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

Tuesday, May 15, 2018
Upon call of the Chair
State Capitol - Room 112

Consultants: James Hacker and Joanne Roy

Vote-Only Calendar

Items Proposed for Discussion

Public Comment

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VOTE-ONLY CALENDAR

2660 – California Department of Transportation

1. **Road Usage Charge (RUC) Pilot Program Continuation.** The Governor's budget requests $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. 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. This item was first heard in subcommittee on April 12, 2018.

2665 – California High-Speed Rail Authority

1. **Initial Operating Segment, Phase 1 / Blended System Early Improvements Reappropriation.** 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".

   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. This item was first heard in subcommittee on April 12, 2018.

2720 – California Highway Patrol

1. **Build-to-Suit Lease Authority.** The May Revision includes trailer bill language to authorize the California Highway Patrol to pursue a build-to-suit lease procurement process for the replacement of the Tracy area office. Authority for this project was first provided in 2008, but has since expired.

2740 – Department of Motor Vehicles

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

An April Finance Letter requested $15.7 million from the MVA for two reappropriations of funding provided in previous years for field office replacements. These requests were first heard in subcommittee on April 12, 2018.

The overall impact of these requests is detailed below.

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**

8660 – California Public Utilities Commission (PUC)

1. **California LifeLine Program.** The Governor's January budget requested $396,884,000 in Local Assistance and $31,314,000 in State Operations funding in 2018-19, all from the Universal Telephone Service Trust Administrative Committee Fund (0471), for the California LifeLine Program. The May Revision to the budget reduced this request by $39 million ($1.6 million in State Operations and $37.7 million in Local Assistance) to reflect lower projected new enrollment and renewal rates in the program. This item was first heard in Subcommittee on March 8, 2018.

2. **California LifeLine Monitoring and Compliance.** The budget requests a permanent increase of $619,000 from the Universal Telephone Service Trust Administrative Committee Fund (0471) for additional positions to keep pace with California LifeLine program growth and to address several administrative backlogs. Currently, despite the rapid growth in program participation by customers and service providers and expanded program activities, the total number of staff managing the program has remained fixed at seven personnel years since 2012-13. The PUC has indicated that increased workload, which includes more frequent caseload and budget predictions, has outstripped staff resources to prevent fraud in the program and protect and maintain the integrity of program funds. Additional resources will alleviate this problem. This item was first heard in subcommittee on March 8, 2018.

Staff Recommendation:
Approve as proposed.

Issues Proposed for Discussion

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: Capital Outlay Support Project Delivery Workload

Governor's Proposal: To address the current Capital Outlay Support (COS) Program workload, the California Department of Transportation (Caltrans) requests a net increase of $203.1 million and 872 Full-Time Equivalents (FTEs) for the COS Program from the Fiscal Year (FY) 2018-19 Governor's Proposed Budget. This includes an additional 393 additional state staff positions, 44 additional staff overtime positions, and 435 additional contract positions. This will result in a Capital Outlay Support program with a total of 10,319 full-time equivalents (FTEs), including authority for 1,380 contract positions. The funding includes $1.2 million for a Department of General Services (DGS) study on Caltrans space needs, and $2 million to fund additional contract arbitration workload in the department's Legal program.

This proposal also includes provisional language to provide flexibility between state staff and contracted resources when necessary.

The proposal is detailed below.

Capital Outlay Support Request

(Dollars in Millions)

			Change	
	2017–18	2018–19	Number	Percent
Full–Time Equivalents				
State staff	8,030	8,423	393	5%
Contract	945	1,380	435	46
Overtime	472	516	44	9
Totals	**9,447**	**10,319**	**872**	**9%**
Expenditures				
State staff	$1,259	$1,318	$59	5%
Contracts	244	356	112	46
Administration	200	200	—	—
Operating expenses	119	127	8	7
Overtime	38	62	24	65
Totals	**$1,860**	**$2,063**	**$203**	**11%**
Fund Sources				
Federal	$1,011	$1,108	$98	10%
SHA	603	677	74	12
Local reimbursements	189	157	–32	–17
RMRA	39	88	49	127
Other	19	32	14	73
Totals	**$1,860**	**$2,063**	**$203**	**11%**

SHA = State Highway Account and RMRA = Road Maintenance and Rehabilitation Account (created by SB 1).

