Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 4 Agenda

Michael Machado, Chair
Tom McClintock
Christine Kehoe

Thursday, April 20, 2006
9:30 a.m. or upon adjournment of session
Room 112

Consultant: Brian Annis

Select Business & Transportation Departments

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Departments with Issues Proposed for Vote-Only

2120 Alcoholic Beverage Control Appeals Board

The Alcoholic Beverage Control Appeals Board (Board) was heard by the Subcommittee on March 8. The Board did not submit any Budget Change Proposals (BCPs) and the Subcommittee approved the Board's budget. The Administration has since submitted the following April Finance Letter request:

1. **One-Time Retirement Costs (Finance Letter #1).** The Administration requests a one-time budget augmentation of $34,000 (special fund) for costs associated with the Board's Chief Counsel in 2006-07. These costs were initially budgeted in the Budget Act of 2005, but were not incurred due to a delay in the Chief Counsel's retirement date. The Administration indicates these costs cannot be absorbed due to the small size (9.0 positions) of this organization.

   Staff Recommendation: Approve the request.

   Vote:

2310 Office of Real Estate Appraisers

The Office of Real Estate Appraisers (OREA) was heard by the Subcommittee on March 8 and all Governor's Budget requests were acted upon. The Administration has submitted the following April Finance Letter request:

1. **Reduction for Attorney General Costs (Finance Letter #1).** The Administration requests a budget reduction of $259,000 (special fund) to align budgeted resources for attorney costs with actual expenditures. This would correct a previous miscalculation in the amount needed for payments to the Attorney General.

   Staff Recommendation: Approve the request.

   Vote:

2320 Department of Real Estate

The Department of Real Estate was heard by the Subcommittee on March 8th and the following Budget Change Proposal (BCP) issue was left open (no April Finance Letters were submitted for the Department):

1. **Operating Expense and Equipment Augmentation (BCP #7).** The Department requests an ongoing augmentation of $2.3 million for unfunded increases in off-site examination facilities ($647,000), credit card costs ($36,000), postage ($193,000) and Office of Administrative Hearing costs ($1,466,000).

   Detail:

   - **Off-site examination facilities** – DRE indicates the quantity of applicants scheduled for exams has increased 300 percent since 2000-01 and a temporary baseline augmentation of $143,000 for 2005-06 and 2006-07 has not been sufficient to cover the costs.
   - **Credit Card Costs** – DRE began accepting credit card payments for all DRE license fees in 2000 and has since expanded to now accept credit card payments for exam fees. DRE received a temporary baseline adjustment of $200,000 for 2005-06 and 2006-07; however, credit card fees are expected to total $501,000 in 2006-07. The estimated 2006-07 shortfall is $36,000 and the 2007-08 shortfall is $267,000 (due to the expiring limited-term authority).
   - **Postage Costs** – DRE reports a postage shortfall of $193,000. Postage expenditures grew 91 percent from 2001-02 to 2004-05. This increase is driven by the volume of mailings, not the increased cost of postage (which is separately augmented in the budget).
   - **Office of Administrative Hearings –** DRE reports that the number of disciplinary cases filed with OAH has increased over 50 percent and the hourly rate for Administrative Law Judges has increased 11 percent since 2001-02 without a funding augmentation.

   Staff Comment: The Subcommittee kept this issue open and directed staff to work with the Department to reconcile and justify related augmentations made in last year's budget. Last year, the Administration made some related budget augmentations as baseline adjustments and did not provide a BCP. Since the hearing, the Administration has provided detail on last year's changes, and the changes made last year do not conflict with, or duplicate, this year's request.

   Staff Recommendation: Approve the request.

   Vote:

2700 Office of Traffic Safety

The Office of Traffic Safety (OTS) is responsible for allocating federal grant funds to State and local entities to promote traffic safety. The office administers the California Traffic Safety Program and will distribute approximately $78 million of federal grant funds in 2006-07 to local and State agencies. The grants provided by OTS focus on the nine priority areas of traffic safety: (1) alcohol and drugs; (2) occupant protection; (3) pedestrian and bicycle safety; (4) traffic records; (5) emergency medical services; (6) roadway safety; (7) police traffic services; (8) motorcycle safety; and (9) speed control.

The Governor proposes total expenditures of $85.2 million (no General Fund) – an increase of $242,000 from the current year. The Administration did not submit any Budget Change Proposals for the Office of Traffic Safety.

Staff Comment: No issues have been raised with the Office of Traffic Safety budget.

Staff Recommendation: Approve the budget.

Vote:

Departments with Budgets Proposed for Discussion

2100 Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control (ABC) was heard by the Subcommittee on March 8th and all Governor's Budget requests were acted upon. The Administration has since submitted an April Finance Letter request (see issue #1). Additionally, the Administration has revised the ABC's fund condition statement, and this may warrant reopening an issue which the Subcommittee rejected due to concerns of insufficient funds (see issue #2).

Discussion / Vote Issues

1. **Licensing and Compliance System (LCS) –Funding (Finance Letter #1).** The Administration requests an augmentation of $635,000 (special fund) in 2006-07 to reflect a delay in encumbering funds for the LCS information technology project, which was originally approved by the Legislature with the 2004-05 Budget Act. Litigation by an unsuccessful bidder will delay the award of the contract into 2006-07. The new system is replacing the existing 1993 system (the California Alcoholic Beverage Information System (CABIN)), which faces both hardware and support limitations, and limits new functionality.

   Staff Comment: Staff understands that the Administration anticipates additional changes to this request through a May Revision Finance Letter, and that the Administration would support rejection of this item due to the pending May Letter.

   The Administration is not using the normal "reappropriation" budget treatment for this request. Instead they would augment the 2006-07 appropriation and assume increased savings in 2005-06. A more standard treatment would be a budget act reappropriation, which includes a technical reduction to 2005-06 spending authority.

