. In the 2017-18 Budget, these positions were approved on a two-year limited-term basis. After funding for these positions ended, CHP has absorbed the cost of the two positions as it attempts to mature its IT security program. According to the department, permanent funding of these positions are necessary for proactive IT security and to meet recurring security audits and assessments.

Staff Recommendation: Approve as budgeted.

Issue 12: Staff Augmentation – Office of Legal Affairs

Governor's Proposal. The Budget includes $1.1 million in 2023-24 and $1 million in 2024-25 and ongoing from the Motor Vehicle Account for five positions in the Office of Legal Affairs to address increased workload. In particular, the department identifies four primary factors leading to increased workload: increase in lawsuits and discovery, decreasing likelihood to be granted a pre-trial motion to dismiss a case, currently active class action lawsuits, and new laws affecting civil litigation (such as extended time for plaintiffs to file a civil suit). According to CHP, additional legal staff would help limit the financial liability of the department, provide greater availability to other state partners on civil litigation matters, and improve availability to attend court ordered mediations and settlement conferences.

Staff Recommendation: Approve as budgeted.

Issue 13: Fleet Telematics System – Ongoing Support

Governor's Proposal. The Budget includes 1 position and $1.1 million ongoing from the Motor Vehicle Account for the ongoing operation costs of the Fleet Telematics System. The Fleet Telematics System allows the sending, receiving, and storing of telemetry data, which can include vehicle location, speed, fuel consumption, and other vehicle information. In 2021, the Department of General Services issued a requirement for state agencies to install and operate telematics services in their fleet. As a result, the 2021-22 and 2022-23 Budgets included provisional language allowing budget augmentation to fund one AGPA position and the costs related to the installation and operation of the telematics system. This proposal requests position authority for the AGPA and to make the budget augmentation permanent to cover ongoing costs.

Staff Recommendation: Approve as budgeted.

2740 CALIFORNIA DEPARTMENT OF MOTOR VEHICLES

Issue 14: Banning Field Office Relocation

Governor's Proposal. The Budget includes $50,000 in 2023-24, $2.3 million in 2024-25, $515,000 in 2025-26, $540,000 in 2026-27, and $566,000 in 2027-28 and ongoing for a new leased Banning Field Office. The existing Banning Field Office has a space deficiency of nearly 9,000 square feet and needs 26 additional parking spaces to meet a ten-year need. This is mainly due to the growing population of the communities served by the Banning Field Office. In addition, the existing Banning Field Office has a long history of neglected routine building maintenance, ongoing requests for repairs and maintenance, and the contracting of substandard vendors to complete work is resulting in poor quality repairs that must be redone on a regular basis, often at DMV's expense. This funding would relocate the Banning Field Office into a new leased facility that meets program standards by May 2025.

Staff Recommendation: Approve as budgeted.

Issue 15: Bay Area DSO/OL/INV Consolidation

Governor's Proposal. The Budget includes $4.4 million in 2023-24, $1.1 million in 2024-25, $1.1 million in 2025-26, $1.2 million in 2026-27, and $1.2 million in 2027-28 and ongoing to relocate the DMV San Francisco Driver Safety/Occupational Licensing (DS/OL) Office and consolidate with the Brisbane Investigations Office. Both offices need to move from their existing facilities. The San Francisco DS/OL office is being displaced from its location in the San Francisco Field Office due to an ongoing project to replace that facility. The Brisbane Investigations Office needs a new facility because the location's lessor is unwilling to renew the lease. This funding would relocate both offices into a new leased facility that meets program standards by November 2023.

Staff Recommendation: Approve as budgeted.

Issue 16: DMV San Francisco Swing Space

Governor's Proposal. The Budget includes $6.9 million in 2023-24, $2.3 million in 2024-25, $2.4 million in 2025-26, and $837,443 in 2026-27 for a temporary field office swing space facility near San Francisco. DMV is currently in the process of an onsite replacement of the San Francisco Field Office. This funding will allow DMV to continue serving the public while the office is closed during construction. DMV expects to occupy the lease facility by November 2023.

Staff Recommendation: Approve as budgeted.

DISCUSSION

0521 California State Transportation Agency
2600 California Transportation Commission
2660 California Department of Transportation

Issue 17: Implementation and Reductions of the Transportation Infrastructure Package

Governor's Budget. The Budget includes $2.7 billion in General Fund reductions, partially offset by $500 million from the State Highway Account, to the $9.5 billion Transportation Infrastructure Package included in the 2022-23 Budget.

			Proposed Changes				
Program	**Department**	**Total Augmentations**	**2021-22 and 2022-23**	**2023-24**	**2024-25**	**2025-26**	**New Amounts Proposed**
Transportation Infrastructure Package		**$9,500**	**-$1,050**	**-$500**	**-$1,500**	**$850**	**$7,300**
Population-based TIRCP	CalSTA	$4,000	—	-$1,000	-$1,500	$500[b]	$2,000
TIRCP	CalSTA	3,650	—	—	—	—	3,650
Active Transportation Program	Caltrans	1,050	-$500	300[a]	—	—	850
Grade separation projects with TIRCP	CalSTA/Caltrans	350	-350		—	350[b]	350
Local climate adaptation programs	Caltrans	200	-200	200[a]	—	—	200
Highways to Boulevards Pilot Program	Caltrans	150	—	—	—	—	150
Clean California Local Grant Program	Caltrans	100	—	—	—	—	100

[a]Funding shifted to State Highway Account.

[b]Delayed from a prior year.

Note: All amounts are General Fund unless specified.

TIRCP = Transit and Intercity Rail Capital Program; CalSTA = California State Transportation Agency; and Caltrans = California Department of Transportation.

The specific solutions proposed by the Governor include:

- ***Population-Based TIRCP.*** The Governor proposes to (1) reduce funding in 2023-24 by $1 billion, (2) reduce funding in 2024-25 by $1 billion, and (3) delay $500 million from 2024-25 to 2025-26. This would have the net effect of halving the intended support for the program ($2 billion instead of $4 billion) along with extending the timing of when the remaining amounts are provided.
- ***Active Transportation Program (ATP).*** The Governor proposes to (1) reduce the amount of General Fund provided by $500 million and (2) partially backfill this decrease with $300 million from the State Highway Account (SHA). (SHA is largely supported by fuel excise taxes and primarily is used to fund highway maintenance and rehabilitation projects.) This would result in a net reduction of $200 million for ATP in 2022-23. However, because the full $500 million has already been awarded for specific projects, the administration indicates that it would apply the proposed $200 million reduction to future ATP grant-award cycles, resulting in fewer projects in the outyears. (The administration would use other ATP funds and cash-management strategies to delay the impacts of the reduction and avoid disruption for current projects.)
- ***Grade Separation Projects.*** The Governor proposes to delay the full amount provided—$350 million—to 2025-26. This program is a set-aside within the non-population-based TIRCP.
- ***Local Climate Adaptation Programs.*** The Governor proposes to shift the full $200 million provided to these programs from the General Fund to SHA in 2022-23.

Proposes Trigger Restoration for Population-Based TIRCP Reduction Should State Revenues Rebound. The Governor's budget includes language that would allow the proposed $1 billion reduction to the population-based TIRCP in 2023-24 to be administratively restored in January 2024. In order for this restoration to occur, the administration would have to determine that the state has sufficient resources to fund its baseline costs and *all* of the programs the administration has selected for the trigger. The trigger restoration list totals $3.8 billion across the budget.

Background. As shown in Figure 1, the 2022-23 budget package provided $5.4 billion from the General Fund across 2021-22 and 2022-23 for various departments to implement activities intended to support the state's transportation system. (Not displayed in the figure, the Transportation Infrastructure Package also provided essentially all of the remaining unappropriated Proposition 1A bond funds—$4.2 billion—for the high-speed rail project in 2021-22.) This package also included agreements to provide additional General Fund in the outyears—including $2.1 billion in 2023-24—for a five-year total of $9.5 billion. These total amounts represent a significant dedication of General Fund resources for transportation programs, which historically have been supported primarily by state special funds (made up of revenues from fuel taxes and vehicle fees) and federal funding. Figure 2 provides a brief description of the programs that were augmented as part of the 2022-23 budget package.