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 state highway system. The COS Program budget supports over 3,200 active projects and over $48 billion in the multi-year Capital Outlay project pipeline.

The passage of SB1 (Beall), Chapter 5, Statutes of 2017, has led to a surge in funding for transportation projects. This has in turn resulted in a surge of COS workload at Caltrans. At the same time, the program is beginning to see increased retirements as the workforce has aged. Despite the increase in retirements, the department has indicated that the COS program is outpacing attrition with its hiring efforts. Through extensive recruitment and a focus on backfilling with highly qualified staff, the COS Program is projecting to have hired over 750 "New to Caltrans" employees by the end of FY 2017-18. This compares with historical hiring numbers averaging less than 300 ("New to Caltrans" hires) per year.

LAO Comments: The Legislative Analyst's Office has provided the following comments on this proposal:

> We discuss three issues for legislative consideration below regarding (1) total COS staff levels, (2) contracting out for COS work, and (3) the Governor's overtime and operational expenditures requests.
>
> ***Staffing Likely Better Aligned With Project Workload Compared to Several Years Ago, but Concerns Remain.*** Since our 2014 report identified a potential overstaffing of 3,500 COS FTEs, several factors have changed. First, Caltrans' budgeted level of FTEs has decreased by over 700. Second, the amount of construction activity did not decline nearly as much starting in 2014-15 as Caltrans projected at the time. Third, SB 1 created additional funding for construction. Thus, the estimate of potential overstaffing we cited four years ago is no longer current. Nevertheless, we continue to have concerns that the COS program is overstaffed, given that both our office and the California Transportation Commission (CTC) have concluded that the department's COS budget development methodology is unreliable and contains incentives to request more staff than needed. As a result, it is difficult to determine whether the department's request for an additional 872 COS FTEs to fulfill SB 1 workload is justified, or whether Caltrans could accommodate some or all of the new workload within existing resources. Modifying the Governor's proposal to more heavily utilize contract FTEs in the budget year could help address this dilemma, as discussed below.
>
> ***Greater Use of Contracting Out Merits Consideration in the Near Term***. The Governor's proposal to provide Caltrans with additional flexibility to contract out in the budget year is intended to ensure that SB 1 project delivery is not hindered by slower-than-expected hiring (which appears likely given the pace of hiring that occurred in 2017-18). The Legislature could consider placing an even greater emphasis on contracting out in the budget year than proposed by the Governor, given the concerns cited above regarding the accuracy of Caltrans' COS staffing estimates (thereby avoiding adding permanent state staff who might not be necessary). We note that Caltrans' COS budget request assumes that one contract FTE costs $258,000, compared to $156,000 for a state staff FTE. However, the cost for a state staff FTE does not

include indirect costs for administration, non-project training and supervision, and other activities. When Caltrans charges local governments for work done on their behalf, it factors in these indirect costs and estimates a state staff FTE costs about the same as a contract FTE.

Requests for Overtime and Operational Expenditures Raise Concerns. One overarching concern with each of the Governor's overtime and operational expenditure requests is a lack of detailed workload justification. Most concerning, Caltrans did not even identify in its budget request that the bulk of the requested funding for overtime is for existing and not new positions, even though it cites SB 1 as the main cause for the proposed increase. Additionally, two proposals raise particular concerns. First, Caltrans' request for funding for a DGS space study appears premature at this time, as Caltrans and DGS have yet to identify the scope of work involved in the study. Second, the request for funding to train new COS staff might be justified in the short term (if the Legislature approves additional COS state staff positions), but the need for training new staff likely would decrease over time as the ramp-up in hiring concludes. Thus, the Legislature could consider providing the funding on a limited-term basis (if it approves additional COS state staff positions).

Staff Comments: Caltrans has indicated that the department is anticipating hiring 100 additional new staff per month throughout 2018-19. The department further assumes that retirements will continue to create a roughly five percent attrition rate per month. The department intends to address any shortfall in resources relative to project workload through the expanded use of contracted resources. Based on these assumptions, Caltrans' month to month hiring needs are detailed below.

