Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Henry Stern
Senator Jim Nielsen

Thursday, April 12, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: James Hacker

Vote-Only Calendar

Items Proposed for Discussion

Public Comment

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VOTE-ONLY CALENDAR

2600 – California Transportation Commission

1. **Joint Public Meetings Required by AB 179 (Cervantes), Chapter 737, Statutes of 2017.** The budget requests $35,000 to pay for the cost of two joint meetings between the State Air Resources Board and the Commission that are required by AB.
2. **Accounting and Insurance Cost Adjustment.** The budget requests $38,000 to pay for increases for Contracted Fiscal Services with the Department of General Services ($32,000) and State Compensation Insurance Fund premiums ($6,000).

2660 – California Department of Transportation

1. **Continuation of Proposition 1B Administrative Support.** The budget requests 2018-19 funding for the continuation of 31 positions totaling $6,514,000 and 2019-20 funding for the continuation of 30 positions totaling $5,877,000. The 2018-19 request includes $500,000 in operating expenses for a consultant contract administered by the Division of Budgets. The total funding requested in both fiscal years includes $2,150,000 in operating expenses for a project and program audit contract administered by the Department of Finance. This request reduces the current 2017-18 Proposition 1B staffing level of 36 Positions by five positions in 2018-19, and by six positions in 2019-20.
2. **Facilities Cost Adjustment.** The budget requests a one-time augmentation of $2.1 million in Fiscal Year (FY) 2018-19, a one-time augmentation of $4.4 million in FY 2019-20, and a permanent ongoing augmentation of $6.7 million in FY 2020-21 in State Highway Account funds to address the increased charges from the Department of General Services (DGS) for the maintenance and operation of headquarters and district office buildings. The cost of DGS' maintenance and operation of Caltrans-owned office buildings is projected to increase from $35.2 million in FY 2017-18 to $41.9 million in FY 2020-21.
3. **California High Speed Rail Reimbursement Authority.** The budget requests the extension of 14 existing limited-term positions for two additional years, beginning July 1, 2019 through June 30, 2021, and $2,821,000 annually ($1,692,000 In personal service (PS), $129,000 In operating expense (OE), and an additional $1,000,000 for litigation costs) In State Highway Account Reimbursement authority for services rendered on behalf of the California High-Speed Rail Authority. These resources will provide ongoing legal services to the California High-Speed Rail Authority In real property acquisition and management for the Central Valley Madera to Shafter segment.
4. **Federal Highway Administration Audit Compliance.** The budget requests a permanent increase of seven positions and $835,000 ($771,000 in personal services and $64,000 in operating expenses) in State Highway Account funds to address workload increases resulting from the Federal Highway Administration's (FHWA) clarification of requirements with respect to the State's procurement, management and administration of Architectural and Engineering (A&E) contracts.
5. **Safety Inspections of Highway Tunnels.** The Governor’s budget requests a permanent increase of $852,000 and four positions and one-time funding of $30,000 for tunnel management software for federally mandated inspections. The costs for the 53 state-owned tunnels will be fully reimbursed by the FHWA and the inspection costs for the 31 local-agency tunnels will be 88.53 percent FHWA reimbursed and the remainder will be funded with local federal subvention funds.

6. **Strategic Highway Safety Plan.** The Governor's budget requests a $3 million increase ($2.7 million in Federal Funds and $300,000 in SHA matching funds) to develop the Strategic Highway Safety Plan required and mandated by the Fixing America's Surface Transportation Act. Of the total request, $1.5 million ($1.35 million in Federal Funding and $150,000 in state matching funds) is ongoing and $1.5 million ($1.35 million in Federal Funding and $150,000 in state matching funds) is one-time.

2670 – Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun

1. **Provisional Language for Pilot Trainee Selection Examination Costs.** The budget requests provisional language to allow the augmentation of the Board's budget authority by up to $400,000 to fund additional costs associated with administering a Pilot Trainee Training Program selection examination should the need arise.

2720 - Department of the California Highway Patrol (CHP)

1. **Radio Console Replacement Project II.** The budget requests four limited-term positions and multi-year funding from the Motor Vehicle Account (MVA) to complete the replacement of antiquated and incompatible dispatch consoles in all communications centers statewide. This proposal requests one-time augmentations of $3.9 million in 2018-19, $4.5 million in 2019-20, $4.9 million in 2020-21, and $509,000 in 2021-22.
2. **Vehicle Mounted Radar Units.** The budget requests a one-time augmentation of $600,000 per year for FY 2018-19 and 2019-20 from the Motor Vehicle Account to purchase vehicle-mounted radar units. This funding will be used to continue the replacement of radar on marked enforcement vehicles and begin the scheduled replacement of aging radar equipment to ensure maximum effectiveness of radar as a speed enforcement tool.
3. **Conversion of Contract Positions to Permanent Positions.** The budget requests three permanent positions to convert three professional service contract positions currently tasked with supporting the expanded Computer Aided Dispatch (CAD) system to full-time state employees, and $133,000 decrease in reimbursement authority. This proposal will result in annual cost savings of approximately $133,000 and will provide continued user and system support to the CAD system.
4. **Vehicle Insurance Premium Augmentation (April Finance Letter).** The Administration requests $7.5 million in 2018-19 and 2019-20 to fund the increase in the vehicle insurance premium assessment paid to the Department of General Services, Office of Risk and Insurance Management. For 2018-19, DGS has communicated that the vehicle insurance premium assessment for CHP is $20.9 million based on expected large settlement claims. It is expected that these claims will also affect premium rates for 2019-20 as the yearly assessments are calculated based on five-year average of claims paid. The need for a permanent increase in baseline funding for vehicle insurance premium will be reassessed in 2020-21.

2740 – Department of Motor Vehicles

1. **Five Year Infrastructure Plan – Arleta, Lincoln Park, and Mission Hills Investigations Consolidation.** The Governor's budget requests $50,000 one-time from the MVA for Department of General Services planning fees; $457,000 MVA in 2019-20; and $692,000 MVA ongoing starting in 2020-21 to relocate the Mission Hills Investigations Office and consolidate it with the Lincoln Park and Arleta Investigation offices in a new leased facility.
2. **SB 611 – Disabled Placards (April Finance Letter).** The Administration requests in an April Finance Letter three permanent positions and $568,000 from the Motor Vehicle Account in

2018-19 and $238,000 from the MVA in 2019-20 to implement SB 611 (Hill), Chapter 485, Statutes of 2017.

Staff Recommendation:
Approve as budgeted.

2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION

The California Department of Transportation (Caltrans) designs and oversees the construction of state highways, operates and maintains the highway system, funds three intercity passenger rail routes, and provides funding for local transportation projects. Through its efforts, Caltrans supports a safe, sustainable, integrated, and efficient transportation system to enhance California's economy and livability.