   Staff Recommendation: Reject the proposal – at the request of the Administration. The Administration will update the funding request, if necessary, with the May Revision.

   Vote:

2. **Grant Assistance Program (GAP) Augmentation (BCP #2).** The Department requests an augmentation of $1.7 million (special fund) and 3.0 positions to increase the Department's grants to local law enforcement agencies to $3.0 million. This would double the number of grants awarded from about 20 to about 40. The state operations funding of $248,000 would fund three new Investigator II positions to supervise and consult with the new local law enforcement entities that receive the grants. With the three new staff, a total of 12 staff would administer this program. Assembly Bill 428 (Chapter 428, Statutes of 2005, Gordon), found that the GAP program was a successful law enforcement program and that annual funding should be no less than $1.5 million and no more than $3.0 million.

   Staff Comment: The Subcommittee heard this issue at the March 8 hearing and rejected it because the Governor's Budget revenue numbers suggested that Department revenue was not sufficient to sustain the augmentation over multiple years. Since the hearing, the Administration has revised the ABC fund condition as indicated in the following table, which includes the BCP requests ($ in millions):

	2005-06	2006-07	2007-08	2008-09	2009-10
2006-07 Governor's Budget					
Revenues and Transfers	$45.1	$45.6			
Expenditures (including 2006-07 BCPs)	$44.4	$50.8			
Year-end Fund Balance	$12.0	**$6.8**			
Administration's Revised Estimates					
Revenues and Transfers	$45.6	$46.1	$46.7	$47.2	$47.8
Expenditures (including 2006-07 BCPs)	$43.7	$48.8	$48.9	$48.8	$48.8
Year-end Fund Balance	$13.3	**$10.6**	$8.3	$6.8	$5.8

   The new estimates reflect an additional $500,000 in annual revenue and a combined decrease in 2005-06 and 2006-07 expenditures of $2.7 million. The 2006-07 expenditure savings is not reflected in the requested budget expenditure authority, but is assumed savings. A Staff analysis suggests that with the new revenue and expenditure assumption, and considering the statutory authority to adjust fees with the Consumer Price Index, the ABC should be able to continue the higher level of GAP grants requested.

   The Subcommittee also rejected an overtime request (BCP #1), partially due to fund concerns. The LAO had recommending rejecting this request due to insufficient justification of the workload need. Staff recommends that this request not be reopened (the rejection of this request at the March 8 hearing would stand).

   Staff Recommendation: Vote to reopen the GAP funding request (BCP #2) that was rejected at the March 8th hearing, and vote to approve the request.

   Vote:

2150 Department of Financial Institutions

The Department of Financial Institutions (DFI) was heard by the Subcommittee on March 8 and the following issue was left open (no April Finance Letters were submitted for the Department):

Discussion / Vote Issue

1. **California Financial Information Privacy Act (SB 1) (Staff Issue).** The 2004 Budget Act included provisional language that required the DFI to report to the Legislature by January 10, 2006, on the Department's implementation of the California Financial Information Privacy Act (as enacted by SB 1, Chapter 241, Statutes of 2003, Speier). The report suggests that the actual workload has been significantly less than anticipated. However, the Governor's Budget makes no adjustments to SB 1 funding and positions.

   Background: DFI submitted a BCP in 2004 requesting 17.0 positions to implement SB 1. The Legislature approved reduced staffing for a complaint-driven process, 6.0 positions were approved for DFI.

   Staff Comment: At the March 8 hearing, the Subcommittee directed staff to work with DFI to develop and cost-out staffing alternatives that would reduce the Department's SB 1 staffing by four to six positions. The Department has presented a revised budget proposal that is also supported by the Department of Finance.

   Revised DFI Staffing Proposal: The DFI has submitted a BCP-type document explaining and justifying the following adjustments, which result in no net change to funding or positions relative to the Governor's Budget:
   - Retain two Examiner positions to perform SB 1 workload – all audited firms would be checked for SB 1 compliance.
   - Retain one Counsel position, which would primarily perform new workload related to the Bank Security Act and other litigation matters, but would also spend about 20 percent of work hours on SB 1 issues.
   - Redirect three SB 1 positions to the Special Licensees Program. This program enforces laws and regulations related to the money transmitter industry. The number of money-transfer transactions has increase 212 percent from 2000 to 2005 (from 10.9 million transactions to 34.1 million). There has been a concurrent increase in the number of money transfer firms, the number of DFI exams, and enforcement actions; but no increase in approved positions. DFI has been utilizing three retired annuitants to assist with the increased workload, but has still been unable to address all workload issues.

   Staff Recommendation: Approve the revised DFI staffing proposal.

   Vote:

2180 Department of Corporations

The Department of Corporations (Corporations) was heard by the Subcommittee on March 8 and the following issues were left open (no April Finance Letters were submitted for the Department):

Discussion / Vote Issue

1. **California Financial Information Privacy Act (Staff Issue).** The 2004 Budget Act included provisional language that required Corporations to report to the Legislature by January 10, 2006, on the Department's implementation of the California Financial Information Privacy Act (enacted by SB 1, Chapter 241, Statutes of 2003, Speier). The report suggests that the actual workload has been significantly less than anticipated. However, the Administration requests to keep all the existing SB 1 funding and positions.

   Background: Corporations submitted a BCP in 2004 requesting 22.0 additional positions to implement SB 1. Corporations proposed to audit all firms for SB 1 compliance during their regular audit visit. The Legislature approved reduced staffing for a complaint-driven process –10.0 positions were approved.

   Staff Comment: At the March 8 hearing, the Subcommittee directed staff to work with Corporations to develop and cost-out staffing alternatives that would reduce the Department's SB 1 staffing by eight to ten positions.

   Staff Recommendation: Hold action on this issue, and take a combined action after considering Issue #2 on the following page.