Figure 1
Recent and Planned Augmentations for Transportation Programs
General Fund (In Millions)

Program	Department	2021-22[a]	2022-23	2023-24	2024-25	2025-26	Totals
Transportation Infrastructure Package		**$5,400**	**—**	**$2,100**	**$2,000**	**—**	**$9,500**
TIRCP	CalSTA[b]	$3,650[c]	—	—	—	—	$3,650
Active Transportation Program	Caltrans[d]	1,050	—	—	—	—	1,050
Grade separation projects within TIRCP	CalSTA/Caltrans[e]	350	—	—	—	—	350
Local climate adaptation programs	Caltrans[b]	200	—	—	—	—	200
Highways to Boulevards Pilot Program	Caltrans	150	—	—	—	—	150
Population-based TIRCP	CalSTA	—	—	$2,000	$2,000	—	4,000
Clean California Local Grant Program	Caltrans	—	—	100	—	—	100

[a]Funding provided in summer 2022 but accounted for as part of 2021-22 budget.

[b]CTC also provided small amount of total funding in 2022-23 and 2023-24 for administrative-related activities.

[c]Includes $300 million dedicated to adapting certain rail lines to sea-level rise, as well as $1.8 billion for projects in Southern California and $1.5 billion for projects in Northern California.

[d]CTC also has role in allocating funding to projects.

[e]CalSTA is responsible for awarding funds, but a portion of funding is included in Caltrans' budget to reflect awards to projects on the state highway system.

TIRCP = Transit and Intercity Rail Capital Program; CalSTA = California State Transportation Agency; and Caltrans = California Department of Transportation.

Figure 2
Overview of Recently Augmented Transportation Programs

Program	Description
Transportation Infrastructure Package	
Transit and Intercity Rail Capital Program (TIRCP)	Competitive program that funds transit and intercity rail improvements that reduce greenhouse gas emissions, vehicle miles traveled, and congestion.
Active Transportation Program	Competitive program that funds projects that encourage the use of active modes of transportation such as biking and walking.
Grade separation projects with TIRCP	Recent budget set-aside within TIRCP for projects that create a physical separation between railroad tracks and roadways, generally to improve safety.
Local climate adaptation programs	Includes (1) a new competitive program that funds capital projects that adapt transportation infrastructure to climate change and (2) a resumption of a competitive program that funds the development of climate adaptation plans.
Highways to Boulevards Pilot Program	New competitive pilot program that funds the planning or implementation of projects that convert or transform underutilized state highways.
Population-based TIRCP[a]	New set-aside within TIRCP that provides formula funding directly to regional agencies to fund transit and intercity rail improvements that reduce greenhouse gas emissions, vehicle miles traveled, and congestion.
Clean California Local Grant Program	Competitive program initiated in 2021-22 that funds litter abatement and beautification projects.

[a]Chapter 71 of 2022 (SB 198, Committee on Budget and Fiscal Review) included statutory language indicating that this specific augmentation for TIRCP should be allocated to regional agencies based on population.

LAO Assessment.

Given Magnitude of Recent One-Time Augmentations, Identifying Budget Solutions From Transportation Programs Is Appropriate. The Legislature directed a considerable portion of the state's recent budget surpluses towards transportation programs. These investments support several priorities, such as improving the state's transportation system, encouraging projects intended to help the state meet its climate goals, and assisting local agencies in drawing down additional federal funds from IIJA. The state focused most of its recent General Fund augmentations on one-time and limited-term activities—both within the transportation sector and in other areas of the budget—in order to provide some underlying flexibility if economic conditions changed. As such, helping to solve the current budget problem by focusing on these one-time and limited-term augmentations is appropriate. Moreover, revisiting these recent augmentations likely is necessary if the Legislature wants to avoid cutting ongoing General Fund-supported programs across the budget. Although making reductions in transportation will result in fewer of the activities that the Legislature intended for the state to conduct, even reduced amounts still will represent significant augmentations compared to historical levels for these programs. This is particularly true since many of these activities have not typically received General Fund support. Through careful prioritization, the state can continue to support its priorities within transportation even at moderately reduced spending levels.

Governor's Budget Represents One Set of Priorities, but Legislature Could Apply Its Own Decision-Making Criteria. The Governor's budget represents one approach the state could take in solving the current budget problem. However, this approach represents the Governor's overall priorities and reflects the Governor's criteria for determining which programs should be sustained or reduced. The Legislature has numerous options for dealing with the budget problem, while also sustaining funding for its highest priorities—both within transportation and in other policy areas. For instance, the Legislature could (1) choose a different mix of actions across transportation programs, and/or (2) identify a different mix of actions across policy areas, such as adopting more solutions in one part of the budget and providing additional support in other policy areas. In evaluating which transportation programs might be the best candidates for budget solutions, the Legislature may want to consider the following questions:

- ***How Important Is the Activity to Achieving Legislative Priorities and Goals?*** Is the activity an important component of meeting the Legislature's priorities? Does the funding target vulnerable or underserved communities that may not have resources to undertake the activity on their own? Does the activity represent a core state responsibility? Does compelling evidence exist that a program is effective at meeting its intended outcomes?
- ***Would the Solution Cause Major Disruptions?*** Has the funding been appropriated? Has the funding been committed to specific projects or grantees? How far along is the activity in being implemented? Would pulling back state funding affect the ability to access other funding, such as federal funds?
- ***Is the Funding Crucial to Addressing Urgent and Pressing Needs?*** What is the current demand for the funds? How likely is it that delaying or not conducting the activity could lead to negative long-term outcomes?
- ***What Other Resources Might Be Available?*** Are other funding sources available to help accomplish the activities at some level, either from previous budget appropriations, special funds, or federal funds? What implications might result from potential fund shifts, such as for the programs that funding might otherwise have supported?

Reductions to Population-Based TIRCP Are Reasonable Given Budget Problem. Given the magnitude of the budget problem facing the Legislature in the budget year (and the outyears), we find the Governor's proposals to reduce and delay funding for the population-based TIRCP to be reasonable. While providing $2 billion less than planned would result in fewer overall capital improvements to transit and rail systems, under the Governor's proposal, transit agencies still would receive a significant increase in state General Fund support—$2 billion over a three-year period—when compared to recent years. This funding would be in addition to the federal fund augmentations transit agencies are anticipated to receive from IIJA. As mentioned previously, state transit agencies can expect to receive $3.1 billion in additional formula transit funding over the five-year period, representing an average annual increase of $620 million compared to previous levels. As such, even with the Governor's proposed reduction, transit agencies would still be receiving more net funding than their historical levels.

Population-Based TIRCP Not Currently Structured to Address Transit Operational Funding Issues. Some transit agencies have raised concerns about operational funding shortfalls, in part due to persistent declines in ridership and evolving commute patterns that began during the pandemic. (Operational costs for transit agencies are supported by local, state, and federal funds, as well as from passenger fares and fees.) However, the population-based TIRCP funding the Governor proposes reducing—as currently structured in statute—can only be used for capital improvements. As such, the Legislature should not view maintaining—or reducing—this funding as meaningfully affecting transit agencies' operational funding challenges one way or another, at least as it is currently structured. Based on its priorities, the Legislature could look at options for providing additional flexibility around program requirements to allow transit agencies to use the population-based TIRCP funding for some operational expenses, but this would require statutory changes and a reprioritization of the program. Even if the Legislature were to authorize such a shift in funding usage, this would need to be viewed as a temporary relief measure, given that the funding is one-time in nature. In some cases, transit agencies will need to address the underlying sources of their operating budget pressures with more sustainable solutions.