Budget Overview: The budget proposes $13.6 billion to support 19,500 positions at Caltrans. This is an increase of nearly $2.3 billion, mostly due to the allocation of funds provided by the Governor's Transportation Package. The budget includes $2.8 billion in SB 1 funding for a variety of transportation programs at Caltrans. This includes $1.2 billion for highway maintenance and repairs, $400 million for the repair of state-owned bridges and culverts, $330 million for local transit projects, $250 million for congestion relief on commuter corridors, $200 million in matching funds for the Local Partnership Program, $100 million for active transportation projects, $25 million for freeway service patrols, and $25 million for local planning grants, as well as associated support costs.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
1830019	Aeronautics	23.1	24.0	24.0	$7,710	$7,226	$7,299
1835010	Capital Outlay Support	7,188.5	8,029.6	8,029.6	1,665,594	1,853,814	1,859,641
1835019	Capital Outlay Projects	-	-	-	3,370,041	3,263,445	4,600,380
1835020	Local Assistance	246.4	269.5	268.5	1,714,935	2,727,700	3,392,979
1835029	Program Development	188.4	224.2	223.2	61,421	79,498	81,938
1835038	Legal	251.3	276.6	276.6	122,312	130,381	141,100
1835047	Operations	1,065.0	1,091.2	1,091.2	251,601	257,554	271,106
1835056	Maintenance	6,890.3	6,117.5	6,521.5	1,445,856	1,993,189	2,188,089
1840019	State and Federal Mass Transit	59.7	62.7	62.7	151,388	277,624	200,862
1840028	Intercity Rail Passenger Program	44.1	43.7	43.7	212,207	451,457	578,292
1845013	Statewide Planning	650.5	703.9	702.9	131,848	153,220	160,859
1845022	Regional Planning	41.5	38.5	38.5	16,586	126,915	127,037
1850010	Equipment Service Program	698.6	634.6	634.6	206,270	205,441	207,276
1850019	Equipment Service Program - Distributed	-	-	-	-206,270	-205,441	-207,276
1870	Office of Inspector General	-	58.0	64.0	-	9,761	11,375
9900100	Administration	1,519.5	1,535.5	1,536.5	374,646	392,277	423,228
9900200	Administration - Distributed	-	-	-	-374,646	-392,277	-423,228
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**18,866.9**	**19,109.5**	**19,517.5**	**$9,151,499**	**$11,331,784**	**$13,620,957**

Issue 1: Road Repair and Accountability Act Implementation

Governor's Proposal: The budget requests $1.82 billion from the Road Repair and Maintenance Account funding ($863 million in capital outlay, $633 million in state operations, and $324 million in local assistance) for transportation projects under SB 1 (Beall), Chapter 5, Statutes of 2017, also known as the Road Repair and Accountability Act of 2017, as well as 400 new Maintenance positions.

Background: Through a mix of new fees and taxes, SB 1 is expected to generate approximately $53.8 billion in revenue over the next 10 years. The revenue will be allocated evenly between state and local transportation projects and programs, and provides resources for several new programs as well.

The Department of Finance expects $53.8 billion in SB 1 revenue over the next ten years which will provide $15 billion for highway repair and maintenance, $4 billion for bridge repair, $3.3 billion in the state's trade corridors, and $2.5 billion for the state's most congested commute corridors. Local roads will receive more than $15 billion for maintenance and repairs and $2 billion in matching funds for local partnership projects. Transit and intercity rail will receive $7.6 billion in additional funding, and local governments will have access to $1 billion for active transportation projects.

The 2018-19 budget proposes $994 million for the State Highway Operations and Protection Program (SHOPP) or highway rehabilitation projects in 2018-19. (Staffing adjustments for SHOPP architects and engineers will be proposed later in the budget process). For the maintenance program, the budget proposes $576 million in 2018-19. $53.6 million of this amount is for 400 new positions. 300 of the new positions will perform routine maintenance (such as filling potholes and crack sealing), while the remaining 100 positions are to oversee construction contracts for major maintenance. This funding is summarized below.

Program	Estimated 2017-18	Proposed 2018-19	Change	
			Amount	Percent
SHOPP[a]	$424	$994	$570	134%
Highway Maintenance Program	421	576	154	37
Transit/intercity rail capital	330	330	—	—
Trade corridors	153	306	153	100
Congested corridors	250	250	—	—
Local partnerships	200	200	—	—
Active transportation	100	100	—	—
Local planning grants	25	25	—	—
Freeway service patrols	25	25	—	—
Totals	**$1,929**	**$2,807**	**$878**	**46%**

[a] Includes $75 million each year from a General Fund loan repayment. Senate Bill 1 dedicates this funding specifically to SHOPP.
SHOPP = State Highway Operations and Protection Program.

LAO Comments: Under the Governor's proposal, the LAO estimates that Caltrans would still have near-term annual funding shortfalls of about $1.6 billion for maintenance and at least $600 million for SHOPP due to the significant backlog of projects. The LAO finds that the Legislature may want to allocate more funding toward major maintenance and less funding toward SHOPP, because major maintenance projects are critical for achieving long-term savings on the state highway system.

Additionally, the LAO notes that the Governor's proposal funds some routine maintenance activities on highway assets—such as guardrails, lighting, and signs—that are not specifically addressed in SB 1. Given SB 1 focused on pavement, bridges, culverts, and transportation management systems, the Legislature could consider if this is consistent with its immediate priorities for repairing California's highways.

Staff Comments: Neither Caltrans' SHOPP nor highway maintenance programs have been fully funded for many years and the unmet needs in both programs is large. According to Caltrans of the 50,000 lanes of pavement in the state, approximately 26,000 are appropriate for highway maintenance projects and 23,000 are appropriate for SHOPP projects. In some ways it makes sense to address the larger road rehabilitation and improvement or SHOPP projects first because these are most likely to cause serious issues on the roadways. Once a SHOPP project is complete, highway maintenance will be used to preserve the asset. Caltrans expects that as the backlog of SHOPP projects is addressed the need for highway maintenance will increase.

Questions:

- How did Caltrans determine the split between SHOPP and maintenance funding?
- How will this funding split change over the coming years?

Staff Recommendation: Hold Open.

Issue 2: Personal Services Adjustment

Governor's Proposal: The Governor's budget requests a permanent increase of $58 million from the State Highway Account to correctly align resources to fund all currently authorized positons.

Background: The Governor's budget annually includes adjustments for department's budgets to account for changes in compensation costs from collective bargaining agreements and employer retirement rates. These adjustments are based on the number of *permanent* positions authorized for each department. The budget does not provide such compensation adjustments for *temporary* positions. In 2017−18, Caltrans has about 500 temporary positions. According to Caltrans, this has resulted in it having insufficient funding for all its permanently authorized positions. In addition, the conversion to FI$CAL (the state's accounting system) also created funding shortfalls for its positions.

The proposed augmentation would fully fund about 340 positions that Caltrans otherwise would have to hold vacant. Caltrans plans to allocate the augmentation across its programs based on their historical compensation expenditures and position history. Most of the increase would go to the Highway Maintenance Program ($20.5 million) and administration ($16.1 million).

LAO Comments: The LAO finds the proposal does not document the effects of using temporary positions over time to justify its need for additional funding.

Staff Comments: In the past, Caltrans was able to cover shortfalls in funding for positions because workload was declining and it was able to hold numerous positions vacant. However, with SB 1 funding, workload is increasing and Caltrans needs to fill the vacancies that resulted in salary savings which were used to cover funding shortfalls. The department has indicated that this augmentation will allow Caltrans to fully fund authorized positions to meet the needs of maintenance and project delivery workloads and supporting administrative activities.

