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Thursday, May 9, 2019
9:30 a.m. or upon adjournment of session
State Capitol – Room 112

Consultant: James Hacker

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VOTE-ONLY CALENDAR

2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION

Issue 1: Project Initiation Documents (PID) Zero-Based Budget

Governor's Proposal. The budget requests resources associated with the biennial Zero-Based Budget (ZBB) for the Project Initiation Document (PID) Program in 2019-20. This ZBB requests a total of 407 positions and 45 full time equivalents (FTE) for Architecture and Engineering (A & E) contracting and Cash Overtime (COT) expense; a total of \$85,744,000 (\$74,217,000 of which will be in personal service (PS) and \$11,527,000 in operating expense (OE)) to review, approve, and develop PIDs. The proposed level of PID funding is an increase of \$4.9 million from the 2018-19 level and reflects the department's changing PID workload resulting from the continued implementation of SB 1.

While the level of resources requested is broadly reasonable, the proposed increase from five percent A&E to 10 percent A&E is a significant departure from historical policy. The department has not indicated that a lack of contract resources has impeded their ability to deliver PIDs as required. Additionally, as funding for transportation projects continues to increase, an increase in permanent state staff is appropriate.

Staff Recommendation: Approve 429.4 positions, 20 FTEs for A&E contracts, and \$85.5 million in funding for PIDs.

2720 CALIFORNIA HIGHWAY PATROL (CHP)

Issue 2: Organized Retail Crime Task Force (AB 1065)

Governor's Proposal. The budget requests \$5.8 million General Fund in 2019-20 and 2020-21 to fund 16 positions and associated costs, to comply with the requirements of AB 1065 (Jones-Sawyer), Chapter 803, Statutes of 2018.

The Administration also proposes trailer bill language to extend the program's sunset date by six months to July 1, 2021.

The Administration's proposal would create three regional task forces at CHP, each consisting of four officers, to support local law enforcement in their efforts to combat organized retail crime. While this meets the stated intent of the original bill, it represents a significant increase in CHP's usual involvement in local law enforcement issues. A more limited statewide coordinating structure is more appropriate to CHP's traditional role.

Additionally, staff notes that extending the sunset date to July 2021 would conflict with a ballot initiative that is on the November 2020 ballot and would go into effect January 2021, if passed by voters.

Staff Recommendation: Approve four positions and \$705,000 in 2019-20 (\$353,000 in 2020-21) for the organized retail crime task force. Hold open the requested trailer bill language.

2740 DEPARTMENT OF MOTOR VEHICLES (DMV)

| |
|---|
| Issue 3: High Occupancy Vehicle Lanes (SB 957) |
|---|

Governor's Proposal. The budget requests 8.3 positions and \$3.0 million in FY 2019-20, 10.0 positions and \$3.5 million in FY 2020-21, 9.9 positions and \$3.5 million in FY 2021-22, 12.8 positions and \$4.5 million in FY 2022-23 and 4.5 positions and \$461,440 in 2023-24 to implement Chapter 367, Statutes of 2018 (SB 957, Lara). This bill would allow the issuance of more than one clean air vehicle decal to specified zero and low-emissions vehicles, if the applicant makes 80 percent or less of the statewide median household income. DMV currently charges \$22 to cover the costs of administering the program. Through regulations, Administrative Service Fees (ASF) will be identified to cover the cost of the HOV program.

Staff recommendation: Approve as Budgeted.

ISSUES FOR DISCUSSION

2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION

Issue 4: Project Delivery Workload

Governor's Proposal. The budget requests a net increase of \$8.8 million and 48 Full Time Equivalents (FTEs) for the Capital Outlay Support Program from the 2019-20 Governor's Proposed Budget. This results in a total request of \$1.9 billion in 2019-20 to support 10,354 positions, including 1,032 contracted positions.

Background. Capital Outlay is the funding mechanism for construction contracts and right of way acquisition on projects that preserve and improve the state highway system. The COS Program provides the funding and resources necessary to develop (design) and oversee the construction of projects. The COS Program also provides oversight and/or independent quality assurance of projects developed by local entities on the highway system.

Caltrans funds the management, preservation, and safety improvements of the state highway system through the State Highway Operations and Protection Program (SHOPP), which receives State and Federal funding generated by taxes and fees placed on vehicles and fuels. With the enactment of SB 1 (Beall), Chapter 5, Statutes of 2017, additional funding has been made available for transportation investments across the state, including maintenance and repair of highways, local roads, bridges, and transit systems, and to also address the state's most congested corridors and to improve the movement of freight. The Fund Estimate provides a multi-year forecast of transportation revenues under current law. The approved 2018 SHOPP identified \$6.4 billion in additional programming capacity over the four-year funding cycle due to SB 1. Caltrans programmed \$17.96 billion in projects over four years, covering 2018-19 through 2021-22, as shown below.

| <i>Dollars in Millions</i> | | | | | | |
|----------------------------|------------|------------|------------|------------|------------|------------|
| | FY 2016-17 | FY 2017-18 | FY 2018-19 | FY 2019-20 | FY 2020-21 | FY 2021-22 |
| 2016 SHOPP | \$2,300 | \$2,400 | \$2,400 | \$2,400 | | |
| 2018 SHOPP | | | \$4,340 | \$4,440 | \$4,540 | \$4,640 |
| | | Increase | \$1,940 | \$2,040 | | |