2. **Elimination of Investigator Positions (Staff Issue**). In 2003-04, Corporations eliminated all 14.0 of its Investigator positions as part of the 2003 Budget Act Control Section 4.10 process which required a statewide reduction of 16,000 permanent positions, as specified. Newspaper reports indicate that the cases the Department referred for criminal prosecution declined from 27 in 2002 to none in 2004. Without Investigator positions, this function falls to local law enforcement and the State Attorney General, who received no additional funds to perform this activity. Since the elimination occurred through Control Section 4.10, the Legislature did not consider this reduction through the Budget Subcommittee process, and no public discussion occurred on the affect these reductions would have on consumer protection.

   Recent Legislative Action: Last year, Senator Speier, Chair of Banking, Finance, and Insurance Committee and Assemblymember Ron Calderon, Chair of the Banking and Finance Committee requested that the Joint Legislative Audit Committee approve a Bureau of State Audits study of Corporations activities. The audit was approved, but will not be complete until 2006-07.

   Staff Comment: At the March 8 hearing, the Subcommittee directed staff to work with Corporations to develop and cost-out staffing alternatives that would partially or fully restore the Investigative function to the Department.

   Revised Corporations Staffing Proposal: The Department has submitted a BCP-type document explaining and justifying the following adjustments, which shift positions approved for SB 1 workload to general enforcement / investigative workload (see also Issue #1 on the prior page) and result in no net change to funding or positions relative to the Governor's Budget:

   - Maintain one Examiner position for SB 1 workload.
   - Officially recognize that 9 of 10 positions originally established for SB 1 workload have been redirected to perform general enforcement work due to a low level of realized SB 1 workload.
   - Reclass three of the nine positions to Investigators. This would restore the "Investigator" classification and function to the Department.

   The Department justifies retaining these "SB 1" positions which have been performing non-"SB 1" enforcement work, by citing an increase in the level of enforcement activity: the number of Desist and Refrain Orders increased from 88 in 2004 to 142 in 2005; and the number of Administrative Actions increased from 65 in 2004 to 99 in 2005. Additionally, the reclassifications to create three Investigators would allow the Department to identify fraud while it is occurring versus after a consumer has lost money and to ensure compliance with Desist and Refrain Orders.

   Staff Recommendation: Approve the revised DFI staffing proposal. (This action covers both Issues #1 and #2)

   Vote:

2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created in 1996 to direct the development and implementation of inter-city high-speed rail service. The HSRA has completed its business plan, initial financial plan, and a program environmental impact report (EIR). Current law places a proposition on the November 2006 ballot to provide $9.95 billion in general obligation bonds for high-speed rail and related rail projects. The total cost to build the entire system was most-recently estimated at $37 billion.

The Governor proposes $1.3 million (Public Transportation Account) in total expenditures for the HSRA, a decrease of $3.9 million from the current-year budget. The decrease is due to the completion of projects with one-time funding – specifically two projects were funded in the 2005 Budget Act: a "next-tier" program EIR on the Central Valley to Bay Area route alignment and an updated financial plan.

Discussion / Vote Issue

1. **Bond Funding for High-Speed Rail / 2006-07 Budget.** The Governor's January 2006 Strategic Growth Plan includes no bond funding for high-speed rail and assumes the enactment of legislation to remove the $9.95 billion rail bond from the November 2006 ballot.

   Staff Comment: Given the uncertainty related to bond funding for the high-speed rail project, it is difficult to assess the HSRA budget need for 2006-07. The following are some scenarios for HSRA activity and funding:

   - Governor's Budget ($1.3 million) – removes one-time funding, but doesn't further evaluate or "zero-base" the continuing activity for the HSRA.
   - Next Steps to Construction ($1.3 million plus) – the HSRA 2005 Implementation Plan includes the following next steps: develop Authority staffing plan and scope-of-work for program management team; pre-qualify train system suppliers, begin project-specific EIR.
   - Zero-Based Budget ($800,000) – rebases the HSRA budget to remove operating expenses and equipment funding that would not seem necessary if the HSRA is not working on EIRs or other special projects.
   - Eliminate the HSRA (no funding) – under this option the HSRA would be eliminated with the assumption that a similar organization would be reestablished in the future if the State decides to construct a high-speed rail system.

   LAO Recommendation: The LAO recommends adding provisional budget language that would revert any unexpended 2006-07 appropriation upon enactment of legislation that would postpone, indefinitely, a high-speed rail bond.

   Staff Recommendation: Keep the HSRA budget open, more information may be available on the bond at the time of the May Revision hearing.

2720 California Highway Patrol

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.

The Governor proposes $1.575 billion in total expenditures for the CHP, an increase of $124 million and 339 positions from the current-year budget. These figures do not include Finance Letter proposals submitted by the Administration on March 30, 2006.

Vote-Only Issues

1. **Reduction for Insurance Costs (April Finance Letter).** The Administration requests an ongoing budget reduction of $1.2 million (various special funds) to reflect the revised self-insurance assessment for CHP vehicles.

   Detail: The Department of General Services' Office of Risk and Insurance Management manages the State Motor Vehicle Insurance Account and collects assessments from each State agency based on that particular agency's claim experience over the past five calendar years. The CHP assessment is falling from $6.2 million to $5.0 million in 2006-07.

   Staff Recommendation: Approve this request.

   Vote:

2. **Removal of Underground Storage Tanks (BCP #4).** The Administration requests an ongoing augmentation of $1.5 million (Motor Vehicle Account) to increase the number of fuel tanks converted annually from underground to aboveground. The base funding for fuel tank activity is $2.2 million and this augmentation would increase the number of tanks converted from 6 to 11 per year.

   Detail: The BCP indicates that the CHP currently maintains 93 underground fuel storage tanks and 22 aboveground storage tanks. The tanks allow the Department to purchase fuel in bulk and save approximately 30 cents per gallon. The conversion of tanks from underground to aboveground is thought to reduce environmental damage caused by leaking tanks. The CHP indicates that the conversion of 11 tanks per year is the maximum the Department of General Services can accommodate.