Proposed Fund Shifts Would Minimize Disruption and Maintain Legislative Priorities. Overall, we find that shifting program costs for ATP and the local climate adaptation programs from the General Fund to SHA have merit for several reasons. First, the proposed fund shifts would minimize disruptions to the current programs. This is particularly true for ATP, which has already committed $630 million of the roughly $1.1 billion augmentation to local agencies, and local agencies are in the process of submitting plans for the remainder. (As mentioned earlier, the administration can use other ATP funds and cash-management strategies to delay the impacts of the proposed $200 million reduction, but a deeper cut would impact current projects.) Similarly, departments have begun to receive applications for the local climate adaptation programs. Local agencies have already started applying for funding from the planning program and are expected to submit applications for the capital program in March 2023. Backfilling the proposed reductions with SHA funds would minimize disruption for the local projects for which planning is already well underway.

Second, we find that the proposed fund shifts would help to achieve budget solutions while maintaining activities the Legislature has indicated are among its key priorities. For instance, during the 2022-23 budget negotiations, the Legislature advocated for more than doubling the $500 million for ATP that the Governor had originally proposed. This funding was intended to help address the roughly $1.5 billion backlog of high-scoring projects that had applied to the program in previous years but were not funded due to limited resources. Similarly, the local climate adaptation programs were budget items that originated from the Legislature in order to address current and future climate change impacts.

Using SHA to Backfill Reductions in Other Programs Means Less for Highways… While utilizing SHA funds to backfill General Fund reductions would come with some benefits, this approach is not without trade-offs. In particular, any reductions from SHA would ultimately result in less funding available for state highway maintenance and rehabilitation projects. This is because SHA is one of the main funding sources for Caltrans' State Highway Operation and Protection Program (SHOPP), which supports capital projects that rehabilitate and reconstruct the state highway system. In the budget year, the program is estimated to have about $5 billion for projects through a combination of state and federal funds (including additional funding from IIJA). The Governor's proposed fund shifts would reduce funding available for SHOPP by $500 million. The funding changes likely would not impact projects planned for the budget year, but would result in fewer projects in the future.

…However, Significant Increase in Federal Funds Can Help Make Up for Shifts. Given the increase in formula highway funding the state is expected to receive from IIJA, the impacts of shifting funding away from SHA are less significant than they would have been otherwise. This provides the Legislature with some additional flexibility to shift funds from SHA to support other transportation purposes. (The revenues that support SHA—such as fuel excise taxes—are constitutionally protected and can only be used on transportation-related expenditures.) As mentioned earlier, 60 percent of the formula highway funding California receives is used for state activities and 40 percent is apportioned to local agencies to address local transportation system needs. Under IIJA, the state-used portion is expected to be augmented by $5.1 billion over the five-year period, or about $1 billion annually. Caltrans plans to use most of this funding for SHOPP projects. Therefore, while the proposed $500 million SHA fund shift would decrease available funding for SHOPP, the recent federal fund augmentations would still enable the program to spend at funding levels exceeding its recent baseline.

Sustaining TIRCP Funding Would Minimize Disruptions. Overall, we find the Governor's proposal to sustain the $3.7 billion provided to the non-population-based TIRCP to be reasonable. The program has already begun awarding funding to local agencies and is expected to finish awards in the coming months. As such, reducing funding through the budget act this summer would cause significant disruptions for those local projects. Moreover, as part of the statutory guidance for the program, the Legislature directed the California State Transportation Agency (CalSTA) to prioritize funding projects where state funds could leverage additional local and federal funds—particularly the additional competitive funding made available under IIJA. Reducing funding for the program therefore could jeopardize local agencies' ability to draw down federal funds.

Administration's Plans to Solicit Applications and Award Program Funds Early Limits Legislature's Flexibility to Navigate Budget Problem. As shown in Figure 1, the 2022-23 budget package included agreements to provide significant additional funding for transportation programs in 2023-24 and 2024-25. While the budget agreement included the intent to provide this future funding, the authority to spend this funding is contingent on each year's annual budget legislation, and therefore, has not yet been provided to the corresponding departments. Until it grants such spending authority, the Legislature retains the authority to determine whether the intended amounts should be sustained or modified. This is particularly important for the amounts agreed to for the budget year, since the state faces a budget problem and the Legislature needs to identify spending changes that will enable it meet its constitutional requirement to pass a balanced budget. Given how significantly the budget condition has changed from when these commitments were made, the Legislature will need to consider and reevaluate all potential future spending with a fresh perspective; the state cannot afford to maintain all of its previous spending intentions.

Despite the fact that departments do not yet have the authority to spend funding planned for future appropriations, Caltrans is prematurely taking steps to allocate funds for the Clean California Local Grant Program. Caltrans is in the process of accepting applications from local agencies for the $100 million intended for the Clean California Local Grant Program in 2023-24. While the department does not plan to make funding awards until after the next fiscal year begins, it still is having local agencies apply now for funding it does not yet have the legal authority to spend.

These activities are problematic for several reasons. First, having local agencies go through the process of planning projects and applying for funds that may not ultimately be appropriated to a department—as Caltrans is for the Clean California Local Grant Program—is both unfair and creates the potential for wasted time and resources. Second, taking the additional step of *committing* funding to local agencies when a department does not yet have the legal authority or certainty that the Legislature will ultimately provide this funding creates unnecessary funding risks to local projects. Third, these practices make solving the budget problem more difficult for the Legislature. Specifically, they create a dynamic where the Legislature would then need to consider whether it should cut funding that local agencies (1) had already applied for and/or (2) had already been promised. This places the responsibility for the potential resulting disruption on the Legislature's shoulders despite the fact that it was the administration's premature actions that created the expectations at the local level.

Additional Solutions May Be Needed if Budget Problem Worsens. As discussed earlier, recent economic data and our fiscal outlook suggest that the Governor's revenue estimates have a high likelihood of being overly optimistic. Should that prove to be the case, the Legislature will need to identify additional solutions in order to meet its constitutional requirement to pass a balanced budget. While it has several options for crafting such solutions—including from within other policy areas and using tools other than spending reductions—given the magnitude of the recent one-time investments in transportation programs, the Legislature likely will want to consider making additional reductions in this area.

Legislature Could Consider Other Programs for Alternative or Additional Budget Solutions. As noted in Figure 5, the Governor would leave several programs unaffected by reductions. Should the Legislature want to consider alternative or additional budget solutions than those proposed by the Governor, we believe the following programs merit consideration:

- ***Highways to Boulevards Pilot Program.*** The Legislature could consider reducing funding for the Highways to Boulevards Pilot Program, which received $150 million in the 2022-23 budget package. In some cases, the information the state is seeking to obtain from this pilot program could be achieved through the federal Reconnecting Communities Pilot Program—a new five-year IIJA program that will provide roughly $200 million annually in competitive grants for similar activities. The Legislature could consider reducing this program now and then providing funding in the future when budget conditions improve. This would allow the state to incorporate findings from the federal pilot. While California communities are not guaranteed federal funding, many of the projects that would apply for the state program likely would also be eligible for the federal program. We note that the state program has equity-driven goals in that it supports increased access to biking, walking, transit, and green space in underserved communities, which makes it a priority for legislative focus. However, given that the federal program focuses on similar activities, the Legislature could potentially utilize savings from this program to sustain funding for some of its other high-priority equity programs across the budget that might otherwise be reduced.
- ***Clean California Local Grant Program.*** The Legislature could also consider reducing some or all of the $100 million intended for the Clean California Local Grant Program in 2023-24. This program first began when Caltrans received General Fund resources of $148 million in both 2021-22 and 2022-23 as part of a larger state initiative to clean up litter and beautify areas near transportation infrastructure. Many of the previously funded projects still are underway, working towards their required completion date of June 2024. The Legislature could reduce funding for the program and wait to review reported outcomes from the completed projects before deciding whether additional funding is warranted in the future.
- ***Grade Separation Projects.*** The Legislature could also consider reducing the $350 million provided for grade separation projects supported under TIRCP. As mentioned earlier, the Governor proposes delaying this funding from 2022-23 to 2025-26. The Legislature could instead convert the proposed delay to a reduction to capture savings and avoid exacerbating the state's out-year budget problem. This program has existing annual funding of about $450 million that would allow the state to still complete some—albeit fewer—grade separation projects. The Legislature could revisit funding these activities in 2025-26 should budget resources allow without making the commitment for such spending now.