Staff Comments. The request is summarized below.

| | Personal Services Staff | Cash Overtime Position Equivalent | Architectural and Engineering Contracts (Position Equivalent) | Total Request |
|---|--|--|--|--------------------------|
| 2018-19 COS Program Authorized Budget | 8,770.4 | 516.4 | 1,031.8 | 10,318.6 |
| <i>Mid-Year Jan. 10 Adjustments</i> | -13.0 | 0 | 0 | -13 |
| 2019-20 January 10, Governor's Proposed Budget | 8,757.4 | 516.4 | 1,031.8 | 10,305.6 |
| <i>2019-20 COS Program Proposed Budget Changes</i> | +123.2 | -75.0 | 0 | +48.2 |
| 2019-20 COS Proposed Budget (May Revision) | 8,881.6 | 441.4 | 1,031.8 | 10,353.8 |

The resources requested here are broadly reasonable and in-line with expected transportation funding while remaining consistent with past policies on the use of contracted positions. However, as the LAO notes below, there is significant uncertainty regarding the out year workload for the COS function. This request should be considered in the context of this uncertainty.

LAO Comments. The LAO has provided the following comments:

BCP Proposes \$8.8 Million Increase. The 2019-20 request increases the program by \$8.8 million and 48 FTEs (123 state staff positions) to accommodate continued implementation of SB 1 funding. The position increase difference from FTEs relates to adjusting overtime FTEs from the current-year to restore the traditional 85 percent state staff, 5 percent overtime, 10 percent consultant split. These changes for 2019-20 are generally reasonable.

BCP Assumes Significant Future COS Increases. The BCP also includes a projection of future COS workload that shows future staffing needs of the program increasing by roughly 2,000 FTEs by 2023-24. We have submitted questions to Caltrans on the projected future increase, but initial conversations with DOF indicate that the relatively modest COS increase for 2019-20 is a temporary plateau and that the administration will likely come forward with significant new staffing requests in the next year or two. Given the workload projections included in the BCP it seems likely that a future staffing request could be around 1,000 to 2,000 new FTEs. Our office's understanding was that the 2018-19 COS augmentation of \$203 million and 872 FTEs was the bulk of the staffing ramp-up necessary to implement the SB 1 funds, so these out-year projections are somewhat surprising. We have asked Caltrans for additional details on the projections and why workload would increase so significantly in the coming years if most of the SB 1 funding sources are already available. In addition, over time certain factors could diminish the purchasing power of the new SB 1 revenues, for example if construction costs increase faster than revenue growth, which would moderate workload growth or even result in a decline.

LAO Recommends Supplemental Report from CTC. In the past, we have raised concerns over data quality and the accuracy of Caltrans' project budget estimates. In light of the out-year projections for additional program increases, we think this year presents an opportunity for the Legislature to collect more information on COS workload and the accuracy of COS projections so that the Legislature has the information it will need to evaluate potential future increase requests. Specifically, now that the CTC is tasked with performing project-level oversight on Caltrans projects we recommend that the Legislature adopt supplemental report language directing the CTC to do a "look back" analysis on a sample of projects to compare the estimated COS costs by phase with allocated funds and actual expenditures. In addition we recommend this analysis require CTC to compare the project-level data to COS budget requests for the sample projects and report to the Legislature on the extent to which project estimates and annual budget estimates for the sample of projects align and whether actual spending is higher or lower than the various estimates. Such a report would provide information on the extent to which data quality and accountability are being improved. In addition, collecting this data at this time would establish a baseline for project estimate accuracy that could allow the CTC, Caltrans, and the Legislature to know whether project estimates are becoming more accurate over time as the full impact of various accountability improvements enacted in recent years are seen.

Staff Recommendation: Hold Open.

Issue 5: Office of the Inspector General (OIG) Trailer Bill Language

Governor's Budget. The Administration has proposed trailer bill language to provide confidentiality protections to individuals who communicate with the Department's Independent Office of Audits and Investigations.

Background. SB 1 established the Caltrans Independent Office of Audits and Investigations' OIG to ensure Caltrans and external entities that receive state and federal transportation funds are doing so efficiently and effectively and in compliance with applicable laws and regulations. Pursuant to SB 1, the OIG provides a full-scope, independent, and objective audit and investigation program. The OIG is required to report a summary of investigation and audit findings and recommendations at least annually to the Governor, the Legislature, and the California Transportation Commission. The office was initially established with forty-eight existing positions and ten new permanent staff and resources through the Budget Act of 2017.

Staff Comments. The proposed language gives Caltrans' Inspector General (IG), as the director of the Audits and Investigations Office, access and authority to examine all records, files, documents, accounts, reports, correspondence, or other property of the department and external entities that receive state and federal transportation funds from the department. In addition, any information obtained by the IG may be kept confidential and disclosure would not be required under the California Public Records Act. The language also provides that not complying with providing information to the IG is a misdemeanor.

