Senate Budget and Fiscal Review—Denise Ducheny, Chair

SUBCOMMITTEE NO. 4 Agenda

Michael Machado, Chair
Robert Dutton
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Agenda – Part B

Thursday, May 10, 2007
10:00 am or upon adjournment of session
Room 112

Consultants: Daniel Alvarez & Brian Annis

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Departments Proposed for Consent / Vote-Only

Staff recommends approval of all the budgets and/or budget issues on pages 1 - 4, including any technical changes or minor budget adjustments as noted.

0750 Office of the Lieutenant Governor

Proposed budget: Under California's Constitution, the Lieutenant Governor serves as Acting Governor whenever the Governor is absent from the state, and automatically becomes Governor if a vacancy occurs in the Office of Governor. The Lieutenant Governor also (1) is President of the Senate and votes in case of a tie; (2) serves as a voting member of the Regents of the University of California and the Trustees of the California State University system; and (3) under state statutes, the Lieutenant Governor chairs the California Commission for Economic Development, which provides support and guidance for the development of California's economy. The proposed 2007-08 Governor's budget includes total General Fund expenditures of $2.9 million, and approximately 30 positions, for support of the Office of the Lieutenant Governor. This is an increase of approximately $57,000, or less than two percent, above estimated current year expenditures.

1. **Information Technology Upgrade (April DOF letter).** The Office of Lt. Governor requests a one-time $100,000 General Fund increase in order to replace obsolete personal computers and to upgrade hardware, software, wiring, and the local area network. These upgrades are necessary to improve the operational efficiencies of the office. Staff recommends approval of this DOF letter.

2. **Commission for Economic Development augmentation (April DOF letter).** The Office of Lt. Governor requests an augmentation of $190,000 from the General Fund to fund travel and per diem expenses of members of the Commission for Economic Development (CED), external consultant costs, and leasing costs for a new CED office in San Francisco. This augmentation will enable the Lt. Governor to fulfill his statutory obligations and assist in California's economic development. Staff recommends approval of this DOF letter.

1110 California Board of Accountancy

Security Guard Services (BCP #1110-01) & Budget Adjustment. At the April 11, 2007, hearing, the Subcommittee discussed the California Board of Accountancy (CBA) budget request for an augmentation of $149,000 to fund 24-hour security guard services at the facility they share with the Department of Boating and Waterways. The Governor's Budget assumed that the CBA would pick up all of the new security cost; however, at the prior hearing, the CBA indicated that the Department of Boating and Waterways had agreed to share the security costs, which would reduce the CBA's budget need. This issue was left open at the prior hearing while the appropriate budget adjustment was determined. The Administration has since indicated that the CBA's special-fund appropriation should be reduced by $92,000 and that their reimbursement authority should be increased by $92,000 (to receive the security reimbursement from the Department of Boating and Waterways). Consistent with the revised Administration proposal, staff recommends a decrease of $92,000 in the CBA's special fund appropriation and an increase of $92,000 in the CBA's reimbursement authority.

1700 Department of Fair Employment and Housing

Legal and Administration Workload - Staffing (BCP #2). At the April 11, 2007, hearing, the Subcommittee discussed the Department of Fair Employment and Housing (DFEH). Two issues were held open: BCP #2 that requested an augmentation of $1.5 million (General Fund) to add 6.0 attorney positions and 4.0 administrative positions to address workload for civil and administrative cases and for accounting and other operations functions; and a Committee staff issue on the restoration of a mediation program. Since the hearing, the DFEH provided additional detail quantifying the average number of attorney hours it takes to close a civil or administrative case and tied that data to the budget request. The department also provided additional data on their volunteer-mediator program, and explained the costs of expanding the program with new state employees. While the volunteer mediation program can accommodate only a limited number of cases (45 cases in 2006), it does provide an avenue for parties who wish to pursue that route and any significant expansion of mediation would likely require new General Fund support – therefore, staff does not recommend expansion of mediation at this time. Staff recommends approval of BCP #2 to address legal and administrative workload.

2100 Department of Alcoholic Beverage Control

Licensing and Compliance System Information Technology (IT) Project (Finance Letter #1). The Department of Alcoholic Beverage Control (ABC) budget was approved at the March 14, 2007, hearing; however, a Finance Letter has since been submitted. The Finance Letter would revert $1.5 million in the current year and augment the budget year by $1.5 million (for zero net change in expenditure over the two years). The Licensing and Compliance System IT project was originally approved by the Legislature in 2004-05, and will update the ABC's existing automated process for accepting and processing liquor license applications. The project was delayed as a result of civil litigation filed by a vendor after the initial bid process. Staff recommends approval of this Finance Letter.

2400 Department of Managed Health Care

Mental Health Parity Report (Staff Issue): The Department of Managed Health Care (DMHC) budget was heard at the March 14, 2007, hearing. The DMHC did not submit any budget change proposals and the only issue for discussion was the Department's report on mental health parity. The report was first made public at the March hearing, and the Subcommittee held their budget open pending review of the report. The report has since been reviewed by Budget Staff, Policy Staff, and the LAO – no concerns have been raised for further discussion in the Subcommittee. Staff recommends approval of the DMHC budget.

2700 Office of Traffic Safety

Governor's Budget: The Office of Traffic Safety (OTS) is responsible for allocating federal grant funds to State and local entities to promote traffic safety. The Governor proposes total expenditures of $96.3 million (no General Fund) and 33.9 positions – an increase of $11.0 million and 2.9 positions from the current year. The Administration submitted one Budget Change Proposal (BCP) for the Office of Traffic Safety. BCP #1 increases operations funding by $266,000 (federal funds) and establishes 3.0 new positions (one Associate Information Systems Analyst and two Associate Governmental Program Analysts) to increase grantee monitoring and to improve web-based services. Both of these efforts are consistent with the recommendations of the National Highway Traffic Safety Administration (NHTSA). The NHTSA conducted a management review of OTS in June 2006 and found staffing is inadequate to meet new grantee monitoring requirements. Additionally, NHTSA is recommending the use of improved electronic systems to receive applications and track and monitor expenditures.

Technical Change: Several OTS budget bill items have language stating that the appropriation is not subject to the provision of Budget Control Section 28. Section 28 describes how departments may receive unanticipated federal funds and requires reporting to the Legislature as specified. Staff asked the Administration to explain the intent behind this long-standing language. The Administration indicated the intent was

not to avoid legislative reporting, but rather to allow the expenditure of federal funds over two State fiscal years. The Administration developed the following alternative budget bill language which better implements their intent and does not exclude OTS from any statewide legislative reporting requirements.

> *"Notwithstanding any other provision of law, federal funds appropriated by this item but not encumbered or expended by June 30, 2008, may be expended in the subsequent fiscal year"*

Staff recommends the substitution of the above alternative budget bill language.

Staff Recommendation: Approve the budgets and/or budget issues for the consent / vote only departments with the technical corrections or minor budget adjustments described above.

Vote:

Departments Proposed for Discussion / Vote

1110 Dental Board of California

The Dental Board's Budget was heard at the April 11, 2007, hearing and the following issue was kept open for further review.

1. **Enforcement Program – Investigator Staffing (BCP #1110-18).** The Administration requests $440,000 and 4.0 Investigator positions to address Enforcement Investigation caseload and have sufficient sworn personnel for Probation Monitors.

   Background / Detail: Currently, the Board has 9.0 Investigator positions that perform approximately 450 investigations per year. The Board also has 4.0 Inspector positions that manage a 285-probationer caseload and perform inspection of dental offices. The BCP indicates a concern that Inspectors are working out-of-class in managing the probationer caseload. The Board wants to shift this workload to Investigators.

   As part of the Board's prior sunset review, an Enforcement Coordinator was hired to review the Dental Board's Enforcement Program. In an April 2003 report, the Enforcement Coordinator recommended that the Board increase the number of Investigators to reduce investigative caseload to 30-35 cases per investigator and reduce average investigative processing time to six months.

   Staff Comment: Since the hearing, the Board has provided additional information relative to the recommendations of the Enforcement Coordinator. The Board indicates that in 2006-07, the average caseload per Investigator is expected to be 73 cases and the average time per investigation is 11 months – these figures are far from the goals of the Enforcement Coordinator. With the 4.0 new Investigators requested by the BCP, the Board hopes to reduce caseload per Investigator to 60 cases and reduce average time per investigation to 9 months – improvements but still far from the goals of the Enforcement Coordinator. To achieve the recommendations of the Enforcement Coordinator, and achieve the resulting improvements in consumer protection, the Board indicates it would need another 4 Investigators. It should be noted that the board is requesting a 44 percent increase in the number of Investigators (from 9 to 13 positions) to begin to improve consumer protection, but their information suggest further augmentations will be required in future budgets.