Governor's Trigger Restoration Approach Not Realistic, Minimizes Legislative Authority. The Governor identifies the $1 billion reduction for the population-based TIRCP in 2023-24 as being eligible for restoration should resources exceed expectations by January 2024. The trigger restoration for this program would only occur if there are sufficient resources to restore the full $3.8 billion budget-wide trigger restoration list. As discussed earlier, not only do the Governor's revenue estimates assume insufficient funds to trigger such a restoration, but the Governor also forecasts a $9 billion budget deficit for 2024-25 that will need to be addressed. Given that our revenue outlook is less optimistic than the Governor's, we find it unlikely the trigger will be met. Specifically, we estimate there is about a one in three chance that the state will be able to afford the Governor's budget as proposed for 2022-23 and 2023-24, and an even lower chance the state could afford the Governor's budget plus the trigger restorations. Accordingly, we believe the proposed trigger restorations to the population-based TIRCP funding—and other programs subject to the trigger—should not be viewed as items that could potentially be restored, but rather as pure reductions. Additionally, no automatic trigger is needed to make midyear funding augmentations—the Legislature already has this ability through its authority to pass midyear spending bills. As such, we find that the Governor's proposal is structured in a way that reduces legislative authority and flexibility.

LAO Recommendations.

Direct Administration Not to Prematurely Solicit Applications and Award Program Funding Before the Legislature Grants Spending Authority. We recommend that the Legislature direct Caltrans to delay its application process for the Clean California Local Grant Program until the funding is appropriated. Waiting until after the budget act is passed would prevent additional local agencies from going through the process of planning projects and applying for funds that may not ultimately be appropriated to the department. While these directives might cause some disruptions given the departments' plans are underway, ultimately, our recommended approach would both minimize potential greater disruption for local agencies and preserve the Legislature's tools in solving the current budget problem.

Adopt Package of Budget Solutions Based on Legislature's Priorities. We recommend the Legislature develop its own package of budget solutions based on its highest priorities and guiding principles. In the brief, we identify key questions the Legislature could use in developing its own budget solutions. In several cases, we find the Governor's proposals to be reasonable, but so too would alternative decisions the Legislature could make instead of or in addition to the Governor's selections.

Use Spring Budget Process to Identify Additional Potential Budget Solutions in Transportation. Given the distinct possibility of worse fiscal conditions, we recommend the Legislature begin to prepare now for the likely need to solve for a deeper revenue shortfall when it adopts its final budget this summer. Specifically, in addition to weighing the Governor's proposed solutions and substituting its own alternatives, we recommend the Legislature identify additional reductions for a greater total amount of solutions than those proposed by the Governor. In this brief we identify other potential reductions for transportation programs that are not proposed by the Governor. While this process will be challenging—and, likely, unpleasant—taking the time to consider, research, and select potential options over the spring will better prepare the Legislature to make decisions in May and June when it will not have much time to gather information and carefully consider program trade-offs before the budget deadline.

Reject Governor's Trigger Restoration Approach, Maintain Legislative Flexibility. We also recommend the Legislature reject the Governor's trigger restoration proposal—both for the population-based TIRCP funding and all other non-transportation programs subject to the trigger. Given the current revenue forecast and the "all or nothing" structure of the proposal, we believe the likelihood of the state receiving sufficient funds to activate the trigger is low. We also find that the proposal minimizes the Legislature's authority and flexibility to respond to changing revenue conditions and evolving spending priorities. We therefore recommend the Legislature instead focus its efforts on adopting the level of solutions needed to balance the 2023-24 budget. Then, as revenues become clearer over the coming year, it can make midyear changes—including augmentations if possible, or additional reductions if needed—through its existing authorities, such as passing midyear spending bills.

Staff Comments. The proposed revisions to the Transportation Infrastructure Package makes significant reductions to two programs in particular: population-based funding for transit infrastructure and the Active Transportation Program (ATP). These programs are important in our state efforts to meet climate and equity goals. Ensuring transit and active transportation is widely available, easily accessible, and competitive with other transportation modes is key in building a less carbon-intensive, car-reliant transportation system. In addition, these programs provide important opportunities for the state to support good, high-quality jobs to build and maintain our roads, buses, and rail systems.

The proposed reductions are misaligned with Legislative priorities for a cleaner, more equitable future for transportation. Funding for these programs were part of a lengthy negotiation with the Administration to provide the remainder of the bond funds for the High Speed Rail Project. It is important to protect these investments in transit and active transportation at a time when addressing climate change is more urgent than ever.

Implementation is still early for many of these programs. As shown in the table below, funding for many programs has not yet been committed.

Program	**Appropriations (in millions)***					**Total**	**Amount Committed**	**Notes**
	2021-22	2022-23	2023-24	2024-25	2025-26			
TIRCP	3,650		1,000	500	500	5,650	0	$3.65B from 2021-22 will be awarded in 2 Phases, Phase 1 in Jan/Feb 2023 and Phase 2 in April 2023; the remaining $2B will be directly apportioned to local agencies in the budgeted year.
Highways to Boulevards	150					150	0	Call for projects Summer 2023; Awards winter 2023.
Climate Adaptation	200[1]		200[2]			400	0	Awards of Grant and Project funding expected in Fall 2023.
ATP	550		300[2]			850	630	Will commit remaining funds in June 2023.
Grade Separation					350	350	0	Awarded as part of TIRCP cycle in April 2023.
Clean California			100			100	0	Use of budgeted funds is ongoing; awards of the $100 million Local Grant funds in August/September 2023.

*: Takes into account the proposed reductions.
1: Federal Funds
2: State Highway Account Funds

Because many programs are still in early stages of implementation, depending on legislative priorities, funding can still be shifted around and between programs. For example, the Governor proposes to backfill certain programs with funds from the State Highway Account (SHA). But as the LAO highlighted, funding from SHA can be used for other programs in the package.

In addition, the Legislature can modify programs given current conditions in transportation. For example, several transit agencies are facing a fiscal cliff, in part due to decreased ridership and high fixed operating costs. One option the Legislature can consider to address these issues is to make the funding for populated-based funding for transit infrastructure to be more flexible, and allow agencies to use the funds for operating costs, if needed. Providing flexibility can be paired with accountability measures, to ensure agencies are actively changing their operations to improve ridership and long-term sustainability.

Staff Recommendation: Hold Open.

0509 Governor's Office of Business and Economic Development
0521 California State Transportation Agency
2740 California Department of Motor Vehicles
7120 California Workforce Development Board

Issue 18: Implementation and Delays of the Supply Chain and Goods Movement Package

Governor's Budget. The Budget includes a delay of the $600 million for the Port and Freight Infrastructure Program scheduled for 2023-24. This would be done by maintaining $200 million in 2023-24 and providing additional allotments of $200 million in both 2024-25 and 2025-26.

Background. The 2022-23 Budget included $670 million from the General Fund for the Supply Chain Package. The package also included agreements to provide additional General Fund in the outyears—including $650 million in 2023-24—for a five-year total of $1.4 billion.

Recent and Planned Augmentations for Transportation Programs
General Fund (In Millions)

Program	Department	2022-23	2023-24	2024-25	2025-26	Totals
Supply Chain Package		**$670**	**$650**	**$50**	**$10**	**$1,380**
Port and Freight Infrastructure Program	CalSTA	$600	$600	—	—	$1,200
Supply chain workforce campus	CWDB	30	40	$40	—	110
Port operational improvements	GO-Biz	30	—	—	—	30
Increased commercial driver's license capacity	DMV	10	10	10	$10	40

Overview of Supply Chain Package Programs

Program	Description
Supply Chain Package	
Port and Freight Infrastructure Program	New competitive program that funds projects that improve the movement of goods to and from ports.
Supply chain workforce campus	Funding to establish a new workforce training campus at the Port of Los Angeles.
Port operational improvements	New competitive program that funds operational and process improvements at ports.
Increased commercial driver's license capacity	Funding for the Department of Motor Vehicles to temporarily increase the state's capacity to issue commercial driver's licenses by leasing space to establish dedicated commercial drive test centers.

