Senate Budget and Fiscal Review—Scott Wiener, Chair
SUBCOMMITTEE NO. 5 **Agenda**

Senator Aisha Wahab, Chair
Senator María Elena Durazo
Senator Josh Newman
Senator Kelly Seyarto

Thursday, March 14, 2024
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State Capitol – Room 112

Consultant: Eunice Roh

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DISCUSSION

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

Issue 1: Transportation Budget Solutions

Governor's Budget. The Governor's Budget includes several modifications to transportation programs, which results in $296 million General Fund reductions, $791 million in fund shifts, and $3.2 billion in delays. More specifically, the Governor proposes the following:

- **Active Transportation.**
  - A reduction of $200 million from 2023-24.
  - A delay of $400 million from 2021-22 to $300 million in 2025-26 and $100 million in 2026-27.
- **Competitive Transit and Intercity Rail Capital Program (TIRCP).**
  - A delay of $2.1 billion from 2021-22 to $512 million in 2024-25, $564 million in 2025-26, $438 million in 2026-27, and $611 million in 2027-28.
  - A shift of $530 million from the General Fund to the Greenhouse Gas Reduction Fund (GGRF) in 2024-25 and 2025-26.
- **Formula TIRCP.**
  - A delay of $1 billion from 2024-25 to 2025-26.
  - A shift of $261 million from the General Fund to the GGRF in 2024-25.
- **Highways to Boulevards.**
  - A delay of $150 million from 2021-22 to $50 million in 2024-25, $50 million in 2025-26, and $50 million in 2026-27.
- **Port and Freight Infrastructure Program.**
  - A delay of $100 million from 2024-25 to 2026-27.
- **Port of Oakland.**
  - A reduction of $96 million from 2021-22.

In addition, the administration proposes trailer bill language to reflect these delays and reductions, as well as minor technical changes—particularly for the Ports and Freight Infrastructure Program, Formula TIRCP, and Highways to Boulevards.

Background. According to the LAO:

Recent Budget Packages Included Significant Augmentations for Transportation. The 2022-23 budget package planned for significant multiyear General Fund augmentations for transportation programs. In total, these augmentations intended to provide $10.9 billion over a five-year period. This included $9.5 billion through a Transportation Infrastructure Package and $1.4 billion through a Supply Chain Package. The augmentations represented unprecedented levels of General Fund for these types of programs, many of which historically have been supported with state transportation revenue sources. This anomalous General Fund spending was enabled by the significant tax revenue surpluses the state received—and expected to receive—over the past few years.

To help address the General Fund shortfall that began materializing last year, the 2023-24 budget made several modifications to the Transportation Infrastructure and Supply Chain packages. Specifically, the budget shifted costs for certain programs—such as the Active Transportation Program (ATP)—from the General Fund to the State Highway Account (SHA) and delayed funding for certain programs—such as the Port and Freight Infrastructure Program—to future years. Overall, the budget agreement sustained the same overall amounts for the various programs within each package across a multiyear period. The budget also allowed transit agencies facing operational funding shortfalls to use the $4 billion provided and planned for the formula-based component of TIRCP for operational (rather than just capital) expenditures. The figure below displays the multiyear funding totals for each package as revised by the 2023-24 budget agreement.

Transportation Funding Packages as Revised in 2023-24 Budget Agreement

General Fund Unless Otherwise Noted (In Millions)

Program	Department	2021-22 and 2022-23[a]	2023-24	2024-25	2025-26	2026-27	Totals
Transportation Infrastructure Package		**$4,550**	**$2,600**	**$2,000**	**$350**	**—**	**$9,500**
Competitive TIRCP	CalSTA	$3,650[b]	—	—	—	—	$3,650[b]
Active Transportation Program	Caltrans	750	$300[c]	—	—	—	1,050[c]
Highways to Boulevards Pilot Program	Caltrans	150	—	—	—	—	150
Grade separation projects within competitive TIRCP	CalSTA/Caltrans[d]	—	—	—	$350	—	350
Local climate adaptation programs	Caltrans	—	200[c]	—	—	—	200[c]
Formula-based TIRCP	CalSTA	—	2,000	$2,000	—	—	4,000
Clean California Local Grant Program	Caltrans	—	100	—	—	—	100
Supply Chain Package		**$670**	**$250**	**$250**	**$210**	**—**	**$1,380**
Port and Freight Infrastructure Program	CalSTA	$600	$200[c]	$200	$200	—	$1,200[c]
Supply chain workforce campus	CWDB	30	40	40	—	—	110
Port operational improvements	Go-Biz	30		—	—	—	30
Increased commercial driver's license capacity	DMV	10	10	10	10	—	40

Other		**$280**	**$410**	**$230**	**$230**	**$230**	**$1,380**
Port of Oakland improvements	CalSTA	$280	—	—	—	—	$280
Zero-Emission Transit Capital Program	CalSTA	—	$410[e,f]	$230[e]	$230[e]	$230[e]	1,100[e, f]
Totals		**$5,500**	**$3,260**	**$2,480**	**$790**	**$230**	**$12,260**

[a]Funding for Transportation Infrastructure Package and Supply Chain Package were provided as part of the 2022-23 funding agreement, but some funding was scored to 2021-22.

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

[c]Includes funding from the State Highway Account.

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

[e]Includes funding from the Greenhouse Gas Reduction Fund.

[f]Includes funding from the Public Transportation Account.

TIRCP = Transit and Intercity Rail Capital Program; CalSTA = California State Transportation Agency; Caltrans = California Department of Transportation; CWDB = California Workforce Development Board; Go-Biz = Governor's Office of Business and Economic Development; and DMV = Department of Motor Vehicles.

The figure above also displays $1.4 billion included for certain other significant transportation spending not adopted as part of the two thematic packages. This includes $1.1 billion planned across 2023-24 through 2026-27 from various special funds to support the Zero-Emission Transit Capital Program. This new program was created as part of the 2023-24 budget package to further support transit agencies across the state. The program provides formula funding for agencies to purchase zero-emission transit vehicles and related infrastructure and—for those agencies facing operational funding shortfalls—also can be used to cover operational expenses. The figure also includes $280 million from the General Fund provided as part of the 2021-22 budget package to support infrastructure improvements at and near the Port of Oakland.

State Faces a Multiyear, Multibillion-Dollar Budget Problem. Due to a deteriorating revenue picture relative to expectations from June 2023, both our office and the administration anticipate that the state faces a significant multiyear budget problem. A budget problem—also called a deficit—occurs when funding for the current or upcoming budget is insufficient to cover the costs of currently authorized services. Estimates of the magnitude of this shortfall differ based on how "baseline" spending is defined—the administration estimates a $38 billion problem whereas in January our office estimated that the Governor's budget addresses a $58 billion problem—as well as somewhat different revenue projections. Regardless of these distinctions, it is clear that the state faces the task of "solving" a substantial budget problem.