   Staff Recommendation: Approve the BCP and adopt Supplemental Report Language to require the Board to report by March 1, 2008, on their progress on hiring and training the 4.0 new positions, their most recent data on caseload per investigator and average time to close investigations, and their staffing plan for 2008-09 to fully achieve the Enforcement Coordinator's recommendations.

   Vote:

1110 Board of Pharmacy

The Board of Pharmacy (Board) was heard at the April 11, 2007, hearing and the following issue was kept open for further review.

Discussion / Vote Issues

1. **Inspector Pay Differential (BCP #1110-33).** The Administration requests $576,000 to fund a $2,000/month pay differential for the Board's 24.0 Inspector positions. The Board indicates incumbents are licensed pharmacists and the Department of Health Services has a similar classification, which pays a $2,000/month differential. The Board indicates the disparity with the Department of Health Services and the private sector has caused a recruitment and retention problem. Currently, 5 of 24 authorized positions are vacant (this is a 20 percent vacancy rate compared to the statewide average of 14 percent). This request was submitted outside the collective bargaining process and neither the Department of Personnel Administration (DPA) nor bargaining unit 19 has approved the request at the time of the Governor's Budget.

   Background / Detail: The BCP indicates that the maximum salary for a Board pharmacist in the Inspector position is about $76,000, versus $104,000 at the Department of Health Services (including their differential) and the mean annual salary for public and private pharmacists in California is $100,000.

   Staff Comment: This issue was additionally discussed with the Director of the DPA at the April 25 hearing. DPA indicated that between collective bargaining contracts, DPA usually denies new pay differentials unless both: (1) a great need is established and (2) the requesting department has existing budget capacity to fund the change.

   The practice of granting compensation increases outside the collective bargaining process should be avoided. The Board of Pharmacy, in prior testimony, made a compelling case for the differential, but there are many recruitment and retention problems across state government, and other departments (without BCP funding requests) that can make similarly compelling cases. If the Department of Finance and the Legislature start funding compensation increases independent of DPA and the collective bargaining process, there is risk that inequities across classifications and departments may increase instead of decrease.

   <u>The DPA indicates that on May 8, 2007, Unit 19 waived their right to negotiate this differential and DPA approved the differential (pending legislative approval with this BCP or another vehicle).</u>

   Staff Recommendation: Approve the BCP. With the May 8, agreement, this request is no longer independent of DPA and the union – both approved the differential.

   Vote:

1110 Medical Board

The Medical Board (Board) was heard at the April 11, 2007, hearing and the following issue was kept open for further review.

Discussion / Vote Issues

1. **Implementation of Senate Bill 231 (Staff Issue).** Senate Bill 231 (Chapter 674, Statutes of 2005, Figueroa) implemented most of the key recommendations made by the Board's Enforcement Monitor and included a fee increase to close the Board's deficit. Last year, the Legislature approved a budget augmentation for SB 231 reforms. However, due to uncertainty over the sufficiency of revenues, not all of the Monitor's recommendations were funded. This year's revenue outlook may allow for the restoration of additional Investigator positions, and/or other unimplemented Monitor recommendations.

   Background/Detail: The independent Enforcement Monitor made several recommendations which were not included in the 2006 Budget Act and are not being requested by the Administration this year. The Monitor recommended the reestablishment of 29 abolished enforcement positions lost to the hiring-freeze earlier in the decade (only 10 positions were restored last year). Additionally, the Monitor recommended upgrading Medical Board Investigator salaries to be commensurate with Investigators at the Department of Justice.

   April 11 Hearing Discussion: At the April 11 hearing, the Subcommittee heard from the Board on the issue of appropriate staffing, and the issue of pay differentials for Investigator positions and related supervisors and managers. The Board testified that their first priority was getting a pay differential for their Investigators (approximately $11,000 per year, depending on the classification). The annual cost to match the Department of Justice salaries would be approximately $1.24 million for 95 peace officer classifications and $100,000 for 14 non-peace-officer support positions. Additionally, the Board testified that new positions would be difficult to fill without the new differential.

   Staff Comment: Analogous to the staff comment for the Board of Pharmacy, the practice of granting compensation increases outside the collective bargaining process should be avoided. The Medical Board could alternatively work with the Department of Personnel Administration and the applicable collective bargaining unit to either sign a side-letter agreement to contract and implement the pay differential as early as January 1, 2008 (depending on available salary savings from vacancies), or negotiate the pay differential into the next bargaining contract.

   Staff Recommendation. Take no action. Since no BCP was submitted for the pay differential, there is nothing to reject. The Board's BCP was approved at the April 11 hearing, so no further budget action is required to close the Board's Budget.

0520 Secretary for Business, Transportation and Housing

The Secretary of the Business, Transportation and Housing Agency (BT&H Agency) is a member of the Governor's Cabinet and oversees 16 departments. In addition, the Secretary's Office oversees programs, such as the Small Business Loan Guarantee Program, which are budgeted directly in the Secretary's Office.

Budget Changes proposed for Consent / Vote Only

1. **Film Commission: Rent Increase (BCP #1).** The Administration requests an ongoing augmentation of $71,000 (General Fund) to cover the cost of a rent increase at the California Film Commission's office in Hollywood. The Agency indicates their lease is expiring and the current rent is $1.52 per square foot. The Department of General Services estimates a new lease in the Hollywood area will likely fall in the range of $2.72 to $3.26 per square foot. The Film Commission is hoping it can negotiate with the landlord to stay in the current facility and avoid moving costs (which are not included in the request).

2. **Tourism Commission: California Welcome Centers (BCP #6).** The Administration requests an ongoing augmentation of $21,000 (Welcome Center Fund) to perform added workload in the Welcome Center Program. This request would increase annual program funding from $55,000 to $76,000. Assembly Bill 1356 (Chapter 296, Statutes of 2004), authorized the establishment of a system of California Welcome Centers to be overseen by the Tourism Commission. A Center can be operated by a chamber of commerce, local government, or private entity. The operating entities pay fees to the state to cover the State's costs of administering the program. The Agency indicates there are two newly designated Welcome Centers that will bring the statewide total to 13. Welcome Center operators pay annual fees of $5,000 into the special fund to support the Agency's cost of the program. The Agency monitors the operators and provides marketing assistance and materials.

3. **Tourism Commission: Funding Shift (BCP #8).** The Administration requests a reduction of $6.3 million (General Fund) in State funding for the California Travel and Tourism Commission. AB 2592 (Ch. 790, St. of 2006, Leno), allowed for the establishment of fees on certain types of car rentals to generate funding for California tourism marketing. The fees are expected to generate $25.0 million in 2006-07 and $50.0 million in 2007-08. The new fees more than double the Commission's funding, while also saving the General Fund $6.3 million annually.

4. **Administrative Costs: Services Provided by the CHP (BCP #9).** The Administration requests $180,000 (Motor Vehicle Account) to fund the permanent extension of 2.5 limited-term positions at the California Highway Patrol (CHP) that perform administrative work for the Agency. In addition to the 2.5 limited-term positions, the CHP currently has 5.0 permanent positions that also perform administrative functions for the Agency. The 2.5 limited-term positions were added in 2005-06 to address workload related to the transfer of certain Technology, Trade, and Commerce Agency functions to the BT&H Agency. They were made limited-term so the ongoing workload needs could be better assessed. The CHP has documented activities and hours that indicate a need to continue the 2.5 positions.

Staff Comment: The above consent / vote only issues were held open at the March 14, 2007, hearing pending receipt of the Agency's long-term Motor Vehicle Account (MVA) forecast. That information has since been submitted and is outlined in issue #5 on the following page.

Staff Recommendation: Approve all in the budget requests on the above consent / vote-only list.

Vote:

Discussion / Vote Issues:

5. **Motor Vehicle Account – Fund Condition (Informational Issue).** The Administration is requesting approval for California Highway Patrol (CHP) and Department of Motor Vehicles (DMV) budget augmentations that will total several hundred million dollars over a six-year period. The primary funding source for the CHP and DMV is the Motor Vehicle Account (MVA), which receives revenues from motor vehicle registration fees and driver's license fees, among other fees. Staff asked the Agency to demonstrate, with a long-term MVA fund condition statement, whether the requested augmentations can be sustained without a fee increase. On March 16, the Agency provided their long-term MVA fund condition estimate which is outlined in the following table.

