Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 2 Agenda

S. Joseph Simitian, Chair
Jean Fuller
Alan Lowenthal

HEARING OUTCOMES

Agenda – Part B

Day: Wednesday, May 25, 2011
Time: 9:30 a.m.
Room 112

Consultant: Brian Annis

Transportation

Departments Suggested for Vote-Only:

Departments Suggested for Discussion and Vote:

Departments Suggested for Vote-Only

2720 California Highway Patrol

Department Overview: The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for State employees and property.

January 10 Budget Summary: The Governor proposed total expenditures of $1.9 billion (no General Fund) and 11,380.7 funded positions, a decrease of $87 million and a decrease of 28 positions. The year-over-year budget change is primarily explained by the reduction in funding for the almost-complete public-safety radio project and by the workforce cap.

Current Budget Status: The Legislature acted on all of the CHP's January budget proposals and an April 1 Finance Letter (all were approved). The Governor proposed one technical change in a May Finance Letter which is described below.

Issues Suggested for Vote Only:

1. **CHP Enhanced Radio System (CHPERS) (May 1 Finance Letter #1).** The Administration requests a reappropriation of $548,000 (special funds) for the sixth year of the public safety radio project, which is mostly complete. Due to lease negotiations and mandatory design changes to address local or federal concerns, working drawings for three of the fifteen radio tower replacement projects are delayed beyond 2010-11.

   Background: In 2006-07, the Legislature approved this five-year project that had an estimated total cost of $491 million. As the project evolved, the CHP and its partner, the Office of the Chief Information Officer – Public Safety Communications Division (OCIO-PSCD) down-scoped the project to reduce costs, and the CHP revised total cost to $343 million for a savings to the state of $148 million. The project will enhance radio interoperability with other public safety agencies and provide additional radio channels for tactical and emergency operations. The project involves new radio transmission equipment at CHP facilities, on remote towers, and in CHP vehicles.

   Staff Recommendation: Approve the May 1 Finance Letter.

   ***Action: Approved Finance Letter on a 3 – 0 vote*.**

Departments Suggested for Discussion and Vote:

2740 Department of Motor Vehicles

Department Overview: The Department of Motor Vehicles (DMV) regulates the issuance and retention of driver licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

January 10 Budget Summary: The Governor proposed total expenditures of $922 million (no General Fund) and 8,251 positions, an increase of $9.6 million over the revised 2010-11 level and a decrease of 15.6 funded positions. The year-over-year budget change is primarily explained by employee compensation adjustments.

Current Budget Status: The Legislature acted on all of the DMV's January budget proposals (all were approved). The Governor proposed largely technical changes in April Finance Letters and a May Finance Letter – all related to facilities projects. The Subcommittee has not acted on any of these Finance Letter requests, which are described in Issue #2.

Issue Suggested for Discussion and Vote:

1. **Informational Issue on Driver License Cards:** The DMV implemented a new driver license / identification (DL/ID) card design on September 30, 2010. The cards are manufactured by L-1 Identity Solutions. When the new cards were initiated, L-1 had difficulty producing the quantity and quality of cards required, and some drivers have faced delays in getting their new cards. The DMV has initiated staff overtime to provide quality assurance and has rejected many cards.

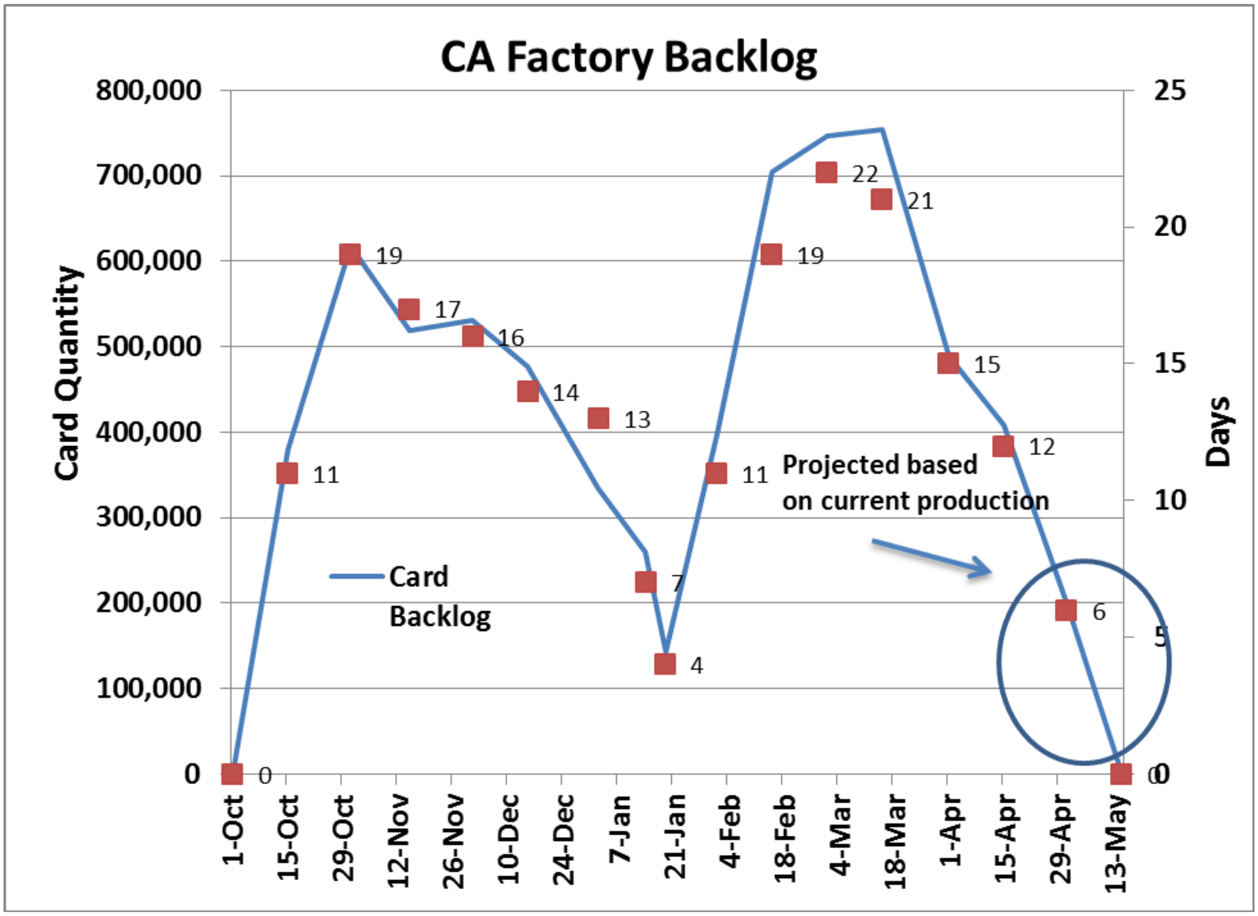
   February 1 Hearing and February 15 Letter: At the Subcommittee #2 hearing on February 1, 2011, the DMV indicated that it was starting to see improvements with the vendor. In a letter dated February 15, 2011, DMV informed the Subcommittee that it was optimistic the backlog would be eliminated by the end of March 2011. Additionally, DMV extended the duration of the temporary driver license from 60 days to 90 days and served a Notice of Breach letter to L-1.

   April 28 Hearing: At the Subcommittee #2 hearing on April 28, 2011, the DMV testified to the current status of the backlog, indicating the backlog still existed. The Subcommittee asked DMV and an L-1 representative to return at the May 5 and May 12 hearings for weekly updates on the status of the backlog, and for updates on the status of determining damages that L-1 owes to the State.

   May 5 Hearing: At the hearing on May 5, 2011, the DMV testified that the backlog had been completely cleared as of May 3. No budget action was taken, but DMV was asked, and agreed, to consult with the Department of General Services, and report back in writing within 30 days to the Subcommittee on: (1) improvements the State can make to its contract terms to ensure better outcomes when a contractor fails to deliver on key components of a contract; and (2) the ability to renegotiate the L-1 contract to include liquidated damages for non-compliance with quality and timeliness requirements of the contract. L-1 was asked, and agreed, to respond in writing within two weeks on how they will “make things right” or fully compensate the State for average delays of 15 days and defect rates up to 20-percent for card production over a 7-month period – this should include an indication of whether L-1 will support a contract amendment to add liquidated damages for failure to meet the 48-hour production time and failure to meet quality standards.