More recent fiscal data we summarize in our February publication, *The 2024-25 Budget: Deficit Update*, indicate the budget outlook continues to worsen—we now estimate the state has a $73 billion deficit to address with the 2024-25 budget. The Governor proposes to address the 2024-25 budget problem through a combination of strategies, including relying on reserves and reducing recent one-time spending commitments. Given that the transportation policy area was one of the largest categories for recent one-time investments, the Governor targets these programs for a notable share of spending solutions. Moreover, both our office and the administration estimate that based on current revenue forecasts, the state will face significant operating deficits in subsequent fiscal years. Under the administration's January projections, even after adopting the Governor's proposals, the state still would face operating deficits of $37 billion in 2025-26, $30 billion in 2026-27, and $28 billion in 2027-28.

LAO Assessment.

While Multiple Programs Impacted, Most Funding Sustained. The proposed solutions would affect several programs in various ways. Overall, however, the Governor's proposals would sustain the vast majority of multiyear transportation funding. Specifically, the Governor's budget would sustain $12 billion, or 98 percent, of the total augmentations intended for transportation programs.

Cash Flow Adjustments Avoid Programmatic Impacts but Create Cost Pressures in Future Years. The proposed $2.8 billion in cash flow adjustments would help alleviate cost pressures in the near term by reducing General Fund commitments in 2023-24. If the state reappropriates the funding by the time the projects need it for construction, this budget solution should not have any significant programmatic impacts. However, these proposals would create cost pressures for the General Fund in future years when this spending resumes, making addressing projected out-year deficits more difficult. Moreover, unlike some other spending delays the Governor proposes across the budget (including for formula-based TIRCP, as discussed below), the Legislature would not have the flexibility to opt not to resume the expenditures in the future—at least not without causing significant fiscal and logistical disruptions for projects and their local sponsors. This is because, as noted, the state has already committed the funds associated with these cash flow adjustments to specific projects. Once grant awards are made, grantees reasonably expect that funding is forthcoming and take steps such as entering into contracts and initiating pre-construction activities.

Proposed Fund Shift for Competitive TIRCP Is Reasonable. The Governor's proposal to shift $530 million for this program to GGRF saves General Fund without impacting projects that have already been awarded funding through the program. (This funding would be provided in 2024-25 as one portion of the proposed cash flow adjustment delays.) As noted above, the state has limited options to avoid providing this funding if it does not want to cause significant disruptions, given it has already entered into project commitments with the awarded grantees. If the state must fund the projects, doing so with a source other than General Fund makes sense in light of the budget condition. Moreover, we find that the proposed fund shift aligns with the goals of GGRF because the projects funded through TIRCP are intended to reduce greenhouse gas emissions.

Delay for Formula-Based TIRCP Achieves Short-Term Savings but Creates Out-Year Cost Pressures. As noted, the Governor proposes to delay $1 billion planned for formula-based TIRCP from 2024-25 until 2025-26. This would generate General Fund solution in the budget year, while also preserving total planned funding for the program across the multiyear period. However, this proposal would create cost pressures in 2025-26. This is particularly important given that our office and the administration project multiyear operating deficits. Unlike competitive-based TIRCP, these funds have not yet been committed for specific projects so the obligation to ultimately provide the funds is somewhat less binding.

Reductions to ATP and Port of Oakland Are Reasonable Given Budget Problem. While the proposed reductions to these two activities would result in fewer projects in future years, they would not impact any current projects. Specifically, for ATP, the proposal would not affect funding that has already been awarded to projects. Instead, the proposed $200 million reduction would be applied to future grant-award cycles. The proposal would allow the program to maintain $850 million of the original planned multiyear amount and thereby still accomplish a significant number of projects. Similarly, the Port of Oakland would keep $184 million for projects that are underway. While the port has identified projects that could be supported with the remaining $96 million, it has not yet obligated the funding, so it could accommodate the reduction with minimal disruption. As such, we find the proposals to be reasonable ways to address the General Fund problem.

Additional Solutions May Be Needed if Budget Problem Worsens. The Legislature likely will be seeking options for alternative budget solutions if it chooses to reject some of the Governor's proposals. Moreover, in the event that the budget condition worsens (our current revenue projections suggest this is likely), the Legislature will need to identify additional solutions in order to meet its constitutional requirement to pass a balanced budget. We have identified a few options the Legislature could consider, but none are without trade-offs.

- ***Reduce Rather Than Delay $1 Billion for Formula-Based TIRCP; Reduce Additional $1 Billion.*** Unlike competitive TIRCP, formula-based TIRCP is not awarded to specific projects. Instead, the funding is provided on a formula basis to regional agencies. This affords the Legislature more flexibility about potentially changing its funding intentions without disrupting projects to which it has already committed. Specifically, it could reconsider providing the $2 billion in General Fund originally planned for 2024-25. This could entail reducing rather than delaying the $1 billion the Governor proposes providing in 2025-26 instead of 2024-25, and additionally reducing the $1 billion the Governor proposes to retain in the budget year. (As highlighted above and discussed next, the Governor proposes funding $261 million of this retained amount with GGRF.) However, such a reduction would impact the ability of local transit agencies to support operations or locally planned infrastructure improvements.

- ***Redirect GGRF for Other Activity, Reduce Formula-Based TIRCP.*** Given the changed state budget situation, the Legislature will need to consider whether a one-time augmentation for formula-based TIRCP still is among its highest priorities. For instance, should a different activity represent a higher priority (such as if a worsening budget picture puts funding for ongoing base programs at risk), the Legislature could opt to shift less than the proposed $261 million GGRF to formula-based TIRCP—or none at all—reducing overall support for the program instead. The Legislature could then utilize the freed-up GGRF to support another activity—transportation or otherwise—that might face reductions given the General Fund condition. As mentioned in the previous bullet, however, such a reduction would impact local transit operations and/or capital projects. (We also note that this approach would not yield additional savings if the Legislature opts to reduce all the funding for formula-based TIRCP in 2024-25.)

- ***Shift Funds From Transportation Accounts to Replace General Fund.*** The Legislature could consider shifting funding for certain programs from the General Fund to state transportation funds such as SHA or the Road Maintenance and Rehabilitation Account (RMRA). The Legislature took a similar action last year, when it shifted $500 million of the one-time General Fund augmentations for transportation to SHA. This approach could provide additional opportunities for achieving General Fund savings but comes with some limitations and trade-offs to consider. First, revenues from both accounts are restricted to specific transportation purposes under the California Constitution, so some limitations exist regarding which activities they could be redirected to support. Second, fund shifts would result in less funding available for other activities currently supported by the funds. For instance, any redirections from SHA ultimately would result in less funding available for state highway maintenance and rehabilitation projects. SHA funds the California Department of Transportation's State Highway Operation and Protection Program, which supports capital projects that rehabilitate and reconstruct the state highway system. In the budget year, the program is estimated to have $5.2 billion for projects through a combination of state and federal funds. The Legislature also would want to consider any potential fund shifts from SHA within the context of the $500 million it shifted last year and the state's goals for highways. Similar trade-offs would apply for any potential redirection from RMRA, which also funds state highway maintenance and rehabilitation projects, along with providing funds to cities and counties for local streets and roads and supporting several smaller programs. RMRA is projected to have revenues of $4.9 billion in 2024-25.