LAO Comment: In the *Analysis of the 2007-08 Budget Bill*, the Legislative Analyst indicates the MVA is likely to face significant shortfalls beginning in 2009-10, and possibly sooner depending on the timing of a number of pending spending initiatives as well as potential risks.

The Long-Term MVA Fund Condition (Estimated by the BT&H Agency):

	2006/07	2007/08	2008/09	2009/10	2010/11
Beginning Reserve	$542,132	$423,838	$210,043	$12,571	-$146,923
Total Revenues	2,065,364	2,208,716	2,300,000	2,406,000	2,499,000
Transfers to/from other funds	-606	-1,018	-1,007	-1,007	-1,007
Total Resources	$2,606,890	$2,631,536	$2,509,036	$2,417,564	$2,351,070
Total Expenditures	$2,183,052	$2,418,004	$2,489,860	$2,562,108	$2,706,368
Reserves Estimate	$423,838	$213,532	$19,176	-$144,544	-$355,298
Potential Finance Letters		3,489	6,605	2,379	6,181
Reserve Est. after BCPs	**$423,838**	**$210,043**	**$12,571**	**-$146,923**	**-$361,479**

Consistent with the LAO's findings, the Agency indicates that the MVA will face significant shortfalls beginning in 2009-10. Expenditures include only the out-year costs of baseline activities and 2007-08 budget proposals – excluded are new spending pressures, such as REAL ID. At a recent Assembly hearing, the Administration indicated they are looking at fee increases to address MVA shortfalls and will likely have a related May Revision Finance Letter.

Staff Comment: The Subcommittee may want to ask the BT&H Agency and the Department of Finance to explain their forecast and preview their proposal to deal with the upcoming fund deficit.

Staff Recommendation: Hold open for May Revision. While the MVA should have sufficient funds for proposed 2007-08 expenditures, the Subcommittee may want to consider fee changes should the Administration have a proposal with the May Revision. Staff Recommends taking action on DMV and CHP budget requests based on their merits and criticality with the understanding that fee increases of some type will likely be necessary to cover related expenses in the out-years.

6. **Technology Trade and Commerce Agency: Closure Costs (BCP #4).** The Administration requests a one-time augmentation of $150,000 (General Fund) to cover the continued close-out costs for the former Technology Trade and Commerce Agency (TTCA). AB 1757 (Ch. 229, St. of 2003, Committee on Budget) eliminated the TTCA and shifted remaining functions to the BT&H Agency and other departments. The BT&H Agency assumed certain close-out obligations of TTCA, such as legal fees, ongoing workers' compensation payments, etc. The 2004 Budget Act appropriated $575,000 (General Fund) for this purpose. The BT&H Agency reports that only $231,000 was expended in 2004-05, but $30,000 was expended in 2005-06, and the Agency expects to expend $70,000 in 2006-07.

   Staff Comment. The Administration indicates that the $150,000 requested for 2007-08 is the anticipated total closeout cost, which assumes all workers' compensation cases will be fully settled or otherwise closed in the budget year. However, it is most likely some workers compensation costs will continue for several years. The likely expenditures for 2007-08 are more in the neighborhood of $70,000.

   Staff Recommendation: Approve funding of $70,000 (a reduction of $80,000 from the BCP) which ties to the estimated 2007-08 cash need.

   Vote:

7. **Small Business Loan Guarantee Program: Match for Federal Funds (BCP #7).** The Governor requests a one-time appropriation of $832,000 General Fund to match $3.6 million in federal funds to establish a new loan guarantee program that would primarily use federal funds associated with the Sudden and Severe Economic Dislocation (SSED) Program. The Administration indicates that the Technology, Trade, and Commerce Agency (TTCA), which was abolished in 2003, administered a Sudden and Severe Economic Dislocation Grant Program as a revolving loan program. With the demise of the TTCA, the federal money remains, but cannot be accessed without a State match and a new agency home. The new program would provide loan guarantees to small businesses in areas affected by natural disaster or the loss of jobs from a major employer.

   Background / Detail. The existing Small Business Loan Guarantee Program is administered by 11 non-profit Financial Development Corporations (FDCs). The state pays the FDCs for their administration of the program, under contractual agreements with each FDC. In recent years, the annual budget has included a $3.9 million General Fund appropriation for administrative payments to FDS. The Agency's costs of oversight have been funded through interest earnings. The proposed funding in this BCP is above the base $3.9 million in General Fund support. According to the information provided by the Administration, the current Small Business Expansion Fund balance is in the range of $4.6 million, while the balance of the trust fund (which backs the loan guarantees) is about $40 million. The combined interest earnings have increased from about $870,000 in 2005-06 to an estimated $1.67 million in 2006-07 and 2007-08. Additionally, a one-time interest payment of $1.1 million was received in 2006-07 related to a past loan to the General Fund. The Agency indicates that interest earnings are expected to continue at a higher level due to a larger trust fund balance (due to repayment of the General Fund loan) and higher interest rates.

   Staff Comment: The Agency used the higher interest earnings (about $800,000 ongoing) to expand the program in 2006-07 by providing additional administrative payments to the FDCs, and would like to continue using the ongoing earnings to run an expanded program. Given that the General Fund is constrained for 2007-08, the Subcommittee may want to consider using the interest earnings as a match for the $3.6 million in federal funds, instead of providing new General Funds.

   Staff Recommendation: Approve the new program and the $3.6 million in federal funding, but switch the state match from new General Fund to the Small Business Expansion Fund. This would result in General Fund savings of $832,000, and still allow the trust fund assets to grow by $3.6 million. This would result in administrative funding for FDCs at the 2005-06 level (about $4.6 million), instead of the higher 2006-07 level (about $5.4 million), which was made possible by higher interest earnings.

8. **Small Business Loan Guarantee Program: Audits (BCP #3).** The Governor requests an augmentation of $125,000 General Fund (each year for two years) to contract with the Department of Finance to audit the 11 Financial Development Corporations (FDCs) in the Small Business Loan Guarantee Program.

Background / Detail: When the Small Business Loan Guarantee Program was housed in the Technology Trade and Commerce Agency and had a larger staff, State personnel performed annual audits of FDCs. The positions that performed these audits were lost when the function moved to BT&H, and only about two audits can be performed per year with current staff. The Agency requests two-year funding totaling $250,000 so that all FDCs can be audited by the Department of Finance over the next two years.

Staff Comment: A fund condition statement for the Small Business Expansion Fund indicates a reserve of $4.1 million at the end of 2007-08. The Agency indicates $3.2 million of this balance is reserved for short-term disaster assistance. The costs of the audit could be funded by the Small Business Expansion Fund instead of the General Fund, without curtailing planned program expenditures or reducing the special fund balance below that needed for short-term disaster assistance.

Staff Recommendation: Approve new funding of $125,000 (each year for two years) to perform audits, but change the funding source from the General Fund to the Small Business Expansion Fund.

Vote:

2150 Department of Financial Institutions

The Department of Financial Institutions (DFI) was heard at the March 14, 2007, hearing and the following issue was left open for further review.

Issues proposed for Discussion / Vote:

1. **Information Technology (IT): Staffing (BCP #1).** The Governor proposes to augment the budget by $377,000 (special fund) to establish a Chief Information Officer (CIO), an Information Security Officer (ISO), and an Office Automation Support Supervisor.

   Background / Detail. The Department indicates it currently has a designated CIO and ISO; however, those positions are also responsible for other administrative, IT user support, and IT maintenance functions. The Department believes the creation of three additional positions, which would increase the number of IT positions from 11 to 14, would allow the new incumbents to focus on individual areas of IT strategic planning, IT security, and management of day-to-day IT operations and support.

   Staff Comment. The benefit of a dedicated CIO and dedicated ISO is easier to justify at large departments, such as Motor Vehicles, or Transportation, that have many ongoing large IT projects, many locations, and many users. The benefit is harder to justify with smaller departments with no reportable IT projects, few locations, and relatively few users. Staff questioned several smaller departments with several hundred or fewer employees, and most did not have dedicated CIO and ISO positions.

   This issues was kept open at the March 14 hearing for further discussion on statewide IT policy; however, after further discussions, it does not appear there is objective guidance on how big a department needs to be to merit a stand-alone CIO and ISO position. The Department testified that the primary motivator for this request was a stolen laptop that highlighted the need to improve encryption and other security. One new position should be able to make improvements in this regard.

   Staff Recommendation. Approve only 1 of the 3 requested positions (approve the CEA position).

   Vote:

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak.