   Staff Comment: Over the past decade, the Department of Transportation similarly converted its underground fuel storage tanks to aboveground tanks.

   Staff Recommendation: Approve this request.

   Vote:

3. **Capital Outlay Projects (various BCPs).** The Administration requests $5.7 million in 2006-07 funding for capital outlay projects with a total cost of about $40 million (Motor Vehicle Account). The projects are as follows:

   - Santa Fe Springs Area Office: Working drawings at a cost of $709,000 for a new office that would also have construction costs of $9.7 million.
   - San Diego Area Office: Working drawings at a cost of $169,000 for a renovation project that would also have construction costs of $2.6 million.
   - Oceanside Area Office: Land acquisition and preliminary plans at a cost of $2.8 million for a replacement facility that would also have future working drawing and construction costs totaling about $14 million.
   - Oakhurst Area Office: Land acquisition and preliminary plans at a cost of $1.1 million for a replacement facility that would also have future working drawing and construction costs totaling about $7.5 million.
   - Academy Outdoor Track Replacement: Plans and construction at a cost of $945,000 to replace the running track at the CHP's training academy.
   - Studies, Pre-Planning, and BCP Development: Develop future capital outlay proposals at a cost of $50,000.

   Staff Recommendation: Approve this request.

   Vote:

4. **Workers' Compensation & Disability Retirement Case Management (BCP #3).** The Administration requests an ongoing increase of $652,000 (Motor Vehicle Account) and seven non-uniformed positions to address workers' compensation and disability retirement case management.

   Detail: The BCP indicates that the CHP currently has five Disability Retirement Section (DRS) employees providing service on 6,552 workers' compensation claims. The requested augmentation would reduce caseload per staff from 1,310 to 727, which the CHP indicates is still twice the average workload for other large departments. The current annual expenditures related to workers' compensation and disability retirement claims are approaching $70 million annually. The CHP indicates that more proactive management of these claims could reduce costs. Note, the Disability Retirement Section is separate from the Workers' Compensation Fraud Investigations Unit which was reestablished by the CHP Commissioner two years ago.

   Staff Recommendation: Approve this request.

   Vote:

Discussion / Vote Issues

1. **Motor Vehicle Account – Fund Condition (Informational Issue).** The Administration is requesting approval for CHP and Department of Motor Vehicles budget augmentations that will total close to $1 billion over a six-year period. Staff asked the Administration to demonstrate with a long-term Motor Vehicle Account (MVA) fund condition statement, whether these augmentations can be sustained without a fee increase. The table below was supplied by the Administration and indicates existing fee revenue is sufficient to support these requests.

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Beginning Reserve	$548,677	$623,249	$780,795	$953,081	$1,126,095	$1,320,874
Total Revenues	2,105,253	2,281,500	2,369,000	2,473,000	2,580,500	2,673,930
Transfers to/from other funds	591	591	591	591	591	591
Total Resources	$2,654,521	$2,905,340	$3,150,386	$3,426,672	$3,707,186	$3,995,395
Total Expenditures	$2,000,793	$2,108,836	$2,177,358	$2,269,558	$2,363,067	$2,453,591
Reserves Estimate	$653,728	$796,504	$973,028	$1,157,114	$1,344,119	$1,541,804
06/07 Finance Letters	30,479	15,709	19,947	31,019	23,245	21,387
Reserve Est. after BCPs	**$623,249**	**$780,795**	**$953,081**	**$1,126,095**	**$1,320,874**	**$1,520,417**
Cost of initiatives to be considered over the next five years:						
Public safety enhancements						
▶Out-year costs of 2006-07 BCPs (Radios and 240 CHP Officers)		$741,764				
▶Future public safety enhancements		$286,295				
▶REAL ID		$382,281				
▶DMV Customer Service and Technology Upgrades		$80,320				
▶Biometrics and DL/ID		$42,437				
▶DMV Credit Card Fees		$63,054				
▶Facilities, repairs and maintenance		$116,918				
▶ARB Hydrogen Highway		$53,500				
TOTAL		**$1,766,569**				

Staff Comment: The Department of Finance or the Business and Transportation Agency should be prepared to discuss the MVA fund condition and the assumptions behind the estimates. Note the 2007-08 through 2011-12 fund reserve estimates do not include the out-year costs of 2006-07 BCPs ($742 million) and Real ID costs ($382 million). If those items are incorporated, the fund balance no longer grows over time but would actually fall from 2006-07 through 2011-12.

Staff Recommendation: Informational issue, no action necessary.

2. **Building Security at State Buildings (Informational Issue).** At the April 6, 2006, hearing, Subcommittee #4 discussed the issue of State building security in the context of the Department of General Services (DGS) budget. DGS has requested $1.2 million ongoing (Service Revolving Fund) for increased security costs at five State buildings. These additional expenses are based on reduced service commitments by the CHP at the Ronald Reagan building and other minor cost increases at four other State buildings. DGS will fund these security augmentations through an assessment on building tenants.

   Staff Comment: The State has no standard security requirement for its buildings. The California Highway Patrol may provide a security assessment and recommendation, but there is no central security oversight or advisor. Departments ascertain, by themselves, what the best level of building security is for their facility. DGS prepares a cost estimate and presents it to the tenant or tenants.

   Requests for security augmentations since 9/11 have occurred on a piecemeal basis and there is neither a minimum nor a maximum level of expenditures that a department may devote to building security. Security enhancements can be very expensive. It has been estimated that outfitting all state-owned buildings with x-ray scanners would cost between $40 and $50 million. To the extent that departments do enhance their building security, they either absorb the cost or request an augmentation.