Month	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May	June
PY at beginning of month	7,997	8,064	8,130	8,196	8,262	8,328	8,393	8,458	8,523	8,587	8,651	8,751
New Hires (100 per month)	100	100	100	100	100	100	100	100	100	100	100	100
Attrition (5 percent)	(33)	(34)	(34)	(34)	(34)	(35)	(35)	(35)	(36)	(36)	(36)	(36)
PY end of month	8,064	8,130	8,196	8,262	8,393	8,458	8,523	8,587	8,651	8,715	8,779	8,779
A&E PY equivalent	1,739	1,673	1,607	1,541	1,410	1,345	1,280	1,216	1,152	1,088	1,024	1,024
OT PY equivalent	516	516	516	516	516	516	516	516	516	516	516	516
Actual Personnel Year Equivalent (PYE)	10,319	10,319	10,319	10,319	10,319	10,319	10,319	10,319	10,319	10,319	10,319	10,319
Goal PYE	10,319	10,319	10,319	10,319	10,319	10,319	10,319	10,319	10,319	10,319	10,319	10,319
Percent A&E of total PYE	16.9%	16.2%	15.6%	14.9%	13.7%	13.0%	12.4%	11.8%	11.2%	10.5%	9.9%	9.9%
PY count by BCP												
Staff	8,423											
OT	516											
A&E	1,380											
Total	10,319											
Percent A&E of Total	13%											

Historically, Caltrans has adhered to a 90 percent / 10 percent split between state staff and contracted resources. This has granted Caltrans the flexibility to contract where required without sacrificing institutional capacity to perform work in-house. As noted in the chart above, this proposal would result in a split closer to 87 percent / 13 percent. While the department notes that the program would reach the 90 / 10 split by the end of 2018-19, the overall budget would provide for a significant increase in the use of contracted resources.

Staff Recommendation:
Hold open.

Issue 2: Active Transportation Program

Proposal: The May Revision includes a request to add a budget item to extend the allocation and liquidation periods for $10 million in Greenhouse Gas Reduction Fund resources provided to the Active Transportation Program as part of the 2016 budget.

Background: The Active Transportation Program (ATP) was created by SB99 (Committee on Budget and Fiscal Review), Chapter 359, Statutes of 2013, and AB101 (Committee on Budget), Chapter 354, Statutes of 2013, to encourage increased use of active modes of transportation. The ATP consolidated various transportation programs into a single program and was originally funded at about $123 million a year from a combination of state and federal funds. Most recently, Senate Bill 1 (Beall), Chapter 5, Statutes of 2017, added approximately $100 million per year in available funds for the ATP. This nearly doubled the amount of available funds for the Active Transportation Program. The California Transportation Commission (CTC) is responsible for administering the program.

Staff Comments: The Department has noted that the allocation period for the 2016 funding is set to expire on June 30, 2018, and the encumbrance and liquidation period is set to expire on June 30, 2020. The requested item would extend the allocation period to June 30, 2021, and the encumbrance and liquidation period to June 30, 2024. However, it is unclear why the program has been unable to spend its 2016 appropriation, or if other funding has been similarly delayed.

Questions:

- What has delayed the allocation and expenditure of these funds?
- Have other funds been similarly delayed?
- What programmatic or organizational changes could prevent the repeat of this issue in the future?

Staff Recommendation:
Hold Open.

Issue 3: Trailer Bill Proposal: SB1 Local Expenditures

Proposal: The subcommittee has received a request for trailer bill language clarifying or expanding the ability of local transportation agencies to expend local dollars consistent with the requirements of SB 1.

Background: The Department of Finance (DOF) expects $26.5 billion in SB 1 revenue over the next ten years to be available for local agencies in the following categories: $15 billion for local street and road maintenance; $7.5 billion for transit operations and capital; $2 billion for the local partnership program; $1 billion for the Active Transportation Program (ATP); $825 million for the regional share of the State Transportation Improvement Program (STIP); and $250 million for local planning grants.

The proposed trailer bill language would make three changes to existing statute to give local agencies more flexibility in the expenditure of these and other local transportation dollars. Specifically, the proposed language would:

- Allow local agencies to borrow from other internal city or county revenue streams and reimburse themselves with future year SB 1 apportionments.
- Exempt from CEQA a transit priority project, as defined, that meets certain requirements and that is declared by the legislative body of a local jurisdiction to be a sustainable communities project.
- Allow local agencies to apply transportation sales tax revenue to meet their Maintenance of Effort requirements under SB1.