The four programs included in the Supply Chain Package are in various stages of implementation:

- **Port and Freight Infrastructure Program ($1.2 billion).** CalSTA completed the guidelines process for the $1.2 billion in port and freight funding in October 2022. Project applications are due January 13, 2023, with awards anticipated in March 2023. The agency anticipates rewarding the entirety of the funding in this cycle. Applications for the Port Infrastructure Development Program (PIDP), one of the primary federal funding programs for ports, are due in April. According to some ports, having state commitment to their projects will help support their applications for this federal funding.
- **Supply chain workforce campus ($110 million).** The CWDB is currently processing the grant agreement. Ports of Los Angeles and Long Beach have submitted a letter outlining the general commitments they intend to make for the project—which is to split the remaining costs of the project. In total, the project is expected to cost about $150 million.
- **Port operational improvements ($30 million).**
    - **Containerized Ports Data Interoperability Grant Program ($27 million).** Due to staffing issues, GO-Biz is using some of the funds to contract with an intermediary third-party to design and distribute the grant program. The request for the intermediary is to be released in February, and the contract will begin in the spring for a two-year period. GO-Biz estimates to begin accepting grant applications by July/August and award funding by September/October for an 18-20 month performance period. Concurrently, GO-Biz is meeting with federal partners, including the U.S. Department of Transportation and the Federal Maritime Commission, to draft and submit a Memoranda of Understanding on how the state funding will complement federal efforts.
    - **Funds to Improve Data Processes ($2.1 million).** GO-Biz has not been able to expend these funds because supply chain and freight data is oftentimes proprietary. GO-Biz is retaining these funds in the case it needs to purchase proprietary data information for state agencies or port partners during the program rollout.
- **Increased commercial driver's license capacity ($40 million).**
    - **Extended Field Office Hours ($6 million).** Of this amount, DMV currently projects to spend approximately $1 million in 2022-23. Currently, the average number of days to schedule a CDL drive test is 18 days, and the department target is 40 days.
    - **Additional Commercial Drive Test Centers ($34 million).** DMV has not yet found commercial driving test centers in the Bay Area and Northern Los Angeles, and therefore, only minimal costs have been incurred in 2022-23. The department has identified three potential sites in the Bay Area, but it will likely not be finalized until later this year.

LAO Assessment.

Administration's Plans to Solicit Applications and Award Program Funds Early Limits Legislature's Flexibility to Navigate Budget Problem. The 2022-23 budget package included agreements to provide significant additional funding for transportation programs in 2023-24 and 2024-25. While the budget agreement included the intent to provide this future funding, the authority to spend this funding is contingent on each year's annual budget legislation, and therefore, has not yet been provided to the corresponding departments. Until it grants such spending authority, the Legislature retains the authority to determine whether the intended amounts should be sustained or modified. This is particularly important for the amounts agreed to for the budget year, since the state faces a budget problem and the Legislature needs to identify spending changes that will enable it meet its constitutional requirement to pass a balanced budget. Given how significantly the budget condition has changed from when these commitments were made, the Legislature will need to consider and reevaluate all potential future spending with a fresh perspective; the state cannot afford to maintain all of its previous spending intentions.

Despite the fact that departments do not yet have the authority to spend funding planned for future appropriations, CalSTA is prematurely taking steps to allocate funds for the Port and Freight Infrastructure Program. Currently, CalSTA is in the process of awarding all the planned funding for the Port and Freight Infrastructure Program, including the $600 million intended to be appropriated in 2023-24. The agency has already received applications from local agencies and plans to award this funding later this spring. That is, the agency will commit specific funding amounts to local agencies *before* the Legislature has legally authorized such spending. Moreover, committing these funds now is inconsistent with the Governor's proposal to delay a share of this funding and instead provide $200 million annually from 2023-24 through 2025-26.

These activities are problematic for several reasons. First, having local agencies go through the process of planning projects and applying for funds that may not ultimately be appropriated to a department is both unfair and creates the potential for wasted time and resources. Second, taking the additional step of *committing* funding to local agencies when a department does not yet have the legal authority or certainty that the Legislature will ultimately provide this funding—as CalSTA is for the Port and Freight Infrastructure Program—creates unnecessary funding risks to local projects. Third, these practices make solving the budget problem more difficult for the Legislature. Specifically, they create a dynamic where the Legislature would then need to consider whether it should cut funding that local agencies (1) had already applied for and/or (2) had already been promised. This places the responsibility for the potential resulting disruption on the Legislature's shoulders despite the fact that it was the administration's premature actions that created the expectations at the local level.

LAO Recommendations.

Direct Administration Not to Prematurely Solicit Applications and Award Program Funding Before the Legislature Grants Spending Authority. We recommend that the Legislature direct CalSTA to cease its plans to prematurely award funding for the Port and Freight Infrastructure Program. The agency should not commit funds to local agencies when it does not yet have the legal authority to do so or certainty that the state budget will ultimately provide this funding. Waiting until after the budget act is passed would prevent additional local agencies from going through the process of planning projects and applying for funds that may not ultimately be appropriated to the department. While these directives might cause some disruptions given the departments' plans are underway, ultimately, our recommended approach would both minimize potential greater disruption for local agencies and preserve the Legislature's tools in solving the current budget problem.

Staff Comments. In recent years, supply chain delays and disruptions have resulted in significant economic impacts. As a result, the prior year budget included $1.4 billion over four years to address several issues related to the supply chain and goods movement. The different components of the package seem to be in various stages of implementation, with some awarding funding prior to being granted spending authority, as the LAO highlighted, and others expending at a slower rate than expected.

As the Legislature balances its priorities in a much more limited General Fund environment this year, it may want to consider whether certain components of the package, that have not been fully committed yet, are still necessary to achieve the intended outcomes. For example, the funds to improve data processes could potentially not be needed, in which case it could be used for another legislative priority.

In other cases, unexpended funding might require additional oversight. For example, DMV has not expended much of their funding due to lower than expected need for overtime and difficulty finding a lease for the commercial drive test centers. Though currently, the wait times are under the department's target, it is important to improve CDL test capacity in the long-term through the addition of these test centers to improve the reliability and availability of testing appointments to commercial drivers across the state.

Staff Recommendation: Hold Open.

2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION

Issue 19: Encampment Homeless Services Liaisons

Governor's Budget. The Budget includes $5.8 million in 2023-24, $5.8 million in 2024-25, and $4.5 million in 2025-26 from the General Fund for 37 limited-term positions to support statewide efforts to address homelessness within the highway system right of way. This proposal is made up of two components:

- Encampment Coordinator Team: This includes 30 three-year, limited-term positions to coordinate encampment remediation and closure efforts.
- Solutions Team: This includes 7 two-year, limited term positions to coordinate all long-term planning efforts involving homelessness and housing, including redevelopment of surplus property for housing.

Background. In 2021-22, Caltrans received $2.7 million from the General Fund on a two-year, limited-term basis for 20 Encampment Coordinator positions. Encampment Coordinators work directly with field staff in their communities to locate, prioritize, and address encampments on the state Right of Way. This funding allowed Caltrans to close about 1,200 encampments in 2021-22, compared to 269 in 2020-21.

Caltrans requests to continue and expand the Encampment Coordinator Team, increasing to 30 three-year, limited-term positions from 20 positions. These positions will mainly be used to address more than 1,300 encampments that need to be closed annually.