   The CHP should be prepared to discuss the following:

   a. For State buildings – what is the involvement of the CHP in providing security and determining the appropriate level of security?
   b. For leased facilities occupied by State workers – what is the involvement of the CHP in providing security and determining the appropriate level of security?
   c. What level of security does the CHP generally recommend for State buildings and leased facilities relative to placement of security guards, metal detectors, etc.?
   d. What are the emerging issues in building security and the anticipated costs?

   Staff Recommendation: Informational issue – no action necessary.

3. **Freeway Services Patrol (April Finance Letter).** The Administration requests an ongoing increase in reimbursement authority of $800,000 (from the State Highway Account) to reflect the CHP's component of the Department of Transportation's (Caltrans) Freeway Services Patrol program. Coinciding with this request, Caltrans is requesting an increase in expenditure authority of $6.2 million to expand the program.

   Detail / Background: The purpose of the Freeway Services Patrol (FSP) program is to reduce highway congestion by more quickly clearing disabled vehicles from the roadway or roadside. The FSP program consists of a contracted fleet of tow trucks which continuously patrol designated routes throughout the major urban areas of the state. The CHP's role is to investigate FSP tow truck driver related complaints and ensure that the drivers patrol their assigned beats per the terms and conditions of their contract. The Finance Letter indicates that the average statewide benefit/cost ratio is 8.7 to 1 and that the program assists 650,000 motorists annually.

   The base FSP program expenditure level is $23 million – which includes a $2 million augmentation by the Legislature last year. Of the $23 million base, $3.2 million is currently transferred to the CHP to reimburse costs. This request (along with the corresponding Caltrans Finance Letter) would bring the total State cost to $29 million and CHP reimbursement to $4 million. Separately, the CHP notes that some local agencies supplement Caltrans funding, and provide additional reimbursements to the CHP. The Finance Letter indicates the augmentation will allow an additional 108,000 hours of tow-truck service and provide approximately 90,000 assists.

   Staff Comment: It is unclear to staff how the Administration determines the optimal level of CHP oversight for this program. The CHP cost is significant, in the range of 15 percent. The Department does not track individual FSP tasks and is unable to indicate, for example, how many hours were spent last year following up on complaints against tow-truck drivers. The CHP should be prepared to discuss more specifics about the marginal value added by the CHP from the $800,000 versus the value added if more of the funding is used to expand tow truck hours. For example, $800,000 would fund approximately 16,000 additional tow-truck hours, and 13,000 assists.

   Staff Recommendation: Keep this issue open and take action for both Caltrans and the CHP, when this issue is heard with Caltrans.

4. **Additional CHP Officers (BCP #1).** The Administration requests an augmentation of $33.7 million (Motor Vehicle Account) for partial-year funding of 240 new uniformed officers and full year funding for 70 supervisory and nonuniformed staff. The cost in 2007-08 and thereafter would be $41.9 million.

   Detail / Background: The need for additional CHP officers is supported by CHP data and prior-year LAO findings. According to the LAO, additional staffing is particularly necessary to CHP divisions that have seen recent large increases in vehicle registrations and highway travel. In addition, the LAO points out that the pace of growth for vehicle collisions throughout the divisions have far outpaced officer hiring between 2000 and 2004.

   Legislative Analyst Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the LAO recommends that the proposal be approved, but that the 2006-07 funding be decreased by $3.2 million. The LAO indicates the budget provides $3.2 million more than what is necessary to fund the proposed staffing increase. This is the result of the budget not taking into account the reduced salaries of the new officers while in cadet school.

   The CHP and the Department of Finance agree that the funding should be reduced by $3.2 million to take into account the cadet pay of the new officers.

   Staff Recommendation: Approve the proposal, reduced by $3.2 million.

   Vote:

5. **Additional 9-1-1 Call Center Dispatchers (BCP #7).** The Administration requests $6.4 million (Motor Vehicle Account) for the partial-year cost of 173 new positions to staff the 9-1-1 call centers – specifically, 156 Public Safety Dispatcher II positions and 17 Supervisor positions are requested. Full year cost for these positions in 2007-08 would be $10.5 million.

   Detail: In additional to the 173 positions, the BCP indicates that the Department would add an additional 156 positions in 2007-08. In total, the Administration proposes to double the size of the call-taking staff from 325 to 654 over a two-year period. The ongoing annual costs for the 329 positions will be about $19 million. The Department indicates that the authority for the additional 156 positions is not included in this request; therefore, a separate BCP will be submitted next year if the Administration decides to move ahead with the full staffing plan.

   August 2004 State Auditor's Report: The State Auditor touched on 911 staffing in its report, *Wireless Enhanced 911: The State Has Successfully Begun Implementation, but Better Monitoring of Expenditures and Wireless 911 Wait Times is Needed*. The Auditor had the following four findings related to the CHP:

   - Most CHP centers do not have systems to monitor how long they take to answer 911 calls, and more than half the centers that tracked wait times did not meet the State's goal to answer 911 calls within 10 seconds. (Staff note: the CHP has had call tracking technology at all of its 911 call centers since November 2005).
   - Wait times were high, in part, because dispatchers at CHP centers handled significantly more 911 calls per dispatcher than did local answering points we contacted.
   - Unfilled dispatcher positions at CHP centers contributed not only to longer wait times but also to significant overtime costs for the CHP.
   - The CHP does not expect the number of wireless 911 calls diverted to local answering points to exceed 20 percent statewide.

   LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the LAO recommends that the proposal for new call center staff be held open, and that the Administration resubmit the proposal with the May Revision. The LAO suggests the new proposal be based on the automated call-accounting data for all medium and large centers and that other center-dependent variables also be taken into consideration. The LAO is concerned that, while a staffing augmentation is warranted, the proposal is not based on reliable data. The CHP has only had call accounting data at all call centers since November, 2005.

   Staff Comment: The CHP has been working with the new available data and hopes to have the results available within a few weeks.

   Staff Recommendation: Keep this issue open pending revised data from the CHP.