- ***Use Future Base Funding to Replace General Fund Augmentations for Competitive TIRCP.*** In addition to the one-time General Fund augmentations described above, competitive TIRCP receives an annual base amount of funding from GGRF and transportation improvement fee revenues, which is provided through a continuous appropriation. CalSTA currently is in the process of starting its 2024 competitive TIRCP grant cycle, with plans to award about $800 million from these base funds this fall to support new projects over the next five years. Instead of selecting new projects to support with these funds, the Legislature could statutorily direct CalSTA to use them to fulfill the state's commitments to some of the projects already awarded funds from the one-time General Fund augmentations to competitive TIRCP. (Because of delays in project implementation and the resulting cash flow adjustments proposed, the state has some flexibility around the timing of when to provide these funds even though projects have already been promised grant awards.) This action essentially would allow the state to sustain funding for local projects to which it has already committed *and* reduce General Fund expenditures. However, this approach would result in the state supporting fewer overall transit and rail improvement projects over the coming years.

LAO Recommendations.

Approve Cash Flow Adjustments. We recommend the Legislature adopt the Governor's proposed $2.8 billion in cash flow adjustments as they will help address the General Fund condition without programmatic impacts. While postponing providing these funds will create cost pressures in future budget cycles, the state has already committed these amounts for specific projects and, as such, has limited flexibility around making reductions without creating significant disruptions. The proposed approach can help the General Fund condition in the near term but the state will need to prepare to provide the funds in the coming years despite the challenging budget situation.

Approve Fund Shift for Competitive TIRCP. We recommend approving the proposed $530 million fund shift from the General Fund to GGRF for competitive TIRCP. This shift would help the state meet its commitment to funding projects that have already received grant awards while also saving General Fund.

Approve Proposed General Fund Reductions for ATP and Port of Oakland. We recommend the Legislature adopt the proposed General Fund reductions for ATP ($200 million) and the Port of Oakland ($96 million). While these proposals reduce funding for potential projects in the future, they do not impact support for existing projects. In the cases of both activities, a notable amount of funding would be maintained to help accomplish key objectives, albeit at a reduced level. Due to the budget condition, we find these proposals to be reasonable.

Use Spring Budget Process to Identify Additional Potential Budget Solutions in Transportation. We recommend the Legislature take steps now to identify additional options for generating General Fund solutions from transportation programs. Taking such steps will help position the Legislature to respond should the budget problem worsen—which we think is likely—and if the Legislature seeks to modify the Governor's proposed approach. Some options the Legislature could consider include reducing funding for formula-based TIRCP (reducing General Fund and/or reducing and redirecting GGRF), using other transportation special funds to replace some one-time General Fund, and replacing General Fund for existing competitive TIRCP commitments with the program's base funding that would otherwise support future projects. None of these options are without trade-offs. Overall, reducing General Fund ultimately will mean supporting fewer transportation activities compared to what was originally intended in prior budget agreements, whether that be for transit and rail projects or highway maintenance. While this process will be challenging, taking the time to consider, research, and select potential options over the spring will better prepare the Legislature to make decisions in May and June when it will not have much time to gather information and carefully consider program trade-offs before the budget deadline.

Staff Recommendation: Hold Open.

2660 California Department of Transportation

Issue 2: Fleet Replacement

Governor's Budget. The Governor's Budget includes $279,050,00 from the State Highway Account for two years to continue replacing its aging fleet and installing zero emission vehicle (ZEV) infrastructure. Of this amount, $250,000,000 is to replace the equipment, $22,500,000 is for contractors to install ZEV infrastructure, and $6,550,000 is for 50 positions to support these efforts.

Background. In 2022-23, Caltrans received $176,000,000 to implement the first two years of a multi-year fleet replacement plan. During the initial years, Caltrans primarily focused on replacing its light-duty fleet. Thus far, Caltrans has placed purchase orders for 2,200 vehicles, including over a thousand electric vehicles, to replace the oldest and highest mileage vehicles of all types, with a focus on vehicles most at risk for failure. Specifically, Caltrans replaced 399 aging sedans with battery electric vehicles. In addition, Caltrans has placed a purchase order for 600 electric vehicle light-duty trucks. Caltrans expects to be able to replace 2,782 vehicles/equipment and install 2,180 charging ports in total with this initial funding.

This request is intended to support Caltrans' fleet replacement efforts, particularly for its medium-duty, heavy-duty, and off-road fleet. Caltrans estimates the funding will replace approximately 3,000 vehicles over two years. According to the department, these vehicles is expected to be more costly, due to their bigger size and specialization. These vehicles are currently approximately double the cost of traditional internal combustion engine trucks—for example, a diesel-fueled sweeper costs $330,637 per unit, while a ZEV sweeper costs $708,966 per unit—not including the cost of fast-charging infrastructure.

In addition to vehicles, Caltrans will install charging infrastructure to meet these operational needs, particularly in underserved, low-income, and priority communities, which will be identified by the CalEnviroScreen mapping tool. This is intended to lessen the negative air quality and noise pollution issues associated with medium- and heavy- duty vehicle and equipment in these disadvantaged communities. The department estimates this funding will support at least 200 DC fast chargers for medium- and heavy-duty vehicles in over 100 locations; 60 EV-ARC/mobile chargers; and 50 level 2 and level 3 charging ports. Caltrans also requests funding for staff to support the administrative procurement processes and engineering work for technical specifications for the fleet replacement efforts.

Staff Comments. Caltrans operates a large and diverse fleet of 12,271 vehicles—including light-duty, medium- and heavy-duty, and off-road. Currently, about half of the Caltrans fleet needs to be replaced due to age and wear and tear of the vehicles. Fleet replacement is part of the ongoing maintenance and operations for Caltrans, but in recent years, the transition to zero-emission vehicles has added additional cost and complexity. Caltrans follows a ZEV First policy—meaning the department prioritizes ZEV first, pug-in hybrid second, hybrid-electric third, and internal combustion engine (ICE) fourth. This is aligned with other state policies, such as Advanced Clean Fleets (ACF), which requires, among other things, state and local government fleets to ensure 50 percent of vehicle purchases are zero-emissions beginning in 2024 and 100 percent of vehicle purchases are zero-emissions by 2027. As Caltrans navigates the ZEV transition and compliance with ACF regulation, the Legislature may want to provide oversight over this significant capital investment, particularly on its cost-efficiency, climate and health benefits, as well as labor and workforce implications.

In addition, other entities in the state who also have to comply with ACF could benefit from Caltrans' transition to ZEVs. Specifically, the California State Association of Counties, California Cities, and California Special Districts Association requests reporting language for Caltrans to report data on the types, number, and costs of the zero-emission vehicles and charging infrastructure to learn best practices, assess reasonable procurement timelines and determine realistic delivery estimates for charging infrastructure projects as well as vehicle and equipment procurement. In particular, this could help provide additional information for planning for smaller or medium-sized entities who may not have the resources or buying power as a state department, such as Caltrans.

Staff Recommendation: Hold Open.

Issue 3: Institutionalizing the California Integrated Travel Project (Cal-ITP) and Building a Data & Digital Services Division

Governor's Budget. The Budget includes $26,298,000 ongoing from the Public Transportation Account for the California Integrated Mobility Program and to build a Data & Digital Services Division.