In addition, the department requests additional funding to establish a Solutions Team, who will be charged with coordinating all long-term planning efforts involving homelessness and housing. In particular, this team would conduct a planning process to identify six areas for housing redevelopment, collaborate with interagency partners on intensive encampment resolution activities associated with the aforementioned six areas, institutionalize best practices into department policy, develop methodology for leasing Caltrans property for redevelopment, and provide technical assistance to districts implementing the redevelopment projects.

Staff Comments. Caltrans is still in the process of collecting data to show the measurable outcomes of the work of the Encampment Coordinator Team, which was initially funded in 2021-22. According to the department, collecting such data has been difficult because (1) many of their outreach partners do not have sufficient capacity to help collect data and (2) outcomes of their outreach often remain unknown for years, due to the fluidity of living and treatment situations that many unhoused people have. The only metrics Caltrans can accurately report involves the number of encampments removed, people experiencing homelessness on the Right of Way, and times that outreach is requested.

As a result, it is difficult to assess how well the program has achieved intended outcomes—connecting the unhoused living in the state Right of Way to services, treatment, and housing—with the initial funding. As the Legislature considers continuing and expanding Caltrans' efforts to remove encampments from the state Right of Way and potentially implement longer-term solutions, it is important to consider what type of information is needed to provide oversight and accountability over these funds and what is feasible for Caltrans to collect and report.

Staff Recommendation: Hold Open.

Issue 20: Hazardous Material Removal at Encampments

Governor's Budget. The Budget includes $20.6 million from the State Highway Account on a two-year limited-term basis for the removal of statewide hazardous material from encampments statewide.

Background. Under existing law, Caltrans is responsible for the preservation and keeping of rights of way, and each type of roadway, structure, safety convenience or device, planting, illumination equipment and other facility, in the safe and usable condition to which it has been improved or constructed. Caltrans maintenance of the State Highway System (SHS) includes mitigating homelessness issues that impact system safety. The growth of unsheltered encampments within State right-of-way has been steadily rising and continues to create safety and environmental impacts.

During 2020-21, Caltrans received 8,876 requests for service concerning encampments through its Customer Service Request (CSR) system. This represents a 205 percent increase since 2016-17, when there were only 2,910 CSRs. Potential hazardous environments at encampment sites require additional hazardous material certified contractors to clean, collect, remove, transport, and legally dispose of environmentally regulated, biological, hazardous, and contaminated materials at these sites.

In 2021-22, Caltrans received $20.6 million from the State Highway Account on a two-year limited-term basis to dedicate resources for hazardous material removal at encampments. This funding was intended for operational expenses to compensate the various statewide hazmat contractors; specifically, those who collect, remove, transport, and legally dispose of all environmentally regulated, biological, and hazardous waste, from encampment sites that are on Caltrans property, on an on-call, as needed basis. As of September 2022, Caltrans has hazmat contractual encumbrances of $16.9 million for 2022-23 and $24.7 million for 2023-24.

Staff Comment. Caltrans has the responsibility to maintain the state highway right-of-way. In recent years, the rise in the state's homelessness population has created a strain on Caltrans' budgets and operations, as hazardous materials are increasingly found in encampments within the state right of way, including bridges, roadway gutters, trenches, culverts, and pump houses. In 2021-22, the first budget year Caltrans received funding for hazardous material removal, Caltrans serviced 4,896 encampments and removed 94,631 cubic yards of debris. Caltrans proposes to continue funding hazardous material removal at the same funding level—$20.6 million annually. However, it is important to note that cleanup costs related to encampments continue to rise and the need for hazardous material removal might increase in the next couple of years (in part because a new Caltrans Maintenance Policy Directive allows Caltrans to execute far more encampment closures on state right-of-way). As a result, ongoing costs to address encampments remain uncertain and limited-term funding might be prudent so that the Legislature can re-assess in two years' time when conditions might have changed.

Staff Recommendation: Hold Open.

Issue 21: Highway Maintenance Safety Program

Governor's Budget. The Budget includes 38 positions and $48.4 million on a four-year, limited-term basis from the State Highway Account to continue and expand the HM-4 Safety Pilot Program.

Background. Traditional project delivery methods used to implement safety enhancements on the State Highway System (SHS) take on average of three years to develop and an additional two years to construct. To implement safety enhancements faster and reduce the number of collisions, fatalities, and injuries on the SHS, in the 2021-22 Budget, Caltrans received $22.5 million on a two-year, limited-term basis from the State Highway Account to fund the Highway Maintenance 4 Safety (HM-4) Program. Within two fiscal years, Caltrans has been able to add an estimated 4,539 safety enhancements at offramps, curves, and pedestrian crossing locations through 28 projects as part of the HM-4 Safety Program.

This funding would allow Caltrans to continue and expand the HM-4 Safety Program, and in particular, focus on the following: wrong-way driver prevention, pedestrian and bicyclist safety enhancements, horizontal curve warning sign packages, run off road collision prevention, cross over collision prevention, as well as safety enhancements as part of pavement and bridge maintenance. Caltrans estimates to deliver 25 projects annually for the next four years of funding.

Staff Comment. Through the initial funding, Caltrans has been able to implement a significant number of safety improvements that improves outcomes, according to the Federal Highway Administration (FHWA). For example, the funded pedestrian safety enhancements are expected to reduce the potential for pedestrian crashes by 20 to 40 percent; installation of curve warning sign packages are expected to reduce run-off road crashes by 16 to 60 percent; and wrong-way driver prevention safety enhancements are expected to reduce wrong-way driving crashes on exit ramps by 40 to 60 percent.

However, Caltrans does not currently have early crash data to share from the projects completed in the initial HM-4 Safety Pilot Program. Because crash data analysis requires four years of location-specific project data (two years before and two years after the safety enhancement), the earliest the department can provide such analysis will be fall of 2024 (given that the first HM-4 Safety Pilot Program project was completed in summer 2022). Caltrans has reported their previously funded wrong-way driver countermeasures that were installed in a 2015-2018 pilot project has shown to be effective in reducing 44 to 64 percent of reported wrong-way drivers, similar to the expected reductions from the FHWA.

Given that this request is limited to four years, Caltrans should be able to provide more measurable outcomes from some of the projects funded from the HM-4 Safety Program at the end of the funding period. At that time, it would be prudent to assess the efficacy in the program, and whether or not it has provided measurable safety benefits by reducing the number of fata and serious injury collisions.

Staff Recommendation: Hold Open.

Issue 22: Pedestrian Crossing Signals (AB 2264)

Governor's Budget. The Budget provides $1.7 million ongoing from the State Highway Account to reconfigure the timing of up to 6,000 traffic signals for leading pedestrian interval (LPI) pursuant to AB 2264 (Chapter 496, Statutes of 2022, Bloom).

Background. AB 2264 requires Caltrans to implement leading pedestrian interval (LPI) with Accessible Pedestrian Signals (APS) on new and existing state-owned or state-operated traffic signals. LPI gives pedestrians the opportunity to enter an intersection three to seven seconds before vehicles are given a green light. APS is a touchless pedestrian detection system that provides audible feedback for detection, walk, and don't walk events for the hearing impaired. There are currently over 5,000 state-owned and state-operated traffic signals, and more than 1,000 additional state-owned and locally operated traffic signals. AB 2264 applies to all state-owned traffic signals.

Staff Comment. This request is aligned with the initial fiscal assessment of AB 2264, which at the time, assumed Caltrans would be reconfiguring 200 traffic signals annually. However, the final version of AB 2264 requires Caltrans to reconfigure traffic signals whenever maintenance work is performed. This represents a significant acceleration in implementation. To fully comply with AB 2264, Caltrans requires 9 three-year limited-term positions and $2.6 million in 2023-24 and 2024-25 and $800,000 ongoing.

Staff Recommendation: Hold Open.

2720 CALIFORNIA HIGHWAY PATROL

Issue 23: Wireless Mobile Video/Audio Recording System and Body-Worn Camera Statewide Implementation

Governor's Budget. The Budget includes 11 positions and $9.8 million in 2023-24, $9.9 million in 2024-25, and $4.9 million in 2025-26 and ongoing from the Motor Vehicle Account to extend the Wireless Mobile Video/Audio Recording System (WMVARS) project and implement the Body-Worn Camera (BWC) statewide.