   Background and detail: The chart on the following page was provided by DMV on April 21 to show the historic and projected backlog. The Administration is defining “backlog” as card orders that have been unreturned by L-1 within the 48 hours required by the contract. The DMV indicates the growth in backlog after January 21 was due to defective UV toner cartridges that caused the cards to print off color. The Administration’s data suggests the backlog peak was in early March with about 700,000 DL/ID cards backlogged causing an average delay of 22 days.

   Current Status: The DMV indicates L-1 has met the 48-hour delivery requirement for DL/ID cards every day since the backlog was eliminated on May 3. The recent defect rate for cards is averaging 1.5 percent, and the DMV hopes to reduce this number further.



Staff Comment: The DMV and the L-1 representative should update the Subcommittee on the status of the cards, the status of payment to L-1 and any penalties deducted, and the status of a contract amendment as described at the May 5 hearing (see prior page).

At the April 28, 2011, hearing, the Chair asked staff to calculate the budget reduction that would result from a 20-percent reduction in the DMV's administrative funding. DMV's budget for "Administration" is $103.4 million (various special funds, no General Fund), and 20-percent of that number is $20.7 million.

Staff Recommendation: Take no action – both DMV and L-1 will be submitting written responses to the Subcommittee later this month.

Action: No action taken – DMV indicated they will submit a written response to the Subcommittee on the issues raised at the May 5 hearing.

2. **Capital Outlay Finance Letters (April 1 and May 16):** The Administration submitted three requests to reappropriate funds, and one request to revert funds, for state-owned DMV field office facilities. DMV operates a mix of State-owned and leased facilities. Expenditure of these funds was approved last year, and these changes would allow the expenditures to move from 2010-11 to 2011-12, or from 2010-11 to 2012-13, as applicable.

   - **Redding Field Office Reconfiguration Project - Reappropriation (Construction Phase):** The Administration requests reappropriation of $2.9 million (various special funds) for the construction phase of the Redding project. Prior costs of $495,000 have already been incurred for preliminary plans and working drawings. Total project cost is estimated at $3.4 million. The reconfigured facility will provide additional workload capacity and address physical infrastructure deficiencies.

   - **Fresno Field Office Replacement Project – Reappropriation (Construction Phase):** The Administration requests reappropriation of $18.7 million (various special funds) for the construction phase of the Fresno project. Prior costs of $2.1 million have already been incurred for preliminary plans and working drawings. Total project cost is estimated at $20.8 million. The new facility would replace the 50-year old customer service field office on the same site with a larger facility.

   - **Oakland Field Office Reconfiguration Project (Construction Phase):** The Administration requests reappropriation of $2.1 million (various special funds) for the construction phase of the Oakland project. Prior costs of $300,000 have already been incurred for preliminary plans and working drawings. Total project cost is estimated at $2.4 million. The reconfigured facility would serve as a DMV Business Service Center and the Regional Administrator's Office.

   - **Palmdale/Lancaster Field Office Consolidation – Reversion (Moving Costs):** The Administration requests to revert $359,000 appropriated in 2010-11 to fund the consolidation of the Palmdale field office and the Lancaster field office into a larger consolidated facility. This consolidation is now on hold until 2012-13 and the Administration indicates it will submit a budget request next spring for 2012-13 funding.

   Staff Recommendation: Approve these requests.

   Action: Approved these requests on a 3 – 0 vote.

2665 High-Speed Rail Authority

Department Overview: The California High-Speed Rail Authority (HSRA or Authority) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The cost to build “Phase I” (from San Francisco to Anaheim) is currently estimated by the HSRA at $43 billion (in year-of-expenditure dollars). Of the $43 billion cost, about $12.5 billion is currently “in hand” – $9 billion from Proposition 1A of 2008 (Prop 1A) and $3.5 billion in federal funds. The HSRA 2009 Business Plan indicates the remainder of project funding will come from the federal government (about $14.5 billion), local governments (about $4.5 billion) and private investment through selling the concession (about $11 billion). The majority of work on the project is performed by contractors – there are approximately 604 contractors (full-time equivalents) and 37 State staff. Most of the State positions were authorized last year, and due to the hiring freeze and other factors, only about 19 positions are currently filled.

January 10 Budget Overview: The January Governor’s Budget proposed funding of $192 million for the HSRA ($102.4 million Prop 1A and $89.7 million federal funds). This compares to 2010-11 funding of $221 million. The 2011-12 budget included 37.1 funded positions for HSRA, which is unchanged from the adjusted 2010-11 level.

Current Budget Status: The Legislature retained the Authority’s baseline budget, but rejected all the Budget Change Proposals (BCPs) without prejudice to allow for further review. The BCPs rejected totaled $186 million and $6.0 million was retained in the budget to cover the base funding for HSRA staff and inter-agency contracts. The Legislature approved, and the Governor signed, the transportation budget trailer bill, AB 105, which includes reporting requirements and makes one-quarter of the 2011-12 budget authority contingent on submittal and review of the reports. AB 105 also included new authority for HSRA to establish up to six exempt positions. The High-Speed Rail Authority typically receives detailed workload proposals from its contractors in the spring, and that detail was provided in mid-May.

The Governor submitted several May Revision Finance Letters that add positions and adjust funding for HSRA. Among the significant adjustments in the May Revision was the recognition that $47.4 million in 2010-11 contract funding will go unexpended and carry over into 2011-12. Accordingly, the Administration has reduced the 2011-12 budget request to reflect these carryover funds. The updated request is reflected in the table below (in millions).

2011-12 Budget	Prop 1A Bonds	Federal Funds	Total
January Version	$102.4	$89.7	$192.1
May Version	$83.2	$66.6	$149.8
Plus 2010-11 carryover	$23.7	$23.7	$47.4
Total Funding Request	$106.9	$90.3	$197.1

Issues Suggested for Discussion

1. **Legislative Analyst Report and Major Issues Raised:** On May 10, 2011, the Legislative Analyst's Office (LAO) released a report titled, *High-Speed Rail Is at a Critical Juncture*. The report cites great risk concerning the ability of the State to secure the remaining $30 billion needed to funding construction costs totaling $43 billion for the San Francisco to Anaheim segment – and this assumes the project can stay within the $43 billion cost estimate. Given these risks and other concerns, the LAO recommends the Legislature only fund the HSRA at $7 million and suspend contract work on the project until a new governance structure is implemented, until the federal government approves flexibility for the timing and start point for HSRA construction, and until new criteria is established for determining the start point for initial construction. Members of the Subcommittee heard a presentation of the report at the May 11, 2011, Senate Select Committee on High-Speed Rail hearing. The report was also discussed briefly at the May 12, 2011, Subcommittee hearing. The three major recommendations are discussed below:

    - **Revise the governance structure for high speed rail.** The LAO report suggests the current governance structure of the HSRA Board grants the Authority more independence and autonomous decision-making ability than is appropriate because Board members are not subject to confirmation by the Legislature and not required to follow the policy direction of the Governor. The LAO additionally notes that the HSRA is not integrated into the current transportation planning structure of the California Transportation Commission and, if kept independent, redundancies would develop with other transportation-related functions of State government. To address these issues, the LAO recommends the responsibility for development and construction of the system be moved to the California Department of Transportation (Caltrans). The HSRA Board would continue in an advisory role.
    - **Renegotiate terms with the federal government.** The LAO recommends the HSRA renegotiate the terms of the federal funding awarded to the State by the Federal Railroad Administration. The new terms would permit the State to spend federal funds before state bond funds, and to remove the federal requirement that the HSRA start construction in the Central Valley. Spending the federal funds first would reduce, or delay, State General Fund costs for bond debt service.
    - **Establish new criteria for selecting where to implement construction.** The LAO suggests that given the risk additional federal funds may not materialize, there is a possibility only one or two segments of the high-speed rail system will ultimately be constructed. Therefore, the initial segment should be focused on a segment with high independent utility. The LAO suggests investment on the San Francisco / San Jose segment and/or the Los Angeles / Anaheim segment would have independent utility benefits for commuter rail, and the San Jose / Merced segment would have independent

utility for traditional intercity rail. The independent utility from a stand-alone Central Valley segment is seen as limited.