Background. In 2018, the Capitol Corridor Joint Powers Authority (CCJPA) received $80,340,000 from the Transit and Intercity Rail Capital Program for the Northern California Corridor Enhancement Program. As part of this project, CCJPA allocated $27,000,000 towards the statewide Integrated Travel Program, to provide opportunities for riders on at least 10 rail and transit systems to plan travel and purchase tickets in a single, seamless transaction. According to the department, Cal-ITP served 253 fixed-route services using this funding.

In 2021-22, Caltrans received $7,172,000 of federal funds from the Coronavirus Aid, Relief, and Economic Security (CARES) Act to support medium, small and rural agencies in consistent compliance with the General Transit Feed Specification (GTFS) and contactless payment standards. GTFS defines a common format for public transportation schedules and associated geographic information. It allows real-time transit data to be incorporated into third-party apps and systems, such as Google Maps. This request funded an in-house Business Unit whose responsibility is overseeing the implementation and expansion of GTFS, equitable contactless payments and benefits eligibility verification for small, rural and mid-sized transportation services. In addition, this request funded Caltrans to streamline some processes for small and rural transit agencies to access state and federal funding by building a prototype grant eligibility checker, automating part of the annual reporting that Caltrans does to the FTA, and begin working on a statewide capital planning/transit asset management system of record. This funding allowed Caltrans to provide technical assistance to 250 fixed-route services, with focus on the 60 rural and small agencies that receive Section 5311 federal funding.

Caltrans requests funding to continue this work by establishing the California Integrated Mobility (CIM) Program and developing a Data & Digital Services (DDS) Division. The CIM Program would provide the scheduling software and technical assistance with GTFS, so that small, rural, and paratransit agencies can have complete and accurate GTFS data. In addition, CIM would work on providing discounts to older adult customers paying directly with a bank card, to streamline discounts and incentives in contactless payments. CIM would do such work by building or buying software, hardware, and/or time/error-saving services for local transit agencies. Caltrans proposes to fund CIM at $6.9 million annually, which includes 37 positions.

Under this request, Caltrans proposes to fund a Data and Digital Services Division, which will work on various projects, such as monitoring and improving the quality of transit GTFS and GTFS Real Time data, consolidating grant applications and simplifying grant application processes, collecting and structuring the Office of Civil Rights' DBE data for regular access via dashboards; training Caltrans District staff to work with mobility data and modern data tools; automating annual National Transit Database reporting. Caltrans proposes to fund this division at roughly $6 million annually, which includes 31 positions.

LAO Comment. The proposed activities could help increase public transit ridership— which aligns with certain legislative priorities such as improving transportation mobility and reducing vehicle miles traveled in individual automobiles. As such, the proposal could have some merit. However, the Legislature may want to consider how these potential benefits compare with its other priorities—particularly in light of the state's budget problem. For example, the Legislature could consider whether it might instead want to use these funds to sustain activities that it had planned to support with General Fund that may now face reductions, or to provide assistance to public transit agencies facing operating funding shortfalls. Particularly given the proposal is for ongoing funding and the state is facing out-year General Fund deficits, the Legislature might want to be careful about weighing its priorities and preserving its flexibility.

Staff Comment. This proposal is a significant expansion of the Cal-ITP. Previously, the program has received limited-term funding for more specified goals. Several transit agencies have benefited from Cal-ITP services, such as technical assistance for open payments, data analytics, procurement strategies and arrangements, among other things. However, it is unclear what the ongoing demand are for these services are across all types of transit agencies in the state—and whether transit agencies are prioritizing these efforts for state funding. The Legislature will want to consider the need and cost-effectiveness of this program before committing ongoing funding, especially in the current budget climate.

Staff Recommendation: Hold Open.

2667 HIGH-SPEED RAIL AUTHORITY, OFFICE OF INSPECTOR GENERAL

Issue 4: Establishing the Office of Inspector General, High Speed Rail

Governor's Proposal. The Governor's budget proposes $2 million from the Public Transportation Account in new funding from transportation special funds (including $1.4 million on an ongoing basis) to support ten ongoing and four limited-term positions to launch the High-Speed Rail Authority (HSRA) Office of the Inspector General (OIG).

Background. From the LAO:

Legislature Established OIG in 2022 to Improve High-Speed Rail Project Oversight. As part of an agreement to appropriate the remaining unappropriated Proposition 1A bond funds for HSRA, the Legislature adopted Chapter 71 of 2022 (SB 198, Committee on Budget and Fiscal Review). Among other provisions, Chapter 71 created the HSRA OIG to improve oversight of the high-speed rail project and provide accurate, current, and impartial information to inform project decisions. The budget package included baseline funding of $1 million annually from the Public Transportation Account (PTA) for OIG.

The package also included budget bill language that allows the Department of Finance (DOF) to approve an additional midyear augmentation of up to $1 million no sooner than 30 days after notifying JLBC.

Statute Included Various Provisions. Chapter 71 included a variety of provisions governing the establishment and operation of OIG. Some of the key provisions relate to the following:

- ***OIG Responsibilities.*** Chapter 71 specified various responsibilities for OIG, such as conducting audits and investigations and reviewing HSRA business plans, contracts, and proposed agreements.
- ***OIG Authorities.*** To perform its work, Chapter 71 provided OIG with a number of powers and authorities, such as issuing subpoenas and accessing all HSRA files and other records.
- ***Appointment and Removal of the Inspector General (IG).*** Chapter 71 gave both the Legislature and Governor roles in selecting the IG to lead OIG, requiring the Governor to appoint an IG from among three individuals nominated by the Joint Legislative Audit Committee (JLAC). The statute also prohibits the Governor from removing the IG without good cause.

- ***IG's Selection of Staff.*** The statute requires the IG to select, appoint, and employ officers and employees necessary to carry out the functions of OIG. In making these selections, the IG is required to ensure that officers and employees have the requisite training and experience to enable the office to carry out its duties effectively.
- ***IG Compensation.*** Chapter 71 specifies that the IG's salary be the same as that of the IG of the California Department of Corrections and Rehabilitation (currently roughly $192,000 annually).
- ***OIG's Operational Independence.*** Chapter 71 specifies that OIG be independent and not a subdivision of any other governmental entity, such as a state department or agency.
- ***Budgetary Independence.*** The statute requires that if OIG proposes a different level of overall fiscal support than the amount included in the Governor's budget, DOF shall provide a notification to the chairs and vice chairs of the budget committees of both houses of the Legislature and to the Legislative Analyst's Office. When applicable, this notification must identify the differences and explain the rationale for the discrepancy and be provided no later than January 10 of each year.
- ***HSRA Support for OIG Operations.*** The statute requires HSRA to provide various resources to OIG, including appropriate and adequate office space, equipment, office supplies, maintenance services, and communications facilities and services as may be necessary. The statute does not specify the extent to which OIG is required to reimburse HSRA for the cost of any resources it may provide.