Issues Proposed for Consent / Vote-Only

1. **Environmental Mandates (BCPs #2B and #8).** The Administration submitted two budget requests related to environmental mandates. The Department indicates it would face severe penalties for non-compliance.

   - Budget Change Proposal #2B requests $1.4 million (annually for five years) to purchase alternative fuel fleet equipment to comply with ongoing federal, State, and local air quality mandates. Funding would provide for the marginal cost of purchasing alternative-fuel vehicles instead of diesel or gasoline vehicles.
   - Budget Change Proposal #8 requests $11.8 million in 2007-08 to comply with two air quality mandates adopted by the California Air Resources Board (ARB). The cost varies each year, but over five years is estimated at $27.8 million. Funding would allow for the purchase of exhaust filter traps for heavy-duty trucks and the replacement of portable engines and other equipment.

   Staff Comment: These budget requests were left open at the March 29, 2007, hearing so Caltrans could provide additional information on the current use of alternative fuels. In a letter dated April 26, 2007, Caltrans Director Will Kempton indicated that Caltrans has used over 71,000 gallons of alternative fuels to date this fiscal year, about 1 percent of total fuel consumed. Over 2,000 of the department's 13,000 units of equipment fleet are capable of using alternative fuels. The availability of alternative fuels is a constraint that results in some of these vehicles using traditional fuels, but Caltrans is working with the California Air Resources Board to construct two "E85" fuel stations which will help Caltrans increase its usage.

2. **PRSM IT Project - Reappropriation (April FL #3).** The Administration requests a reappropriation of up to $11.6 million of funds previously appropriated for the Project Resourcing and Schedule Management System (PRSM). PRSM will allow improved reporting and scheduling of transportation projects, and enable Caltrans to meet statutory project reporting requirements. The project is being re-bid because the Department of General Services disqualified all bidders in the original procurement.

3. **Workers' Compensation Administration Audit (Conforming Issue).** At the April 25, 2007, hearing, the Subcommittee took action to adopt new Supplemental Reporting Language that requires the Department of Personnel Administration (DPA) to report annually on state workers' compensation administration. The Subcommittee also voted to adopt budget bill language for either Caltrans or the California Highway Patrol to require an audit of their workers' compensation administration as a first-year step in restoring an audit function that has not been performed by DPA in over seven years. According to DPA, Caltrans is the third-largest user of workers' compensation with over $33 million in 2005-06 costs. Staff recommends adoption of the following conforming budget bill language to require Caltrans to fund the audit.

   Provision X. *Of the funds appropriated in this item, $125,000 shall be used for the reimbursement of the Office of State Audits and Evaluations within the Department of Finance for audit and consulting services related to the Department of Transportation's administration of the workers' compensation system. Upon completion of the audit report, the Office of State Audits and Evaluations shall provide a copy to the appropriate fiscal committees of the Legislature and the Legislative Analyst.*

Staff Recommendation: Approve the budget requests and new budget bill language as outlined in the above issues.

Vote:

Issues for Discussion and Vote:

4. **Maintenance Funding (BCP #23 & April Finance Letter #2).** The Administration requests a permanent increase of $85.0 million for highway *pavement* preservation. The April Finance Letter indicates that timing of the BCP submittal did not allow sufficient time to identify the support needs to deliver the contracts – therefore Finance Letter #2 requests that $5.3 million of the $85 million be made available to support 55 new contract-support positions (Caltrans proposes to increase this support by an additional $2.3 million and 26 positions in 2008-09). The Department's *2007 Five-Year Maintenance Plan* recommends an additional annual investment of $147.1 million including $85.0 million for *pavement* and $62.1 million for *bridges and culverts*. However, the Administration only included pavement funding in the budget proposal, indicating that the additional $62.0 million of need may be funded in some future year if additional resources become available.

   Background / Detail: According to the report, increasing pavement contract expenditures by $85.0 million (to a new total of $214.0 million) will eliminate the pavement backlog over 10 years. The proposed budget does not increase the contract budget for bridge preservation (existing funding of $47 million) or culvert preservation (existing funding of $5 million). If those areas received additional funding of $62.1 million as outlined in the Maintenance Plan, the backlog would start to fall, but not be completely eliminated over 10 years. Caltrans indicates no additional bridge or culvert funding is requested because funding is constrained and pavement is the highest priority. The Maintenance Plan indicates that preservation work results in large State Highway Operation and Protection Program (SHOPP) savings in the out-years. The SHOPP savings compared to the Maintenance cost has a ratio of 6:1 for pavement, 12:1 for structures, and 5:1 for drainage. It should be noted, that the benefit-cost ratios do not encompass external costs, such as damage to private cars from rough highways, which would tend to increase the benefit for pavement work.

   Related Budget Bill Language: The past two budget acts have included budget bill language to prohibit the redirection of pavement contract funding. In this year's budget bill, the Administration has amended the language to include bridges and culverts. Additionally, the funding amount was adjusted to include the total base funding of $181.0 million, but does not include the new funding request of $85.0 million. The language, with the changes underlined, is immediately below.

   Provision 10 of Item 2660-001-0042:
   Of the funds appropriated in this item, $<u>181,000,000</u> is for major maintenance contracts for the preservation of highway pavement, <u>bridges, and culverts</u> and shall not be used to supplant any other funding that would have been used for major pavement maintenance.

   A new provision was added to the Budget Bill related to the $85.0 million – see Provision 17 of Item 2660-001-0042. This provision specifies the funding would be

available only for pavement, however, it would allow transfer of the funding to Item 2660-302-0042 for State Highway Operation and Protection Program (SHOPP) expenditures. The proposed language would also delete the expenditure authority if the trailer bill language to repeal Section 183.1 is not approved (Section 183.1 specifies that "non-Article XIX revenue [primarily from the sale and rental of Caltrans property] be transferred from the State Highway Account to the Public Transportation Account – staff recommends that that issue be acted upon separately after the May Revision).

March 29, 2007 Hearing: This issue was discussed and left open at the prior hearing because Caltrans had indicated that some of the $85 million might be better spent on pavement in the SHOPP program. The Subcommittee asked Caltrans to review whether the pavement funding would better be placed in the Maintenance item or in the SHOPP item. Caltrans has indicated that that the $85 million should remain in the Maintenance Budget.

Staff Comment: The Administration ties this augmentation to a shift of $64.5 million in non-Article XIX funding from the Public Transportation Account (PTA) to the State Highway Account (SHA). While that proposal affects SHA funding, action on this issue need not be linked to the non-Article XIX proposal because maintenance may be the highest-priority expenditure for base SHA resources. Staff recommends that the use of non-Article XIX funds be dealt with separately at the May Revision hearing.

Staff Recommendation: Amend the budget bill language to conform to the language in the past two budgets. Specifically, revise Provision 10 of Item 2660-001-0042 to change the amount to $214.0 million and delete the words "bridges and culverts". Since California's pavement roughness has consistently been ranked among the worst across states, and rough pavement produces a hidden cost in the form of increased automobile repair costs, staff recommends the language restrict expenditure to pavement contracts (or contracts that include significant pavement work in addition to other activities) to prevent redirection. Staff recommends the Subcommittee delete Provision 17 of Item 2660-001-0042 which would allow the Department to shift funding to the SHOPP program and restrict expenditure of funds if the Legislature does not adopt proposed trailer bill language. The staff recommendation provides the Department all the funding requested and for the activities for which it was requested, the only change is to restrict redirection across maintenance categories and to the SHOPP.

Vote:

5. **Budget Bill Authority to Shift Appropriations (Staff Issue).** The Caltrans budget includes budget bill language in multiple items to shift appropriation authority among expenditure categories. Some of this budget flexibility is useful because it allows the California Transportation Commission (CTC) to shift money across project categories as some projects get delayed and others are delivered ahead of schedule, but in other cases the flexibility appears to be unused and unnecessary.

   Background / Detail: The budget bill includes language, consistent with past Budget Acts, to shift appropriation authority between the State Highway Operation and Protection Program (SHOPP) and State Transportation Improvement Program (STIP) appropriation items and between the SHOPP and STIP local assistance and capital outlay items. Also on a continuing basis, is authority to shift funding: (1) from state operations to SHOPP and STIP appropriation items if unanticipated federal funds or local reimbursements are received to substitute for the state funds; and (2) from the specialty facility capital outlay item to the SHOPP and STIP items. New this year is requested authority to shift funding from the "stormwater" state operations item to the SHOPP item.

   Staff Comment: The authority to shift between STIP and SHOPP and local assistance and capital outlay seems to have merit. This allows the California Transportation Commission (CTC) to shift allocations as some projects are delayed and others move forward. The authority to shift from the state operations items to the SHOPP and STIP is less clear, as is the need to shift from specialty facilities to SHOPP and STIP. There is relatively little funding at issue (probably not more than a couple million) and the overall SHOPP/STIP program is sometimes cash-constrained, but staff is not aware of when it has been constrained by a lack of appropriation authority.

   Caltrans indicates that it has not used the authority to shift state operations authority or the specialty facilities appropriation in recent times and that it appears unnecessary. Caltrans has also agreed to meet with the LAO and Committee staff in the fall to review other obsolete budget bill language for deletion or modification.

   Staff Recommendation: Delete the following budget bill provisions which allow appropriation shifts that are unnecessary:
   - Subsection (b) of Provision 3 of Item 2660-001-0042
   - Subsection (b) of Provision 8 of Item 2660-001-0042
   - Provision 3 of Item 2660-007-0042
   - Provision 2 of Item 2660-303-0042

   Vote:

6. **Specialty Building Facilities Appropriation (Staff Issue).** The Governor's Budget requested an appropriation of $119.9 million (State Highway Account) in 2007-08 for specialty building facilities such as equipment facilities, maintenance facilities, material labs, and traffic management centers. This is an increase of $65.2 million, or 120 percent from the amount appropriated in 2006-07.

Project	Governor's Budget	Revised Amount	Explanation
Equipment Shop in San Leandro	$3,384,000	$3,384,000	
Relocate maintenance station in Red Bluff	$9,127,000	$0	Authorized in FY 2006-07
Rehabilitate maintenance station in Hayfork	$3,607,000	$3,607,000	
Reconstruct maintenance station at SFOBB	$28,475,000	$0	Reprogrammed to FY 2008-09
Upgrade facility at Camp Angeles maint st	$1,273,000	$1,273,000	
Upgrade Mountain Pass maint station	$1,061,000	$1,061,000	
Peddler Hill and Caples Lake maint station	$7,494,000	$7,494,000	
Translab Phase III	$9,336,000	$9,336,000	
Southern Regional lab	$28,000,000	$28,000,000	
Inland Empire TMC	$22,782,000	$0	Authorized in FY 2006-07
Minor projects	$5,370,000	$5,370,000	
Contingency	$0	$24,000,000	
Total	$119,909,000	$83,525,000	Revised FY 2007-08 request

Background / Detail: The Legislature added a budget bill appropriation to the 2005 Budget Act to separately track expenditures for specialty facilities. Prior to this change, funding was included in the general State Highway Operations and Protection Program (SHOPP) appropriation item. The new appropriation provides 3 years of availability to encumber the funds.

Staff Comment: At the March 29, 2007, hearing, the Subcommittee heard from Caltrans that some of the projects had been delayed and that carryover appropriation authority from 2006-07 would also reduce the 2007-08 funding need. Caltrans has since provided a revised funding estimate which is included on the above table. The revised amount deletes new funding for two projects that were already funded in the 2006 Budget Act and deletes funding for the San Francisco Oakland Bay Bridge Maintenance Station because that project will be delayed until 2008-09. Additionally, Caltrans requests $24.0 million to cover cost overruns and legal contingencies.

Staff Recommendation: Reduce the Specialty Facilities appropriation item by $36.4 million. This action would reduce the budget funding to $83.5 million which is the revised request from Caltrans.

Vote:

7. **Sacramento Building Operations and Maintenance (BCP #9A).** The Administration requests an increase of $483,000 (State Highway Account) to reimburse the Department of General Services (DGS) for maintenance and operation of five Sacramento area departmental facilities. The total cost would be $3.1 million, which Caltrans indicates is $483,000 above their current base.

   Background / Detail: In 2005-06, Caltrans submitted a BCP to add four maintenance positions (at Caltrans) at a cost of $277,000 to perform building maintenance work. At that time, there were 31 DGS staff and 8 Caltrans staff maintaining the facilities. According to Government Code Section 14600, DGS was created to provide centralized services including, but not limited to, maintenance of state buildings and property.

   The Legislature approved the funding increase, but shifted all the workload to DGS (shifted the existing 8 Caltrans positions and 4 new positions to DGS). At the time, Caltrans had indicated that shifting 12 positions of workload to DGS would result in a net cost of $300,000 because DGS had higher charges than the Caltrans cost for those positions. The Subcommittee did not add the $300,000 because it was not convinced that DGS had higher overhead costs as opposed to Caltrans undercounting its overhead savings associated with deleting the positions.

   Staff Comment: This issue was discussed at the March 29 hearing, and staff had recommended rejection of the BCP. Director Kempton indicated that if this BCP were rejected, Caltrans would have to continue redirection to fund the activity. The Subcommittee left the issue open for further analysis. Caltrans indicates it did not recognize any compensating overhead savings as a result of shifting the positions to DGS. Based on typical overhead ratios, a small amount of overhead savings, maybe in the $30,000 - $60,000 range would be expected. It should also be mentioned that Caltrans did institute a $50 million ongoing reduction plan two years ago.

   While Caltrans is probably correct that they have not recognized a savings (or a significant savings) to compensate for the higher DGS charge, the question still remains why 12 positions at DGS would cost $300,000 (or $485,000) more than the same positions at Caltrans.

   Staff Recommendation: Reject this proposal. While Caltrans may have to permanently redirect for this higher DGS cost, DGS is statutorily designated as the central service provider to create efficiencies. If DGS maintenance services result new costs instead of efficiencies, there would appear to be a need to make improvements at DGS.

   Vote:

2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The total cost to build the entire system was most-recently estimated at $37 billion.

The Governor proposes $1.2 million and 6.5 positions for the HSRA, a decrease of $13.2 million and no change in positions. Last year the Legislature augmented the HSRA budget by $13 million and 3 positions to: (1) complete the draft environmental impact report for the Central Valley to San Francisco Bay Area route; (2) complete a financing plan to be submitted to the Legislature no later than May 1, 2007; and (3) commence site-specific environmental work, right-of-way acquisition, and identification of necessary grade separations to improve and preserve rail corridors. Current law provides for a proposition on the November 2008 ballot to provide $9.95 billion in general obligation bonds for the high-speed rail and related rail projects; however, the Governor proposes to delay this bond vote indefinitely.

Issues Proposed for Consent / Vote Only

1. **Los Angeles to Anaheim Segment: Preliminary Engineering / Project-Specific EIR/EIS (April Finance Letter).** The HSRA requests $3.5 million (reimbursements from the Orange County Transportation Authority) to fund preliminary engineering and the "project-specific" environmental impact report/environmental impact statement (EIR/EIS) for the Orange County portion of the Los Angeles-to-Anaheim segment of the high-speed rail system. The "Tier-1" EIR/EIS was approved in November 2005. The Orange County Transportation Authority has signed a Memorandum of Understanding (MOU) with HSRA to fund the preliminary engineering and more-detailed "project-specific" EIR/EIS for this segment of the proposed high-speed rail corridor. The Orange County Transportation Authority would contribute $3.5 million per year for two years. The HSRA reports that the Los Angeles County portion of this rail segment would cost $14.0 million for preliminary engineering and project-specific EIR/EIS, and that this funding is to be provided by State funds.

2. **Bay Area to Central Valley Segment: Next-Tier EIR/EIS Reappropriation (April Finance Letter).** The HSRA requests a reappropriation of $280,000 (Public Transportation Account) from funding originally appropriated in 2005-06, for the "next-tier" program EIR/EIS for the Bay Area-Central Valley Segment of the high-speed train system. The "Tier-1" EIR/EIS was approved in November 2005, however the Bay Area to Central Valley route alignment was left unresolved pending further study. The "next-tier" program EIR/EIS will determine the preferred route alignment. This EIR/EIS had been delayed pending completion of the updated ridership/revenue study, which was funded by the Metropolitan Transportation Commission. The $280,000 is the remaining funding of the $1.7 million originally appropriated.

3. **Financing Plan: Reappropriation (April Finance Letter).** The HSRA requests a reappropriation of $255,000 (Public Transportation Account) from funding originally appropriated in 2006-07, for the preparation of a Financing Plan. This Financing Plan was delayed pending completion of the updated ridership/revenue study, which was funded by the Metropolitan Transportation Commission. The $255,000 is the remaining funding of the $750,000 originally appropriated.

Staff Recommendation: Approve the consent / vote only budget requests.

Vote:

Issues for Discussion / Vote:

4. **High Speed Rail Project Implementation (Report from HSRA).** The HSRA was provided $13.0 million in the 2006 Budget Act to begin project implementation, including project-specific environmental work, right-of-way acquisition, and identification of necessary grade separations to improve and preserve rail corridors. In a report to the Legislature dated March 8, 2007, the HSRA indicated that an additional $103.3 million would be needed in 2007-08 (above the $1.2 million in the Governor's Budget) to continue implementation of the project. Funding at the $103.3 million level assumes the state is proceeding to construction of the project, with additional funding to come from the 2008 $10.0 billion ballot measure or other funding mechanisms. The total cost of the project was most-recently estimated at $37 billion. The expenditure plan from the HSRA report is outlined in the table below ($ in thousands):

Description	2006-07 Budget Allocation	2007-08 Budget Request*
Financing Plan	$750	$500
Visual Simulation	1,000	750
Program Management	3,094	12,000
Los Angeles - Orange County (Prelim Engr & EIR/EIS)	2,500	4,500
Los Angeles - Palmdale (Prelim Engr & EIR/EIS)	2,600	15,000
Los Angeles - San Diego (Prelim Engr & EIR/EIS)	900	7,000
Palmdale - Fresno (Prelim Engr & EIR/EIS)	1,100	11,000
Fresno - Sacramento (Prelim Engr & EIR/EIS)	500	5,000
San Francisco - Merced (Prelim Engr & EIR/EIS)		10,000
Right-of-Way Purchase		37,000
Land Use Planning	200	100
Program Management Oversight		150
3.0 New HSRA Staff		250
Bay Area - Central Valley "Next-Tier" EIR/EIS	350	
Total	**$12,994**	**$103,250**

* Amounts are HSRA Board requests beyond funding included in the Governor's Budget.

Staff Comment: As was indicated on the prior page and above, the Financing Plan due May 1, 2007, has been delayed to 2007-08. Therefore, the Subcommittee does not have information on expenditures and funding options beyond 2007-08. However, the table above indicates how the HRSA would continue implementation of the project in 2007-08 if $103 million in new funding is provided.

Staff Recommendation: Take no action. The historic funding source for the HSRA is the Public Transportation Account (PTA). The Governor is proposing to use $1.1 billion in PTA funds in 2007-08 to offset General Fund expenditures. That proposal is still open, but if approved it would not leave sufficient PTA revenue to fund the HSRA plan. The PTA revenue forecast will be revised with the May Revision, and if revenue is higher and/or the Subcommittee revises the Governor's PTA proposal, funding could be available for HSRA, should the Subcommittee desire to appropriate it to HSRA instead of to local mass transportation projects.

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's Budget proposed $1.831 billion in total expenditures (no General Fund) and 11,012 positions for the CHP, an increase of $150.1 million (9 percent) and 325.7 positions.

Issues Proposed for Consent / Vote-Only

1. **State-Owned Facilities: New Construction – Various Locations (CO BCPs 2, 3, 4, 9).** The Administration requests an augmentation of $8.1 million for three major capital outlay facilities projects – two projects are in the working-drawings phase (Oceanside Area Office [$1.1 million] and Oakhurst Area Office [$636,000]) and would likely come forward with construction funding requests in 2008-09 totaling about $21 million; a third project is in the construction phase (San Diego Area Office [$6.2 million]) and involves the renovation of an existing office. Additionally, the Administration requests $225,000 for various capital outlay studies. This issue was held open at the March 14, 2007, pending receipt of information from the BT&H Agency on the Motor Vehicle Account long-term fund condition. This information has since been provided.

2. **Leased Facilities: Relocation of CHP Headquarters (BCP #4).** The Administration requests an augmentation of $8.3 million ($7.4 million ongoing) for moving costs and higher lease costs at a new consolidated CHP headquarters. Of the amount requested, $232,000 would cover higher lease costs at two smaller southern California facilities. This issue was held open at the March 14, 2007, hearing pending receipt of information from the BT&H Agency on the Motor Vehicle Account long-term fund condition. This information has since been provided.

3. **Leased Facilities: DGS Services (April Finance Letter #1).** The Administration requests $2.4 million (Motor Vehicle Account) to allow the CHP to contract with the Department of General Services (DGS) for costs associated with searching for new sites to replace the Mojave, Fresno, and Grass Valley Area offices. Once appropriate sites are located, the CHP would seek to enter into build-to-suit lease/purchase or lease with option to purchase agreements, and return to the Legislature with an additional funding request.

4. **State-Owned Facilities: New Construction – Santa Fe Springs (May 1st Finance Letter).** The Administration requests $6.3 million (Motor Vehicle Account) for acquisition and preliminary plans for a new Santa Fe Springs Area Office. This request includes a reversion of $2.6 million appropriated in the 2005 Budget Act and $709,000 appropriated in the 2006 Budget Act also for the Santa Fe Springs Office. The Finance Letter indicates that real estate prices have nearly doubled since 2005 resulting in the estimated cost for this project phase in increase from $2.6 million to $6.3 million. The working drawings and construction costs would be requested in future budget requests. The construction cost was most recently estimated at $17.3 million.

Staff Recommendation: Approve the consent / vote only budget requests

Vote:

Issues Proposed for Discussion / Vote:

5. **Public Safety Radio: CHP's Enhanced Radio System (Annual Report).** The budget includes $108 million for the 2007-08 cost of upgrading the CHP's public safety radio system. Last year, the Legislature approved this five-year project that had total costs originally estimated at $494 million. The project will enhance radio interoperability with other public safety agencies and provide additional radio channels for tactical and emergency operations. As part of last year's project approval, the Legislature required annual project reporting for the life of the project – the first report was due March 1, 2007. The report was submitted in April and indicates some major costs escalations. The report indicates that the CHP intends to down-scope the project instead of requesting additional funds. A May Finance Letter is anticipated.

   Statewide Integrated Public Safety Radio – Broad Context: The Subcommittee has discussed public safety radio with CHP, Caltrans, and the Office of Emergency Services (OES) at prior hearings, but that was prior to all of the statutorily-required reports being submitted. Now that all the reports have been submitted, it is possible to look at the overall OES strategy (i.e. the Public Safety Radio Strategic Planning Committee [PSRSPC] *2007 Statewide Integrated Public Safety Communications Strategic Plan*) with some specific examples of implementation proposals with the CHP and Caltrans.

   The PSRSPC report cites two phases of implementation:
   Phase I: The first phase is maintaining and upgrading departments' current independent systems "with standards-based, interoperable, forward-migratable technologies" and linking the independent agency systems via networking technologies to form a "systems of systems" to improve interoperability. This phase will roll out over 10 years or by 2017.
   Phase II: The second phase is transitioning to common systems via sharing agreements over time (after 2017).

   Administration's Rational for a Two Phased Approach: The PSRSPC plan acknowledges that more opportunities exist over time to create efficiencies by sharing equipment and frequencies across State agencies and between the State and local agencies. However, the PSRSPC generally proposes that those efficiencies be implemented in Phase II (during the cycle of equipment replacement that follows the current requests, post 2017). In Phase I, individual department projects will move forward independent of other projects. If the Department of General Services (DGS) notices some overlapping efficiencies, they will try to incorporate them in the Phase I rollout; however, the PSRSPC does not have a process by which all radio departments share their long-term plans and cost estimates and look for opportunities to realize efficiencies as part of the initial planning stage. OES feels a single common radio system is not feasible in either the short term or long term because "California is neither operationally nor fiscally able to accommodate the significant investment of time and annual outlay necessary

to evolve direction to a standards-based common infrastructure, as evidenced in recent years by critical staffing and cash-flow shortages."

Deficiencies in OES/PSRSPC Annual Report: One of the challenges the Legislature faces in evaluating public safety radio budget requests is that the annual OES report does not include member departments' 5-year plans or 10-year plans for radio improvements and cost estimates. This report would be more helpful, if it included information like the annual *California Five-Year Infrastructure Plan* that lists specific building-facility project needs and yearly cost estimates. If the report did include specific plans, timelines, and cost estimates, it could also indicate opportunities for efficiencies where two or more departments may be proceeding on new systems with similar requirements.

CHP and Caltrans Interoperability in the Context of the PSRSPC Plan: To understand interoperability today and in the future with the PSRSPC Plan, using CHP and Caltrans interoperability as an illustration, the following table was developed with assistance from the Administration:

	Today	With Proposed Projects
CHP vehicle to Caltrans vehicle	Some supervisor vehicles have borrowed radios from the other agency, otherwise communications must be relayed through dispatch.	Direct communication possible in 700/800 MHz band.
CHP dispatcher to Caltrans (& vice versa)	CHP dispatcher verbally relays information to Caltrans dispatcher, who relays information to Caltrans worker.	CHP dispatcher could directly communicate with Caltrans workers via gateway devise.
Major incident scene, CHP & Caltrans Communications	Principals meet at site and separately communicate to their agency.	Communication using gateways or vehicle radios.
Other Communication	Possible cellular, microwave, or satellite usage	Possible cellular, microwave, or satellite usage

Changes Summarized in the CHP Annual Report: During this fiscal year, the CHP and Department of General Services (DGS) jointly conducted 85 radio vault sites surveys within the Central and Valley divisions. As a result of these surveys, the cost estimates for remote site equipment at these two divisions increased from $42 million to $272 million. <u>If this cost escalation for the two divisions, is representative of all divisions, the total project cost would be expected to increase from $494 million to about $1.6 billion</u>. The report indicates that the Administration wants to down-scope the project to stay within the identified funding of $494 million,

instead of identifying $1.1 billion in new funding to proceed with the original project. The report indicates that part of the down-scoping will involve dropping the statewide simulcast equipment and capabilities, and reducing the number of new channels. Other changes are indicated below.

Improvements with the Proposed System: The improvements listed below in regular font are those attributed to the original proposal. The improvements in italics are changes related to the down-scoping proposal.

- Allow Communications Centers to separate the emergency and non-emergency operations during peak and critical times. *The down-scoped project would provide one new communications channel, but not the 2-3 new channels originally proposed.*
- Enable radio interoperability with other public safety agencies without impacting normal patrol operations. *The down-scoped project would provide one new communications channel, but not the 2-3 new channels originally proposed. However, the new portable and mobile equipment would also increase the ability of the CHP to communicate on frequencies operated by other public safety agencies.*
- Provide the Communications Centers the ability to communicate with any CHP mobile unit anywhere in the state. *This new capability is lost with the down-scoped project.*
- Allow for additional operational channels for radio interoperability with allied agencies. *As indicated above, the down-scoped project would provide one new communications channel, but not the 2-3 new channels originally proposed*
- 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). *This new functionality is unchanged with the down-scoped project.*

Staff Comment: While the CHP indicates they will submit a May Revision Finance Letter to adjust expenditure, there is limited time for discussion during the final hearings. The CHP should be able to answer questions at this hearing about changes to the project scope and indicate how those changes will affect 2007-08 expenditures. Final action should; however, await the May Revision letter.

Staff Recommendation: Hold open for anticipated May Revision budget letter.

6. **Officer Staffing Augmentation (BCP #1 and April Finance Letter 2).** The Governor requests $16.4 million in 2007-08 (down from $17.5 million after the April Finance Letter Adjustment for corrected overtime, vehicle operations and general expenses costs) and $21 million ongoing to add 50 uniformed positions and 41 support staff (an additional 70 uniformed positions would be added in 2008-09 for a total increase of 120 Officers). Last year, the Legislature approved a staffing increase of 310 positions (240 Officers and 70 supervisory and non-uniformed support staff) to be phased in over two years (the 2007-08 phase adds 75 Officers). The CHP indicates this increase would help address the continual increase in workload associated with population growth throughout the state.

   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.

   LAO Recommendation: In the *Analysis of the 2007-08 Budget Bill*, the LAO recommends that the new positions be approved, but that the requested funding is reduced by a total of $1.1 million to correct technical errors and reduce some cost assumptions. The April Finance Letter makes the changes recommended by the LAO.

   Staff Recommendation: Approve the BCP and related April Finance Letter.

   Vote:

7. **Budget Funding for Tactical Alerts (LAO Issue).** The Governor's Budget includes $24.8 million to pay overtime in the event of tactical alerts. Tactical alerts involve placing Officers on 12-hour shifts to enhance CHP presence in times of emergency or high security risk.

   Background / Detail: Immediately following September 11, 2001, CHP officers were placed on 12-hour shifts, or "tactical alerts," to enhance preparedness. In 2002-03, the Legislature provided a budget increase of $32.5 million to fund further tactical alerts and adopted budget bill language requiring that any unused funds revert to the Motor Vehicle Account. In 2003-04, the Administration reduced tactical alert funding through a baseline adjustment by a reduction of $5.9 million and a redirection of $1.8 million to cover workers' compensation costs. Additionally, the Administration removed the budget bill language that reverted the unspent amounts. In 2002-03, the CHP expended $17.4 million for tactical alerts and in 2003-04 it expended $3.2 million. Since 2003-04, the CHP has not tracked tactical alert costs.

   LAO Recommendation: In the *Analysis of the 2007-08 Budget Bill*, the LAO recommended that the Legislature reduce the budgeted funding for tactical alerts by $19.8 million – to $5.0 million. Further, the LAO recommended budget bill language to revert any unused portion of the $5.0 million.

   Compromise Funding and Language: The Administration and the LAO developed a compromise funding level and new budget bill language. The appropriation would be reduced by $14.8 million (from $24.8 million to $10 million) and the following budget bill language would be adopted:

   Provision x. Of the amount appropriated in this item, $10,000,000 is appropriated to the Department of the California Highway Patrol to conduct tactical alerts in response to declared emergencies, and immediate threats to public safety. For purposes of this provision, a tactical alert occurs when officers are placed on 12-hour shifts to enhance emergency preparedness and provide an immediate increase in the levels of security provided to Californians. If the amount used for tactical alerts is less than $10,000,000, the remainder of the sum shall revert to the Motor Vehicle Account.

   (a) Of the funds appropriated in this provision, $5,000,000 shall be immediately available and used only for overtime expenses associated with conducting tactical alerts.

   (b) Of the funds appropriated in this provision, $5,000,000 shall become available and used only for the purposes described in subdivision (a) of this provision, after submittal of a report to the Joint Legislative Budget Committee on the expenditure of funds made available to the department under subdivision (a) of this provision. The report shall provide a detailed description of the expenditures made, and the planned expenditures from the funds made available to the department pursuant to this subdivision.

(c) No later than December 31 each year, the Department of the California Highway Patrol shall report to the Joint Legislative Budget Committee, and the appropriate fiscal and policy committees of each house on the activities and expenditures for the previous fiscal year for tactical alerts.

Staff Recommendation: Reduce funding for tactical alerts by $14.8 million (from $24.8 million to $10 million) and adopt the above budget bill language. This is consistent with the compromise developed by the Administration and the LAO. It would provide the CHP significant funding for tactical alerts and provide appropriate legislative reporting. If significant and long-standing security situations arose requiring CHP expenditure in excess of the funding amount, the Legislature could respond with an emergency appropriation or other budget mechanisms could be employed to provide additional spending authority.

Vote:

2740 Department of Motor Vehicles

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

The January Governor's Budget proposes total expenditures of $902.8 million (no General Fund) and 8,280.1 positions, an increase of $19.2 million (2 percent) and a decrease of 24.1 positions.

Issues Proposed for Consent / Vote-Only

1. **New Leased Facilities: Non-Public Programs (BCP #4).** The Administration requests 2007-08 funding of $9.6 million ($4.7 million ongoing) to remove non-public programs from field offices and into stand-alone leased facilities or consolidated leased facilities. The DMV indicates these changes would reduce overcrowding in field offices, and also be beneficial in addressing a surge in visits that would accompany the implementation of Real ID.

   Background / Detail. The DMV indicates it is pursuing a strategy of "customer segmentation" to improve customer service and efficiency. Under this strategy, certain DMV employees that do not deal face-to-face with the general public will be moved out of field office locations to standard lease space. In turn, this action would free up additional space at field offices to add customer service staff and terminals. Additionally, less-common customer transactions, such as business services and driver safety hearings would be moved out of DMV field offices. The new leased facilities and costs are outlined in the table below (dollars in 1,000s):

	2007-08	On-Going
Consolidated Telephone Centers (One new location)	$5,475	$2,297
Business Service Centers (Three new locations)	$2,986	$1,745
Driver Safety Hearing Offices (Two new locations)	$917	$624
Dept. of General Services Fees	$250	$0
TOTAL	**$9,628**	**$4,666**

   Staff Comment: The DMV indicates that the changes that increase capacity at field offices are needed whether or not California implements the Real ID Act.

2. **New Leased Facilities: Field Offices (April Finance Letter #4).** The Administration requests 2007-08 funding of $2.8 million (various special funds), 2008-09 funding of 8.6 million, and ongoing funding of $786,000 to establish two new field offices (Thousand Palms and Lincoln Park) and relocate two existing field offices (Stockton-South and Lodi).

   Staff Comment: The DMV indicates that these new field offices are needed whether or not California implements the Real ID Act.

3. **State-Owned Facilities: Office Reconfigurations (CO BCPs 2.1, 2.3, & 2.5).** The Administration requests a total augmentation of $8.6 million in Motor Vehicle Account funds to reconfigure three existing DMV field offices (Victorville, San Bernardino, and Redding). Reconfigurations would add customer service workstations, and in some cases, expand parking and lobby space. The offices are all from 25 to 45 years old and renovation would include new heating, ventilation, and air conditioning systems, new floors and modular furniture, etc.

   Staff Comment: The DMV indicates that these office reconfigurations are needed whether or not California implements the Real ID Act. Some of the activities in these BCPs assume new leased facilities will be approved in BCP #4 (see issue #1 above).

4. **State-Owned Facilities: Office Reconfigurations (CO April Finance Letter #1).** The Administration requests an augmentation of $309,000 (various special funds) for preliminary plans to reconfigure the Stockton Field Office into a Driver Safety Office. The Administration anticipates a BCP in 2008-09 requesting $295,000 for working drawings and a BCP in 2009-10 requesting $2.7 million for construction.

   Staff Comment: The DMV indicates that this office reconfiguration is needed whether or not California implements the Real ID Act. This request is dependent on the Legislature's approval of the April Finance Letter that includes a new leased facility in South Stockton (see issue #2 above).

5. **Commercial Driver's License Program: Data Project (April Finance Letter #2).** The Administration requests $774,000 in new federal funds and $376,000 in redirected State funds to implement data-management improvements to meet the requirements of the Federal Motor Carrier Safety Improvement Act. A Section 28 request is part of this request to begin this project in 2006-07 and to receive an additional $519,000 in federal funds and redirect $164,000 in State funds. In 2006, the federal government issued a preliminary noncompliance finding to California for not achieving all the data-sharing requirements for commercial driver's license holders. The DMV indicates that California could be penalized $150 million in highway funds if compliance is not achieved. The DMV indicates this is not a "new" project, but rather an improvement to an existing system – therefore no Feasibility Study Report is required. <u>On May 8, 2007, the DMV contacted Committee staff and indicated that the $519,000 in federal funds cannot be encumbered in 2006-07, and therefore that this federal funding should be shifted to 2007-08. Staff recommends approval of the Finance Letter with a legislative change to shift $519,000 in federal funds from 2006-07 to 2007-08, consistent with the revised Administration request</u>.

6. **Remittance System Replacement: Reappropriation (April Finance Letter #1)** The Administration requests a reappropriation of $5.4 million for the Remittance System Replacement information technology (IT) project, which was approved as part of the 2006 Budget Act. The remittance system processes the payment of approximately $2.1 billion annually. The DMV indicates that the project was delayed because key staff were redirected to higher-priority IT projects.

7. **Senior Driver Ombudsperson Program: Grant Award (April Finance Letter #6).** The Administration requests $837,000 (funding via a grant from the Office of Traffic Safety) and 9.0 positions to place a Senior Driver Ombudsperson in each of the State's larger metropolitan areas. The positions will investigate and attempt to resolve complaints concerning senior driving cases, in coordination with Driver Safety Hearing Offices. If it is determined an individual can no longer drive safely, the Ombudsperson will offer options on alternative methods of transportation and referral services.

8. **Performance and Registration Information System Management (PRISM) (April Finance Letter #11).** The Administration requests $111,000 (federal funds) to continue implementation of IT improvements for the International Registration Plan (IRP) system, which allows interstate carriers to pay apportioned registration fees based on mileage driven within California. This request actually shifts $111,000 in federal funds from 2006-07 to 2007-08. Legislation chaptered last year, AB 2736 and AB 3011, required additional taxpayer reporting, and changed the criteria for suspending licenses. The new requirements changed the project scope and delayed the expenditure of the federal funds. The base IRP IT project was approved by the Legislature last year with a total cost of $8.4 million. The Special Project Report indicates that scope change will increase DMV costs by $2.7 million, but the department will cover those costs through redirection and a federal grant totaling $500,000.

9. **Credit Card Processing Fees (BCP #5).** The Administration requests an augmentation of $11.4 million in 2007-08 and $12.7 million in 2008-09 to continue the payment of credit and debit card processing fees. In 2005-06, the Legislature approved two-year limited-term funding for DMV to pay these processing fees. At times in the past, the DMV has charged customers "convenience fees" to cover the cost of processing fees. Funding was provided in 2005-06 to eliminate these convenience fees to encourage customers to pay with a credit card and reduce visits to DMV offices. The DMV believes that reduced field-office visits save the state about $1.2 million annually – this gross savings was included in the 2006-07 budget. The DMV acknowledges a net cost related to credit card processing fees (about $10.2 million in 2007-08), but feels this is the cost of providing a customer service that Californian's expect and want.

Staff Recommendation: Approve all the consent / vote only issues, including the legislative change recommended for issue #5 (Commercial Drivers License Program: Data Project).

Vote:

Issues for Discussion / Vote

10. **Federal REAL ID Act (Informational Issue).** The Subcommittee discussed the federal draft regulations for Real ID at the March 14, 2007 hearing. Since that hearing, the federal Department of Homeland Security had a public meeting on Real ID on the University of California at Davis campus on May 1, 2007. DMV Director George Valverde took part in the public hearing. Director Valverde was quoted in the April 29, 2007, Sacramento Bee indicating that "we are postponing any consideration for state funding, pending federal funding." This quote implies the Administration will not come forward with any May Finance Letters related to the Real ID Act.

    Background / Detail: On May 11, 2005, President Bush signed H.R. 1268, which includes the Real ID Act of 2005. Draft regulations from the federal government on the implementation of this law were released on March 1, 2007. Last year, the DMV estimated implementation of Real ID may cost the State $500 million to $750 million. Real ID will cause inconvenience for California driver license holders, because most people will have to go to a DMV field office to re-verify their identity. Real ID requires people without a passport to have a compliant driver's license or identification card in order to enter a federal building or cross an airport checkpoint

    Last year the Administration submitted, and the Legislature approved, $18.8 million for information technology improvements and planning activities to improve DMV's customer service and data collection – all related to Real ID. The Legislature added budget bill language specifying that the funding did not implement Real ID for California, but rather improved efficiencies at the DMV to facilitate implementation at a later date, should enacting legislation be approved.

    Staff Comment: The Subcommittee may want DMV to summarize recent events related to Real ID, including the public hearing at UC Davis. Additionally, the Administration should clarify their policy related to State spending on Real ID if no new federal money is provided.

    The 2006 Budget Act also required DMV to submit a report by December 15, 2006, on the final federal Real ID Act regulations. The final federal regulations were delayed beyond December 15, and have not been finalized to date. To comply with the reporting due date, DMV submitted a report in December updating the Legislature on the DMV's planning and preparation efforts related to Real ID. In the cover letter, Director Valverde indicates that DMV will submit an additional report to the Legislature when the final regulations are adopted.

    Staff Recommendation: Informational issue – no action needed. At this point, there are no Administration budget requests directly related to the implementation of the Real ID Act.

11. Information Technology Modernization (BCP #1). The Administration requests 2007-08 funding of $23.9 million (various special funds) and 25.2 positions for the second year of an information technology modernization project with a total cost estimated at $242 million. Last year, the Legislature approved funding of $2.1 million and 5 positions for the first year of this project. While the BCP is not explicit on this point, the DMV indicates that the current request is intended to cover the remainder of the project – so additional Legislative approval would *not* be requested via future BCPs.

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 prior to full implementation, and risk is reduced. The incremental program would involve the separate migration of the drivers' license database and then the vehicle registration database. The new database would maintain a link to the old while several hundred software systems that need to be updated are shifted from the old to the new database.

Staff Comment: The modular approach to this project (which may mitigate risk) is partly motivated by an unsuccessful DMV IT modernization project in the mid-1990s. If project costs escalate, or if implementation problems arise, the Legislature could decide to limit funding and direct the DMV to re-scope the project to focus, for example, on just the drivers' license database. In approving first-year funding of $2.1 million, the Legislature added an annual January 31 reporting requirement. The DMV has submitted this year's report, but there is not much detail to report because the Department is still in the procurement phase of the project.

Staff Recommendation: Approve this request. However, due to the high costs and risks of this project it is important that the DMV submits a detailed report by the December 31, 2007 due date. Any delay reduces the time available for staff and the Subcommittee to review the status of the project and 2008-09 funding. If the report is submitted late, or with insufficient detail, Staff would recommend that the Subcommittee remove 2008-09 project funding at the first Subcommittee hearing next year.