Implementation of LAO recommendations would take time. The LAO recognizes that major changes to the HSRA governance and project plan would take some time to develop and implement in law. The LAO does not suggest these changes should be implemented with the 2011 Budget Act, but rather that budget funding should be limited, and major contract work suspended. New deliverables from the HSRA are recommended for inclusion in an October 2011 report, which would form one basis for the evaluation of alternatives. The LAO recommends budget bill language that would authorize the Administration to seek an augmentation of HSRA's budget to allow it to proceed with the development of the segment approved by the Legislature. The LAO states the entire multistep process should take no more than a few months and should not significantly affect the state's ability to meet the federal deadlines. The LAO timeline might be a little optimistic given the October HSRA reporting date and the Legislative calendar – the interim study recess begins on September 10, and the Legislature reconvenes on January 4, 2012. So any legislative action that depends on data in the October HSRA report could likely not occur any earlier than the early months of 2012.

Should HSRA suspend work while issues are reviewed? The LAO suggests HSRA contract work should be suspended while the issues of governance, federal funding and flexibility, and selection of the initial construction segment are considered further by the Legislature. The question arises about whether the HSRA could continue, instead of suspend, work while these issues are considered by the Legislature. The HSRA indicates there are about 600 contractors currently working on the project – suspension of work and funding for an indeterminate period would clearly result in disruption as the contractors would be reassigned or laid off and many would not return, or not return immediately, upon a future resumption of work. The LAO notes that while huge appropriations are not needed now and would likely be considered as part of the January 2011 budget request, the HSRA is proceeding with development activities that speed work on the Central Valley segment, while completion dates for environmental and initial design work on other segments are being pushed back. The LAO concludes that if the Legislature has concerns about the path the high-speed rail project is on, it will diminish its opportunities to have meaningful input over such issues as the location of the first construction segment if it waits until 2012-13 to do so.

The LAO report raises valid risks. Transportation megaprojects such as the Boston Big Dig, and the San Francisco–Oakland Bay Bridge Replacement Project, often experience unforeseen challenges and cost overruns that are several multiples of the original estimates. The high-speed rail project's funding at this point in time is even more uncertain and undefined than what those projects would have planned at an equivalent point in time. If history is a guide, at some future point the costs estimates for construction of the San Francisco to Anaheim segment will increase and the State will be obliged to scale back the project or contribute additional State revenues. So it is important for the Legislature to consider these risks, to demand from the HSRA plans for risk management for construction phasing and alternative financing plans. Due to the importance of these considerations, they should not be set aside because the HSRA Board or the federal government have already made a determination.

Staff Comment: The LAO raises important issues for consideration, but there are multiple considerations and not a clear single solution. For example, the recommendation to consider implementation of construction along the San Francisco / San Jose or Los Angeles / Anaheim segments might provide the highest independent utility if all federal funding is discontinued and the project stopped, but an initial operable high-speed rail segment might instead be San Jose to Bakersfield, or Merced to Los Angeles, in which case, the measure of independent utility might not produce the best outcome and should not be weighted above all other criteria. Federal flexibility, especially in regard to advancing federal funds before State funds is clearly desirable and should be pursued; however, it is not clear that should be a prerequisite for continuing with the project. Various governance models are being debated as policy bills more forward, and it is unclear if sufficient agreement exists to direct implementation to a budget trailer bill. For example, SB 517 (Lowenthal) would restructure the HSRA Board and place HSRA under the Business, Transportation, and Housing Agency, and AB 145 (Galgiani) would create a Department of High-Speed Rail.

The reports scheduled for October 2011 - the Draft Business Plan and the Financial Plan - will provide additional information that will be valuable to the Legislature in determining the feasibility of proceeding to construction on the Central Valley segment and appropriating billions of dollars for that purpose. If the HSRA cannot make the case for proceeding with the Central Valley segment, the Legislature would be free to reject funding for that purpose in the 2012-13 budget. Either suspending contractor work now, or continuing work now but directing a new segment selection in the spring would delay initial construction work. Given these dynamics, it seems preferable to continue contract work now, consider the information in the October reports, and provide legislative direction on a timeline determined by the circumstances – either during the spring budget process in 2012 or earlier. However, it seems the HSRA should not proceed to purchase right-of-way or sign design-build construction contracts in the Central Valley prior to legislative review of the October reports and an appropriation for such purposes in the 2012 Budget Act. Provisional language stating this limitation may be worth consideration.

Staff Recommendation: Consider the budget requests on the following pages based on their individual merits and do not limit funding to $7 million as recommended by the LAO. Adopt budget bill language that prohibits the HSRA from signing design-build contracts or purchasing right-of-way in 2011-12, or until such time approval is granted by the Legislature. (*See also the recommendation to issues #2 which is related*)

Action: See consolidated HSRA actions on page 15.

2. Statement on HSRA by Congresswoman Anna G. Eshoo, Senator S. Joseph Simitian, and Assemblyman Richard S. Gordon: On April 18, 2011, the Senate Budget Subcommittee #2 Chair issued a joint statement on the HSRA with Assembly Budget Subcommittee #3 Chair Assemblyman Gordon, and Congresswoman Eshoo.

Summary of Statement: The three signers state the following: "We call on the High-Speed Rail Authority and our local CalTrain Joint Powers Board to develop plans for a blended system that integrates high-speed rail with a 21st Century CalTrain.

To that end:

- We explicitly reject the notion of high-speed rail running from San Jose to San Francisco on an elevated structure or "viaduct"; and we call on the High-Speed Rail Authority to eliminate further consideration of an aerial option;
- We fully expect that high-speed rail running from San Jose to San Francisco can and should remain within the existing CalTrain right of way; and,
- Third and finally, consistent with a project of this more limited scope, the Authority should abandon its preparation of an EIR (Environmental Impact Report) for a phased project of larger dimensions over a 25 year timeframe. Continuing to plan for a project of this scope in the face of limited funding and growing community resistance is a fool's errand; and is particularly ill-advised when predicated on ridership projections that are less than credible."

Prior Hearings in April and May: The statement by the three elected officials was discussed in Subcommittee hearings in April and early May. The HSRA Chief Executive Officer, Mr. Roelof van Ark indicted he would further review the issues raised in the statement and report back to the Subcommittee.

Staff Comment: In addition to issues on the Peninsula, at prior hearings, the Subcommittee discussed deficiencies with public outreach around the Bakersfield to Los Angeles segment - the Subcommittee requested an outreach plan for this segment. Per the requirements in AB 105 (Statutes of 2011), the HSRA is required to submit to the Legislature by October 14, 2011, a complete legal analysis of the revenue guarantee and the updated financial plan. The draft business plan will be delivered by this date also. The language makes 25-percent of the HSRA 2011 Budget Act appropriations contingent on the reporting and 60-day legislative review.

Staff Recommendation: Approve trailer bill language to add the following elements to the October 14, 2011, reporting package:

- The public outreach plan for the Bakersfield to Los Angeles segment.
- The formal response and full analysis of the joint statement on the Peninsula.
- A formal response and full analysis of the issues raised in the May 10, 2011, LAO report.

Action: ***See consolidated HSRA actions on page 15.***

3. **Public Information and Communication Services Contract (January BCP #3 and May FL #5).** The Administration requests a total of $2.3 million from Prop 1A bond funds for the 2011-12 cost of a specialty contract with Ogilvy Public Relations Worldwide (Ogilvy) for communications and public outreach services. The amount of the funding request is $500,000 more than the funding provided for 2010-11.

Background / Detail: The HSRA signed a five-year, $9 million contract with Ogilvy to provide this service. Ogilvy also has several subcontractors. The contract requires Ogilvy to coordinate the various regional outreach activities related to the environmental review process and supplements those efforts with statewide communications including but not limited to stakeholder ourtreach, Web site and social media activities, legislative tracking, event planning, and the production of written materials such as fact sheets.

The May Finance Letter includes a chart with details on planned expenditures by categories. The table below was prepared by Subcommittee staff based on the information in the letter:

Task	**Budget**	**Comment**
Outreach - via attendance and meetings, phone calls, etc.	$880,000	Performed by Ogilvy and regional subcontractors
Lobbying - in Sacramento and Washington DC	$360,000	One lobbyist subcontractor in Sacramento, two in DC
Media – purchase of advertisements for outreach	$350,000	Online, newspapers, radio, outdoor
Media – monitoring and contact with media	$120,000	Includes drafting press releases
Website – content and maintenance	$165,000	Including social media
Advising HSRA – message development, board meetings, written material	$220,00	Including strategic counsel, planning and executing public meetings
Printing, Production and Mail Costs	$100,000	Includes mail distribution of postcards, fact sheets
Research	$75,000	Researching and writing documents such as white papers
Administration	$30,000	Cost of producing summary reports and submitting invoices
Total	**$2,300,000**	

Staff Comment: Staff has listed the Ogilvy deliverables in detail because concerns have been raised about the nature of the contract activities. When the Legislature originally approved funding for the contract, the focus was on outreach to members of the general public. The workplan also indicates Ogilvy and subcontractors are engaged in lobbying legislators, advising the HSRA on message, doing research, and purchasing advertising.

Another question is the whether some of these activities can be, or should be, performed by State staff. For example, the HSRA currently has incumbents in the positions of Director of Communications and Outreach, and Information Officer. Three additional positions are either approved and vacant, or requested in the May Finance Letter, for that unit. According to the organizational chart provided, the five people in the unit would be located in Sacramento with none reporting to the three Regional Director positions.

The Subcommittee may want to consider reducing budget funding for this contract based on this analysis:

- Increase public outreach by adding three state positions (and appropriate funding – about $300,000) that would be regionally located and report to Regional Directors. Decrease consultant funding for this purpose by half ($440,000). The HSRA should also study best-practices for how to use consulting resources along with State staff to facilitate discussion and to develop two-way communication with the public.
- Delete funding for lobbying ($360,000). State legislators can meet directly with HSRA staff, and the Governor has representatives in Washington DC to advocate for the State's interests.
- Delete funding for unspecified research ($75,000).
- Reduce the remainder of the contract funds by half ($493,000) since existing and new State staff in the area of communications, website maintenance, etc., should be able to perform these functions within their current job duties.

If all of the above actions were adopted, budget funding would be reduced by $1,068,000, resulting in remaining funding of $1,232,000.

The Legislature may want to consider an audit by the Bureau of State Audits (BSA) or the Department's Office of State Audits and Evaluations (OSAE).

Staff Recommendation: Reduce budget funding from $2.3 million to $1.2 million.

Action: See consolidated HSRA actions on page 15.

4. HSRA Staffing Request (May FL #2): In the May Revision, the Administration requests a funding increase of $1.4 million and approval of 15 new positions. No new positions were requested in the January budget, so these positions would be added to the 2010-11 base, resulting in a total of 54 authorized positions. The HSRA reported at a recent hearing that about 20 of the currently authorized positions are still vacant.

Detail: An updated organization chart was provided by the HSRA and is an attachment at the back of this agenda. Of the 15 positions requested: 4 would be in the area of budget and finance; 2 would be for contract oversight; 7 would be for right-of-way, including 2 in the Central Valley; and 2 would be information officers in the communications and public outreach area.

Staff Comment: The HSRA should update the Subcommittee on the status of filling state positions, including: (1) positions currently filled; (2) status of the salary survey and filling of exempt positions; and (3) status of exemptions from the hiring freeze and the target date to fully staff the Authority.

Since the HSRA currently has a significant number of vacancies, and this request would add 15 new positions, it is unlikely the HSRA will fill all 35 or so position by July 1. To the extent the HSRA cannot fully fill vacancies by July 1, there will exist excess budget authority. The HSRA should explain their timeline for filling vacancies in 2011-12 and the budget funding should be adjusted to reflect that hiring plan.

Staff Recommendation: Approve the request, but as appropriate, reduce funding on a one-time basis to conform to the expected hire dates for the new positions.

Action: See consolidated HSRA actions on page 15.

5. **Other Budget Change Proposals and Finance Letters:** The Administration submitted the following budget requests:

- **Program Management Contract (Part of COBCPs #1-7, as modified by May Finance Letters):** The Administration requests a total of $58.5 million from Prop 1A bond funds and federal funds for the 2011-12 cost of the program-management contract. This funding request includes about $9.4 million that is paid to resource agencies and other third parties for environmental review and other deliverables related to project development.
- **Program Management Oversight Contract (BCP #1):** The Administration requests a total of $3.0 million from Prop 1A bond funds for the 2011-12 cost of the program-management oversight contract. The funding request is $1.0 million higher than the amount provided for 2010-11.
- **Financial Plan and Public Private Participation Contracts (BCP #4).** The Administration requests a total of $750,000 from Prop 1A bond funds for the 2011-12 cost of financial consulting services, including development of a Public Private Partnership Program (P3) plan. A total of $1.0 million was provided in the 2010-11 budget for this same purpose.
- **Interagency Contracts for DOJ, DGS, and Caltrans (BCP #7, and May FL #4).** The Administration requests an augmentation of $1.1 million in Prop 1A bonds to add to base funding of $359,000 for inter-departmental legal and general services performed by the Department of Justice (DOJ) and the Department of General Services (DGS). The Administration also requests $1.3 million for contracts with Caltrans for workload related to where the high-speed rail system would intersect with the state highway system. Budget language would allow the funding for Caltrans to increase by up to $1.0 million should additional workload be identified.
- **Information Technology (IT) Services Contract (May FL #1):** The Administration requests an augmentation of $745,000 to address IT needs for hardware, software, and related services. The California Technology Agency indicated this funding level was reasonable for a department of this size and activity; however, the funding is requested as one-time, because an analysis will be performed on the benefit of hiring new HSRA positions to perform some of the workload.
- **Engineering contracts for preliminary design and environmental impact reports (Part of COBCPs #1-7, as modified by May Finance Letters):** Excluding the amount for the Program Management Contract (which is discussed separately as issue #4 in this agenda), the Administration requests a total of $122.0 million for the 2011-12 cost of multiple contracts to continue work on the project-level environmental impact reports and preliminary design. Of this amount, $75 million would be appropriated in the 2011 Budget Act and $47 million would be unused funds from 2010-11 that carry-over to 2011-12. The cost would be funded 50-percent Prop 1A funds and 50-percent federal stimulus funds.

Staff Comment: Most of the above activities are continuations of activities funded in prior years.

Staff notes one issue is not included in the budget request that was funded last year. In April 2009, HSRA signed a multi-year Memorandum of Understanding (MOU) with Caltrain, whereby the HRSA would fund a portion of the Caltrain cost of cooperative planning activities on the HSRA corridor. The amount included for this purpose in the 2010-11 budget was $1.6 million. Staff understands the funding necessary to continue this workload in 2011-12 is $1.1 million – consistent with the provisions of the MOU.

Staff Recommendation: Approve these requests, with the addition of about $1.1 million to fund the 2011-12 cost of the 2009 MOU with Caltrain.

Action:

MOTION #1 – adopted on a 2 – 1 vote with Senator Fuller voting "no":

(a) Adopted budget bill language that prohibits the HSRA from signing design-build contracts in FY 2011-12. Adopted budget bill language that prohibits the HSRA from purchasing right of way in 2011. (reference agenda issue #1)
(b) Approved May Finance Letter #2 that provides $1.4 million to establish 15 new positions. (reference agenda issue #4)
(c) Approved the budget change proposals and finance letters listed in issue number 5 on page 14. (reference agenda issue #5)
(d) Approved funding for the 2011-12 cost of the 2009 HSRA MOU with CalTrain – an amount of $1.1 million. Approved budget bill language for the San Francisco to San Jose segment that requires the environmental and design work to stay substantially within the existing rail corridor for the sections in Santa Clara and San Mateo counties. (reference agenda issue #5)
(e) Approved trailer bill language that would revise current law to change from 25-percent to 50-percent the amount of 2011 Budget Act funding that is contingent on October 14, 2011, reporting and 60-day Joint Legislative Budget Committee Review. (reference agenda issue #1 and #2)

MOTION #2 – adopted on a 3 – 0 vote: Approved trailer bill language to add the following elements to the October 14, 2011, reporting package:

- ***The public outreach plan for the Bakersfield to Los Angeles segment.***
- ***The formal response and full analysis of the joint statement on the Peninsula.***
- ***A formal response and full analysis of the issues raised in the May 10, 2011, LAO report. (reference agenda issue #2 for this motion)***

MOTION #3 – adopted on a 3 – 0 vote: Approved January BCP #3 as modified by May Finance Letter #5 to provide $2.3 million for the public information and communication services contract. Added budget bill language that HSRA shall step up efforts for public outreach in the Central Valley, consistent with the current plan of the HSRA Board to make that the initial segment for construction. (reference agenda issue #3)

2660 Department of Transportation

Department Overview: The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The Department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

Budget Overview: The January Governor's Budget proposed total expenditures of $12.8 billion ($83 million General Fund) and 20,377 positions, a decrease of about $332 million and a decrease of 249 positions over the revised current-year budget.

Current Budget Status: The Legislature approved the Caltrans baseline budget and a number of Budget Change Proposals (BCPs) in March but rejected some proposals without prejudice to allow for further review. Those BCPs that were rejected without prejudice and new April and May Finance Letters are included in this agenda.

Issues proposed for Vote Only:

1. **Clean Energy Renewable Energy Bonds (CREBs) - Reappropriation (May FL #13):** The Administration requests a reappropriation to utilize the remaining $2 million from the $20 million CREBs program initially authorized in the 2008-09 budget. CREBs are a federal energy program that helps finance solar-generated electricity projects. Caltrans was authorized to issue $20 million in CREBs to place solar panels on 70 state office buildings and maintenance facilities. The bonds are repaid over 16 years with annual debt service payments of $1.2 million. The funding for the debt service payments comes from utility savings that result from the installation of the photovoltaic systems on department facilities. CREBs are authorized as part of the federal Tax Incentives Act of 2005, and provide qualified borrowers the ability to borrow at a 0% interest rate. Caltrans indicates the program has been successful, but that installation of 4 of the 70 projects will be delayed past 2010-11, and a reappropriation is necessary to complete those last four projects.

   Staff Recommendation: Approve this request.

   Action: Approved on a 3 – 0 vote.

2. **Construction Management System (CMS) – Reappropriation (May FL #10):** The Administration requests approval of a revised project budget and expenditure schedule for CMS that anticipates project completion in 2013-14 and conforms to the lastest Special Project Report (SPR) dated February 2011. The project was originally approved by the Legislature in 2006-07 and at that time had a one-time cost estimate of $21.0 million – the updated cost estimate in this Finance Letter is $22.8 million. The project would replace the 35-year old legacy system known as the Contract Administration System (CAS) with a customized commercial-off-the-shelf (COTS) application. The new system would allow better expenditure tracking by project and is estimated to produce annual savings from cost avoidance of about $18.8 million from a combination of reducing bad payments to contractors and reducing federal ineligibility notices. The project has been modified and delayed over the years due to procurement issues and to comply with the direction of control agencies including the California Technology Agency.

   Staff Recommendation: Approve this request.

   Action: Approved on a 3 – 0 vote.

3. **Fuel Cost Increase (January BCP #2):** The Administration requests a permanent increase of $1.7 million (State Highway Account) to the department's fuel budget. Caltrans assumes fuel prices will average $3.17 per gallon in 2011-12, instead of the baseline level of $3.06 per gallon. This would bring Caltrans' total fuel budget up to $43.3 million – the department consumes about 13.6 million gallons of fuel per year. This request was rejected without prejudice in February so that the updated forecast of fuel prices could be considered with the May Revision. While fuel prices at the pump have continued to increase since February, the Administration did not submit a revised forecast or budget request with the May Revision. It seems likely fuel prices in 2011-12 will meet or exceed the $3.17 per gallon mark, but the Administration indicates it intends to absorb any cost increases within their existing budget.

   Staff Recommendation: Approve this request.

Action: Approved on a 3 – 0 vote.

4. **Local Reimbursements for Public Private Partnerships (P3) (May FL #9):** The Administration requests an increase in reimbursement authority of $1.6 million to receive funding from local governments to review locally-sponsored P3 proposals for the state highway system. P3 projects generally have construction financed by a private partner, with debt repaid with new toll revenues. Last year, the prior Administration requested $4.5 million for this purpose funded from the State Highway Account. The Legislature rejected the funding, but did allow an augmentation of up to that amount if workload materialized and with reporting to the Joint Legislative Budget Committee (JLBC). In March 2011, Caltrans submitted a request for $4.5 million to the JLBC. The Legislative Analyst reviewed the request and found little or no cash was needed for expenditures in 2010-11. Accordingly, JLBC objected to the request and directed Caltrans to pursue a Finance Letter through the normal budget process. In the May Finance Letter, Caltrans has changed direction by reducing the amount and requiring the project sponsor to reimburse for the cost. Caltrans indicates the cost is reduced, because at this point they will only hire fiscal consultants, not legal consultants. The anticipated projects for review are the same as those cited last year – the Bay Area Express Lane Network, the I-710 North Gap project, and the I-710 Freight Corridor. After Caltrans completes its review and recommendations, the project sponsors can submit the request to the California Transportation Commission for their review.

   Staff Recommendation: Approve the request.

Action: Approved on a 3 – 0 vote.

5. **Proposition 42 Maintenance-of-Effort (MOE) for Santa Rosa:** Representatives of the City of Santa Rosa are requesting budget trailer bill language to provide additional time to meet the MOE requirements for Proposition 42 revenue received by the city in 2009-10. A budget trailer bill adopted last year, SB 525 (Cogdill), provided similar flexibility for the County of Fresno. Due to the fuel tax swap, starting in 2010-11, Prop 42 sales-tax revenue is eliminated and local funding is backfilled with new fuel excise tax revenue. The excise tax revenue and related statutory provisions do not include MOE requirements. Due to economic hardship in 2009, the City of Santa Rosa, like the County of Fresno, was unable to meet the MOE requirement within that fiscal year. SB 524 still requires that the MOE be met, but extends the deadline until 2014-15. No counties or cities, other than the County of Fresno and the City of Santa Rosa, have requested such relief.

   Staff Recommendation: Approve placeholder trailer bill language that would grant additional time for the City of Santa Rosa to meet 2009-10 Prop 42 MOE requirements – similar to language adopted last year for the County of Fresno.

Action: Approved on a 3 – 0 vote.

Issues proposed for Discussion and Vote:

6. **Weight Fee / Transportation Loan Proposal (Governor's May Revision):** The Governor's May Revision budget includes new trailer bill language that would revise the loan repayment schedule for prior loans from transportation special funds to the General Fund. This revised repayment schedule would provide General Fund relief in 2012-13 and through 2020-21 in three ways. First, outstanding loans to the General Fund, derived from truck weight fee revenue would be directed upon repayment to fund transportation-related bond debt (about $971 million in outstanding loans fall into this category). Second, outstanding transportation loans to the General Fund not associated with truck weight fees, would have statutory repayment dates extended to 2020-21, with the intent to pay them prior to 2020-21, but as the General Fund is able (about $358 million in outstanding loans fall into this category). Third, authority would be added to allow new loans of weight fee revenue to the General Fund if weight fee revenue falls below applicable bond debt service in a given year (the Administration believes this could occur in 2012-13 and 2013-14 for a total of $171 million in new loans, but does not actually score this in the multi-year projection of General Fund revenues).

A Brief History of the Fuel Tax Swap: The fuel tax swap was enacted in early 2010 to increase the flexibility of transportation funds so that additional funds could be utilized to pay debt service on transportation-related general obligation (GO) bonds, and to provide General Fund relief. The largest component of the swap involved eliminating the state sales tax on gasoline and increasing the gasoline excise tax. Since there are different constitutional and voter-initiative restrictions on these different taxes, the swap provided additional flexibility for these revenues. The package provided benefits for both highways and transit. The highway and local streets and roads funding of Prop 42 (part of the sales tax), was fully protected – with additional revenue available in the out-years. Funding for transit operations, which had been suspended for a four and one-half year period, was restored early, and ongoing funding was set at a high level of $350 million.

Proposition 22 and Proposition 26: These two propositions, approved by voters at the November 2010 election, both have implications for the fuel tax swap. Proposition 22 prohibits loans to the General Fund from gasoline-excise-tax revenue and from Public Transportation Account (PTA) revenue, and restricts the use of gas-excise revenues for GO debt. Prop 22 also requires that base transit revenue be divided 50 / 50 between local transit operations and State programs instead of the 75 / 25 respective split that was part of the Fuel Tax Swap. Prop 26 created a risk that the fuel tax swap would become void in November 2011.

March 2011, Budget Action. The Governor proposed action in his January Budget to modify the fuel tax swap to conform to the requirements of Prop 22 and Prop 26. The Legislature enacted, and the Governor signed, AB 105 in March, which reenacted the fuel tax swap with a two-thirds vote, and modified the financing of debt service such that truck weight fees would be directed to that purpose instead of gasoline excise tax revenues. The March package also directed weight fee revenue not needed for GO debt to the General Fund as a loan (about $841 million). Transportation interests were generally supportive of AB 105 because it preserved both transit funding and highway funding that was at legal risk with the passage of Prop 22 and Prop 26. The modified fuel tax swap retained most of the components of the original fuel tax swap, but because truck weight fee revenue was less than excise tax revenue, a new “cap” of about $900 million was placed on the amount of transportation revenues eligible to reimburse GO bond debt. Since transportation bond debt is expected to exceed annual truck weight fee revenue in 2014-15, the amount of out-year General Fund solution was reduced by the modified fuel swap.

Future Forecast of Revenue and Bond Debt: Current statute contains formulas to distribute excise tax revenue, which is somewhat volatile due to the revenue-neutral provisions that result in a new excise tax rate every July 1. Truck weight fee revenue is less volatile, but the amount of applicable GO debt service in any given year is also subject to change based on the timing of future bond sales. With those caveats stated, the Administration has provided a forecast of the net new benefit available to highways and local roads with the modified fuel tax swap.

Forecast of new revenue to highways and roads from modified Swap
($ in millions)

	2011-12	2012-13	2013-14	2014-15
Highway Rehabilitation (SHOPP)	$202	$224	$284	$256
Highway Capacity (STIP)	$120	$256	$431	$287
Local Streets and Roads	$120	$256	$431	$287
TOTAL net new benefit of swap	$442	$736	$1,146	$830

Forecast of weight fees and debt service
($ in millions)

	2011-12	2012-13	2013-14	2014-15
Weight Fee Revenue	$910	$918	$930	$943
Applicable GO Bond Debt Service	$778	$756	$919	$1,192
Surplus / (Deficit) for Bond Debt	$132	$162	$11	($249)

As the first table indicates, the modified fuel tax swap is expected to result in significant new revenues for highways and roads – about $3.0 billion over the four-year period through 2014-15. However, as the second table indicates, a deficit emerges for GO debt service in 2014-15 that represents an eroded General Fund solution of $249 million relative to the original 2010 fuel swap. The Administration’s trailer bill would direct some of the loan repayment to this GO debt service to restore the General Fund solution in the out-years.

Staff Comment: Because the original fuel tax swap included a higher level of General Fund relief for debt service than achieved with the March modified fuel tax swap, the proposed trailer bill would seem reasonable within the general intent to maintain the structure of the original fuel swap where constitutionally allowable. Since none of the proposed amendments affects the 2011-12 budget, a question arises over the need to take this action now. The Administration's response is that they want to fully address the multi-year General Fund problem and not delay action when needed. Additionally, acting now would reduce uncertainty for the California Transportation Commission (CTC) as they update the 5-year Fund Estimate for transportation funding. While the Subcommittee may want to consider approving the revised repayment schedule for *existing* loans, the Subcommittee may want to reject the proposal to allow *new* special fund loans to the General Fund in 2012-13 and 2013-14. The Administration believes a total $173 million might be available for new budgetary loans; however, they do not score this in their long-term General Fund revenue projections. These future loans would be from weight fee revenue that would already be set aside for bond debt, so there is no impact on the CTC Fund Estimate, and the Legislature could always grant this authority as part of next year's budget if needed.

Staff Recommendation: Approve placeholder trailer bill language that modifies the schedule for repayment of *existing* loans, but reject the language to provide authority for *new* loans.

Action: Approved staff recommendation on a 3 – 0 vote.

7. **Proposition 1B Budget Request (January Budget as modified by May FL #12):** In January, the Governor requested $2.4 billion in Prop 1B bond funds for programs administered by Caltrans - the Legislature approved this funding level as a placeholder amount. In May, the Administration submitted an updated request that recognizes about $2.0 billion appropriated for Prop 1B in prior years has not been allocated and will revert in June 2011. Due to the reversion and the revised estimate of new project allocations, the Governor is now requesting an increase in the appropriation of $1.0 billion. The table below indicates detail by program. (dollars in millions):

Proposition 1B Category	Total 1B Amount	January Request for 2011-12	May Revision Additional Request for 2011-12	Total
Corridor Mobility Improvement Account (CMIA)	$4,500	$631	$594	$1,225
State Transportation Improvement Program (STIP)	$2,000	$0	$0	$0
State Highway Operations and Preservation Program (SHOPP)	$500	$0	$48	$48
State Route 99 Improvements	$1,000	$392	$135	$527
Local Bridge Seismic Retrofit	$125	$22	-$8	$14
Intercity Rail	$400	$117	$0	$117
Grade Separations	$250	$0	$0	$0
Traffic-Light Synchronization	$250	$0	$0	$0
Trade Infrastructure	$2,000	$972	$192	$1,164
State/Local Partnership	$1,000	$200	-$35	$165
Local Streets & Roads	$2,000	$37	$0	$37
Transit	$3,600	$0	$123	$123
TOTAL for these programs	**$15,625**	**$2,371**	**$1,047**	**$3,418**

Status of bond sales: The May Revision indicates that the Administration will reduce the size of the Fall 2011 general obligation bond sale from $5.8 billion to $1.5 billion. Of the reduced sale, about $530 million is tentatively reserved for Prop 1B bonds. Additionally, as of April 2011, about $2.7 billion in cash proceeds remain for Prop 1B projects from prior bond issuances. The Administration believes the cash on-hand, plus the additional $530 million, would provide sufficient funds to support Prop 1B projects until the next planned bond sale in the Spring of 2012. By reducing the fall bond sales by $4.3 billion, the Administration indicates it will realize General Fund savings of $127 million in 2011-12 due to associated interest savings. Staff notes that due to the modified fuel tax swap and truck weight fees, the majority of Prop 1B General Fund costs are reimbursed from transportation funds.

Cash plan for Prop 1B programs: In recent years, the ability to sell bonds and the size of a bond issuance have been more of a constraint on Prop 1B projects than the level of funds appropriated by the Legislature. The Administration is reducing bond sales and closely managing cash to reduce interest costs, but this creates risk and possible delays for projects. Staff are working with the Administration to develop a statutory reporting requirement that would provide additional information to the Legislature on the Prop 1B bond program and expenditure projections.

Staff Recommendation: Approve the May Letter, but also approve placeholder reporting trailer bill language, that would require the Administration to share their analysis related to the Fall 2011 bond sale (for all GO bonds) and detail the cash expenditure plan for Prop 1B programs.

Action: Approved staff recommendation on a 3 – 0 vote.

8. Air Quality Mandates – Equipment Retrofit and Replacement (BCP #1): In the January budget, the Governor requested an augmentation of $63.2 million from the State Highway Account (SHA) on a one-time basis to comply with various air quality control mandates. The Legislature rejected this request without prejudice to allow additional time for review. The following Table summarizes the costs:

Summary of Equipment Compliance Costs				
Mandate	**Compliance Strategy**	**# of Equip.**	**Cost (in 1000s)**	**Type of Request**
ARB On-Road Heavy Duty Diesel Vehicles (On-Road)	Replace	497	$60,381	One-Time
ARB Air Toxic Control Measures (ATCM)	Replace	3	$1,404	One-Time
	Repower	1	$40	One-Time
ARB Large Spark Ignition (LSI)	Replace	7	$295	One-Time
US EPA Diesel Emission Standards (US EPA 10)		128	$1,152	One-Time
Total		**636**	**$63,272**	

Background: The Department developed their compliance plan in coordination with the Air Resources Board (ARB). At the April 28, 2011 hearing, ARB representative testified that no changes were anticipated to the compliance plan or ARB regulations.

Governor's Fleet Reduction Executive Order: The Governor issued Executive Order B-2-11 on January 28, 2011, which requires state agencies to conduct an analysis of their fleets and equipment and submit the analysis to the Department of General Services (DGS). The executive order also requires the Department of Finance to adjust departmental budgets to reflect any savings. If Caltrans reduces its fleet pursuant to the order, there could be some resulting savings from reduced vehicle replacement. This issue was held open at the April 28 hearing at the recommendation of the Legislative Analyst so that budget modifications could be made to conform the budget request to savings that might be achieved from the executive order.

LAO Recommendation: The Analyst recommends that the funding be approved, but that budget bill language be added that would direct the Department of Finance to reduce the funding level if the Governor's Fleet Reduction Plan results in cost savings. Any costs savings would be directed to pavement maintenance.

Staff Recommendation: Approve with the addition of budget bill language suggested by the LAO.

Action: Approved request with the addition of LAO budget bill language on a 2 – 1 vote, with Senator Fuller voting "no".

9. **Project Initiation Documents (PIDs) – Staffing and Funding (BCP #4 as modified by May FL #11):** *In the January budget*, the Administration proposed to increase budgeted positions for PIDs workload from 242 positions to 260 positions and also shift the funding for 66 of these positions from State Highway Account (SHA) to local reimbursements. A “PID” is a preliminary planning document, or tool, that includes the estimated cost, scope, and schedule of the project—information needed to decide if, how, and when to fund the project. At the April 28 hearing, the Subcommittee rejected the reimbursement funding for locally sponsored highway projects and instead funded all PIDs out of the SHA – the Assembly Subcommittee took the same action. The overall funding for PIDs was budgeted at $33.0 million. *In the May Revision request*, the Administration modifies their January proposal by deleting reimbursement funding of $7.5 million and eliminating 74 positions – instead trailer bill language is proposed that would allow Caltrans to increase reimbursement authority administratively when local governments request PIDs services and sign cooperative agreements to reimburse costs. The May Letter zero-bases the workload for State Highway Operations and Protection Program (SHOPP) PIDs and adds, or adds back, 78 positions and $8.6 million that is needed for that purpose.

Recent History of PIDs Issues in the Budget: In the proposed budget for 2009-10, Governor Schwarzenegger proposed to shift $2.5 million in PIDs funding from SHA to local-reimbursed funding. The Legislative Analyst performed a zero-based analysis of the program and suggested it was significantly overstaffed and recommended that all PIDs work for projects that would be locally funded at the capital phase (local PIDs) should be funded with local reimbursements. The local reimbursement funding was intended to provide a mechanism to self-regulate the volume of PIDs workload (because locals would not request more PIDs than was warranted under capital-funding estimates) and a dialog would begin between Caltrans and locals on the appropriate PID scope and cost for local PIDs. In the 2009 May Revision, the Administration basically concurred with the LAO direction and proposed a staff decrease and reimbursements for local PIDs. The Legislature ultimately approved the staff reduction, but rejected the shift to reimbursements. There was no veto of the funding.

In the proposed budget for 2010-11, Governor Schwarzenegger again proposed to shift PIDs for locally-funded projects on the state highway system to reimbursements. The total PIDs resources were proposed at 309 positions with 78 positions reimbursed. The Legislature approved 11 positions to be reimbursed by the High-Speed Rail Authority, but believed the “local” PIDs should continue to be funded with SHA instead of reimbursements. The Governor vetoed the 67 positions budgeted with SHA funds, and indicated the positions should be reimbursed. Since the Governor cannot augment reimbursement authority through a veto, the final 2010-11 budget reflects the elimination of $7.4 million SHA and 67 positions. However, if locals did desire to fund the work through reimbursements, there are administrative mechanisms to receive the reimbursements.

The proposed budget for 2011-12 again includes a shift of local PIDs funding from SHA to reimbursements. The table below shows the budgeted positions for PIDs with the original base level in 2008-09, the revised base for 2010-11, and the proposed level for 2011-12.

	PIDs Staffing		
	State Highway Account (SHA) funded	*Reimbursement funded*	Total PID Workload
2008-09 Base	456 positions	0 positions	456 positions
2010-11 (Legislature's budget)	298 positions	11 positions	309 positions
2010-11 (after Governor's veto)	231 positions	11 positions*	242 positions
2011-12 Governor - May Revision	261 positions	3 positions plus TBL to augment	264 positions
2011-12 Legislative Action in April as modified by May SHOPP and HSRA workload adjustment	336 positions	2 positions (for HSRA)	338 positions

* The prior Governor vetoed $7.4 million SHA and 67 positions in the 2010-11 budget with the intent to administratively fund these same positions as reimbursed – if this was successful, then 78 positions might be funded with reimbursements in 2010-11.

Goals and Options: While there have been different approaches to finance PIDs, there are common goals for the PIDs program. The first goal is to appropriately staff Caltrans to produce the number of PIDs necessary to evaluate and program projects. Staffing should be sufficient to avoid any delays for funded projects, but also not too large so that scarce dollars are wasted on too many PIDs for projects without funds to build. The second goal is to size and scope each PID to provide sufficient information for decisions makers, but not include supplemental detail that is not needed for the decision makers and that adds cost and time. The LAO and the Department of Finance have believed these goals are best addressed for local PIDs by internalizing costs at the local level. An alternative option is to retain SHA funding and task the Administration with better management and allocation of PIDs workload, so that Caltrans staff are sized and deployed for local projects to match local capital resources.

April 1, 2011, Report: Last year's budget included the adoption of Supplemental Report Language (SRL) to require that the Department report back to the Legislature on local PID workload during 2009-10 and 2010-11 so that there would be a stronger basis for evaluating the proposed policy shift. The report must include information on the PIDs requested by locals including funding source for the capital-phase of the project and timelines for the individual projects. The report indicates reimbursement agreements on 3 projects have been completed and another 15 are being negotiated. However, these represent only a small fraction of the anticipated reimbursable workload.

April 19, 2011, Caltrans Letter to Locals: In a letter dated April 19, 2011, Caltrans informed locals of interim guidance for the development of PIDs. The letter indicates that, effective immediately, all PIDs developed for the State Transportation Improvement Program (STIP) and special funded projects will use the Project Study Report-Project Development Support (PSR-PDS) process. The letter says that the PSR-PDS is a streamlined PID document that does not require the same level of engineering detail as the traditional Project Study Report (PSR). The amended PID guidance on PSR-PDS development is expected to be completed by July 1, 2011.

April 28, 2011 Subcommittee Hearing: As indicated, the Subcommittee voted on April 28 to fund PID work from the State Highway Account instead of local reimbursement for those projects where local governments fund the capital cost of work on the state highway system.

Staff Comment: The contract required with locals for a PIDs reimbursement appears to currently be a lengthy process that can result in a six-month delay. The staff at Caltrans has been reduced to zero-base the workload and Caltrans has – as of April 19, 2011 – implemented a streamlined PID. The May Letter indicates the streamlined PID process is reflected in the revised staffing calculations. Major reforms have been implemented for the program including zero-basing staffing and streamlining PIDs. Using local reimbursement as a mechanism to drive the reform may not be necessary and may produce new inefficiencies such as the need for negotiating cooperative agreements for each project.

Staff Recommendation:

- Approve the Governor's revised workload number for highway rehabilitation (SHOPP) PIDs and approve an augmentation of 78 positions and $8.6 million (State Highway Account).
- Reject proposed trailer bill language and other changes in conflict with the Subcommittee's April 28 action.
- Approve 2 positions for High-Speed Rail Authority (HSRA) workload (reimbursed from Prop 1A bond funds). If in conflict with final action in the HSRA budget, action in the HSRA budget is controlling.