The Administration has indicated that this language is intended to provide individuals (or entities) that communicate concerns or issues with the OIG the confidence that their communication will be kept confidential and it will be protected. This will allow for free flow of information and inspire confidence in someone wanting to convey confidential information. The statutes as currently written do not provide that level of protection. The requested language does not change the scope or ability of the Inspector General or their staff to perform their duties by having access to information. The language will provide clarification of what the Inspector General or their staff can have access to, thus avoiding potential disagreement. However, it does provide for the information to be kept confidential if the Inspector General believes nondisclosure would protect a person from potential retaliation or fear of retaliation for participating in an audit or investigation.

The proposed trailer bill language regarding what is disclosed in under the California Public Records Act goes beyond the authority that the California State Auditor has and it is unclear why the Inspector General would need this authority. The Subcommittee may wish to ask if there are specific examples of why this language and authority is needed.

Staff Comments. Hold Open.

Issue 6: Bay Area Stormwater Permit Violation

Background. In December 2016, the San Francisco Bay Regional Water Quality Control Board issued a Notice of Violation (“NOV”) to Caltrans. The NOV required “prompt submittal by Caltrans of an acceptable trash reduction workplan” to the Regional Board. To date, no such acceptable plan has been submitted. The Regional Board has repeatedly rejected Caltrans Trash Load Reduction Workplans for failing to include appropriate plans or schedules for timely implementation of actions.

As part of the 2018-19 budget, the Legislature passed Supplemental Reporting Language requiring the following:

- No later than January 10, 2019, the Department of Transportation, in consultation with the Department of Finance, shall submit to the fiscal committees of both houses and the Legislative Analyst’s Office a report that provides the following information regarding the department’s stormwater permits:
- The number of stormwater permit violations the department has committed in the past three years, and the dates and locations where those violations occurred
- The number of permit violations that the department is currently working to address, and when and where those violations occurred
- The details of a workplan acceptable to the regional water quality control board to address currently open permit violations in the San Francisco Bay Area, or the timeline for developing those plans.

Recent Updates. On February 13, 2019, the California Regional Water Quality Control Board, San Francisco Bay Region, adopted an enforcement order that requires Caltrans to treat specific additional acreage annually in the Bay Area to prevent trash from entering stormwater, install additional trash control structures throughout its 25,000 acres of right of way in the region, and take other actions to reduce trash flows to the Bay or face fines or other legal action.

The Department has indicated that this action by the regional board, as well as new wetland regulations, has impacted the preparation of the supplemental report. The draft report is currently being updated to take account of both of these updates.

The Committee may want ask the following questions:

- What is the timeline for the delivery of the requested report?
- What has Caltrans already done to ensure compliance and meet the SF Bay region CDO’s mandated trash reduction deadlines (2020, 2022, 2024, 2026, etc.)?
- What is the Department’s next steps with regards to the recent enforcement order?
- What is the potential budgetary impact of complying with the enforcement order? How much of this impact will be felt in the 2019-20 budget?

Staff Recommendation. Informational Item.

2665 CALIFORNIA HIGH-SPEED RAIL AUTHORITY

The California High-Speed Rail Authority's mission is to plan, design, build, and operate a high-speed train system for California. Planning is currently underway for the entire high-speed train system, which consists of Phase 1 (San Francisco to Los Angeles/Anaheim) and Phase 2 (extensions to Sacramento and San Diego). The Authority has entered into design-build contracts and continues to acquire real property and right-of-way accesses for the first section of the high-speed train system, extending 119 miles from Madera to just north of Bakersfield.

Budget Overview: The budget provides \$650 million for the High-Speed Rail project in 2017-18. This is a decrease of roughly \$400 million from 2018-19, mostly due to decreases in expenditures for blended system projects as those projects advance.

3-YEAR EXPENDITURES AND POSITIONS

| | | Positions | | | Expenditures | | |
|--|---|--------------|--------------|--------------|-----------------|------------------|-----------------|
| | | 2017-18 | 2018-19 | 2019-20 | 2017-18* | 2018-19* | 2019-20* |
| 1970 | High-Speed Rail Authority--Administration | 203.8 | 229.0 | 239.0 | \$37,391 | \$42,969 | \$47,433 |
| 1975 | Program Management and Oversight Contracts | - | - | - | - | 1 | 1 |
| 1980 | Public Information and Communications Contracts | - | - | - | 12 | 500 | 500 |
| 1985 | Fiscal and Other External Contracts | - | - | - | - | 3,750 | 3,750 |
| 1990 | Blended System Projects | - | - | - | - | 676,665 | - |
| TOTALS, POSITIONS AND EXPENDITURES (All Programs) | | 203.8 | 229.0 | 239.0 | \$37,403 | \$723,885 | \$51,684 |
| FUNDING | | | | | 2017-18* | 2018-19* | 2019-20* |
| 3228 | Greenhouse Gas Reduction Fund | | | | \$- | \$103 | \$103 |
| 6043 | High - Speed Passenger Train Bond Fund | | | | 37,153 | 723,032 | 50,831 |
| 9331 | High-Speed Rail Property Fund | | | | 250 | 750 | 750 |
| TOTALS, EXPENDITURES, ALL FUNDS | | | | | \$37,403 | \$723,885 | \$51,684 |