Background. The 2015-16 Budget included $1 million to conduct a pilot study to evaluate the use of BWCs and its effectiveness to inform future potential statewide deployment. During the pilot study, the CHP assessed data storage needs, evaluated operational considerations, surveyed user experience, and reviewed indicators associated with public behavior. According to the CHP, the use of BWCs was beneficial, with a significant portion of officers indicating it improved their work performance, and enhanced transparency and interactions with members of the public.

In more recent Budgets, the CHP has received funding to implement an integrated in-car camera system, referred to as WMVARS. For example, the 2018-19 Budget included $52.5 million to implement WMVARS in patrol vehicles that could be integrated with a BWC from a single vendor. As part of this, the department continued to utilize and further test BWCs in the Oakland and Stockton areas in anticipation of a future statewide BWC deployment. In 2021-22, the CHP received $14.2 million on an ongoing basis to permanently maintain and operate the new WMVARS.

According to CHP, all identified vehicles have been outfitted with a WMVARS unit fully capable of supporting an integrated BWC. Installation of WMVARS in patrol vehicles statewide was completed in November 2022. In addition, field testing and the new WMVARS/BWC pilot in Oakland and Stockton is expected to conclude in January 2023.

This request would provide a BWC for every uniformed CHP employee. In addition, it would fund one position in the Research and Planning Section to conduct training and generate policies and procedures regarding the use of BWCs as well as ten positions for the Office of Risk Management to track, review, analyze, redact, and release responsive video files in compliance with the law.

Staff Comments. Body-worn cameras provide important video footage of civilian interactions with law enforcement—it provides greater transparency and accountability to the public. However, the implementation of BWCs represent a significant ongoing cost to the Motor Vehicle Account, which has a structural imbalance and a projected deficit in the coming years. In addition, although the department has made reasonable estimates of ongoing costs to collect, process, redact, and respond to all requests that include BWC footage, it is possible that such workload could vary depending on the number of inquiries, given the ongoing public and media scrutiny of law enforcement.

Staff Recommendation: Hold Open.

Issue 24: Capital Outlay Proposals

Governor's Proposal. The Budget includes a number of capital outlay proposals for the California Highway Patrol, including:

- $500,000 from the General Fund for Statewide Planning and Site Identification.
- $10,963,000 from the General Fund for the performance criteria phase of the Redding, Los Banos, Porterville, Antelope Valley, and Barstow Area Office Replacement projects.
- $85,631,000 from the Public Buildings Construction Fund for the design-build phase of the Gold Run and Humboldt Area Office Replacement projects.
- $184,320,000 from the Public Buildings Construction Fund (to replace existing current year authority of the same amount from the General Fund) for the design-build phase of the Quincy, Baldwin Park, and Santa Fe Area Office Replacement projects.

Background. The California Highway Patrol has a total of 111 offices (103 Area offices, eight Division offices). In 2009, the CHP requested the Department of General Services (DGS) to review over 20 Area offices of various ages for issues, including seismic; ADA compliance, heating, ventilation, and air conditioning (HVAC), and roofing. Using the data developed by state engineers and engineering consultants, the CHP determined that approximately 75 of the 111 total offices (103 Area offices, eight Division offices) are seismically at-risk. Many of the identified offices are also older buildings that no longer meet the CHP's programmatic requirements.

LAO Assessment.

Switch to Lease Revenue Bonds Is Reasonable, Given General Fund Condition. To the extent the Legislature would like to continue to support the planned replacement of CHP and DMV facilities, we think a shift to lease revenue bonds merits legislative consideration. As we discuss in a separate publication, both cash and lease revenue bonds are reasonable ways to pay for capital projects but each comes with trade-offs. Specifically, one justification for using bonds to spread the costs of capital projects out over time is that these projects are expected to provide services over many years. Also, bonds can be an important tool if insufficient funding is available to pay for the up-front costs of high-priority projects. For example, when the state has a budget problem, bonds can help fund the project while lessening potential pressure on the state to cut into existing programs. On the other hand, one benefit of using cash is that, compared to bonds, it results in a lower overall project cost because the state does not have to pay interest.

Administration Has Not Identified a Funding Source for the Repayment of Bonds. We estimate that the total debt service (including interest) on the $332 million in projects proposed for lease revenue bond financing in 2023-24 would be about $25 million per year for 25 years, resulting in a total cumulative cost of over $600 million. The administration indicates that it has not yet determined which source of funding—whether MVA or General Fund—would be used to make these debt service payments. Either way, municipal bond investors will view the General Fund as ultimately backing the bonds and would include the lease revenue bonds as part of the state's debt portfolio in their assessment of the state's overall creditworthiness.

Using Either MVA or General Fund for Repayments Would Raise Issues for Legislative Consideration. Having clarity about what fund source would be used to support debt service payments on the lease revenue bonds is important. This is not only because the fund source is a key component of any proposal, but also because, in this case, the two potential options for fund sources for repayments—the MVA and General Fund—both have important implications. These include the following:

- ***Using MVA Would Strain Fund, Raise Pressure to Address Fund Condition.*** We think the MVA is generally the most appropriate fund source to support CHP's and DMV's core operating costs, such as facility costs. This is because both departments provide services that primarily benefit motorists, and thus motorists should generally bear their associated costs. However, under current projections, the MVA cannot support its existing commitments in the out-years without corrective actions to improve its condition. Adding additional commitments to the fund—such as the $25 million in annual debt service for current proposed projects and additional debt service for forthcoming projects—would accelerate the fund's anticipated insolvency and necessitate legislative action to address the fund condition somewhat sooner than would otherwise be the case. As we discussed in previous publications, such as our February 2020 report, *The 2020-21 Budget: Transportation*, the Legislature has various options to address the condition of the MVA. For example, it could reduce spending from the fund. Alternatively, it could raise one or more of the fees—such as vehicle registration and/or driver's license fees—that support the fund. (For reference, we estimate that roughly $35 million in additional revenue could be generated annually from a $1 increase in the base vehicle registration, and roughly $6 million from a $1 increase in the driver's license fee.) As we discuss in a recent report, *The 2023-24 Budget: Proposed Reauthorization of AB 8 Vehicle Fees*, the Governor is requesting that the Legislature reauthorize a set of expiring vehicle fees (known as "AB 8" fees) and continue using them for the clean transportation programs they currently support. The Legislature could opt to extend those fees but instead direct their revenues to support the MVA, CHP, and DMV. None of these available options for addressing the MVA's fund condition is without trade-offs.

- ***General Fund Would Be a Notable Change in Approach.*** Occasionally but infrequently, the General Fund has been used for CHP and DMV on a one-time basis when it had surpluses and could support up-front facility costs. However, using the General Fund for debt service would mean providing ongoing General Fund to support CHP's and DMV's facilities. This approach would raise important questions about deviating from the past practice of applying the "user pays" principle to these departments by having general taxpayers pay for a portion of their core activities on an ongoing basis. While non-drivers may benefit from some of CHP's and DMV's services, this proposal does not include an analytical justification tying the level of payment to an assessment of the broad-based benefits the departments provide. Moreover, using the General Fund for ongoing debt service payments would also put some incremental pressure on the General Fund, which is projected to face out-year deficits under both the Governor's and our office's projections.

LAO Recommendations.

Weigh Trade-Offs Regarding Whether to Finance Projects and Fund Sources. We recommend the Legislature weigh the trade-offs associated with using up-front cash versus lease revenue bonds for CHP and DMV projects, such as the resulting implications for the timing and level of costs. Additionally, to the extent the Legislature would like to use lease revenue bonds for these projects, we recommend it carefully weigh the trade-offs involved in the fund sources for debt service payments on the bonds. For example, as we discuss above, while we think the MVA is generally the most appropriate source of funding to support CHP's and DMV's core operations—including their ongoing area office and field office costs—relying on it to pay debt service would precipitate the need to take near-term actions to address the condition of the fund. Ultimately, the source of funding to use for the debt service is an important policy choice for the Legislature.