6. **Augmentation for Fuel Costs (BCP #5).** The Administration requests an ongoing augmentation of $2.7 million for higher fuel costs. Note, the CHP received a $5.2 million ongoing augmentation for fuel costs with the 2005 Budget Act. The base funding level assumes a weighted average fuel cost of $2.33 per gallon, and this year's request assumes a weighted average fuel cost of $2.56 per gallon (excluding aircraft fuels).

   Staff Comment: Caltrans also submitted a fuel-price BCP, which the Subcommittee approved on March 30. The Caltrans request assumed 2006-07 fuel prices averaging $2.33 per gallon. The Governor's Budget forecast projected regular unleaded gasoline to average $2.31 per gallon in 2006-07. The CHP request is significantly higher; however, the gas price outlook has changed in recent months. The April 11, 2006, *U.S. Motor Gasoline Summer Outlook Path* from the federal Energy Information Administration, Department of Energy, projects retail gasoline prices averaging $2.62 in the second and third quarters of 2006. Given the current outlook, the CHP's request seems in a reasonable range, but the Subcommittee may want to revisit funding in future years if gasoline prices return to levels averaging below $2.50 per gallon.

   Staff Recommendation: Approve the request.

   Vote:

7. **Enhanced Radio Communications (BCP # 2).** The Administration requests approval of a five-year project with a total cost of $494 million (all Motor Vehicle Account, $57.1 million would be expended in 2006-07) to replace the CHP's radio communications hardware and software.

Detail / Background:

- **Identified Problem:** The CHP indicates its current radio system is 25 years old and replacement parts are not available because they are no longer being manufactured. Additionally, the CHP cannot custom order new parts because the system is proprietary. The identified risk of keeping the existing system is communications outages when equipment fails. To the degree failed equipment is replaced with new technology on an ad-hoc basis, new risk is created for communication breakdowns between new and old technologies. Another identified problem is that the current system constrains the addition of new frequencies to improve operability (within the CHP) and inter-operability (CHP communications with other State, federal and local entities).
- **Improvements with the Proposed System:** The Department indicates the proposed system would use open architecture and proven technology, and there is little risk the system would not work. Additionally, the CHP cites the following improvements with the proposed systems:
  - Allow Communications Centers to separate the emergency and non-emergency operations during peak and critical times.
  - Enable radio interoperability with other public safety agencies without impacting normal patrol operations.
  - Provide the Communications Centers the ability to communicate with any CHP mobile unit anywhere in the state.
  - Allow for additional operational channels for radio interoperability with allied agencies.
  - Provide Officers the ability to communicate at a greater distance away from their enforcement vehicles (from 400 to 500 feet to one to two miles with the new system).
- **Implementation Strategy**: The BCP identifies four main categories of activity over the five-year implementation:
  - Replace patrol vehicle equipment at the pace of two districts per year beginning in 2006-07. The annual cost is approximately $34 million ($167 million total).
  - Replace portable equipment in three years, beginning in 2006-07. The annual cost is approximately $16 million ($50.1 million total).
  - Replace tower equipment and erect new towers. The Department of General Services would assess this need in 2006-07 along with other oversight activities at a cost of $6 million. New equipment would be purchased and installed in 2007-08 through 2010-11 at a total cost of $211 million.
  - DGS design and oversight. The five-year cost is estimated at $66 million.

- **Statewide Strategic Communications Plan:** The State has been working for over a decade to design a comprehensive emergency-communication system. In 1994, the CHP, along with nine other public safety agencies and the Department of General Services (DGS), initiated a study called Public-Safety Radio Integrated Systems Management (PRISM). The PRISM effort produced a cost estimate of $3.5 billion in 1997. The high cost delayed action and technology continued to change. Currently, the Office of Emergency Services chairs the Public Safety Radio Strategic Planning Committee (PSRSPC). In January 2006, the PSRSPC released a status report which is the "first phase in the strategic plan for a newly envisioned statewide approach." The January report supports a phased approach with "immediate stop-gap solutions," including the CHP's proposal. The PSRSPC will release the new Statewide Strategic Plan in January of 2007. However, the Office of Emergency Services indicates that the January 2007 plan will not conflict with this year's CHP request.
- **Risks and Unknowns:** In addition to the risks associated with maintaining the current CHP system, there are risks and unknowns associated with the proposed system.
  - The system is not classified as an "IT system" and therefore a Feasibility Study Report (FSR) was not prepared. The technical detail provided to date does not match that of an FSR.
  - The CHP has contracted out with a private vendor to examine the proposed enhancements and sample a limited number of towers and equipment. This review is not expected to be completed until April 28, 2006. The conclusions of the review could result in changes to the plan and cost estimates.
  - The BCP indicates the cost of new towers and new tower equipment will be $210 million; however, DGS will not complete a full survey of the approximately 300 remote radio sites until the end of 2006-07. Therefore the $210 million cost estimate is subject to change.

Staff Comment: The CHP's existing system is old, risks failure, and inhibits improvements. There are also multiple risks and unknowns with the proposed system. The Subcommittee may want to consider only approving 2006-07 expenditures and require that the CHP return during the next budget cycle for the remainder of project funding. Next spring, the Legislature will have the benefit of a completed PSRSPC Strategic Plan; a revised project plan that incorporates the consultant's recommendations, as applicable; and a new DGS estimate of the number of towers and the tower equipment that needs replacement. Given the more comprehensive information that would be available next year, the CHP should also be prepared to discuss what mobile equipment and portable equipment purchases could be delayed into 2007-08 without delaying the final project completion date.

LAO Recommendation: The LAO has identified an estimating error that overstates 2006-07 costs by $760,000 for the Independent Verification & Validation (IV&V) vendor. The Administration concurs with the need for this correction. The LAO also recommends that the Office of Emergency Services testifies at the hearing on: (1) the extent to which the proposed project supports the state's interoperability goals –

without compromising CHP's operational needs and (2) whether CHP's proposal would hinder or complicate future development of other systems.