Action: On a 2 – 0 vote, with Senator Fuller not voting, approved staff recommendation, but reduced the total number of positions by 24 for a new total of 314 positions consistent with the Administration's updated workload estimate.

10. **Capital Outlay Support (COS) Workload (May FL #8).** The Administration requests a net budget increase of $60.4 million (various special funds, bond funds, and federal funds) to increase consultant engineering contracts by 122 positions, or Full Time Equivalents (FTEs), and to fund the cost escalation for the base-level of consultant contracts. This request would result in a total COS budget of $1.9 billion and 10,756 FTEs in state and contract resources (9,120 state staff positions, 398 state-staff overtime FTEs, and 1,238 FTEs of contract staff). Within the $60.4 million request, is $1.3 million in one-time funding for long-term travel assignments to move construction oversight staff across regions due to temporary workload imbalances. The cost of consultant engineering contracts has increased from the $213,000 per FTE budget in 2010-11 to $243,000 per FTE requested in the Finance Letter. As a way to address this cost escalation, the Administration is proposing trailer bill language for a pilot program that would involve 122 FTEs of contract work. The pilot would involve modifying procurement so that firms bid on specific projects, instead of bidding on the hourly price of engineering services. The budget assumes this pilot will bring costs down to $209,000 per FTE for the pilot subset of projects. Finally, four positions, and budget bill language is requested for workload related to the High Speed Rail Authority.

Background on Annual COS Budget Request: Each year, Caltrans zero-bases its project workload based on the program of projects adopted by the California Transportation Commission. Relative to other areas of the budget, COS staffing sees large fluctuations in staffing as transportation funds ebb and flow – Proposition 1B and American Recovery and Reinvestment Act (ARRA) funds being recent examples of new revenues that could not have been anticipated in the years prior to their enactment. The COS workload is addressed primarily by state staff (in regular time and overtime), who historically have performed 90 percent of the project work. The remainder of the workload is addressed by contract staff, who historically have performed 10 percent of the workload. While state staff is less expensive than contract staff ($158,000 for state staff position, $96,000 for state staff overtime FTEs, and $243,000 for contract staff), a contingent of contract staff has been seen as beneficial to perform specialty work, such as the Bay Bridge replacement, and to provide more flexible staffing across districts and at times of large workload adjustments.

BSA April 2011 Report: In April, the Bureau of State Audits (BSA) released an audit report on Caltrans' COS program. The BSA findings from that report include the following:

- The BSA found that Caltrans has done little analysis to determine the frequency or magnitude of support cost budget overruns and inform stakeholders of cost overruns.
- For the years 2007-08 through 2009-10, 62 percent of the projects had support cost overruns. However, most of the cost overruns are explained by an increase in the hourly labor rates instead of exceeding the budget for hours.

- Caltrans' time-reporting system lacks strong internal controls, and better project monitoring and the use of performance metrics could help it minimize cost overruns.
- Caltrans' annual budget request process for the COS program was reasonable.

BSA Recommendations from April Report: To improve the department's administration of the COS program, the BSA suggests Caltrans institute improved tracking and reporting of budgets and expenditures. The following recommendations would require legislative action to fully implement:

- Adopt legislation to require Caltrans to improve its existing report to the Legislature by including addition summaries and analysis. The current report provides detail by project, but does not include useful summaries and measures.
- Adopt legislation to expressly require the California Transportation Commission to review and approve project construction support cost overruns for individual projects that exceed the budget by 20 percent.
- Appropriate funds for an independent study of the costs and benefits of using consultants to address temporary increases in workload.

Cost savings verses flexibility for COS: The Administration forecasts moderate reductions in workload over the next several years – a reduction in the range of 200 to 300 FTEs for 2012-13. However, there remains significant uncertainty about the level of federal funding over the next 5-year period. Due to this forecast reduction, the Administration indicates it prefers the more flexible (but more expensive) contract staff over state staff positions. The Administration does note that state-staff overtime is also a flexible resource, and it is a less costly alternative to contracting. If the forecast for 2012-13 proves accurate, a future reduction of 200-300 FTEs is clearly absorbable without layoffs, through attrition, reduced overtime, and reduced contracting out. To compare cost savings versus flexibility, the below table outlines four options for addressing the 122 FTE workload need.

Administration's Proposal:	Description	Cost
122 new contract staff	Flexible / costly	$60 million
Alternative Proposals:		
(a) 122 new state staff	Less flexible / less costly	$45 million*
(b) 61 new state staff plus 61 FTEs of state staff overtime	Moderately flexible / less costly	$43 million*
(c) 122 new FTEs of state staff overtime	Flexible / least costly	$41 million*

***** Subcommittee staff estimates

Staff Comment: Given the relatively stable outlook for COS workload over the next several years, the Subcommittee may want to consider a balanced approach such as alternative (b) on the prior table. That alternative would save about $17 million, keep staff overtime at a normal level, and maintain this historic average split of 90 percent state staff and 10 percent contract resources. (See the below table for a historical perspective on the COS workload.) As has been done in some past years, the Subcommittee my want to direct this savings, on a one-time basis, to preventative highway maintenance.

In terms of pilot program to reduce contract costs, the Subcommittee may want to adopt the Administration's assumption that about 122 FTEs of contract resources can be procured through an alternative negotiation that would result in a cost of $209,000 per FTE instead of $243,000. However, the trailer biller language proposed with this pilot is not legally needed to implement the pilot.

In terms of the BSA recommendations, the recommendation to improve the annual report to the Legislature has merit by making the information more useful to a broader audience. It may be premature to act on the recommendation to require CTC approval of support cost overruns at Caltrans without fully understanding the workload and staffing implications for the CTC. Finally, the BSA recommends new expenditures for a new study on the cost of contract resources versus state staff. However, the BSA report cites three prior studies that show either significant savings or equal costs for state staff over contract resources. It is unclear in these difficult fiscal times, if a new report would add value to the debate.

Historical and Proposed Capital Outlay Support Staffing
(measured in full-time equivalents (FTEs))

Year	State Staff	Overtime	Contract Out	Total
1997-98	7,538	351	1,176	9,065
1998-99	9,434	692	921	11,047
1999-00	9,854	546	592	10,992
2000-01	10,565	822	1,159	12,546
2001-02	11,072	650	1,646	13,368
2002-03	10,803	650	1,382	12,835
2003-04	10,245	303	500	11,048
2004-05	10,651	699	1,070	12,420
2005-06	10,815	710	1,568	13,093
2006-07	10,638	636	1,343	12,617
2007-08	11,064	668	1,393	13,125
2008-09	10,779	473	1,266	12,518
2009-10	9,901	450	1,166	11,517
2010-11	9,307	398	1,116	10,821
2011-12 as proposed	9,120	398	1,238	10,756
2011-12 Staff Recommenation	9,181	459	1,116	10,756

Staff Recommendation:

- Adopt the Administration's workload numbers but address the newly-identified workload need with less-costly state staff (61 positions, and 61 units of overtime) to save $17 million*.
- Direct the $17 million* in savings to preventative highway maintenance.
- Adopt the Administration's savings estimates from the procurement pilot project for contracts, but reject trailer bill language that is not necessary
- Adopt placeholder BSA trailer bill language to improve the annual report to the Legislature on the COS program.
- Approve 4 positions for High-Speed Rail Authority (HSRA) workload (reimbursed from Prop 1A bond funds). If in conflict with final action in the HSRA budget, action in the HSRA budget is controlling.

* The $17 million savings number is a Subcommittee staff estimate, because an Administration estimate was still pending when this agenda was finalized. The final scoring should reflect any necessary technical adjustments.

Action: On a 2 – 1 vote with Senator Fuller voting "no," approved the staff recommendation, but also added budget bill language that requires Caltrans to commission an independent study of the costs and benefits of using consultants to address temporary increases in workload, as recommended by Bureau of State Audits report 2010-122. In developing the report scope, Caltrans shall consult with the Department of Finance, the Bureau of State Audits, the Legislative Analyst's Office, and legislative staff.

Attachment I: High-Speed Rail Authority Organization Chart