SUMMARY OF PROJECTS

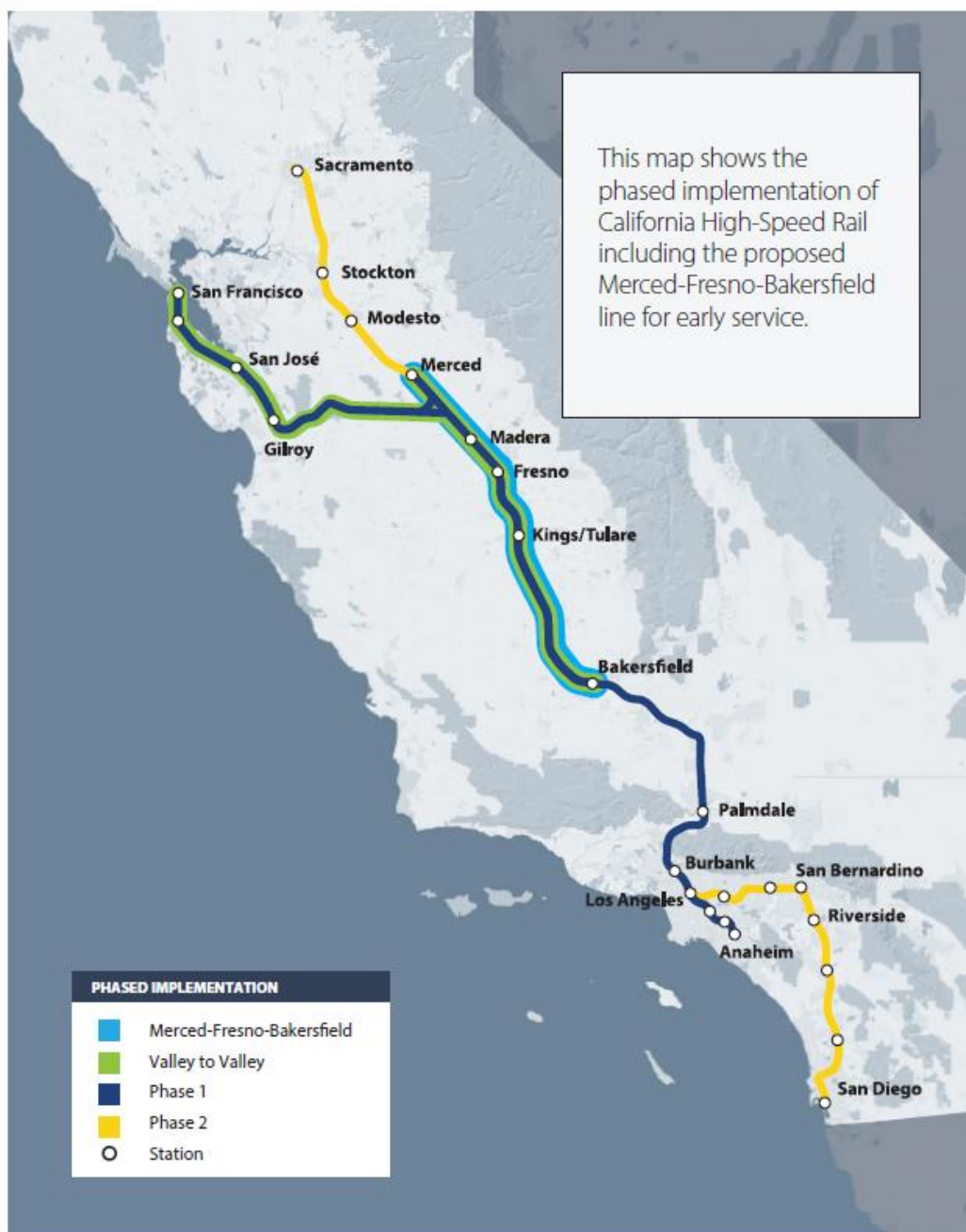
| | | State Building Program Expenditures | | 2017-18* | 2018-19* | 2019-20* |
|---|--|-------------------------------------|--|------------------|------------------|------------------|
| 1995 | CAPITAL OUTLAY Projects | | | | | |
| 0000131 | CA High Speed Train System Planning | | | 140,216 | 75,919 | - |
| | Performance Criteria | | | 140,216 | 75,919 | - |
| 0000132 | Initial Operating Segment, Section 1 | | | 110,057 | 76,453 | 120,249 |
| | Acquisition | | | 55,448 | 72,550 | 109,119 |
| | Design Build | | | 54,609 | 3,903 | 11,130 |
| 0000727 | Phase 1 Blended System | | | 46,438 | 733,591 | 494,000 |
| | Design Build | | | 46,438 | 733,591 | 494,000 |
| TOTALS, EXPENDITURES, ALL PROJECTS | | | | \$296,711 | \$885,963 | \$614,249 |
| FUNDING | | | | 2017-18* | 2018-19* | 2019-20* |
| 0890 | Federal Trust Fund | | | \$68,759 | \$828 | \$- |
| 3228 | Greenhouse Gas Reduction Fund | | | 57,495 | 733,591 | 494,000 |
| 6043 | High - Speed Passenger Train Bond Fund | | | 170,457 | 151,544 | 120,249 |
| TOTALS, EXPENDITURES, ALL FUNDS | | | | \$296,711 | \$885,963 | \$614,249 |

Issue 7: Project Update Report

Governor's Budget. The Project Update Report (PUR) released on May 1, 2019, proposes to spend \$20.4 billion to complete the following:

- A train line from Merced (Merced Station) to Fresno to Bakersfield (F Street Station) by 2028 that would provide early interim service,
- Bookend projects, and
- Environmental work for the project.