Staff Recommendation: Keep open, the vendor report may be available by the time of the May Revision hearing.

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' 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.

The Governor's Budget proposes total expenditures of $818 million, an increase of $47.3 million and 4.0 positions from the current-year budget. These figures do not include Finance Letter proposals submitted by the Administration on March 30, 2006.

Vote-Only Issues

1. **Facility Lease Relocations (BCP #3).** The Administration requests funding of $2.6 million in 2006-07 and $2.2 million ongoing (various special funds) to relocate seven field offices.

   Detail: The DMV has received six notices to vacate the leased space for the Clovis, Tracy, Fairfield, Quincy, Hollywood & Vine, and Bishop field offices. The King City field office facility is non-compliant with code requirements, and the Department of General Services will not renew the lease.

   Staff Recommendation: Approve the request.

   Vote:

2. **Capital Outlay (CO BCP 1, 2, &3).** The Administration requests a total augmentation of $18.0 million in Motor Vehicle Account funds for capital outlay projects. BCP #1 requests $15.7 million for asbestos abatement and office renovations for the fifth floor of the Sacramento DMV headquarters building. BCP #2 requests $2.2 million for asbestos abatement and office renovations for the sixth floor of the headquarters building, and for "building reskin." Additionally, the DMV requests $100,000 in capital outlay study funds for budget packages, special studies, and planning activities related to high priority capital outlay projects.

   Background: Three floors of the headquarters building have already been completed with funding provided through budget change proposals in prior years. After this year's request, the asbestos abatement work on the headquarters building will be complete.

   Staff Recommendation: Approve the request.

   Vote:

3. **Organ Donor – SB 689 Implementation (BCP #6).** The Administration requests $1.1 million (Motor Vehicle Account) to implement and administer Senate Bill 689 (Chapter 665, Statutes of 2005, Speier), which revised the procedures related to organ donor designation.

   Detail: Among other requirements, SB 689 requires DMV to collect organ and tissue donor designation information on its applications for drivers' licenses and identification cards rather than to provide a standardized form for a donor to mail to the California Organ and Tissue Donor Registry. DMV indicates SB 689 will increase processing and customer services workloads. The $1.1 million cost is in the range of the estimated cost discussed when SB 689 was deliberated.

   Staff Recommendation: Approve the request.

   Vote:

4. **Remittance System Replacement (BCP #5).** The Administration requests one-time funding of $5.4 million and ongoing funding of $523,000 (various special funds) to replace the remittance processing system that processes the payment of approximately $2.1 billion annually.

   Detail: The DMV indicates that the current system is seven years old and that the industry-standard life expectancy is five to six years. A system failure would result in the inability to meet banking standards for check sorting and encoding, and could delay the deposit of funds. The BCP notes that the new system would process three times the current volume of mail, and that new technologies would allow efficiencies equivalent to the work of eight personnel years –the Department proposes to retain these eight positions and redirect the staff to other critical workload.

   Staff Recommendation: Approve the request.

   Vote:

Discussion / Vote Issues

1. **Real ID Update (Informational).** Subcommittee #4 held a special oversight hearing with DMV to discuss the federal Real ID Act (the Act) on February 23, 2006. The Subcommittee may wish to ask the DMV to provide an update on any new information from the federal government and any changes in the Administration's implementation plan.

   Staff Comment: The DMV has submitted several Finance Letters with information technology requests that are partially justified based on Real ID implementation (Issues #2 and #3 below). Additionally, some new positions, consulting services, and facilities expenditures related to Real ID and included for 2006-07 in the materials the Department submitted in February, were not requested in April Finance Letters. The DMV should be prepared to indicated whether it now feels these activities can be deferred to 2007-08, absorbed in 2006-07, or whether discussions are still ongoing within the Administration for a May Finance Letter request.

   Staff Recommendation: Informational only – no action necessary.

2. **Document Imaging and Storage Replacement / Real ID Act (Finance Letter #2).** The Administration requests $4.0 million (various special funds) to replace 12 microfilm cameras with five high-speed digital scanners. These scanners will be used to scan approximately 72 million registration and driver license documents per year. The total cost of this equipment is $5.5 million and the DMV proposal includes the redirection of $1.5 million in existing budget authority. The Finance Letter indicates this equipment will help the DMV comply with Real ID document retention requirements.

   Background / Detail: The Finance Letter notes that this project was already under development when the Real ID Act was enacted in May 2005. The project was originally initiated due to the capacity limitations and the unreliability of the current camera system. However, now the camera replacement project's timeframes need to occur in 2006-07 so that it will be in place to support other requirements necessary to implement the Real ID Act in May 2008. Specifically, this request would provide the "backend infrastructure" that can interface with remote scanning of birth/legal presence documents required by the Act. The DMV indicates a 2007-08 budget request will also be necessary to add scanning equipment to the field offices.

   Staff Recommendation: Approve the request.

   Vote:

3. **Telephone Service Center Equipment Replacement / Real ID Act (Finance Letter #3).** The Administration requests multiyear funding of $11.4 million (various special funds - $3.4 million in 2006-07) to replace the existing telephony platform in DMV's Telephone Service Centers with a voice over internet protocol platform. This single virtual system will replace the existing nine independent telephony systems which have reached the end of their useful life and cannot grow to meet projected call demand.

   Background / Detail: The DMV indicates that the new system would create efficiencies by enabling the Department to balance the number of calls between call centers and would facilitate the management of call response by allowing the routing of calls by subject matter. The current system is at maximum capacity and will not be supported by the vender after 2008.

   The new system will accommodate the higher volume of calls anticipated with both SB 1500 (see issue #5 below) and the Real ID Act. The DMV is anticipating an additional 1.0 million to 1.4 million calls related to the Real ID Act alone. The current annual volume of calls is reported at 20 million – with 7 million handled by the automated Interactive Voice Response system and 13 million routed to DMV technicians.