Staff Comments: Granting local transportation agencies in expending funds for transportation projects could help speed project delivery and improve overall transportation outcomes as SB1 continues to be implemented. The subcommittee may want to consider the degree to which the proposed changes will help meet the goals of SB1.

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: Wireless In-Car Camera System with Body-Worn Camera Expandability Option

Governor's Proposal: The May Revision requests 12 positions phased in over three years, $52.53 million from the MVA over three years to implement a wireless in-car camera system with the option to purchase Integrated Body-Worn Cameras (BWC) in the future, and a $14.381 million baseline augmentation from the MVA to maintain the system.

In addition, the CHP requests the reappropriation of the remaining balance of the initial $1 million appropriated in the Budget Act of 2015 for a BWC Pilot study. The existing funding is set to expire on June 30, 2018.

Background: The CHP has been using in-car camera systems installed in patrol vehicles statewide since 2009, to enhance the level of service provided to the people of California. The in-car cameras are automatically activated when CHP officers begin an enforcement stop. Recordings document enforcement activities, officers' assistance to disabled motorists, and other investigative services. Video recordings are instrumental in providing objective evidence of officer enforcement activity.

Currently, not all of the CHP enforcement vehicles are outfitted with an in-car camera. At this time, approximately 66 percent of the CHP enforcement vehicles have recording capability, but it is the goal of the CHP to equip 100 percent of marked enforcement vehicles with an automated wireless in-car camera system.

The FY 2015-16 state budget approved $1 million for a Body Worn Camera pilot study to determine the effectiveness and potential issues associated with the use of body-worn cameras by CHP officers. The pilot study, conducted in the cities of Stockton and Oakland was completed in October 2017. The CHP has completed a report to the Legislature summarizing key elements of the pilot study outlined In Senate Bill 85. The CHP is requesting the reappropriation of the remaining FY 2015-16 funding to continue the pilot through FY 2018-19 to better understand implementation issues, such as alternatives for addressing privacy concerns, camera battery and charging options, potential cost efficiencies, and integration with CHP's new wireless in-car camera system.

LAO Comments: The LAO has provided the following comments on this proposal:

> We recommend the Legislature weigh approval of this proposal against other MVA spending priorities and the need to maintain a prudent reserve in the MVA. We do not take issue with the proposal to install wireless in-car camera systems in all marked enforcement vehicles over the next three years. However, while the initial increase of $5 million in 2018-19 is relatively modest, this proposal would commit the state to an ongoing spending increase from the MVA of $14.4 million per year. Based on the Department of Finance's projections, the MVA reserve will drop below five percent of total MVA expenditures beginning in 2020-21.
>
> The administration requests that the encumbrance period be extended for the remaining balance of the initial $1 million appropriated in the 2015 Budget Act for the Body-Worn Camera Pilot.

LAO Comment. We do not take issue with this proposal.

Staff Comments: The current in-car camera vendor has advised the CHP that they will be unable to service the camera equipment beyond 2018, due to the age of the system and their inability to obtain replacement parts. Based on this information, coupled with the average rate of repair, it is estimated that in less than one year, over half of the CHP enforcement vehicles will be without in-car cameras. Further, these estimates project the CHP will not have any functioning in-car camera systems by April 2020. It is therefore reasonable to pursue a replacement system. However, staff notes that there are still outstanding questions on project implementation costs, as well as ongoing maintenance costs. It is premature to approve these funds before these questions are answered.

The 2015 body worn camera pilot generated valuable insights about the use of BWCs among CHP officers. It also raised important questions about privacy concerns, system implementation, and technology integration. The committee may want to consider whether further pursuing these questions is a priority for the Legislature.

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: California New Motor Voter and Electronic Driver License Application

Governor's Proposal: The May Revision requests $900,000 in one-time funding for fiscal year 2018-19 to extend the contract for Information Technology (IT) Programming and system administration in support of the electronic Driver's License and Identification online forms (eDL-44) and the implementation of Assembly Bill 1461 (Gonzalez Fletcher), Chapter 729, Statutes of 2015.