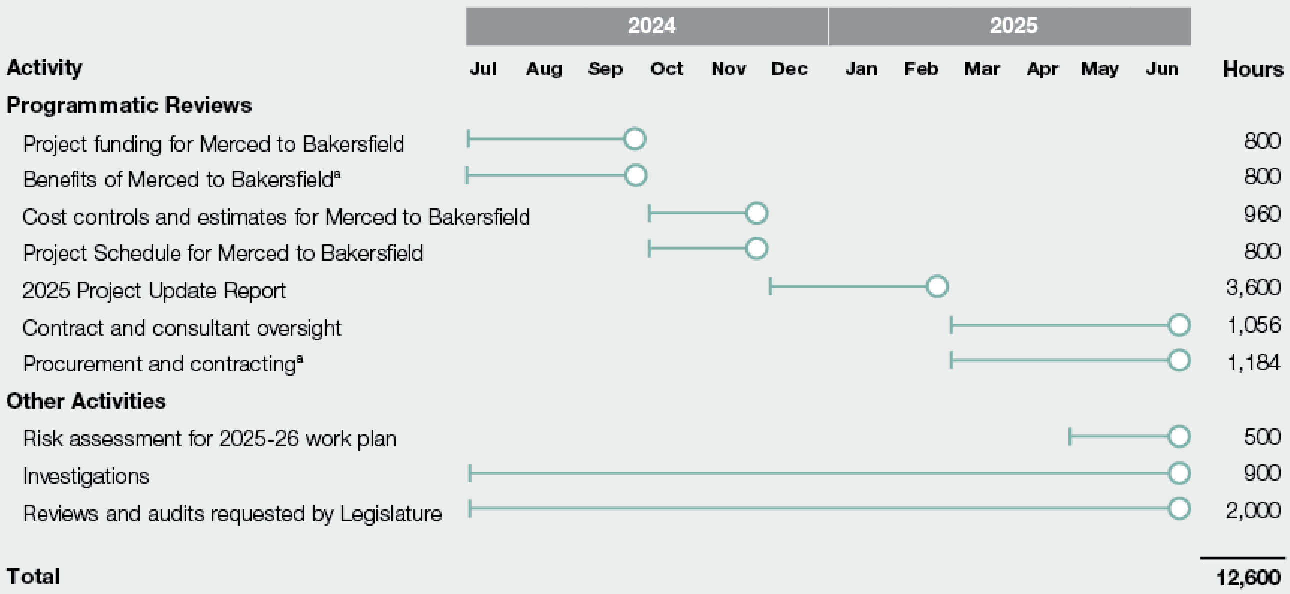
In 2023, IG Was Selected and Began Hiring. In August 2023, the Governor announced the selection of the first IG from among three candidates selected by JLAC, consistent with the process outlined in statute. Since being selected, the IG has taken various steps to launch the office. For example, the IG moved into a portion of HSRA's office space, which HSRA provided consistent with the statutory requirement. The IG also began hiring staff using the $1 million provided as part of the 2023-24 state budget. To date, the IG has hired three staff members. OIG also currently is using HSRA staff to help support various activities, such as those related to basic human resources and budgeting functions.

IG Has Identified a Proposed Work Plan. The IG's proposed work plan envisions that OIG will conduct six programmatic reviews annually, as well as investigate complaints (such as from whistleblowers) and conduct ad hoc reviews. We summarize OIG's work plan for 2024-25 in Figure 1.

As shown, some of the key activities planned for the 2024-25 fiscal year include analyzing the funding, benefits, costs, and schedule of the Merced-to-Bakersfield segment; evaluating HSRA's policies for managing contracts and overseeing consultant work and assessing compliance with those policies; and analyzing policies related to procuring contracted services.

Figure 1

OIG's Proposed Work Plan for 2024-25



[a] OIG indicates that the timing of these activities may be switched.
OIG = High-Speed Rail Office of the Inspector General.

LAO Assessment.

Proposed Staffing Levels Appear Reasonable to Meet Work Plan. The proposed staffing levels—ten permanent positions and four temporary positions—appear to be well justified to complete the IG's proposed work plan and address the baseline workload associated with overseeing the high-speed rail project. This level of staffing provides sufficient auditors to conduct six programmatic reviews annually, as well as an estimated 900 hours annually to respond to whistleblower complaints and 2000 hours annually to respond to workload requests from the Legislature, Governor, and HSRA.

Providing Positions on Temporary Basis May Make It More Difficult to Attract and Retain Staff. As mentioned above, the proposal would fund four of the requested positions on a limited-term basis. In some cases, such an approach can make sense, particularly when programs are new and the level of ongoing workload is uncertain. However, this likely is not the case for OIG. While OIG is new, some certainty exists that the proposed staffing will be needed as a baseline level on an ongoing basis given the size and complexity of the high-speed rail project and the number of issues that could benefit from oversight. Additionally, attracting and retaining qualified staff can be difficult for limited-term positions since the job status provides less stability.

Lack of Authority to Use Proposed Auditor Classification Could Pose Challenge. As shown in Figure 2, the proposal requests funding for two [Staff Management Auditor (Specialist)]() positions.

However, OIG indicates that it currently does not have access to this position classification—which is used by the State Controller's Office (SCO)—nor to similar classifications used by the California State Auditor (CSA) and the California Public Employees' Retirement System (CalPERS).

OIG lacks this access because to use department-specific classifications under existing state policy, OIG must either (1) receive approval from the relevant "owning" department, as well as from the California Department of Human Resources (CalHR) or (2) CalHR must approve the use of the classification, overriding the owning department's refusal to allow the requesting department to use the classification. That is, based on the typical state process, SCO, CSA, CalPERS, and/or CalHR would have to grant approval to OIG to use this type of auditor position. To date, OIG reports that CSA and CalPERS have denied requests to use their classifications, and SCO has not yet responded to OIG's requests. Thus, while the proposal assumes the use of the Staff Management Auditor (Specialist) classification, whether OIG ultimately will have access to it still is unclear. Absent such access, OIG reports it would have to use a general classification for hiring these positions that pays less than the other comparable state agencies. OIG indicates this inability to hire at the desired classification could affect its ability to attract and retain top talent.

Notably, as mentioned previously, Chapter 71 requires OIG to select, appoint, and employ officers and employees necessary to carry out the functions of the office. It also further requires that, in making these selections, the IG must ensure that those officers and employees have the requisite training and experience to enable the office to carry out its duties effectively. This language suggests that Chapter 71 intended OIG to have the ability to hire well-qualified, experienced staff to support the mission of the office.

DOF's Failure to Notify the JLBC About Modifications to OIG's Request May Fall Short of Meeting Legislative Intent. The mix of permanent and limited-term positions proposed—ten permanent staff and four temporary staff—differs from the proposal originally submitted to the administration by OIG, which requested that all the positions be permanent. DOF did not provide a notification to JLBC that the Governor's budget modified this request. Our office only learned about this modification because we specifically asked if any changes were made to the initial OIG proposal. While the administration's perspective is that a notification was not required under the statute since the total amount of *funding* provided matches what OIG requested for 2024-25, DOF did change the proposal materially. Indeed, the changes made by the administration affect OIG's out-year budget amount, given the temporary nature of the positions results in a limited-term need for funding. This raises questions about whether DOF's failure to notify the JLBC of the change to OIG's budget proposal is consistent with the Legislature's intent to provide OIG with robust budgetary independence.

Additional JLBC Involvement in Potential Midyear Augmentations Could Boost OIG's Budgetary Independence. As mentioned previously, the Governor's budget proposes to retain existing budget bill provisional language that allows OIG to request midyear resources from DOF. The language further authorizes DOF to make an augmentation—of up to $1 million—no sooner than 30 days after notifying JLBC. This provision could be an important tool for OIG to secure any additional resource needs that it may identify outside of the standard budget cycle, particularly as it is first launching and determining its funding requirements. Under the existing language, however, JLBC does not directly receive notification of any midyear funding requests OIG may submit to DOF. Instead, it is only notified if and when such a request is approved by DOF. This lack of concurrent notification of OIG's request for resources could make it difficult for the Legislature—through the JLBC—to monitor OIG's resource needs and ensure that the administration is addressing them promptly. For example, the Legislature may be left unaware if DOF delays acting on or rejects a midyear request from OIG.

This circumstance would deny the Legislature the opportunity to review and evaluate such a request and—should it disagree with DOF's decision and feel that OIG urgently needs the requested funding to support its independent operations—to potentially intervene.

Launching OIG Represents Important Opportunity to Ensure Consistency With Legislative Vision and Priorities. The Governor's proposal provides resources to fully launch OIG, thus setting the course for how the office will be staffed and operated. As such, this represents an important juncture for the Legislature to assess whether the proposed plan for the office is consistent with legislative intent and vision. Such an assessment should include consideration of whether the proposed scope of work and time lines are consistent with what the Legislature seeks from the office. The Legislature also can consider whether OIG's proposed use of HSRA staff to support activities such as human resources and budgeting—at least in the short term—is sufficient to preserve the office's independence, or whether it would feel more comfortable having an outside entity—such as the Department of General Services—providing these services (which likely would result in an additional cost).

LAO Recommendations.

Fund Positions on a Permanent Basis. We recommend modifying the Governor's proposal to fund all of the requested positions, but on a permanent basis (rather than funding a portion of the positions on a limited-term basis as proposed). This is because (1) we expect OIG will have sufficient workload to support these positions on an ongoing basis and (2) authorizing positions on a limited-term basis could compromise OIG's ability to attract and retain highly qualified staff. We note that providing the positions on a permanent basis would be consistent with the budget request OIG submitted to the administration and would not affect the condition of the General Fund, as the positions would be funded from the PTA.

Provide Authority to Use Requested—or Similar—Classification. We recommend the Legislature provide OIG with authority to use the requested classification—Staff Management Auditor (Specialist)—or a similar one with a comparable salary. This might be achieved in a number of ways. One option that could accomplish this objective would be for the Legislature to adopt budget trailer language providing OIG with authority to create classifications and set salaries as needed to complete its work. (CSA currently maintains this authority.) Alternatively, the Legislature could consider more narrowly targeted options for addressing OIG's staffing concerns, such as providing specific statutory authority to use the particular classification the office is seeking. We recommend the Legislature explore the various available options for ensuring OIG is able to hire and compensate sufficiently qualified staff, including requesting information from the administration regarding the trade-offs and technicalities of potential alternatives.

Adopt Budget Trailer Legislation Strengthening Requirement for JLBC Notification of Changes to Both Fiscal Year and Midyear OIG Budget Requests. We recommend that the Legislature adopt two changes to strengthen the JLBC's role in overseeing and safeguarding OIG's budget. First, we recommend adopting technical cleanup budget trailer legislation that would clarify that the administration is required to provide the JLBC with a notification of *any* changes DOF makes to a budget proposal requested by OIG as part of the standard fiscal year budget process—including modifications related to funding amounts in the budget year and out-years, classifications, limited-term versus permanent positions, contract resources, and operating expenses and equipment. We recommend the language also require the administration to provide a copy of OIG's original request to the JLBC along with the notification.

These statutory changes would help ensure that the Legislature has sufficient information to (1) assess the appropriate level of funding for OIG to complete its work and (2) safeguard the independence of the office.

Second, we recommend modifying budget bill language to require that OIG's midyear requests for additional funding be provided to JLBC concurrently with DOF (rather than only to DOF initially, as is currently the case). Such a change would ensure the Legislature is aware of the midyear resource needs that OIG identifies and can help ensure the office is promptly receiving a level of support consistent with legislative intent for its activities and deliverables.

Take Actions, as Relevant, to Ensure Consistency With the Legislature's Vision and Priorities for OIG. As noted above, the Legislature created OIG to improve oversight of HSRA. The launch of this office is an important opportunity for the Legislature to consider whether its proposed size, scope, and structure are consistent with its vision and priorities. We recommend that the Legislature determine its specific expectations for such oversight and make any adjustment—such as to OIG's responsibilities, authorities, staffing, and funding—necessary to ensure its expectations are met. For example, if the Legislature desires a different approach to the proposed work plan, it could adopt intent language or provide additional direction in statute. Depending on the scope of the Legislature's desired changes, if any, there could be an effect on the level of staffing and other resources required by the office.

Staff Recommendation: Hold Open.

VARIOUS DEPARTMENTS

Issue 5: Motor Vehicle Account Fund Condition

Background. According to the LAO:

MVA Supports Various State Programs. MVA is the primary funding source for CHP and DMV. The account also provides some funding for the California Air Resources Board. The uses of most MVA revenues are constitutionally limited to the administration and enforcement of laws regulating the use of vehicles on public highways and roads, as well as certain transportation activities.

Revenues Mainly Come From Vehicle Registration Fees. For 2023-24, MVA revenues are estimated to total about $4.7 billion. Of this amount, nearly $4.1 billion (87 percent) is projected to come from vehicle registration fees. The remainder largely is generated by other DMV fees such as driver license fees. (We note that DMV also collects various other fees at the time of vehicle registration that are not deposited into MVA, such as vehicle license fees, truck weight fees, and an additional registration fee charged to owners of zero-emission vehicles.)

Expenditures Outpacing Revenues. Between 2018-19 and 2023-24, MVA revenues have increased by $714 million (18 percent) while expenditures have increased by about $1 billion (26 percent). Since 2021-22, annual expenditures have exceeded yearly revenues, resulting in a structural imbalance. Some of the major expenditure cost drivers have included (1) replacement of older CHP area offices and DMV field offices, (2) increased employee compensation costs—which have been driven by both increases to staffing levels and growing salary and benefit costs at CHP, (3) workload related to the issuance of new driver licenses and ID cards that comply with federal standards—commonly referred to as "REAL IDs," and (4) supplemental pension plan repayments that began in 2019-20.

(These payments are related to a 2017-18 budget action that borrowed from the General Fund for a large one-time contribution to the state employee pension fund, requiring future repayment from all relevant funds that make employer pension contributions, including MVA. Over the next 30 years, MVA is expected to receive savings that outweigh these near-term loan repayment expenditures due to slower growth in employer pension contributions.) Despite this gap between revenues and expenditures, MVA has remained solvent thus far due to the state actions described in the next paragraph and by relying on its reserves. However, these reserves are rapidly declining. MVA entered 2021-22 with $585 million in reserves but its year-end balance is projected to drop to $130 million by the beginning of 2024-25.

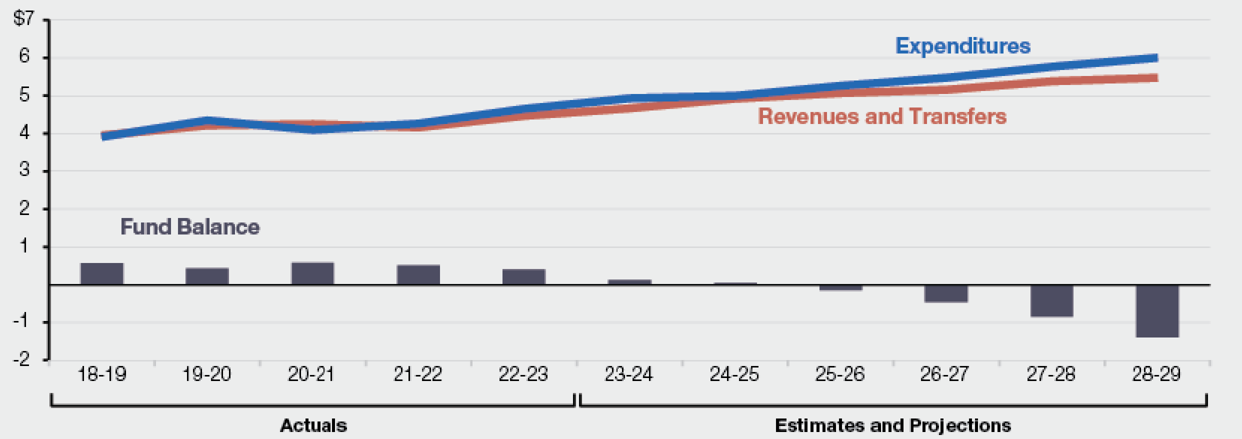
State Has Undertaken Previous Efforts to Address Deficits and Delay Insolvency. Over the last couple of decades, MVA has experienced periodic deficits and risks of insolvency. In response, the state has taken various actions to shore up the fund. Some of these past solutions provided temporary relief, such as the state making a one-time repayment of loans that previously were provided from MVA to the General Fund and delaying supplemental pension plan repayments to the General Fund (which temporarily reduced MVA expenditures but created additional out-year liabilities). Other solutions provided longer-term solutions, including (1) ending a previous practice of transferring about $90 million annually from MVA to the General Fund; (2) authorizing vehicle registration fees to be adjusted annually based on the percent change in the California Consumer Price Index (CPI) to account for inflation; (3) shifting certain programs from MVA to other fund sources; and, as we discuss in more detail below, (4) the state recently has shifted away from using up-front cash from MVA to pay for CHP's and DMV's facility needs.

Due to Ongoing Structural Imbalance, MVA Projected to Become Insolvent in 2025-26. Despite the previous efforts to address MVA's condition, the severity of the fund's imbalance is expected to become worse in the near term, with expenditures growing about 1 percent faster than revenues over the next several years. Due to this imbalance, MVA is expected to fully exhaust its reserves and become insolvent in 2025-26, as shown in Figure 3. Specifically, the administration projects expenditures will exceed available resources by roughly $140 million in 2025-26. If left unaddressed, expenditures would continue to outpace revenues, resulting in a negative fund balance of $1.4 billion in 2028-29. For context, total MVA revenues are projected to be about $5 billion in 2024-25. By 2028-29, these revenues are only projected to increase by about $500 million while expenditures are projected to increase by roughly $1 billion.

Figure 3

Motor Vehicle Account Facing Insolvency in 2025-26

(In Billions)



LAO

LAO Comment.

Governor Proposes New Spending From MVA. The Governor's budget does not include a proposal to address MVA's fund condition or structural deficit. In contrast, the January budget includes various proposals for DMV and CHP that would increase cost pressures for MVA. Specifically, the Governor proposes $18 million in 2024-25 (including $10 million ongoing) from MVA for various DMV programs. In addition, the Governor proposes $4 million annually in ongoing spending from MVA for outside counsel to represent CHP and its officers in civil litigation cases related to officer-involved shootings.

Debt Service for Infrastructure Projects Could Create Additional MVA Cost Pressures. CHP and DMV both operate large numbers of facilities across the state, many of which have significant needs. Traditionally, CHP's and DMV's facility projects—such as office replacements—have been funded up front with cash from MVA. However, due to concerns about MVA's condition, over the past several years, the state has explored alternative ways to fund CHP and DMV facilities. In 2019-20, this included issuing lease revenue bonds with plans to repay the debt service from MVA, in an effort to spread the costs of the projects over time and limit near-term pressures on the fund. In 2021-22 and 2022-23, when the state was experiencing a budget surplus, the state provided cash from the General Fund to support such projects. However, as the General Fund condition has worsened, funding for recent projects has been shifted to lease revenue bonds. While this approach reduces costs to move forward with the projects in the near term, repaying the bonds will create cost pressures in future years. Whether the General Fund or MVA will bear the burden of these future costs currently is unclear, as the fund source for repaying the bonds has not yet been determined. The administration indicates that these decisions will be made during annual budget deliberations beginning in 2025-26.

Automatic Pay Increases for CHP Officers Could Impact MVA Cost Pressures. The impact future employee compensation costs will have on MVA's fund condition is somewhat uncertain and depends on future pay trends decided upon by select local governments. For more than 40 years, statute has based highway patrol officers' compensation on an average of specified elements of compensation provided to peace officers employed by five local jurisdictions.

The five jurisdictions are Los Angeles County and the Cities of Los Angeles, Oakland, San Diego, and San Francisco. Because these statutory pay increases are wholly dependent on decisions made by the five local governments, actual pay increases for CHP officers could be higher or lower than current assumptions—potentially impacting MVA cost pressures in future years.

Temporary Actions Could Delay, but Not Prevent, Insolvency. The Legislature has a couple of options for actions that could temporarily delay insolvency for MVA. First, the Legislature could direct the administration to make a loan or transfer to MVA from another fund source such as the General Fund. However, the current General Fund condition and overall budget problem would make this challenging. Second, the administration could temporarily suspend supplemental pension plan repayment requirements. Doing so, however, would result in higher cost pressures for MVA in the near future because the principal and interest for the loan still would need to be repaid by June 30, 2030. Moreover, suspending these repayments would only delay MVA's insolvency by a few months.

Legislature Could Address MVA Fund Condition Through Reducing or Constraining Costs… As noted, MVA's expenditures are outpacing revenue growth and cost pressures could be higher than projected depending on future lease revenue bond debt service decisions and employee compensation trends. To help address the fund condition, the Legislature could take steps to reduce or constrain expenditures. For example, the Legislature could reduce overall employee compensation costs by cutting the number of positions at DMV and CHP. However, such actions would result in a decrease in the level of service the departments would be able to offer, which could affect both public satisfaction (in the case of DMV) and safety (with regard to CHP). Going forward, the Legislature also could consider MVA's fund condition when it is evaluating agreements negotiated between the administration and the employee unions that represent the majority of DMV and CHP employees pertaining to pay and other benefits. Specifically, the Legislature could take into consideration the level of costs the fund can support as one of the factors it weighs when considering whether to approve these draft agreements. As we noted previously, the state currently has limited control over CHP officer pay because it is determined based on a formula. However, the Legislature could consider changing this methodology to regain more decision-making power and the ability to align costs with what MVA can afford to support.