Specify Fund Source for Repayments. Whatever the Legislature chooses as a fund source for debt service payments, making this intent clear now is important given the implications of both available options. Accordingly, we recommend the Legislature provide clear direction to the administration regarding which source of funds to use for debt service. The Legislature could provide this direction in various ways, such as through provisional language in the budget act or intent language included in budget trailer legislation.

Staff Comments. CHP capital outlay projects has historically been funded from the Motor Vehicle Account (MVA). However, in recent years, these projects have been supported by the General Fund, due to potential operational shortfalls facing the MVA. As the General Fund condition worsened this budget year and the MVA fund condition remains structurally imbalanced, the administration proposes to shift three area office projects from the General Fund to lease revenue bonds, fund the design-build phase of two area office projects with lease revenue bonds, fund the performance criteria phase for five area office projects with the General Fund, and fund statewide planning with the General Fund. According to the administration, it has not been determined whether the lease-revenue bonds will be paid by the General Fund or the MVA. As a result, the Legislature may want to consider whether it is prudent to proceed with these capital outlay projects, given the condition of both the MVA and the General Fund.

Staff Recommendation: Hold Open.

2740 CALIFORNIA DEPARTMENT OF MOTOR VEHICLES

Issue 25: Capital Outlay Proposals

Governor's Proposal. The Budget includes three capital outlay proposals for the Department of Motor

Vehicles (DMV), including:

- $2,458,000 from the General Fund for the performance criteria phase of the El Centro Field Office Replacement.
- $20,928,000 from the Public Buildings Construction Fund (to replace existing current year authority of the same amount from the General Fund) for the construction phase of the Inglewood: Field Office Replacement.
- $41,654,000 from the Public Buildings Construction Fund for the design-build phase of the San Francisco: Field Office Replacement.

Background. DMV currently has 172 field offices statewide. Out of these 172 field offices, DMV has determined that approximately 30 offices need an off-site replacement and another 30 may need an off-site replacement pending further research. These requests are part of an ongoing effort at DMV to address this issue.

LAO Assessment.

Switch to Lease Revenue Bonds Is Reasonable, Given General Fund Condition. To the extent the Legislature would like to continue to support the planned replacement of CHP and DMV facilities, we think a shift to lease revenue bonds merits legislative consideration. As we discuss in a separate publication, both cash and lease revenue bonds are reasonable ways to pay for capital projects but each comes with trade-offs. Specifically, one justification for using bonds to spread the costs of capital projects out over time is that these projects are expected to provide services over many years. Also, bonds can be an important tool if insufficient funding is available to pay for the up-front costs of high-priority projects. For example, when the state has a budget problem, bonds can help fund the project while lessening potential pressure on the state to cut into existing programs. On the other hand, one benefit of using cash is that, compared to bonds, it results in a lower overall project cost because the state does not have to pay interest.

Administration Has Not Identified a Funding Source for the Repayment of Bonds. We estimate that the total debt service (including interest) on the $332 million in projects proposed for lease revenue bond financing in 2023-24 would be about $25 million per year for 25 years, resulting in a total cumulative cost of over $600 million. The administration indicates that it has not yet determined which source of funding—whether MVA or General Fund—would be used to make these debt service payments. Either way, municipal bond investors will view the General Fund as ultimately backing the bonds and would include the lease revenue bonds as part of the state's debt portfolio in their assessment of the state's overall creditworthiness.

Using Either MVA or General Fund for Repayments Would Raise Issues for Legislative Consideration. Having clarity about what fund source would be used to support debt service payments on the lease revenue bonds is important. This is not only because the fund source is a key component of any proposal, but also because, in this case, the two potential options for fund sources for repayments—the MVA and General Fund—both have important implications. These include the following:

- ***Using MVA Would Strain Fund, Raise Pressure to Address Fund Condition.*** We think the MVA is generally the most appropriate fund source to support CHP's and DMV's core operating costs, such as facility costs. This is because both departments provide services that primarily benefit motorists, and thus motorists should generally bear their associated costs. However, under current projections, the MVA cannot support its existing commitments in the out-years without corrective actions to improve its condition. Adding additional commitments to the fund—such as the $25 million in annual debt service for current proposed projects and additional debt service for forthcoming projects—would accelerate the fund's anticipated insolvency and necessitate legislative action to address the fund condition somewhat sooner than would otherwise be the case. As we discussed in previous publications, such as our February 2020 report, *The 2020-21 Budget: Transportation*, the Legislature has various options to address the condition of the MVA. For example, it could reduce spending from the fund. Alternatively, it could raise one or more of the fees—such as vehicle registration and/or driver's license fees—that support the fund. (For reference, we estimate that roughly $35 million in additional revenue could be generated annually from a $1 increase in the base vehicle registration, and roughly $6 million from a $1 increase in the driver's license fee.) As we discuss in a recent report, *The 2023-24 Budget: Proposed Reauthorization of AB 8 Vehicle Fees*, the Governor is requesting that the Legislature reauthorize a set of expiring vehicle fees (known as "AB 8" fees) and continue using them for the clean transportation programs they currently support. The Legislature could opt to extend those fees but instead direct their revenues to support the MVA, CHP, and DMV. None of these available options for addressing the MVA's fund condition is without trade-offs.

- ***General Fund Would Be a Notable Change in Approach.*** Occasionally but infrequently, the General Fund has been used for CHP and DMV on a one-time basis when it had surpluses and could support up-front facility costs. However, using the General Fund for debt service would mean providing ongoing General Fund to support CHP's and DMV's facilities. This approach would raise important questions about deviating from the past practice of applying the "user pays" principle to these departments by having general taxpayers pay for a portion of their core activities on an ongoing basis. While non-drivers may benefit from some of CHP's and DMV's services, this proposal does not include an analytical justification tying the level of payment to an assessment of the broad-based benefits the departments provide. Moreover, using the General Fund for ongoing debt service payments would also put some incremental pressure on the General Fund, which is projected to face out-year deficits under both the Governor's and our office's projections.

LAO Recommendations.

Weigh Trade-Offs Regarding Whether to Finance Projects and Fund Sources. We recommend the Legislature weigh the trade-offs associated with using up-front cash versus lease revenue bonds for CHP and DMV projects, such as the resulting implications for the timing and level of costs. Additionally, to the extent the Legislature would like to use lease revenue bonds for these projects, we recommend it carefully weigh the trade-offs involved in the fund sources for debt service payments on the bonds. For example, as we discuss above, while we think the MVA is generally the most appropriate source of funding to support CHP's and DMV's core operations—including their ongoing area office and field office costs—relying on it to pay debt service would precipitate the need to take near-term actions to address the condition of the fund. Ultimately, the source of funding to use for the debt service is an important policy choice for the Legislature.

Specify Fund Source for Repayments. Whatever the Legislature chooses as a fund source for debt service payments, making this intent clear now is important given the implications of both available options. Accordingly, we recommend the Legislature provide clear direction to the administration regarding which source of funds to use for debt service. The Legislature could provide this direction in various ways, such as through provisional language in the budget act or intent language included in budget trailer legislation.

Staff Comments. DMV capital outlay projects has historically been funded from the Motor Vehicle Account (MVA). However, in recent years, these projects have been supported by the General Fund, due to potential operational shortfalls facing the MVA. As the General Fund condition worsened this budget year and the MVA fund condition remains structurally imbalanced, the administration proposes to fund the construction of two field offices with lease-revenue bonds and the performance criteria phase of another field office from the General Fund. According to the administration, it has not been determined whether the lease-revenue bonds will be paid by the General Fund or the MVA. As a result, the Legislature may want to consider whether it is prudent to proceed with these capital outlay projects, given the condition of both the MVA and the General Fund.

Staff Recommendation: Hold Open.