Background: AB 1461 required the Secretary of State (SOS) and DMV to establish the California New Motor Voter Program for the purpose of increasing opportunities for voter registration by any person who is qualified to be a voter. The California New Motor Voter Program implementation shifts the voter registration process at the DMV from a system where customers have to opt-in to register to vote to a system where all eligible voters completing a driver license (DL), identification card (ID), or change of address transaction are automatically registered to vote unless they opt-out.

As part of the eDL-44/AB1461 project, there were two contracts for the design and build of the Motor Voter Application to meet the requirements defined in AB 1461. One contract was for application design services, and the second contract was for the software build, integration,and interface development to SOS.

Staff Comments: Per the California Department of Technology (CDT), this request is necessary to complete additional features, provide support, and training for the application. Integration of the application to all internal and external systems will require additional analysis, design, development, test and release through the software development lifecycle.

The department has indicated that this contract will be an extension to the development and engineering contract and is necessary to build continuity, support, enhancements, and provide training to advance the quality and operation of the applications and systems. During the contract term, the priority would be to work on enhancements to the applications and potentially any interfaces between DMV business, SOS, and external partners. Work will entail connecting to DMV's backend systems, enhance design for more efficient operation, ensure the strongest technology security to protect our citizens and to ensure data quality. The contractors will also provide training to the DMV staff for products brought into DMV as part of the project.

Staff Recommendation
Hold Open.

Issue 2: Centralized Customer Flow Management and Appointment Systems

Governor's Proposal: The May Revision requests $5.5 million to be reappropriated to have the liquidation period extended to FY 2018-19 in case the final vendor payments for the Centralized Customer Flow Management and Appointment System (CCFMAS) needs to be made next fiscal year.

Background: The ability to provide quality customer service within the field office depends on several factors, such as the ability to manage resources, processing time and workload. The cornerstone of the field operations relies on the information provided by a Queue Management tool. This software technology tool assists in monitoring, tracking of customer volumes and staffing performance, in order to manage service levels throughout the business day.

There are currently 147 DMV field offices that have the new CCFMAS queuing system installed, and all offices are scheduled to have the system installed by the middle of May. DMV will not pay the vendor until the system is implemented in all DMV field offices with minimum of 30 error free days.

Staff Comments: The department has indicated that the risk exist that system installation dates may slip or that production defects that need to be addressed may occur in the coming year. This would result in final payment being pushed into FY 2018-19. The remaining contract amount of $5.5 million is set to revert at the end of FY 2017-18. DMV is requesting to have the reversion date extended to FY 2018-19 to allow for any potential project delays.

Staff Recommendation:
Hold Open.

3360 CALIFORNIA ENERGY COMMISSION

The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission or CEC) is responsible for forecasting energy supply and demand; developing and implementing energy conservation measures; conducting energy-related research and development programs; and siting major power plants.

Governor's Budget: The Governor's budget includes $384 million for support of the CEC, a decrease of approximately $300 million from the enacted 2017-18 budget, predominantly due to a decline in funding for the Electric Program Investment Charge Fund.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
2380	Regulatory and Planning	139.2	131.0	131.0	$30,996	$38,543	$37,864
2385	Energy Resources Conservation	125.9	164.3	164.3	42,742	52,941	48,491
2390	Development	171.7	193.1	193.1	324,266	592,398	297,722
9900100	Administration	180.9	180.9	180.9	27,235	28,259	-
9900200	Administration - Distributed	-	-	-	-27,235	-28,259	-
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		617.7	669.3	669.3	$398,004	$683,882	$384,077

FUNDING		2016-17*	2017-18*	2018-19*
0001	General Fund	$-	$18,000	$-
0033	State Energy Conservation Assistance Account	-6,261	-616	359
0044	Motor Vehicle Account, State Transportation Fund	150	161	162
0115	Air Pollution Control Fund	1,405	-	-
0381	Public Interest Research, Development, and Demonstration Fund	1,233	1,257	751
0382	Renewable Resource Trust Fund	23,119	25,750	4,748
0465	Energy Resources Programs Account	74,180	79,924	79,021
0497	Local Government Geothermal Resources Revolving Subaccount, Geothermal Resources Development Account	5,067	1,606	1,548
0853	Petroleum Violation Escrow Account	183	5,825	-
0890	Federal Trust Fund	15,271	13,497	13,464
0942	Special Deposit Fund	301	58	-
0995	Reimbursements	42	2,050	800
3062	Energy Facility License and Compliance Fund	3,527	3,576	4,577
3109	Natural Gas Subaccount, Public Interest Research, Development, and Demonstration Fund	32,076	45,769	24,000
3117	Alternative and Renewable Fuel and Vehicle Technology Fund	102,456	177,512	107,858
3205	Appliance Efficiency Enforcement Subaccount, Energy Resources Programs Account	125	1,402	1,497
3211	Electric Program Investment Charge Fund	143,234	234,735	136,021
3228	Greenhouse Gas Reduction Fund	-	66,000	-
3237	Cost of Implementation Account, Air Pollution Control Fund	-	9,286	9,271
9330	Clean and Renewable Energy Business Financing Revolving Loan Fund	1,896	-1,910	-
TOTALS, EXPENDITURES, ALL FUNDS		$398,004	$683,882	$384,077

Issue 1: Energy Resources Program Account Structural Deficit Relief

Governor's Proposal: The May Revision requests a series of actions to reduce the Energy Resources Programs Account (ERPA) structural deficit. Requested actions include: shifting eligible expenditures from ERPA to the Cost of Implementation Account (CCIA) and Energy Facility License and Compliance Fund (EFLCF) (total ERPA reduction of $7.345 million), and a one-time shift of the Department of General Services' (DGS) ERPA funding to the Environmental License Plate Fund (reduction of $1.99 million). DGS will evaluate appropriate mechanisms to bill these expenditures beginning in 2019-20. The Energy Commission also requests shifting $2.1 million of eligible expenditures from the Renewable Resource Trust Fund (RRTF) to CCIA.

Background: The ERPA was established by statute in 1975 to provide for the support of the CEC generally. Revenue is derived from a one-tenth of a mil ($0.0001) surcharge per kilowatt hour. The ERPA surcharge rate is currently at $0.00029 per kilowatt-hour with a cap at $0.0003 per kilowatt-hour.

The 2017-18 Budget Act took action to reduce costs to this fund and align activities with appropriate fund sources. Specifically, the budget took the following actions:

- A reduction of $662,000 by moving 3 positions and $200,000 in contract authority from ERPA to the Appliance Efficiency Enforcement Subaccount
- A reduction of $4.937 million in contract authority for power plant siting activities
- A reduction of $4.846 million by moving 35 positions from ERPA to the Alternative and Renewable Fuel and Vehicle Technology Fund
- A reduction of $5 million in the Energy Commission's baseline budget

These budget actions eliminated a $15.445 million burden from ERPA, but 2017-18 employee compensation and benefits adjustment of $3.5 million and a $3 million 2016-17 ERPA revenue drop, the net deficit was reduced by only $8.9 million.

Supplemental Reporting Language in the 2017-18 budget required the Department of Finance, in consultation with the California Energy Commission (CEC), to submit to the legislature and the Legislative Analyst's Office a report that provides options to address the structural deficit in the ERPA. This proposal reflects the recommendations of that report.

LAO Comments: The LAO has provided the following comments:

> The administration proposes a variety of ongoing fund shifts, as well as a small increase in the electric consumption surcharge, to reduce the structural deficit in ERPA. In total, these changes reduce the annual deficit by nearly $12 million. This proposal represents a significant and, in our view, reasonable step toward maintaining fund solvency. We do not have any initial concerns with the proposed changes. We note, however, that the fund would continue to have a roughly $3 million annual deficit and is projected to be insolvent in 2022-23. The Legislature will likely need to take additional actions to address the remaining imbalance within the next several years.

Staff Comments: The structural deficit has many causes. The Energy Commission has a significant role in implementing aggressive climate change policies, such as improving appliance and building efficiency and increasing the use of clean energy and self-generated renewable energy, which dampen the sale of retail electricity.

The CEC has indicated that the proposed changes would reduce the ERPA structural deficit by $10.6 million. These changes include:

- Shift 30.0 positions and contract funding from ERPA to the Cost of Implementation Account (COIA) for a reduction of $5.5 million.
- Execute a one-time shift of ERPA funding for the Department of General Services (DGS) to the Environmental License Plate Fund (ELPF) for a reduction of $1.99 million. DGS would use the 2018-19 period to evaluate appropriate funding mechanisms for these ERPA expenditures in future years.
- Shift 14 positions from the RRTF to COIA for a reduction of $2.1 million.
- Convert existing Energy Facility Licensing and Compliance Fund (EFLCF) contract funding to personal services funding, and shift 13 existing positions from ERPA to EFLCF for a reduction of $1.9 million.
- Increase the energy surcharge by $0.00001 to the statutory cap of $0.0003 per kilowatt-hour to generate approximately $1.25 million in 2018-19 and $2.5 million in out years.

The net effect of these changes is described below.

Summary of Proposed Actions by Fund:

(Dollars in thousands)

	CY	BY	BY - 1	BY - 2	BY - 3	BY - 4
COIA [1/]	$0	$8,169	$7,569	$7,569	$8,169	$7,569
EFLCF [2/]	$0	$1,876	$1,876	$1,876	$1,876	$1,876
ERPA [3/]	-$600	-$9,335	-$9,335	-$9,935	-$9,335	-$9,335
RRTF	$0	-$2,100	-$2,100	-$2,100	-$2,100	-$2,100
ERPA REVENUE INCREASE [4/]	$0	$1,250	$2,500	$2,500	$2,500	$2,500

Staff finds the proposed fund shifts to be generally reasonable. The CEC has the statutory authority to raise the energy surcharge to $0.0003 without Legislative action. The CEC estimates that doing so would cost the average California household an additional $0.07 per year.

However, staff notes that the proposed actions would not completely address the fund's structural imbalance. Under this proposal, the fund would continue to have a roughly $3 million annual deficit and is projected to be insolvent in 2022-23. The Commission has yet to identify a plan for addressing the remainder of this imbalance.

Staff Recommendation:
Hold Open.

Issue 2: Agricultural Energy Efficiency Program

Governor's Proposal: The May Revision requests $30 million in one-time General Fund resources for the Agricultural Energy Efficiency program within the California Energy Commission.

Background: The Agricultural Energy Efficiency program was given $60 million as part of the 2017 budget. These funds are intended to provide incentives for emissions reductions from food processing facilities. The CEC anticipates awarding this first round of funding in the fall of 2018.

The Administration proposed to allocate $34 million in Greenhouse Gas Reduction Fund (GGRF) resources to the program as part of their Cap-and-Trade expenditure plan.

LAO Comments: The LAO has provided the following comments on this proposal:

> We recommend the Legislature reject this proposal. First, the CEC only recently finalized funding guidelines for the $60 million GGRF allocated for these projects in 2017-18 and initial project awards are not expected until the fall of 2018. As a result, the magnitude of the estimated benefits—such as GHG and local air pollution reductions—from these projects is unclear. Second, if the Legislature considers these projects a high priority, other fund sources are available for the program. Namely, the Legislature could allocate a slightly larger share of GGRF to this program. (Under the Governor's plan, roughly $2.8 billion GGRF would be allocated to various programs.) This approach would leave somewhat less funding for other climate-related activities, but would free-up General Fund dollars for the Legislature's highest priorities.

Staff Comments: While there is merit in providing incentives for greenhouse gas reductions from food processing facilities, staff finds the LAO's arguments compelling. It may be premature to further augment the program when the CEC has yet to make a single award, and with additional funding already proposed from other sources. The Subcommittee may want to ask the CEC if there is any data available quantifying the potential GHG reductions from funded projects.

Staff Recommendation:
Hold open.

0555 - VARIOUS DEPARTMENTS WITHIN CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY (CALEPA)

Issue 1 – Sacramento Headquarters Space Optimization Project

Governor's Proposal. The May Revision proposes $22.894 million for Phase 1 of CalEPA's Sacramento Headquarters Space Optimization Project and provisional language to make sure the funds are available for encumbrance or expenditure until June 30, 2022.

Phase 1 will be funded by the Air Resources Board (ARB), the State Water Resources Control Board (SWRCB), the Department of Resources Recycling and Recovery (CalRecycle), and the Office of Environmental and Health Hazard Assessment (OEHHA) as follows:

- ARB: $10.711 million from the Air Pollution Control Fund;
- SWRCB: $6.733 from various funds;
- CalRecycle: $5.363 from various funds; and,
- OEHHA: $87,000 from various funds.

The two-phase project will increase capacity by up to 1,100 cubicles to accommodate additional personnel from various boards, departments, and offices under CalEPA.

Background. CalEPA was formally established in 1991. CalEPA consists of the Air Resources Board (ARB), the Department of Pesticide Regulation (DPR), the Department of Resources Recycling and Recovery, (CalRecycle), the Department of Toxic Substances Control (DTSC), the Office of Environmental Health Hazard Assessment (OEHHA), and the State Water Resources Control Board (SWRCB). CalEPA oversees and coordinates the activities of its Boards, Departments, and Offices (BDOs) by developing, implementing and enforcing environmental laws that regulate air, water and soil quality, pesticide use and waste recycling and reduction.

- ARB works to reduce air pollution and diesel exhaust so all Californians can breathe cleaner air and leads the nation in fighting climate change with integrated programs to cut greenhouse gases under AB 32.
- DPR protects workers and consumers by ensuring the safe use of pesticides through registration, permitting and training.
- CalRecycle helps the state achieve the highest waste reduction, recycling and reuse goals in the nation through programs that improve economic vitality and environmental sustainability.
- DTSC cleans up hazardous waste sites to put them back into productive use and reduce blight and contamination to the neighborhoods and surrounding environments.
- OEHHA serves as the scientific foundation for CalEPA's environmental regulations and provides valuable information to consumers, policy makers and manufacturers on the safety of chemicals in our environment.
- SWRCB ensures that the quality of our waterways is safe and that we balance its use to meet the needs of all Californians.

CalEPA headquarters in Sacramento. In January 2001, CalEPA consolidated 12 Sacramento office locations into its current building at 1001 I street. This co-location concept afforded opportunities amongst the BDOs to coordinate activities. CalEPA acquired the Sacramento Headquarters Building through the City of Sacramento as a lease bond, payable over 25 years with final payment due in 2023. When the lease bond is satisfied in 2023, the State of California will purchase the building for $1.00.

***Existing CalEPA headquarters cannot accommodate staffing growth*.** At the time of initial occupancy, standard cubicle sizes for staff were designed with 80 square feet, met each BDOs space/staffing needs, and provided adequate storage and meeting room accommodations. However, over the last 17 years of occupancy, CalEPA and the BDOs have realized significant staff growth. To accommodate this growth each organization utilized various space optimization approaches, including lease of additional space in Sacramento, reuse of meeting rooms for staff, and shared space concepts.

Over the last five years, the organizations within CalEPA that occupy the Sacramento Headquarters building have grown an average of 106.3 positions per fiscal year. Due to lack of space in the Sacramento Headquarters, some staff occupy other buildings on a short-term basis until such time that alternative space solutions can be implemented and staff relocated to headquarters. For example, two BDOs within CalEPA lease space two blocks from the Sacramento Headquarters due to lack of space availability.

This proposal will expend funding over four fiscal years to optimize space within Sacramento Headquarters by reducing cubicle sizes from 80 square feet to 49 square feet for rank and file staff and 80 square feet to 70 square feet for supervisory staff. The reduced cubicle sizes are within DGS space standards. Currently, the Sacramento Headquarters has 2,800 cubicles at 80 square feet. With the reduced cubicles sizes of 49 to 70 square feet, the Sacramento Headquarters could increase occupancy by up to 1,100 cubicles and staff.

Staff Comment. CalEPA looked at other options to accommodate the staffing growth including leasing additional space within the area. Leasing new space will incur greater upfront costs for tenant improvements and other relocation costs. Further, the lease cost will be a constant cost for CalEPA, whereas the current Sacramento headquarters will be owned by the state in 2023. Optimizing the current location appears to be the most cost effective option.

The subcommittee may wish to ask how CalEPA arrived at this cost share amounts among its BDOs.

Staff Recommendation:
Hold Open.