Background. The high-speed rail project is divided into two phases. Phase I would provide service for about 500 miles from San Francisco to Anaheim. Phase II would connect the system to Sacramento in the north and San Diego in the south as shown in the figure on the following page:



Bookend and Connectivity Projects. HSRA has partnered with local authorities to initiate a variety of bookend and “connectivity” projects on commuter rail lines in the Bay Area and Southern California that will facilitate high-speed rail, as well as provide benefits to existing rail and transit systems. These projects include the planned electrification of the Caltrain corridor to allow for high-speed rail to share Caltrain’s tracks, a major grade separation project near Los Angeles, and an upgrade to Los Angeles’ Union Station.

Project Funding. The high-speed rail project has funding from three main sources:

- ***Proposition 1A Bonds.*** Proposition 1A authorized the state to sell about \$10 billion in general obligation bonds to support the development of the high-speed rail system. This includes \$9 billion for the planning and construction of the high-speed rail system, with the remainder to support the connectivity projects discussed above. (Of this \$9 billion, HSRA has set aside \$1.1 billion as contributions to locally administered bookend projects and \$450 million for project administration.) At this time, the Legislature has appropriated \$5.5 billion in Proposition 1A bond funds, with about \$2.7 billion having been spent—\$2 billion on the high-speed rail project and about \$700 million on connectivity projects.
- ***Federal Funds.*** The federal government has awarded HSRA a total of \$3.5 billion, subject to certain matching requirements and project deadlines. First, the state received \$2.6 billion in American Recovery and Reinvestment Act (ARRA) funds in 2009. HSRA fully expended the ARRA funds and expects to complete the state match requirement in 2019-20. Second, the state received a \$929 million grant from the federal High-Speed Intercity Passenger Rail program in 2010 (FY10 Federal Grant), which expires at the end of 2022 and requires a state match of \$360 million. The state must meet certain conditions under the FY10 Federal Grant agreement, including: (1) completing its match to the ARRA grant before it can spend these funds; (2) using the funds to support infrastructure that provides intercity passenger rail service; and, (3) completing all environmental reviews for Phase I of the high-speed rail project by 2022. The grant agreement also includes a provision that allows the federal government to terminate the grant under certain conditions, such as failing to make reasonable progress on the project. On February 19, 2019, the federal government notified the state of its intention to terminate the FY10 grant under this provision.
- ***Cap-and-Trade Auction Revenue.*** In 2014, the state began providing cap-and-trade auction proceeds to HSRA for the project. (Cap-and-trade auction proceeds are revenue generated by the state from the sale of emissions allowances as part of the state’s efforts to reduce greenhouse gas emissions.) This includes \$650 million in one-time cap-and-trade revenues, as well as the continuous appropriation of 25 percent of cap-and-trade revenues, beginning in 2015-16. To date, the project has received about \$2.4 billion in cap-and-trade revenues and spent about \$600 million.

Project Status. The 2019 Project Update Report provides the following information on the project's current status.

Environmental Review. HSRA must comply with both the California Environmental Quality Act and the National Environmental Policy Act. Both laws require environmental reviews to assess the extent to which the high-speed rail project could cause significant environmental impacts. HSRA has completed the environmental reviews for the Merced-to-Fresno and Fresno-to-Bakersfield sections. The environmental reviews for the remainder of Phase I are currently underway, while the environmental reviews for Phase II have not yet started.

Right-of-Way Acquisition. Once the alignment of a section is finalized and the relevant environmental review of a project section is complete, HSRA can acquire the right-of-way in that section as needed for construction subject to funding availability. Because HSRA has finalized the alignment and completed the environmental reviews of the sections between Merced and Bakersfield, it is able to acquire right-of-way in those sections. As of March 2019, HSRA has identified 1,816 parcels of land necessary for construction in the Central Valley and has acquired 1,501 of them.

Project Construction. In 2015, HSRA initiated construction on the ICS. To date, HSRA has spent about \$3.8 billion on construction of the ICS. This includes the completion of major structures, such as the construction of the Fresno River Bridge and Tuolumne Street Bridge, and the realignment of a portion of State Route 99. As indicated above, HSRA currently estimates it will complete the ICS by 2022.

Jobs Created. Developing, planning, and building the project has stimulated job growth across the state. As of March 2019 HSRA estimates it has created nearly 3,000 jobs. Overall, the investment has supported between 37,600 and 42,600 job-years of employment and generated \$6.8 billion to \$7.6 billion in total economic activity.

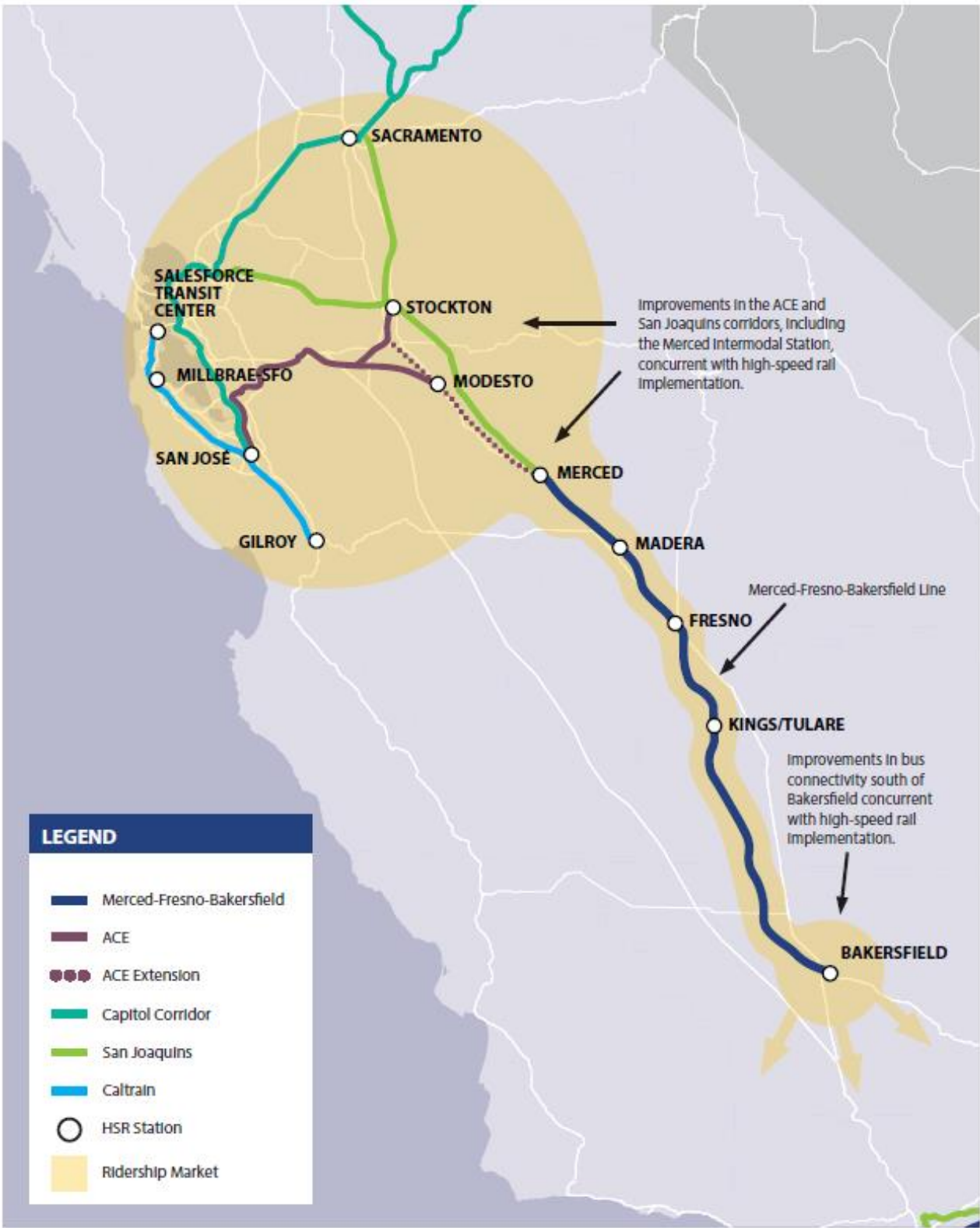
2019 Project Update Report. The 2019 PUR addresses issues raised in the 2018 Business Plan, specifically:

- Early Train Operator's (ETO) analysis of early, interim service options deemed worthy of consideration in the 2018 Business Plan in both the Central Valley and the Peninsula in Northern California.
- ETO's review of capital costs contained in the 2018 Business Plan.
- Refine and update scope and cost to complete the work in the Central Valley

Based on the ETO's analysis the following conclusions were made:

- The best option for early service in the Valley is the Merced- Fresno-Bakersfield segment integrated with the Altamont Corridor Express (ACE) and the San Joaquin intercity service, while HSRA continues to prepare the Valley-to-Valley service for construction as additional funding becomes available.
- HSRA should complete the environmental work statewide and maintain commitments to complete the bookend projects in the Silicon Valley and the Los Angeles Basin.

HSRA envisions an early interim service that looks like the following:



Project Costs. The estimated total cost of the components of the project as presented in the PUR is \$20.4 billion and is comprised of the following:

| Component | Cost (in billions) |
|------------------------------------|---------------------------|
| Merced to Bakersfield construction | \$16.3 |
| Trains | \$0.7 |
| Phase 1 environmental studies | \$0.8 |
| Bookend projects | \$1.3 |
| Other costs | \$1.3 |
| Total | \$20.4 |

Project Funding. The figure from the PUR on the following page summarizes the forecasted funding for the project through 2030, the amount spent through January 2019, and the remaining funds available. Whether or not the state can afford to construct the early interim service, bookends, and complete environmental work under current conditions depends on the following:

- Stable Cap-and-Trade revenues.
- Retaining all previously committed federal funds.
- Appropriation of the remaining Prop 1A bond funds by the Legislature.
- No significant future construction cost increases.
- Reengagement by the Federal Railroad Administration.

| Funding Source | Total Authorized Funding A | Total Appropriated / Received | Total Expended to Date B | Total Remaining C = A - B |
|--|-------------------------------|----------------------------------|--------------------------------|---------------------------------|
| Federal Funds | | | | |
| ARRA Construction | \$2.06 | \$2.06 | \$2.06 | - |
| ARRA Planning | \$0.49 | \$0.49 | \$0.49 | - |
| FY10 | \$0.93 | \$0.93 | - | \$0.93 |
| State Funds | | | | |
| Proposition 1A Planning | \$0.68 | \$0.58 | \$0.43 | \$0.25 |
| Proposition 1A Central Valley Segment Construction | \$2.61 | \$2.61 | \$1.44 | \$1.17 |
| Future Proposition 1A for Silicon Valley to Central Valley Line Construction | \$4.17 | - | - | \$4.17 |
| Proposition 1A Bookends | \$1.10 | \$1.10 | - | \$1.10 |
| Cap-and-Trade Received through December 2018 | \$2.42 | \$2.42 | \$0.61 | \$1.81 |
| Subtotal | \$14.45 | \$10.18 | \$5.02 | \$9.43 |
| Future Cap-and-Trade* | \$6.00 – 9.00 | \$6.00 – 9.00 | - | \$6.00 - \$9.00 |
| Total | \$20.45 – 23.45 | \$16.18 – 19.18 | \$5.02 | \$15.43 – 18.43 |
| <i>*Future Cap-and-Trade funding assumes a low of \$500 million to a high of \$750 million per year from 2019 to 2030 (12 years). The Authority's February 2019 Cap-and-Trade quarterly auction receipt was \$213 million, and is not yet included in the total.</i> | | | | |

Federal Railroad Administration (FRA) Update. On March 4th, HSRA submitted two letters to the FRA challenging its intended action to de-obligate \$929 million in federal fiscal year 2010 funding for the project. To date, it has not received a response. While the FRA has disengaged on the environmental review process, HSRA continues to move forward with state approvals for California Environmental Quality Act (CEQA) purposes, and will continue to prepare work for FRA approval when and if it re-engages in this process.

Staff Comments. The PUR outlines the key risks to the project, which are the state's relationship with the FRA, funding, cost increases, schedule delays, and other construction and program risks. The Subcommittee may wish to have HSRA discuss these risks in more detail. In addition, staff raises the following issues for consideration:

Early Interim Service

- What other options for advancing the projects were analyzed before selecting the Merced-Bakersfield option? Why was this approach selected?
- Much of the value of an early interim service is contingent on a highly integrated rail service from Sacramento, Oakland, and San Jose into the Bay Area. Will connecting existing systems to the new high-speed rail line require additional transportation projects? Are these projects

currently underway? What is the cost and source of funding for these projects and timeline for completion?

- Is the proposal to operate an early interim service with a subsidy consistent with Proposition 1A? How large of a state subsidy would be needed to operate the Merced-Fresno-Bakersfield rail line?
- What are the transportation options to connect the system south beyond Bakersfield?

Federal Risks

- How will the project move forward without the FRA engaging on the environmental review process and other activities where the state needs its federal partner? By what date does the state need FRA to reengage to avoid significant project delays?
- Does the FRA have to approve an interim option approach? Does this approach put at risk any federal funds the state has already spent?
- What happens if HSRA cannot meet the federal funding ARRA commitments by December 2022?

Funding

- Is the flow of funds from the state's Cap-and-Trade program sufficient to avoid construction delays and the resulting cost increases?

Bookend Projects

- Does this proposal delay the bookends projects at all?
- Do bookend projects need federal environmental approvals?

HSRA Structure and Administration

- When will the Authority have a structure and staff that are adequate to deliver this project so that the state isn't so heavily reliant on consultants?
- How will the effort to bring more state staff on board impact the projects administrative budget? When will the Authority need to request an increase in the Proposition 1A Administrative funding cap?

Staff Recommendation: Informational Item, no action required.

Issue 8: IT Security

Governor's Budget. The Governor's budget requests five permanent positions and \$2.2 million in 2019-20 and \$1.53 million from the High-Speed Passenger Train Bond Fund (Proposition 1A) on an ongoing basis to improve the High-Speed Rail Authority's (HSRA) information technology (IT) security program.

Background. Currently, HSRA's IT security staff consists of an IT Security Specialist and a Network Administrator. The Information Security Officer (ISO) oversees these two positions, in addition to performing duties supporting the Authority's IT infrastructure. The current approach, structure, and staffing level is not adequate to support the Authority's existing enterprise IT solutions and protect the State's information assets. A recent review by the California Military Department, along with internal reviews, have identified high-risk securities and vulnerabilities. Further, the Authority continues to deploy new business solutions, which also must be secured and supported.

Staff Comments. The need for additional dedicated IT security resources has grown due to the following:

- Additional business systems have been deployed (e.g., cost management system, contract management system, risk management system);
- Increased complexity of Authority systems that are integrated and share critical data across domains, networks, and external service providers;
- The number of supported users (state and vendor staff) has increased as the overall construction program has grown;
- Evolving state and federal requirements and standards; and
- Evolving security threats, including cyber-attacks from foreign nations.

Over a multi-year period, the requested resources will mature the overall security program, including updating policies and procedures, implementing new security solutions, and mitigating security risks and incidents. To ensure the Authority's Information Security Officer (ISO) can better focus on creating and maintaining a proper IT security program, this request will add one supervisor (IT Supervisor II) to oversee day to day network and security operations, two IT Security Professionals (IT Specialist II), and two IT Security/Network Administrators (IT Specialist I). It will also add software tools that monitor, analyze, mitigate, and report on IT security risks, in addition to staff training and consulting services.

Staff Recommendation. Approve as Budgeted.

Issue 9: IT Transition

Governor's Proposal. The budget requests five permanent positions and \$2.2 million from Proposition 1A to enhance Information Technology (IT) operational capabilities and acquire licensing and maintenance agreements required to support the cloud infrastructure.

Background. Currently, HSRA has 15 IT staff, but is dependent upon contracted staff to support its cloud infrastructure, perform application development and support, and augment desktop support resources. The contractor also maintains multiple software licenses and third-party agreements. This request will add additional resources to provide oversight of application development and support services provided by the contractor and augment existing staff where current resources are inadequate to effectively support day-to-day IT operations.

Staff Comments. The Administration has indicated that this request is intended to support continuity of operations and long-term sustainability of the high-speed rail program and to provide increased control of state assets. This proposal includes:

- Five permanent positions;
- \$1.3 million for cloud and infrastructure third-party agreements, software licenses, and maintenance costs; and,
- Ongoing training expense of \$5,000 per position per year.

This requested resources will support:

- Transition of licensing and third-party agreements associated with the cloud infrastructure to the Authority from its contractor; and,
- Increase of technical and oversight capabilities within the Authority to address IT operational risks (e.g., single points of failure, limited visibility/control, limited resources to mature the IT organization) in key areas, including:
 - Desktop and mobile support;
 - Infrastructure support;
 - Database administration; and,
 - Application development and support.

The State Auditor indicated that the Authority's over-reliance on external contractors has created significant issues with project delivery. As such, the Authority's decision to bring IT-related workload from external contractors into the organization is appropriate.

Staff Recommendation. Approve as Budgeted.

Issue 10: Contract Management & Financial Office Resources

Governor's Budget. The budget requests 35 permanent positions and \$4.5 million (Proposition 1A) to shift certain administrative and contract management responsibilities from its Rail Delivery Partner to state staffing resources.

Background. A recent report by the State Auditor identified areas where HSRA's reliance on contractors for contract management and other administrative functions has contributed to problems with control of costs and performance of contractors. The Accounting and Budget Branch play a key role in contract management, among their other state and federal mandated requirements, such as managing the allocation of funds to execute contracts and processing payments. The branches also assist with monitoring balances and available cash to provide timely information to management for decision-making.

Staff Comments. The requested positions and cost increases/decrease are summarized below:

| BRANCH / UNIT | POSITION REQUESTED | COST (\$M) | CONSULTANT REDUCTION | REDUCTION (\$M) |
|---|--------------------|--------------|----------------------|----------------------|
| RESPONSE TO AUDIT CHAPTER 2 | | | | |
| Contract Management | | | | |
| Contract Administrative Branch | 5.0 | 0.6 | <5.0> | <0.8> |
| Contract Management Branch | 12.0 | 1.6 | <12.0> | <1.8> |
| SUBTOTAL | 17.0 | 2.2 | <17.0> | <2.6> |
| Financial Office | | | | |
| Accounting Branch | 11.0 | 1.4 | <12.0> | <1.9> |
| Budget Branch | 3.0 | 0.4 | <3.0> | <0.5> |
| Grants Unit | 3.0 | 0.4 | <3.0> | <0.4> |
| Business Economics Branch (position authority only) | 1.0 | 0.0 | <0.0> | <0.0> |
| SUBTOTAL | 18.0 | 2.2 | <18.0> | <2.8> |
| TOTAL * | 35.0 | \$4.5 | <35.0> | <\$5.3> |
| Net Total Dollars <\$0.8M> | | | | |

** TOTAL is higher than sum of subtotals due to rounding*

HSRA has grown from 41.5 positions in 2010-11 to 226 positions in 2018-19. Without additional state positions, HSRA runs the risk of not being equipped with the appropriate resources to effectively manage contracts.

Filling vacancies has been an ongoing issue and the vacancy rate for the last couple of years has been about 20 percent and key management positions have often been vacant. The Subcommittee may wish to ask what the current level of vacancies is, especially for management positions, and how HSRA intends to fill and retain qualified staff for the proposed positions.

Staff Recommendation: Hold Open.