…And/Or Through Increasing Revenues. The Legislature also could help MVA remain solvent by taking steps to increase its revenues. One option would be to raise vehicle registration fees—either through a base increase or by changing the methodology for annual fee adjustments such that they exceed changes in the CPI. A strong policy rationale exists for raising fees in that it would continue to task vehicle owners with paying to support the services from which they benefit. Based on the number of vehicles currently registered in California, we estimate that every $1 increase in vehicle registration fees would increase MVA revenues by about $36 million. However, one key trade-off to consider is that increasing fees would result in additional costs to households and businesses that own vehicles. This could be particularly burdensome for lower-income households. As of January 1, 2024, base vehicle registration fees were $74 but once other fees (such as weight fees and vehicle license fees) are factored in, the average cost vehicle owners pay when registering a vehicle is $329.

LAO Recommendation.

Consider MVA Cost Pressures When Evaluating New Spending Proposals. As noted, the Governor's budget includes proposals that would increase expenditures from MVA by roughly $22 million in 2024-25 and $14 million ongoing. Regardless of the merits of these specific proposals—and absent actions to address the MVA fund condition—approving them will make the structural deficit worse and hasten the time line for MVA going insolvent.

Until a plan is put in place to address MVA's structural deficit, we recommend the Legislature set a high bar for considering approval of any proposals that create additional MVA cost pressures and accelerate the risk of insolvency.

Develop Plan to Ensure Fund Remains Solvent. In order to remain solvent, MVA expenditures and revenues must be brought into balance. As such, we recommend that the Legislature develop a plan to address MVA's structural deficit on an ongoing basis. To achieve ongoing sustainability for the fund, the state will need to reduce MVA's costs, increase the fund's revenues, or adopt some sort of combination of these strategies. To help determine which options best align with legislative priorities, the Legislature could hold hearings to get a better understanding of the fund condition, any actions the administration is considering to address the problem, and the trade-offs associated with options such as raising fees or reducing positions at CHP and DMV.

Consider Cost Pressure Impacts From Employee Compensation. Even if the Legislature takes action to address MVA's current deficit, the fund could be at risk of future insolvency if expenditures related to employee compensation outpace revenues in the future. When addressing the MVA fund condition, the Legislature will want to consider how the fund could absorb future increases in employee compensation. The Legislature also might want to consider whether changes to the methodology for setting CHP officer pay could be needed to increase the state's flexibility for controlling MVA expenditures.
Similarly, the Legislature might want to consider MVA's fund condition and impact of employee compensation costs when evaluating future memoranda of understanding negotiated between the administration and the employee unions that represent the majority of DMV and CHP employees. While the state currently has limited discretion over the formula that determines CHP officer pay, the Legislature could change this methodology to regain more decision-making power.

Staff Recommendation: Hold Open.

2720 California Highway Patrol

Issue 6: Augmentation for Retention of Conflict Counsel

Governor's Proposal. The Governor's Budget includes $4 million from the Motor Vehicle Account (MVA) for retention of outside conflict counsel to represent the California Highway Patrol (CHP) and its officers in civil litigation cases arising from officer-involved shootings.

Background. AB 1506 (McCarty, Chapter 326, Statutes of 2020) requires the Attorney General (AG), as the state prosecutor, to investigate incidents of officer-involved shootings that result in the death of an unarmed civilian. As a result, the AG has determined that its investigation of CHP officers involved in shooting incidents resulting in the death of an unarmed civilian creates a conflict in the AG's representation of the CHP and its officers in civil litigation arising from those incidents. Because the AG will not represent the CHP in those incidents, additional funding is required to cover the costs associated with the retention of outside counsel.

Staff Recommendation: Hold Open.

Issue 7: Capital Outlay Projects

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

- **Keller Peak: Tower Replacement – Revert and Fund New.** CHP requests to revert the existing authority of $3,231,000 and appropriate $4,877,000 from the MVA for the construction phase of the continuing Keller Peak: Tower Replacement Project.
- **Performance Criteria Funding for Six Area Offices – Cash to Bonds.** CHP requests to replace existing current year authority of $13,130,000 General Fund with $13,130,000 Public Buildings Construction Fund, for the performance criteria phase of the Gold Run, Redding, Los Banos, Antelope Valley, Barstow, and Porterville Area Office Replacement Projects.

Keller Peak requires additional funding because (1) working drawings have been delayed due to design and site challenges and (2) costs of steel needed for the tower has increased significantly since 2022. The remaining projects are requested to shift from the General Fund to lease revenue bonds, due to the projected budget problem.

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

Staff Recommendation: Hold Open.

2740 California Department of Motor Vehicles

Issue 8: Capital Outlay Projects

Governor's Proposal. The Budget includes a number of capital outlay proposals for the Department of Motor Vehicles, including:

- **El Centro: Field Office Replacement – Cash to Bonds.** DMV requests to replace $2,458,000 General Fund with $2,458,000 from the Public Buildings Construction Fund for the performance criteria phase of the El Centro Field Office Replacement project, which also includes consolidation of the Brawley office and addition of a Commercial Drive Test Center.
- **Oxnard: Field Office Replacement – Cash to Bonds.** DMV requests to replace the existing authority of $14,254,000 General Fund with $15,480,000 Public Buildings Construction Fund for the construction phase of the Oxnard Field Office Reconfiguration Project.

These projects are requested to shift from the General Fund to lease revenue bonds, due to the projected budget problem.

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

Staff Recommendation: Hold Open.

Issue 9: REAL ID Automated Document Verification (RADV)

Governor's Proposal. The Governor's Budget includes $7,472,000 from the MVA in 2024-25 and $5,472,000 ongoing to support the REAL ID Automated Document Verification (RADV) process.

Background. RADV allows customers to upload the identity and residency documents necessary to apply for a REAL ID Driver License or Identification Card prior to arriving at the field office. This allows DMV to ensure the customer has the correct documentation needed for the transaction, which decreases the customer's time in a field office and return visits. The RADV process was originally funded in the 2021 Budget Act—DMV received funding for six temporary IT positions through 2023-24. Currently, RADV is utilized by approximately 40 percent of all REAL ID customers. To support RADV, the DMV requests funding for IT positions, software and vendor support contracts, consultant contracts, and program support positions.

- **IT Resources.** The DMV requests $1,027,000 ongoing to convert the six temporary IT positions to permanent to support and maintain RADV, and potentially expand the use of RADV to Virtual Field Office, Digital Mailroom, Lien Sales, Disabled Parking Placard recertification, and accounts payable invoices processing.
- **Software and Vendor Support Contracts.** The department requests $2,800,000 ongoing for AWS hosting services and software and vendor support costs to maintain, modify, and improve the current process flows for various customer services.
- **Consultant Contracts.** The department requests $2,000,000 one-time for consulting services, to support and onboard permanent staff to manage RADV.
- **Program Support Positions.** The department requests $1,645,000 ongoing for 15 positions to manually review, analyze, and process documents.

Staff Recommendation: Hold Open.