Questions:

- What was the genesis of this issue? When did the disconnect begin?
- Does this proposal represent a permanent solution to the misalignment?

Staff Recommendation:
Hold Open.

Issue 3: Road Usage Charge Pilot Program Continuation

Governor's Proposal: The budget requests proposes $3.2 million ($1.4 million State Highway Account and $1.8 million federal funds) for a two year extension of five positions and $2.5 million for a demonstration project of a pay-at-the-pump charging station alternative.

Background: SB 1077 (DeSaulnier), Chapter 835, Statutes of 2014, was enacted to study the feasibility of a "road usage charge"—an amount charged to individuals for each mile they drive—as an alternative to raising revenue for roads through fuel taxes. SB 1077 required a pilot program be conducted to analyze various methods for collecting road usage data and a report by June 2018 on the feasibility of implementing a road charge on a statewide basis.

The pilot program enrolled 5,000 vehicles from volunteer participants to test several options for collecting revenues, including: (1) prepurchased time and mileage permits, (2) manual odometer readings, (3) vehicle plug‑ in devices, (4) smart phone applications, and (5) a specific built‑ in technology found in newer vehicles. The pilot program concluded in March 2017 and found that a road usage charge is viable, but identified obstacles that would need to be addressed for each of the methods tested. For example, the two permit options could be difficult to enforce and costly to administer, while the vehicle plug‑ in devices tested could be obsolete by the time a road usage charge is implemented.

The initial pilot program did not test collecting road usage charges when drivers pay for fuel purchases at the pump. This is because Caltrans determined that cost−effective technology did not exist to transmit mileage data from vehicles to fuel pumps to include in the price of fuel purchases. However, the 2017 Budget Act provided funding to initiate planning for a new pay−at−the−pump pilot program and required the department to report on its progress in studying a pay−at−the−pump pilot program by July 1, 2018. In early January 2018, Caltrans issued a request for information to gauge market conditions for implementing a pay−at−the−pump pilot program, and received numerous responses which it is currently reviewing. This proposal would allow Caltrans to implement the new pilot program.

LAO Comments: The LAO recommends the Legislature ask Caltrans to provide information summarizing the results of its request for information at spring budget hearings. Once the Legislature has this information, it would be better positioned to evaluate whether to fund the new pilot program.

Staff Comments: The Administration released an Executive Order to increase zero emission vehicles to five million by 2030 and funding is currently being proposed to support this effort. Achieving these goals would result in less gasoline and diesel fuel purchases, which will result in a reduction in the tax revenues that are currently used to maintain the state's roadways. This proposal would continue the RUC pilot to explore the feasibility of alternative revenue generation options.

Questions:
- How will this pilot differ from other pilots performed in California and Oregon?
- How will Caltrans evaluate the outcomes of the pilot?

Staff Recommendation: Hold Open.

Issue 4: Information Technology Infrastructure Replacement

Governor's Proposal: The Governor's budget requests a one-time increase of $2 million in State Highway Account (SHA) funds to develop an Information Technology Applications Roadmap. Additionally, the Governor proposes budget bill language authorizing up to $12 million (one-time SHA) to continue replacement of outdated IT infrastructure, contingent upon approval of the Roadmap by the California State Transportation Agency (CalSTA), the California Department of Technology (CDT), and the Department of Finance (DOF).

Background: As of June 2016, Caltrans had 10,938 IT infrastructure devices worth approximately $60 million. The 2017 Budget Act provided Caltrans $12 million on a one-time basis to replace its most outdated IT infrastructure that was at greatest risk of failure. Caltrans is on track to complete the replacement of 1,081 devices by June 30, 2018.

In the spring of 2017, Caltrans released an "IT Infrastructure Roadmap." This roadmap outlines short- and long-term goals for Caltrans' IT program (such as creating operational efficiencies). It also sets forth 46 specific initiatives to help the department meet its goals (such as by reducing printing costs).

LAO Comments: The LAO recommends the Legislature approve the proposed $2 million to develop the roadmap. However, the LAO finds the proposed budget bill language puts the Legislature in the position of approving funds to start implementing the Roadmap without providing the Legislature an opportunity to first review it. Therefore, the LAO recommends the Legislature reject the proposed budget bill language and adopt language that requires Caltrans to submit a copy of the roadmap to the Legislature, and then Caltrans could submit a 2019-20 budget request after the Legislature has had an opportunity to review the roadmap.

Staff Comments: Caltrans has previously developed an IT Roadmap identifying critical devices that need replacement. This year it is developing a Roadmap for its IT Applications. The two road maps inform each other. Caltrans has been working closely with CDT and expects to complete the IT Application Roadmap during 2018-19. At that time, the department would like to begin replacing outdated infrastructure and not have to wait another budget cycle to do so. Caltrans would not make any purchases until the Roadmap is approved by CalSTA, CDT, and DOF.

Questions:

- Why is the proposed budget bill language a better approach than simply completing the roadmap this year and returning for additional funding as part of the next budget year?

Staff Recommendation: Hold Open.

Issue 5: Privacy and Enterprise Security Enhancements

Governor's Proposal: The budget requests four positions and a one-time increase of $10.4 million in State Highway Account (SHA) funds ($699,000 for consulting services and $9.2 million for software and hardware purchases) in 2018-19 and an ongoing increase of $2.1 million SHA (for the 4.0 positions, $60,000 for consulting services, and $1.6 million for software and hardware purchases) to improve the Information Technology Cybersecurity Program, address Payment Card Industry compliance gaps and to develop an Enterprise Privacy Office.

Background: In the 2017 Budget Act, Caltrans received funding for six permanent positions and $4.0 million for Cybersecurity Roadmap Wave 1 activities. The Wave 1 activities were intended to establish the foundation of a Cybersecurity program and assess what was needed to develop a privacy program, and address Payment Card Industry and cybersecurity gaps. As this work has progressed, Caltrans has identified specific Payment Card Industry gaps that need to be addressed for Caltrans to effectively handle credit card transactions with vendors, as well as further improvements to both the privacy and cybersecurity functions.

In fall 2017, Caltrans released a "Cybersecurity Roadmap" that identifies activities to elevate the strength of its cybersecurity from "weak" to "optimized." This roadmap calls for three separate waves of activities, with the first wave of activities being implemented with the funding provided in the current year.

LAO Comments: The LAO recommends the Legislature approve Caltrans' request for funding for IT security and privacy, given the department already has completed its cybersecurity roadmap that outlines how it intends to improve its cybersecurity through specific courses of action.

Staff Comments: The department has indicated that this request is part of ongoing efforts to reform, improve, and enhance many aspects of the Department's Information Technology program. In the Cybersecurity Program area, the focus is on establishing new functions and addressing cybersecurity risks, threats, and compliance gaps. In addition, the Security Services Division is continuing to build on previous years' efforts in meeting minimum target levels in fundamental Cybersecurity domains, as stated by the State Information Security Office. Lastly, the law imposes requirements on Caltrans regarding the preservation, production and review of electronically-stored information, particularly in the litigation, or "e-Discovery" context. Currently, Caltrans relies on various manual methods and repurposed software tools and because of this, there are inefficiencies that can hinder the effective prosecution of litigation, increases the risk of claims of spoliation, and exposes the Department to potential sanctions. This request includes the implementation of modern Electronic-Discovery tools to help mitigate these concerns.

Questions:

- Will Caltrans have additional cybersecurity requests in coming years?
- To what extent can Caltrans leverage the expertise of CDT in assessing and improving cybersecurity within existing resource levels?

Staff Recommendation:
Hold Open.

Issue 6: Liability Issues: Tort Fund Augmentation and Vehicle Insurance Increase

Governor's Proposal: The budget requests a permanent increase of $7.0 million SHA funds for Caltrans' tort litigation costs and settlement awards. Additionally, the Administration requests budget bill language allowing the Department of Finance the ability to increase funding by up to an additional $20 million following notification to the Legislature.

The budget also requests a two-year increase of $4.9 million in SHA funds for fleet insurance costs.

Background: Caltrans must pay for its tort costs and vehicle insurance premium—meaning these operational costs are not discretionary. Caltrans can be held financially liable for personal and property damages where the cause is due to the design or condition of the state highway system. The department's base budget to pay for these damages—known as torts—is $68.6 million. Tort costs have increased sharply in recent years, growing from $45 million in 2014-15 to $93.6 million in 2016-17, mainly due to some exceptionally high judgments against the state. To cover the cost increases above its base funding level, the department has redirected funding from other program areas in recent years. For instance, Caltrans covered the cost increase for 2016-17 by redirecting funding from the Highway Maintenance Program as well as other programs.

To insure itself against damages to other individuals and their property caused by Caltrans drivers, the department participates in the State Motor Vehicle Liability Self-Insurance Program, which is administered by the Department of General Services (DGS). Caltrans pays DGS a premium each year in order to be insured under the program. This premium is primarily based on the average annual cost of the previous five years of Caltrans' collision claims. Caltrans' premium more than tripled from 2014-15 to 2017-18, growing from $4.2 million to $14.6 million, due to a handful of exceptionally costly claims. The department's ongoing base budget to pay for claims is $4.2 million, though it received a one-time augmentation of $5.1 million in 2017-18. The department indicates it has been paying for the cost increases in recent years by redirecting funding from other activities, such as replacing vehicles.

For the last three fiscal years, Caltrans has lacked adequate funding to cover the cost of its annual insurance premium. In the 2018 Budget Act, Caltrans received a one-time augmentation of $5.5 million SHA to partially cover the cost of the deficiency. In past years, the deficiency was paid for by Caltrans redirecting funding from other activities.

LAO Comments: The LAO has indicated that these proposals raise two issues for consideration:

Options to Reduce Costs. The recent cost increases for Caltrans' tort payments and vehicle insurance premium both appear to be due to a few exceptionally large legal settlements and judgments. For example, in early 2017, Caltrans incurred two tort judgments totaling $86 million, whereas the largest judgment two years earlier was $9.5 million. The LAO also found that three multimillion dollar vehicle insurance claims accounted for virtually all of the recent increase in Caltrans' vehicle insurance premiums. The Legislature could consider establishing a state liability limit as one way to reduce costs, as many other states have done. Additionally, Caltrans could explore ways to reduce vehicle collisions and improve highway conditions to reduce its legal exposure.

Funding Redirections. Each of the Governor's two proposals address cost increases that began several years ago. Because the costs are not discretionary, the department has been paying for them by redirecting funding from other activities. For instance, Caltrans has been paying for its increased vehicle insurance premium by redirecting funding originally budgeted for replacing vehicles (such as snow plows and pick-up trucks). Thus, if the Legislature were to approve the Governor's proposals, the additional funding would allow the department to send the redirected funds back to their original purpose—for example, from paying for the vehicle insurance premium back to paying for vehicle replacements.

Staff Comments: Given the large and variable nature of tort payments, and the lack of control Caltrans has over insurance premiums, staff finds these requests generally reasonable. However, Legislature may want to consider the issues raised by the LAO, particularly the lack of a state liability limit.

Questions:

- What actions is Caltrans taking to limit vehicle premium increases in the future?
- How have the identified funding redirections impacted other Caltrans programs?

Staff Recommendation:
Approve as Budgeted.

Issue 7: Road Repair and Accountability Act –Inspector General

Background: SB 1 (Beall), Chapter 5, Statutes of 2017, created the Independent Office of Audits and Investigations, including an Inspector General, appointed by the Governor, who will serve as the director of the Audits and Investigations Office. The individual will serve a six-year term, and must be confirmed by the Senate. The Inspector General may not be removed from office during that term, except for good cause. The Inspector General is vested with the full authority to exercise all responsibility for maintaining a full scope, independent, and objective audit and investigation program. The Inspector General shall report all audit and confidential investigation findings and recommendations made under his or her jurisdiction to the Secretary of Transportation and Caltrans director and chief deputy director on an ongoing and current basis. Additionally, SB 1 created an annual report by the Inspector General to the Governor, the Legislature, and the California Transportation Commission with a summary of investigation and audit findings, recommendations, and implementation status of previous recommendations.

The Inspector General was sworn in and began work in the Independent Office of Audits and Investigations on January 2. The process of filling positions authorized through the 2017-18 budget is underway, and the department has indicated that they plan to have the positions filled by April.

The Office is working on a risk assessment to identify areas of focus for the 2018-19 audit plan. Additionally, the OIG plans to convene a meeting in April with representatives of the Legislature, the California State Transportation Agency, California Transportation Commission, Federal Highway Administration, and others to provide feedback on the risk assessment and to assist in identifying emerging and significant risks to Caltrans' success in implementing SB1.

SB1 requires a report to the Legislature, Governor, and California Transportation Commission at least annually. The Inspector General will issue an annual report in mid-November of each year that will cover activity from the prior fiscal year.

Questions:

- What is the current staffing level in the office? Is the office currently fully staffed?
- How does the office plan on identifying and executing audits?
- What is the work plan to develop the annual report to the legislature? What will that report include?
- Has the office identified any risks or issues with SB1 implementation to date?

Staff Recommendation:
Informational item, no action required.

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 $1.1 billion for the High-Speed Rail project in 2017-18. This is an increase of roughly $800 million from 2016-17, mostly due to increases in expenditures for blended system projects.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
1970	High-Speed Rail Authority Administration	199.1	229.0	229.0	$34,429	$41,116	$41,142
1975	Program Management and Oversight Contracts	-	-	-	-	1	1
1980	Public Information and Communications Contracts	-	-	-	423	500	500
1985	Fiscal and Other External Contracts	-	-	-	54	3,750	3,750
1990	Blended System Projects	-	-	-	-	73,739	190,374
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**199.1**	**229.0**	**229.0**	**$34,906**	**$119,106**	**$235,767**

FUNDING	2016-17*	2017-18*	2018-19*
3228 Greenhouse Gas Reduction Fund	$-	$103	$103
6043 High - Speed Passenger Train Bond Fund	34,906	118,253	234,914
9331 High-Speed Rail Property Fund	-	750	750
TOTALS, EXPENDITURES, ALL FUNDS	**$34,906**	**$119,106**	**$235,767**

SUMMARY OF PROJECTS

	State Building Program Expenditures	2016-17*	2017-18*	2018-19*
1995	**CAPITAL OUTLAY**			
	Projects			
0000131	CA High Speed Train System Planning	292,160	77,105	-
	Performance Criteria	292,160	77,105	-
0000132	Initial Operating Segment, Section 1	33,060	87,573	147,569
	Acquisition	135,663	46,313	-
	Design Build	-102,603	41,260	147,569
0000727	Phase 1 Blended System	372,821	-	749,379
	Design Build	372,821	-	749,379
TOTALS, EXPENDITURES, ALL PROJECTS		**$698,041**	**$164,678**	**$896,948**

FUNDING	2016-17*	2017-18*	2018-19*
0890 Federal Trust Fund	$99,889	$77,105	$-
3228 Greenhouse Gas Reduction Fund	405,529	18,397	749,379
6043 High - Speed Passenger Train Bond Fund	192,623	69,176	147,569
TOTALS, EXPENDITURES, ALL FUNDS	**$698,041**	**$164,678**	**$896,948**

Issues Proposed for Discussion

Issue 1: Initial Operating Segment, Phase 1 / Blended System Early Improvements Reappropriation

Governor's Proposal: The Governor's budget requests a reappropriation of $1.6 billion through June 30, 2022 and extends the liquidation period through June 30, 2024. The request is comprised of:

- $528.4 million [$380.8 million fiscal year 2010 federal funds and $147.6 million High-Speed Passenger Train Bond Fund (Proposition 1A)] for the Initial Construction Segment (ICS) of the high-speed train, and,
- $1.0 billion Proposition 1A for the early improvements within the Bay Area and greater Los Angeles regions, also known as the "bookends".

Background: The Budget Act of 2012 appropriated $5.8 billion ($2.6 billion Proposition 1A and $3.2 billion federal funds) for the acquisition of land and construction of the ICS, as well as $1.1 billion Proposition 1A for Bookend projects. This authority expires on June 30, 2018. Due to the complicated nature of these projects additional time is needed encumber and liquidate these funds.

The Authority fully expended approximately $2.5 billion federal funds through 2016-17 and is required to spend approximately $2.5 billion in matching state funds prior to any liquidation of $929 million in federal fiscal year 2010 funds per the terms of the Authority's agreement with the Federal Railroad Administration. The Authority is funding current progress of the ICS with Prop 1A funds; however at its current rate of expenditure, the Authority will not meet the full state match obligation by June 30, 2018.

To date, two Bookend projects have been approved for Proposition 1A funding: the San Francisco Bay Area Caltrain funding plan was approved for $600 million, and the Southern California Rosecrans-Marquardt rail grade separation project was approved for $77 million. A total of $423 million remains available for additional Southern California Bookend Projects. Without a reappropriation, it is currently estimated that over $1.0 billion of bookend funding will remain unencumbered as of June 30, 2018.

Staff Comments: The bookend projects are critical to making improvements in some of the state's most congested areas. These projects will deliver multiple benefits by reducing greenhouse gas emissions and congestion, and increasing safety. However, given the ongoing conversations about the 2018 Business Plan and the future direction of the project, it is premature to reappropriate these funds at this time.

Staff Recommendation: Hold Open.

2720 Department of the California Highway Patrol

The California Highway Patrol (CHP) promotes the safe, convenient, and efficient transportation of people and goods across the state highway system and provides the highest level of safety and security to the facilities and employees of the State of California.

Budget Overview: The budget requests $2.4 billion and 10,856 positions for 2017-18. This is an increase of $4 million and seven positions, mostly related to requests for funding related to technology replacements and cybersecurity.

The CHP, along with the Department of Motor Vehicles (DMV), is primarily funded by the Motor Vehicle Account (MVA), which is primarily funded by vehicle registration fees. The Legislature increased the vehicle registration fee as part of the 2016-17 budget to prevent the MVA from becoming insolvent. The 2018-19 budget includes several proposals designed to reduce the short-term pressures on the MVA by shifting certain capital outlay proposals from a "pay-as-you-go" approach to the use of lease revenue bonds. The Department of Finance's five-year projections (2018-19 through 2021−22) estimate there will be sufficient funding available in the MVA to pay for projected expenditures. However, over the next few years, the MVA would be barely balanced.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	**2017-18**	**2018-19**	**2016-17***	**2017-18***	**2018-19***
2050	Traffic Management	8,338.0	8,398.8	8,405.8	$2,022,854	$2,101,129	$2,104,533
2055	Regulation and Inspection	1,079.8	1,047.0	1,047.0	227,037	248,956	248,980
2060	Vehicle Ownership Security	232.3	222.4	222.4	49,927	54,658	54,700
9900100	Administration	1,149.9	1,181.0	1,181.0	159,322	208,101	208,207
9900200	Administration - Distributed	-	-	-	-159,322	-208,101	-208,207
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**10,800.0**	**10,849.2**	**10,856.2**	**$2,299,818**	**$2,404,743**	**$2,408,213**

FUNDING	**2016-17***	**2017-18***	**2018-19***
0042 State Highway Account, State Transportation Fund	$75,332	$77,732	$77,778
0044 Motor Vehicle Account, State Transportation Fund	2,085,845	2,177,225	2,183,927
0293 Motor Carriers Safety Improvement Fund	2,138	1,750	1,752
0840 California Motorcyclist Safety Fund	2,601	3,191	3,191
0890 Federal Trust Fund	13,308	21,117	20,953
0942 Special Deposit Fund	34	2,336	2,336
0974 California Peace Officer Memorial Foundation Fund	146	300	300
0995 Reimbursements	120,414	118,092	117,976
3288 Cannabis Control Fund	-	3,000	-
TOTALS, EXPENDITURES, ALL FUNDS	**$2,299,818**	**$2,404,743**	**$2,408,213**

Issue 1: Vehicle Fleet Replacement

Governor's Proposal: The Governor's budget proposes an ongoing augmentation of $4.5 million MVA for the replacement of its ground fleet, and provisional language to allow a two-year period for encumbrance or expenditure of up to $20 million for the purchase of replacement vehicles. The Administration also requests the deletion of the existing budget language for advance authority for the CHP to incur automotive equipment purchase obligations in an amount not to exceed $5.0 million during the current fiscal year, for delivery in the following fiscal year, payable from the MVA.

Background: The CHP maintains a fleet of 4,311 automotive assets. The fleet is composed of 2,869 distinctively marked enforcement vehicles, 571 unmarked enforcement vehicles, 15 command post vehicles specially equipped for deployment to large-scale emergencies, and 856 support vehicles that are used to maintain essential services, such as radio communication towers. Enforcement vehicles, both marked and unmarked, are specially equipped (up-fitting) with lights, siren, weapons and weapons retention systems, and communications equipment.

According to the Department of General Services' vehicle replacement standards, law enforcement vehicles are to be replaced when they reach 100,000 miles. The CHP estimates it must purchase 1,027 enforcement vehicles annually to meet the DGS recommended vehicle mileage threshold. Historically, through 2006-07, CHP purchased in excess of 1,000 fleet assets each fiscal year. However, during the fiscal crises of 2007-08, CHP deferred purchases of replacement vehicles resulting in an unprecedented number of vehicles operating with over 100,000 miles. Between 2008-09 and 2016-17, the CHP purchased an average of 610 enforcement vehicles annually resulting in an average annual shortfall of 417 enforcement vehicles.

Staff Comments: The department has indicated that the estimated cost of each enforcement vehicle is $25,599. The CHP can purchase and equip up to 1,105 new enforcement vehicles each year at a cost of $28.3 million. The existing budget for vehicle replacement is $23.8 million, and the requested permanent augmentation of $4.5 million will help cover the gap in funding.

Staff Recommendation:
Approve as Budgeted.

Issue 2: Capital Outlay Proposals

Governor's Proposal: The Governor's budget requests $7.2 million in MVA funding in 2018-19 for several capital outlay projects. Specifically, it requests:

- A reappropriation of $876,000 MVA funding for the working drawings phase of two sites of the CHPERS Phase 1 Replace Towers and Vaults project: Leviathan Peak and Sawtooth Ridge.
- A reappropriation of $6.0 million MVA funding ($4.1 million from 2011-12 and $1.9 million from 2017-18) for the construction phase of two sites of the CHPERS Phase II Replace Towers and Vaults project: Crestview Peak and Silver Peak.
- $281,000 MVA for the working drawings phase of the Keller Peak Tower Replacement project.

Background: Since the previous reappropriation in 2015-16, the United States Forest Service amended its forest management plan (Plan) to prohibit the use of overhead power at the Leviathan Peak site. As a result, power must be provided by a solar array. Upon learning of the amended Plan requirements in June 2017, the Department of General Services has worked on modification of the site layout and additional design to incorporate the solar array.

For Sawtooth Ridge, a new site was selected when negotiations failed at Sacramento Mountain which delayed the project by approximately two years. Currently, easement negotiations with the Bureau of Land Management (BLM) are progressing for the new site, but are not expected to be approved until April 2018. These easements are necessary to allow CHP to cross BLM property and access the Sawtooth Ridge site. Development of preliminary plans is stalled until the State can acquire the site.

It is unlikely that preliminary plans will be completed in the current year for either site, thereby necessitating the need to reappropriate the working drawings phase. Consistent with the approach in 2015-16, CHP seeks to extend the availability of these funds through June 30, 2021 due to the complicated nature of these projects. Construction is anticipated to be completed in July 2022.

The Crestview Peak and Silver Peak sites were previously delayed because they are on United States Forest Service (USFS) land, and the USFS must complete the National Environmental Protection Act (NEPA) review process prior to the state entering into the long-term lease agreement with the USFS that is needed to preserve state access to the site. While NEPA was completed in 2015, the USFS recently mandated redesigns to mitigate the impacts of the tower and vault replacements at Crestview Peak and Silver Peak. For Crestview, the USFS is requiring the addition of retaining walls for erosion control and for preserving a large rock outcropping at the site. For Silver Peak, the USFS is requiring extended retaining walls in order to preserve the ridgeline and peak. These requirements have extended the working drawings phase. It is anticipated that a construction contract will be awarded in the fall of 2018.

A fully-operational 100-foot communication tower at Keller Peak provides radio coverage in western San Bernardino and Riverside counties for the CHP, as well as three other emergency services agencies. In January 2016, the 28 year-old CHP radio communications tower collapsed due to metal deterioration and weight from inclement weather. The tower was not salvageable. Currently, wooden poles are being installed on a temporary basis and will need replacement. The estimated total cost of a new tower is $2.3 million and it is anticipated the project would be completed in the fall of 2020. This request funds the preliminary plans phase. Last year's budget provided $223,000 MVA for the preliminary plans and construction costs are expected to be $1.8 million in 2019-20.

Staff Comments: These three projects have all been identified as high-priority for CHP, and have been previously approved. The project delays that have necessitated the reappropriations for the CHPERS projects, while concerning, are understandable. As such, staff finds these proposals generally reasonable. However, given the precarious fund balance in the MVA and the major financing decisions to be made elsewhere in the fund, these proposals should be considered as part of an overall conversation regarding the MVA fund balance.

Staff Recommendation:
Hold Open.

Issue 3: Capital Outlay Proposals – Lease Revenue Bonds

Governor's Proposal: The budget proposes to shift five area office replacement projects at CHP from a direct "pay-as-you-go" approach to financing using lease revenue bonds. This would result in the reversion to the MVA of $138.7 million in previously authorized funds. The Governor's budget requests $174.2 million in lease revenue bond authority from the Public Buildings Construction Fund.

The Governor's budget also requests a reversion of the unexpended authority appropriated for the Santa Barbara Area Office Replacement Facility capital outlay project in 2014-15 and 2015-16, trailer bill language to authorize a lease-purchase agreement, or a lease with an option to purchase as options for the build-to-suit lease.

April Finance Letter Updates. An April Finance Letter proposes changes to CHP's January capital outlay requests. First, it increases by a total of $30.3 million the lease revenue bonds authority requested in January due to project cost increases as follows:

- Quincy: Replacement Facility- $4.2 million
- El Centro: Area Office Replacement- $10.0 million
- Hayward: Area Office Replacement- $10.0 million
- San Bernardino: Area Office Replacement- $6.2 million

Second, the Administration requests to increase MVA expenditures by $3.7 million and decrease lease revenue bonds by $38.4 million to reflect the following actions:

- Santa Barbara: Area Office Replacement- Withdraw the trailer bill language proposed as part of the Governor's January budget proposal.
- Ventura: Area Office Replacement- Withdraw the Governor's budget request for $38.4 million in lease revenue bonds for the design-build phase of this project.
- Santa Fe Springs: Area Office Replacement- Add $1.9 million MVA for the performance criteria phase of this project.
- Baldwin Park: Area Office Replacement- Add $1.7 million MVA for the performance criteria phase of this project.

Background: The CHP operates 103 area offices across the state. In 2013-14, the Administration initiated a plan to replace a few of the most outdated and unsafe CHP field offices each year for the next several years. Accordingly, the Legislature has approved MVA funding in each of the past fiscal years for advanced planning and site selection, and for the replacement of offices. Nearly all of the office replacement projects over the last 10 years at CHP have been funded directly from the MVA.

As shown below, under the Governor's proposal, $138.7 million in previously authorized funds would revert to the MVA. Including the proposal to build a new office in Quincy financed by lease revenue bonds, the budget proposes $174.2 million in lease revenue bond authority. The proposal will relieve pressure on the MVA in the near-term, but assuming 25-year lease revenue bonds, CHP estimates that the total cost of the amount of funding financed--$174.2 million—will be $278.2 million.

Financing Projects Saves Money Now, But Costs More Over Time
(In Millions)

	Amount Proposed to Revert to MVA	Lease Revenue Bond Authority	Cost Including Debt Service
El Centro	$30.3	$30.4	$48.7
Hayward	$38.1	$38.1	$61.0
Ventura	$37.1	$38.4	$61.5
San Bernardino	$33.2	$34.2	$54.7
Quincy	*	$32.7	$52.3
Total**	**$138.7**	**$173.8**	**$278.2**
*Funding reverted in 2015-16 due to challenges with acquiring a site. ** An April Finance Letter that withdraws the Venture project and increases the lease revenue bond authority by $30.3 million for other capital outlay projects is not reflected in this table.			

LAO Comments: The LAO has indicated that the Governor's proposal to shift from a pay-as-you-go approach to lease revenue bond financing for the design-build phase of the five previously approved office replacement projects would reduce MVA expenditures in 2018-19 for these projects by roughly $174 million and help ensure that the MVA maintains a reasonable level of reserve over the next several years. Under the Governor's plan, the MVA would maintain a reserve for economic uncertainties of approximately 11 percent of projected expenditures in 2018-19 and about 8 percent in the following four years—equivalent to slightly more than one month of MVA expenditures. While adopting the Governor's lease revenue bond approach would lock in some future MVA costs, funding the projects using a pay-as-you-go approach would significantly reduce the above reserve levels.

Staff Comments: If the proposed CHP projects were cash-funded, instead of financed as proposed by the Administration, the MVA reserves could be under $150 million for several years. The proposed change reduces the immediate fiscal pressure on the MVA, but over the long term, because of the costs associated with borrowing, making this shift will consume more of the available MVA funding over time.

The CHP notes that not making this change would drop the MVA reserve below a prudent level and could result in some projects being delayed due to a lack of cash funding. However, it is likely that some projects will be delayed on the natural. For example, the Administration withdrew the Ventura project in early April due to the inability to find a suitable site. Also, not funding the Department of Fish and Wildlife from the MVA as the Administration proposed would reduce fiscal pressure on the MVA. The Subcommittee may wish to have the CHP provide an update on the progress of each of these projects at the time of the May Revision to identify potential delays and cost savings to the MVA in 2018-19.

Questions:

- Has the state utilized lease-revenue bonds for similar projects in the past?
- What is the rationale for shifting from pay-as-you-go to lease revenue bonds? Is this an approach CHP plans to replicate for future projects?

- What does CHP expect to pay in annual debt service for these bonds?

Staff Recommendation:
Hold Open.

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers and protects consumers by issuing vehicle titles and regulating vehicle sales.

Budget Overview: The budget requests $1.16 billion and 8,308 positions for 2017-18. This is an increase of roughly $36.5 million and 37 positions.

The DMV, along with the Department of the California Highway Patrol (CHP), is primarily funded by the Motor Vehicle Account (MVA), which is primarily funded by vehicle registration fees. The Legislature increased the vehicle registration fee as part of the 2016-17 budget to prevent the MVA from becoming insolvent. The Department of Finance's five-year projections (2018-19 through 2021−22) estimate there will be sufficient funding available in the MVA to pay for projected expenditures. However, over the next few years, the MVA would be narrowly balanced.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
2130	Vehicle/Vessel Identification and Compliance	3,579.6	3,880.4	3,903.9	$566,602	$590,535	$612,287
2135	Driver Licensing and Personal Identification	2,612.5	2,171.0	2,183.0	303,159	335,484	350,477
2140	Driver Safety	1,088.9	1,182.7	1,184.7	128,258	133,025	133,422
2145	Occupational Licensing and Investigative Services	415.0	448.8	448.8	55,430	57,137	57,373
2150	New Motor Vehicle Board	9.8	13.0	13.0	1,468	1,704	1,707
9900100	Administration	531.1	574.3	574.3	93,174	109,112	111,612
9900200	Administration - Distributed	-	-	-	-93,174	-109,112	-111,612
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**8,236.9**	**8,270.2**	**8,307.7**	**$1,054,917**	**$1,117,885**	**$1,155,266**

FUNDING		**2016-17***	**2017-18***	**2018-19***
0001	General Fund	$3,888	$1,750	$3,188
0042	State Highway Account, State Transportation Fund	11,522	6,565	7,314
0044	Motor Vehicle Account, State Transportation Fund	1,008,004	1,065,017	1,096,257
0054	New Motor Vehicle Board Account	1,468	1,696	1,707
0064	Motor Vehicle License Fee Account, Transportation Tax Fund	13,723	16,421	18,876
0516	Harbors and Watercraft Revolving Fund	2,434	5,317	2,764
0890	Federal Trust Fund	28	2,810	2,780
0995	Reimbursements	13,850	14,549	14,549
3290	Road Maintenance and Rehabilitation Account, State Transportation Fund	-	3,760	7,831
TOTALS, EXPENDITURES, ALL FUNDS		**$1,054,917**	**$1,117,885**	**$1,155,266**

Issue 1: Front End Sustainability Project

Governor's Proposal: The budget requests $15 million MVA in 2018-19 to support the implementation of the Front End Applications Sustainability (FES) project. The annual amount requested over each of the next four years will fluctuate and total $89 million. The proposal includes funding for three permanent positions beginning in 2018-19 and funding for seven limited-term positions from 2018-19 through 2022-23. The budget also proposes $14.9 million annually beginning in 2023-24 for system maintenance and operation.

In addition, the Governor proposes trailer bill language to authorize DMV to charge an additional $1 fee per transaction to the private industry partners that work with the department to collect registration fees. The revenue from the fee would fund the business partner's portion of the project.

Background: Each year, the DMV issues about seven million drivers licenses and registers roughly 35 million vehicles, and collects $3.5 billion in associated fees. In addition, the department collects and distributes various fees (such as unpaid parking penalties) on behalf of local authorities and other state agencies. According to DMV, its current vehicle registration and fee collection system, referred to as the legacy system, is dependent on approximately 45-year old technology, which is inflexible and fragmented leading to significant challenges.

Following the termination of the project, DMV and CDT initiated efforts to complete the unfinished upgrades to DMV's legacy system. This project, the Front End Applications Sustainability (FES) project, is currently proceeding through the state's IT project approval process and its four stages—known as the Project Approval Lifecycle (PAL). DMV completed Stage 1 for the FES project in 2016 and Stage 2 at the end of 2017. The department is currently entering Stage 3 and expects to complete Stage 4 in January 2019. As part of the 2017-18 budget, the Legislature approved up to $3.4 million to support pre project activities related to Stage 3, including the preparation of a Request for Procurement.

LAO Comments: The LAO finds it is premature to approve funding for the remainder of the project prior to completion of the planning process, specifically Stage 4, which DMV currently expects to complete in January 2019. The LAO recommends the Legislature adopt supplemental reporting language requiring that DMV provide a status report on the FES project to the Legislature within 45 days following CDT's approval of Stage 4. At a minimum, this report should include (1) an updated project cost and completion date; (2) terms of the vendor contract (such as key vendor responsibilities, what options are available should the vendor fail to perform, and first year project milestones); and (3) how the department plans to prepare employees for use of the new system. This report would provide the Legislature with the necessary baseline information to hold DMV accountable as the project progresses.

Staff Comments: According to CDT moving forward with this request would not circumvent its review process. The intent of providing funding in 2018-19 is to ensure that the procurement for this project is not delayed assuming it clears Stage 4 mid-year.

The proposed trailer bill language allows DMV to charge a $1 transaction fee to recoup a portion (25 percent) of the estimated one-time project costs that benefit private industry business partners. DMV estimates the business partners' share of costs would be approximately $19.2 million, and with a $1 fee this would be recouped in about three years. Currently this language does not have a sunset. According to DMV, this flexibility permits DMV to collect the appropriate share of the project's cost from business partners should project cost change.

Questions:

- How confident is DMV about the overall project cost, and about the distribution of those costs over time? Why does DMV need approval of these costs now, instead of in coming fiscal years?
- What happens if overall project costs change?
- Why is DMV requesting ongoing funding for system maintenance and operation prior to the completion of the project? How confident is DMV about the ongoing cost estimates?
- Why did DMV not include a sunset date for the requested fee authority?

Staff Recommendation

Hold Open.

Issue 2: Capital Outlay Proposals (January Budget and April Finance Letter Proposals)

Governor's Proposal: The Governor's budget requests $4.8 million from the MVA for various field office capital outlay projects. The Governor's budget also requests $200,000 from the MVA Motor Vehicle Account to perform advanced planning and analysis for two reconfigurations/renovations proposed for the 2020-21 fiscal year.

An April Finance Letter requests $15.7 million from the MVA for two reappropriations of funding provided in previous years for field office replacements.

Background: DMV operates 249 facilities that include customer service field offices, telephone service centers, commercial licensing facilities, headquarters, and driver safety and investigations offices. Over half of DMV facilities are field offices. According to DMV, most of its field offices are programmatically deficient and/or do not meet seismic criteria. Beginning in 2015-16, the Administration initiated a plan to replace a couple of DMV field offices each year for the next several years.

The January budget and April Finance Letters request the following for DMV field office capital outlay projects, as well as funding to plan for two additional sites.

DMV Capital Outlay Proposals for Field Office Projects
(In Millions)

Field Office	2018-19 Request	Total Project Cost
Delano Reappropriation (working drawings)	$0.8	$12.6
Delano Reappropriation (acquisition phase)	$0.6	(see above)
San Diego (Normal Street) Reappropriation	$1.5	$22.3
Santa Maria Reappropriation	$0.9	17.0
Oxnard Reconfiguration	$0.4	$6.6
Reedley Replacement	$1.1	$20.6
Inglewood Reappropriation (construction phase)	$15.1	$17.2
Statewide Planning	$0.2	NA
Total Proposed Capital Costs	**$20.6**	**$96.3**

Staff Comments: Staff finds these requests generally reasonable. However, approving MVA funding for DMV's capital outlay projects should be considered as part of the overall approach to maintaining the solvency of the MVA.

Staff Recommendation:
Hold Open.

Issue 3: Perimeter Fencing

Governor's Proposal: The Governor's budget requests $6.1 million MVA, for the second year of funding for the design and construction of perimeter fences at state-owned DMV field office locations.

Background: 66 DMV field offices (of 170) report regular problems with afterhours trespassing, and 20 of those offices report serious and ongoing health and safety concerns resulting from these activities.

Nine fencing projects were funded in 2017-18 at $4.0 million MVA; however, because the estimates overlooked certain overhead costs the funding was only sufficient for seven fencing projects. As a result, the remaining two fencing projects need to be funded in 2018-19. Also, since the approval of the 2017-18 proposal, an additional office was determined to be in critical need of fencing and an office for which a replacement was proposed in the 2017-18 five year plan is now eligible and in need of perimeter fencing. In total, 13 projects are proposed in the 2018-19 request. Upon completion, the 2017-18 and 2018-19 appropriations are expected to fund fencing projects at 20 offices.

Staff Comments: Staff notes that this is the second year of a two-year proposal first raised as part of the 2017-18 budget. While unauthorized after-hours access to DMV offices is a serious and growing problem, the subcommittee stated that permanent, unwelcoming perimeter fencing is not an appropriate solution. As such, the subcommittee voted to fund overnight security guards and regular cleaning services at the impacted sites. While this proposal did not make it into the final budget, staff notes that the underlying issues have not changed.

Questions:

- Why are perimeter fences a more appropriate solution than security guards or regular cleaning contracts?
- Has DMV sought to cooperate with any local law enforcement of homelessness services agencies to address this issue?

Staff Recommendation:
Hold Open.

Issue 4: High-Occupancy Vehicles (AB 544) and Revised AB 544 Request (April Finance Letter)

Governor's Proposal: The Governor's budget requests $2.7 million from the Motor Vehicle Account (MVA) for 18.0 positions for one year and three permanent positions in 2018-19 and funding for postage and printing necessary to implement AB 544 (Bloom), Chapter 630, Statutes of 2017. The ongoing cost of the three permanent positions would be $675,000 annually.

An April Finance Letter reduces the January budget request by $1.2 million MVA and 18 temporary help positions and proposes trailer bill language that would reduce DMV's workload by not requiring a new decal be issued to applicants issued a decal between March 1, 2018 and January 1, 2019 as required by current statute. New decals would still be required for applicants between January 1, 2017 and March 1, 2018. The revised total request is $1.4 million MVA and three permanent positions ongoing.

Background: Existing federal law authorizes, until September 30, 2019, a state to allow low-emission and energy-efficient vehicles, as specified, to use lanes designated for high-occupancy vehicles (HOVs). Existing federal law also authorizes, until September 30, 2025, a state to allow alternative fuel vehicles and new qualified plug-in electric drive motor vehicles, as defined to use those HOV lanes.

Existing law requires the department to make available for issuance by application, two distinctive clean air vehicle decals to identify eligible zero-emission, low-emission, and alternative fuel vehicles. These decals allow these vehicles to operate in high-occupancy vehicle lanes without having the required number of passengers, and grant these vehicles a toll-free or reduced-rate passage in high-occupancy toll lanes.

AB 544 requires DMV upon expiration of the current Clean Air Decal (CAD) program to create a new program to grant super ultra-low emission vehicles and transitional zero-emission vehicles access to high-occupancy vehicle (HOV) lanes for an approximately four-year period, regardless of vehicle occupancy level. It also would prohibit the issuance of more than one clean air decal per vehicle. AB 544 provides for a repeal date of September 30, 2025.

Current statute requires DMV, on or after January 1, 2019, to issue a new distinctive decal for decals issued between January 1, 2017 and January 1, 2019 and this new decal will be valid until January 1, 2022. The requested trailer bill language authorizes decals issued by DMV between March 1, 2018 and January 1, 2019 to be valid until January 1, 2022.

Staff Comments: The department has indicated that the proposed bill language will reduce workload to the department by not requiring a decal to be reissued to applicants that are issued a decal between March 1, 2018 and January 1, 2019 as currently required in statute. The DMV will only have to reissue decals for the decals that were issued between January 1, 2017 and March 1, 2018. If the proposed bill language is not enacted, the department has indicated that they will be required to reissue a new distinctive decal to customers that were originally issued a decal between January 1, 2017 and January 1, 2019, significantly increasing short-term workload.

Staff Recommendation:
Approve as Budgeted.