   Staff Recommendation: Approve the request.

   Vote:

4. **Information Technology Modernization (Finance Letter #4).** The Administration requests 2006-07 funding of $2.1 million (various special funds) to begin an information technology modernization project with a total cost estimated at $242 million. While the Finance Letter is not explicit on this point, the DMV indicates that the current request would cover only year one. Expenditures beyond 2006-07 would require approval of a BCP next year for 2007-08.

   Detail / Background: The DMV indicates it will take a multi-year incremental approach with "modular" progress – the intent is to migrate existing functions over to the new system over time such that some benefits are realized sooner and risk is reduced. The following are problems and solutions are noted in the Feasibility Study Report:

   - **Limitations of the existing system:**
     - **a.** Obsolete technical architecture – the existing system is a 40-year-old DMV-designed system which is "increasingly complex and difficult to maintain."
     - **b.** Scarce system support resources – the existing system relies on expertise in obsolete programming languages which are no longer taught in schools and language-proficient staff are nearing retirement.
     - **c.** Difficult for DMV to accommodate mandated changes – it will be increasingly difficult to modify the system for enhancements and mandated programs.
     - **d.** System limitations place California at risk – the existing system places California at risk from an inability to provide timely data to federal and state entities responsible for enforcing laws and protecting the public.
   - **Proposed solution:**
     - **a.** Migrate user interface platforms to a centralized, Java-based, web-server architecture and migrate applications to proven industry-standard commercially-available software applications that are currently supported by the Department of Technology Services Data Center.
     - **b.** Incrementally upgrade the technology by identifying "logical threads," such as: (1) vehicle registration renewals; or (2) personal identification cards; which would be converted to the new platform as individual modules. Individual modules would be completed and operational over a number of years.
     - **c.** The proposed solution would address the limitations of the existing system listed above.

   Staff Comment: Given the magnitude of this project and the difficulties the Department has experienced with past IT projects, the Subcommittee may want to consider additional reporting requirements.

   Staff Recommendation: Keep open and direct Staff to work with the LAO and DMV to develop reporting language.

   Vote:

5. **Electronic Insurance Verification – SB 1500 Implementation (BCP #1).** The Administration requests funding of $9.3 million for the second year of funding for the implementation of SB 1500 (Chapter 920, Statutes of 2004, Speier), which requires insurance companies to electronically report to the DMV and requires the DMV to establish a vehicle registration suspension program for vehicle owners that fail to provide evidence of insurance.

   Detail: The $9.3 million is proposed for a contract with a private vendor to implement the suspension program. The Administration has determined that a vendor-based solution is necessary in order to meet the October 1, 2006, deadline for implementing this program.

   LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the LAO supports the decision to use a vendor-based solution, though they are concerned about the total cost of the program. The Administration estimates that the entire cost of the vendor-based solution will be $42 million through 2008-09. However, the LAO notes that there will be significant costs for the State to assume full program responsibilities in 2009-10.

   Therefore, the LAO recommends that the DMV report at the hearing on the plan for resuming full administration of the suspension program, including timelines and start-up costs.

   Staff Comment: The DMV indicates that they are continuing to review the 2009-10 costs and workload, and will not have a good estimate until the program is implemented in 2006-07 and better data is available.

   Staff Recommendation: Approve the request.

   Vote:

6. **High-Risk Drivers / Driver Safety Branch - Staff Augmentation (Finance Letter #6).** The Administration requests ongoing funding of $219,000 and 29.7 positions to address workload for hearings, reexaminations, and administrative reviews of drivers who may pose a danger to public safety because of their physical condition or driving record. The majority of the cost for these positions would be covered by redirecting $1.3 million – the redirection is made possible from reduced use of overtime and temporary help services currently used for this same workload.

   Background: Last year, the LAO expressed concern about the Driver Safety Branch and increasing delays in investigations and evaluations of potentially high-risk drivers by the DMV. The LAO noted that the DMV was not meeting statutory requirements for Driving Under the Influence (DUI) hearings. The LAO and DMV developed the following Supplemental Report language which was adopted by the Subcommittee:

   On or before April 1, 2006, the Department of Motor Vehicles shall provide a report to the Chair of the Joint Legislative Budget Committee and the chairs of the budget committees of both houses of the Legislature on its short-, mid-, and long-term plans for addressing anticipated workload growth in the driver safety program. The report shall include the department's plans for meeting statutory requirements for administrative license suspension and negligent operator hearings, as well as scheduling timely evaluations of other high-risk drivers. The report shall also include an estimate of the department's additional resource requirements, if any, in carrying out these plans.

   To develop a strategy to comply with the Supplemental Report Language, the DMV hired a consultant (with existing budget resources) and now submits this proposal to implement the recommendations of the consultant.

   Detail: The DMV's Drivers Safety Branch administers high-risk driver cases in four areas: physical and mental impairment (P&M) – about 132,000 cases annually; Administrative Per Se (APS, or drunk drivers) – about 66,000 cases annually; negligent operators (Neg Op) – about 18,000 cases annually; and "other" – about 7,000 cases annually. The BCP indicates the case workload increased by 11 percent from 2000-01 to 2004-05, while budgetary reductions in 2003-04 and 2004-05 reduced Drivers Safety Branch staffing by 41 positions. DMV has compensated for this staff reduction by using more expensive overtime and temporary help resources. The Department indicates there are currently 308 positions assigned to this workload and that 30 additional positions are needed to address 2006-07 workload.

   Staff Comment: The DMV indicates that with the proposed staffing, it will be able to meet statutory requirements related to high-risk drivers; however, the consultant report suggests the workload will continue to grow and additional staff increases may be needed in the future.

   Staff Recommendation: Approve the request.

   Vote: