MAJOR ISSUES

Transportation

✓ Highway Transportation Funding Outlook Strong

- The new federal transportation act—the Transportation Equity Act for the 21st Century (TEA-21)—increases federal funding for California highways significantly. The California Transportation Commission plans to amend the 1998 State Transportation Improvement Program (STIP) in March 1999 to enable Caltrans to begin designing additional projects in order to speed up their delivery (see page A-12).
- Caltrans and local transportation agencies will have to deliver projects on a timely basis if California is to receive any federal funds left unobligated by other states and avoid a loss of its own federal funds. We recommend enactment of legislation to encourage local agencies to deliver projects in a timely manner (see page A-12).
- The cash balance in the State Highway Account for 1998-99 is estimated to be $1.5 billion. Our review indicates that in 1999-00 the account's balance will exceed the $1.1 billion projected in the Governor's budget (see page A-19).

✓ Mass Transportation Continues to Face Funding Shortfall

- The Public Transportation Account (PTA), which provides funds for mass transportation, is projected to have a shortfall of $38 million over the period 1998-99 through 2002-03. The shortfall is due to declining diesel sales tax revenues, lower-than-projected growth in gasoline consumption, and increasing expenditures (see page A-21).
- Given the projected funding shortfall in the PTA, no new transit capital improvement projects will be funded over the next six years (see page A-22).

- In order to partially address the transit funding shortfall, we recommend enactment of a constitutional amendment to permit expenditure of gas tax revenues fro transit rolling stock (see page A-24).

☑ Huge Increase in Highway Program

- Caltrans proposes $7.2 billion for the Highway Transportation program, about $1.6 billion, or 28 percent, more than in the current year. This increase is largely due to a $1.2 billion increase in projected capital outlay expenditures (see page A-25).
- Caltrans plans to revise its capital outlay support request to accommodate any change in workload related to the STIP amendment. Accordingly, we withhold recommendation on the department's capital outlay support request (see page A-29).
- Caltrans' staffing for project scope and summary reports is excessive. We recommend a reduction of $8.9 million and 136 PYEs for this purpose (see page A-32).

☑ Court Settlement on Contracting Out Seismic Retrofit Program

- A recent court settlement regarding contracting out of the seismic retrofit program requires Caltrans to transfer construction inspection and some design work to state staff (see page A-35).

☑ Caltrans Lags in Bridge Scour Evaluation

- The Federal Highway Administration requires Caltrans to evaluate state and locally owned bridges for the effects of water erosion, referred to as "bridge scour." Although evaluation of most bridges is scheduled to be complete by 2002, approximately 3,000 locally owned bridges have unknown foundations and are not yet scheduled for evaluation (see pages A-30 and A-40).

☑ No End in Sight for DMV's Database Project

- The DMV's second attempt to replace its aging database systems is falling further behind schedule. We make recommendations for increasing the department's accountability and for reducing risks of project failure and cost overruns (see page A-51).

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OVERVIEW

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Total expenditures from state funds for transportation programs are proposed to be significantly higher in 1999-00 than estimated current-year expenditures. The increase is due mainly to proposed higher expenditures for highway improvements, including seismic retrofit of state-owned toll bridges.

For traffic enforcement, the budget proposes a modest increase in the California Highway Patrol and a slight decrease in the expenditure level of the Department of Motor Vehicles.

The budget proposes total state expenditures of about $6.2 billion for transportation programs in 1999-00. This is an increase of $867.7 million, or 16 percent, over estimated expenditures in the current year.

Figure 1 (see next page) shows that state-funded transportation expenditures increased by $2.1 billion since 1992-93, representing an average annual increase of 6.1 percent. When adjusted for inflation (constant dollars), these expenditures increased by an average of 3.7 percent annually. The increase is largely the result of the full implementation of the *Transportation Blueprint* legislation enacted in 1990. The legislation increased over several years the tax on motor vehicle fuel (gasoline and diesel) and truck weight fees as well as authorized bond measures in order to provide additional state funds for highway and mass transportation programs. In addition, in March 1996, voters passed Proposition 192 which authorized $2 billion in bonds for seismic retrofit of highways and bridges. In August 1997, the Legislature further enacted legislation to fully fund seismic retrofit of state-owned toll bridges.

Figure 1 also shows that transportation expenditures have increased slightly as a share of total state expenditures over the period. In 1999-00, proposed transportation expenditures will constitute about 8 percent of all state expenditures.

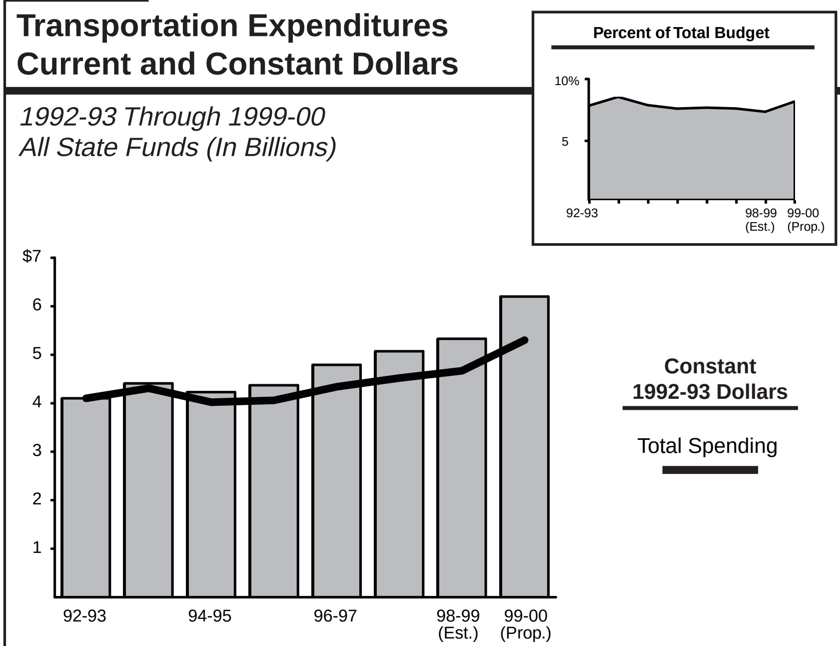
Of the 1999-00 state transportation expenditures, about $4.9 billion is proposed for programs administered by the state and about $1 billion is for subventions to local governments for streets and roads. Another $300 million will be for debt-service payments on rail bonds issued under Proposition 108 and

Proposition 116 of 1990 and seismic retrofit bonds issued under Proposition 192 of 1996.

Figure 1

Transportation Expenditures Current and Constant Dollars

1992-93 Through 1999-00
All State Funds (In Billions)



SPENDING BY MAJOR PROGRAM

Figure 2 shows spending for the major transportation programs in detail. Specifically, the budget proposes expenditures of $7.9 billion (from all fund sources including federal and bond funds) for the Department of Transportation in 1999-00—an increase of $1.6 billion (25 percent) above estimated current-year expenditures. The higher expenditure level reflects mainly increases of $1.3 billion for highway construction, including seismic retrofit of highways and state-owned toll bridges. The increase includes about $710 million in state and federal funds and about $536 million in reimbursements.

Spending for the California Highway Patrol (CHP) is proposed at $885.2 million—$51.7 million, or 6.2 percent, higher than the current-year level. About 90 percent of the expenditures would be funded from the Motor Vehicle Account. For the Department of Motor Vehicles (DMV), the budget proposes expenditures of $596.3 million, about $21 million (3.4 percent) less than in the current year. These expenditures would be funded mainly from the Motor Vehicle Account and the vehicle license fees.

Figure 2

Transportation Budget Summary Selected Funding Sources[a]

1997-98 Through 1999-00 (Dollars in Millions)

	Actual 1997-98	Estimated 1998-99	Proposed 1999-00	Change From 1998-99 Amount	Change From 1998-99 Percent
Department of Transportation					
State funds	$3,095.1	$2,816.3	$3,595.7	$779.4	27.7%
Federal funds	1,804.2	2,665.6	2,968.9	303.3	11.4
Reimbursements	435.7	873.7	1,377.6	503.9	57.7
Totals	**$5,353.0**	**$6,355.6**	**$7,942.2**	**$1,586.6**	**25.0%**
California Highway Patrol					
Motor Vehicle Account	$740.6	$739.7	$794.8	$55.1	7.4%
Other	126.0	93.8	90.4	-3.4	-3.6
Totals	**$866.6**	**$833.5**	**$885.2**	**$51.7**	**6.2%**
Department of Motor Vehicles					
Motor Vehicle Account	$306.6	$312.3	$311.7	-$0.6	-0.2%
Motor Vehicle License Fee Account	203.7	228.2	228.4	0.2	0.1
Other	61.7	76.9	56.2	-20.7	-26.9
Totals	**$572.0**	**$617.4**	**$596.3**	**-$21.1**	**-3.4%**
State Transportation Assistance					
Public Transportation Account	**$84.8**	**$100.2**	**$100.2**	—	—

[a] Includes bond funds.

Additionally, the budget proposes to fund the State Transportation Assistance (STA) program in 1999-00 at the current-year level of $100.2 million. Annual funding of the program is determined based on a statutory formula, and the level varies depending on anticipated revenues into the Public Transportation Account (PTA). For 1999-00, the budget projects a drop in PTA revenues and STA funding should be correspondingly less. The budget, however, proposes to keep STA funding at the current-year level, about $14 million (16 percent) more than called for by statute.

MAJOR BUDGET CHANGES

Figure 3 highlights the major changes proposed for 1999-00 in various transportation programs.

As the figure shows, the budget proposes to increase highway construction by $1.3 billion, and local assistance for road improvement by $297 million. The budget also includes an increase of $69 million to accommodate additional highway maintenance and traffic operations systems workload and $4.4 million to continue bridge inspections and painting.

In addition, $7.9 million is proposed in order to increase systems planning activities and for more project studies work to generate and define the scope of future capital outlay projects. The budget also proposes $6.8 million to match private and other funds for seismic research.

For CHP, the budget proposes $4.9 million to replace two helicopters and $3.2 million to improve the department's telecommunications system. The budget also proposes $3.7 million to continue the multiyear effort to automate the patrol vehicle environment for traffic officers, primarily via the installation of laptop computers. About $6.1 million is also requested to fund the full-year costs of salary increases and additional health benefits for managerial and supervisory staff.

For DMV, the budget proposes a reduction of about $21 million in departmental support in 1999-00. The reduction is the net result of the elimination of one-time expenditures that have been authorized through the current year, offset by various increases in the budget year. Specifically, the budget proposes $4.9 million to begin replacement of the department's accounting system, $1.8 million to continue DMV's multiyear effort to redesign its major databases and $3.8 million for facilities improvement and repairs. It also includes (1) $4.6 million to upgrade the phone system and to provide a toll-free line in order to improve customer service, and (2) an increase of $1.9 million to accommodate workload increases in order to maintain the department's level of service.

Figure 3

Transportation Programs
Proposed Major Changes for 1999-00

Department of Transportation	**Requested:**	**$7.9 billion**	
	Increase:	**$1.6 billion**	**(+25%)**

- ✚ $1.3 billion in highway construction
- ✚ $297 million in local assistance for road improvement
- ✚ $69 million for increased highway operations and maintenance
- ✚ $7.9 million for system planning and project studies
- ✚ $6.8 million for seismic research
- ✚ $4.4 million for bridge inspection and painting

California Highway Patrol	**Requested:**	**$885.2 million**	
	Increase:	**$51.7 million**	**(+6.2%)**

- ✚ $6.1 million for managerial staff salary increase and employee bene-fits
- ✚ $4.9 million to replace two helicopters
- ✚ $3.7 million to automate the patrol vehicle environment
- ✚ $3.2 million to improve the telecommunications system

Department of Motor Vehicles	**Requested:**	**$596.3 million**	
	Decrease:	**$21.1 million**	**(-3.4%)**

- ✚ $4.9 million to replace existing accounting system
- ✚ $4.6 million to upgrade phone service and provide toll free line
- ✚ $3.8 million for facilities repair and maintenance
- ✚ $1.9 million to maintain service levels
- ✚ $1.8 million to continue database redesign

- ▬ $40 million to adjust for one-time expenditures.

CROSSCUTTING ISSUES

Transportation

FUNDING OUTLOOK FOR STATE TRANSPORTATION PROGRAMS

California finances its highway and mass transportation programs with a combination of state, federal, local and private funds. The multiyear expenditure of state and federal funds for transportation capital projects is contained mainly in the State Transportation Improvement Program (STIP), a four-year programming document which is adopted every two years by the California Transportation Commission (CTC). The STIP includes projects designed to increase the capacity of the state's transportation infrastructure. Another program, the State Highway Operation and Protection Program (SHOPP), includes all major state highway system projects that do not increase capacity, but rather provide traffic safety, roadway and bridge rehabilitation, and operational improvements. (The STIP period was shortened from a seven-year to a four-year period by Chapter 622, Statutes of 1997 [SB 45, Kopp]. Chapter 622 also made the 1998 STIP a six-year STIP to allow for the transition.)

State law requires the Department of Transportation (Caltrans) to submit a fund estimate to CTC that projects state and federal revenues and expenditures for highway and rail projects over the forthcoming STIP period. In January 1998, CTC adopted the 1998 Fund Estimate, which projected an additional $4.6 billion available for new transportation projects. In June 1998, subsequent to the adoption of the 1998 STIP, the President signed the Federal Transportation Efficiency Act for the 21st Century (TEA-21). The new legislation provided California with significantly more federal funds than in previous years.

The following sections examine:

- Major elements of TEA-21, with a summary of how the new federal act affects transportation funding available to California.
- The condition of the 1998 STIP Fund Estimate.
- The 1999-00 outlook of the State Highway Account (SHA) and Public Transportation Account (PTA).

TEA-21 and Its Impact on California

The TEA-21 will provide about $20 billion to California over the next six years, including about $15 billion for highway programs and $5 billion for transit.

We recommend the enactment of legislation to limit the time period for which state funds are available to local agencies as a substitute for federal funds in order to encourage local agencies to expend federal funds in a more timely manner. We further recommend that the Department of Transportation and the California Transportation Commission advise the Legislature at budget hearings on what other measures are needed to improve the timely use of federal funds by local agencies.

The Basics of TEA-21. The TEA-21 reauthorized the federal transportation program over the six-year period from 1998 through 2004. In general, TEA-21 maintains the same program structure and funding flexibility as its predecessor, the federal Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), while providing an increase in funding of about 40 percent. The act provides funding for two major areas—highways (including safety and research programs) and transit. Specifically, TEA-21 authorizes total nationwide funding of $217 billion, including $175 billion for highways and $42 billion for transit. Similar to ISTEA, the new federal act allows state and regional agencies to move up to 50 percent of funds from one funding category to another under various restrictions.

The TEA-21 increases both the authorized level of funding, as well as the certainty of funding levels by making the following changes:

- Guarantees that all future revenues from federal fuel excise taxes—currently 18.3 cents per gallon of gasoline and 24.3 cents per gallon of diesel—will be dedicated to transportation purposes without any portion being used for federal deficit reduction.
- Guarantees that 94 percent of the total $217 billion authorization will be provided to the states. For highways, the guaranteed

amount is about 96 percent of the authorized funding level nationwide, while for transit the guaranteed amount is about 86 percent.

- Guarantees that "donor states" (those that contribute a greater share to the Highway Trust Fund than they receive in return) receive a minimum of 90.5 percent return of their percentage contribution through highway and transit obligation programs.

As indicated in Figure 1, based on the federal authorization level, over the next six years California is estimated to receive about $14.8 billion in federal funding for highway-related programs. All of these funds will be

Figure 1

Highway Programs
TEA 21 Estimated Levels for California

(Dollars In Billions)

Formula Grant Programs		Maximum Six-Year Funding Level	Percentage Share of National Total
IM/NHS	• Expands and maintains the nation's 46,000 mile interstate and 163,000 mile highway system.	$4.7	9.4%
STP	• Flexible funds that can be used on NHS, bridge, transit capital, or environmental mitigation.	3.2	9.9
Bridges	• Bridge replacement and rehabilitation program.	1.6	8.1
CMAQ	• Funds projects in urban areas that do not meet federal clean air standards. Projects must reduce congestion and air pollution.	1.7	21.0
High priority projects	• Designates funding for 157 projects in California	0.9	9.4
Minimum guarantee	• Each state is guaranteed 90.5% of their contribution to the federal highway trust fund. Fund uses are same as STP funds.	2.5	6.6
Metropolitan planning	• Supports regional and state-level planning	0.2	15.4
Totals		**$14.8**	**9.2%**

IM—Interstate Maintenance Program; NHS—National Highway System; STP—Surface Transportation Program; CMAQ—Congestion Mitigation/Air Quality Improvement Program.

allocated by formula. In addition, TEA-21 includes a number of discretionary grant programs providing up to $21 billion for which California may compete. The grants will fund a variety of projects related to surface transportation, including acquisition of scenic lands and corridors, creation of tourist welcome centers and safety education for pedestrians and bicyclists.

For transit, California is estimated to receive about $5 billion over the six-year period. Most of the funds will be allocated based on population and other factors to urban areas with populations over 50,000. A portion of funds is allocated for rail modernization, based on miles of rail tracks and passenger miles traveled. As Figure 2 shows, California urban areas will receive about $3.6 billion in transit formula funding, with the bulk of the funds going to Los Angeles and San Francisco/Oakland. In addition, Caltrans estimates that California will receive approximately $1.3 billion in discretionary grants (not shown in Figure 2) which will be available on a competitive basis.

(For more detailed information about TEA-21, see our report *Transportation Equity Act for the 21st Century: What the New Federal Act Means for California,* August 28, 1998.)

Timely Project Delivery Essential to Expend Increased Federal Funds. In order to maximize the benefits of increased federal funding, Caltrans and local agencies must first have projects ready to deliver when federal funds become available. Each year, the state and local agencies receive the authority to spend a certain amount of federal funds. This amount, known as "obligation authority" expires on an annual basis. If Caltrans or local agencies fail to use all of their obligation authority within the federal fiscal year in which it is authorized, the funds are redistributed among the states to projects that are ready for construction.

It typically takes considerable time—multiple years in many instances—for projects to be delivered, that is, planned and ready for construction. Given the substantial increase in federal funding, timely project delivery by both Caltrans and local agencies will therefore play a key role in the state's ability to: (1) take advantage of the redistribution of federal funds from other states; and (2) prevent the loss of federal funds.

Local Agencies Behind in Spending Federal Funds. Local agencies tend to underspend their annual share of federal funds. During the years of ISTEA (1991 through 1997), for example, local agencies were able to obligate only 87 percent of their federal funding. In 1998, only 41 percent of available funding was obligated. As a result, by October 1998, local agencies had accumulated a $730 million backlog in federal funds. This failure to obligate federal funds in a timely fashion is the result of a variety of factors, including the complexity of federal guidelines and reduced technical assistance from Caltrans. In addition, as we discuss next, Caltrans' current policy of swapping state funds for federal funds provides no incentive for local agencies to spend their share in a timely manner.

Figure 2

Transit Formula Grant Funding For California Urban Areas[a]

(In Millions)

Urban Formula	Maximum Six-Year Fund Level
Area	
Los Angeles	$1,210.7
Sacramento	82.9
San Diego	247.5
San Francisco/Oakland	699.5
San Jose	184.7
33 other urban areas	438.8
Nonurban areas	54.7
Total	**$2,918.6**
Fixed Guideway Modernization	**Maximum Six-Year Fund Level**
Area	
Los Angeles	$165.5
Sacramento	19.0
San Diego	45.3
San Francisco/Oakland	389.2
San Jose	71.8
Total	**$690.8**

[a] Excludes: clean fuels, elderly and disabled transportation, and rural transportation accessibility.

Caltrans Covers for Local Agency Delivery Shortfall. Despite the failure of local agencies to obligate their annual share of federal funds, California has never failed to use all federal funds available statewide in a given year. This is because whenever local agencies anticipate not being able to use their share of federal funds, Caltrans would use the local share of federal funds in place of state funds for state STIP and SHOPP projects, and allow local agencies to use state funds for their projects at a later time.

This policy essentially guarantees local agencies their allocation of funds indefinitely, regardless of when they would use those funds. Although this approach has worked in the past, increased funding levels for both Caltrans and local agencies will make it increasingly difficult for Caltrans to have projects ready to use up both the state's portion of federal funds as well as any federal funds left unobligated by local agencies. To the extent that this happens, the state would be ineligible to receive funds left unobligated by other states and would lose its share of unobligated federal funds.

Incentives Needed for Local Agencies to Use Funds on a Timely Basis. Over the last decade, California has received about $30 million annually through the redistribution of federal funds left unobligated by other states. In order to ensure that the state remains eligible for this redistribution and prevent any loss of federal funds, it is essential that both Caltrans and local agencies deliver projects and obligate federal funds on a timely basis. One option to encourage more timely use of federal funds by local agencies is to limit the length of time for which Caltrans can substitute state funds for any local agencies' unobligated federal funds. If a local agency cannot have projects ready to use those funds within that time limit, it would then risk losing those funds. This would create an incentive for local agencies to plan projects such that their allocation of funds is expended in a more timely manner.

Current law already requires local agencies to expend state transportation funds on a timely basis. Failure to do so results in a local agency losing its allocation of state funding. Applying a similar time limit to Caltrans' policy of substituting state funds for unobligated federal funds would be consistent with current statute. Accordingly, we recommend that legislation be enacted to limit the time period for which state funds would be available to local agencies as a substitute for federal funds.

Caltrans Should Provide Adequate Technical Assistance. Additionally, it may be beneficial to the state as a whole for Caltrans to work with regional planning agencies and CTC to provide adequate technical assistance to local agencies regarding federal regulations and requirements in order to facilitate local agencies' timely use of federal funds. Accordingly, we recommend that Caltrans and CTC advise the Legislature at budget hearings as to what they plan to do in order to make sure that adequate assistance is available to local agencies. Additionally, we recommend that

CTC advise the Legislature on any other measures that would ensure that local agencies use their allocation of federal funds on a timely basis.

Impact of TEA-21 on 1998 STIP and Fund Estimate

Additional federal funds from TEA-21, together with a change in methodology for expenditure projection, result in $1.8 billion of additional resources available for capital projects over the 1998 STIP period. The California Transportation Commission plans to amend the 1998 STIP to program the additional funds.

1998 STIP to be Amended. In order to expedite the programming of additional federal funding, CTC plans to amend the 1998 STIP in March 1999. This will enable Caltrans to begin designing additional projects, and thereby speed up their delivery. Otherwise, work on these projects would be delayed up to a year when they would be programmed in the 2000 STIP in April 2000.

In order to amend the 1998 STIP, Caltrans revised the fund estimate to reflect changes in revenue and expenditure projections. The revised 1998 Fund Estimate, adopted by CTC in January 1999, identifies $1.8 billion in additional funds available for new projects. In addition to incorporating the unanticipated federal revenues from TEA-21, the revised 1998 Fund Estimate reflects a new expenditure methodology.

Change in Expenditure Methodology Allows Projects to Be Programmed Sooner. In an effort to improve its ability to manage available resources which include both state and federal revenues, Caltrans has changed the way it reports expenditures. Previous fund estimates assumed some expenditures to be fully incurred in the year they were programmed, even though a large portion of the expenditures would not be incurred until future years. Other expenditures were assumed to be made over several years based on an aggregate historical expenditure rate. Instead, the new methodology projects expenditures by using historical expenditure rates for each program.

Given that STIP projects often take more than one year to construct and expenditures typically are spread out over multiple years, this new methodology is likely to improve Caltrans' ability to more accurately estimate the balance of available resources in any one year. To the extent that resources not needed in a particular year are accurately estimated, they provide opportunities for additional projects to be programmed and funded, allowing the state to utilize its resources more efficiently. While the new methodology is an improvement in our view, it requires the department to keep track of outstanding expenditures that will occur beyond the STIP period.

Revised Fund Estimate Identifies $1.8 Billion More for Projects. The 1998 STIP amendment provides an opportunity for Caltrans and regional agencies to program new projects. As Figure 3 shows, the revised 1998 Fund Estimate projects resources to total about $30 billion over the six-year period. Expenditures are projected to total about $28.2 billion. This level of expenditures includes noncapital outlay expenditures for state operations, including highway maintenance, operations, program development, and departmental administration; local assistance and subventions; and the costs of engineering and design of SHOPP projects, minor projects, and projects that are already programmed for delivery in the STIP. In addition, expenditures include projected costs of construction of SHOPP and minor projects, as well as all existing STIP projects. After providing for these expenditures, the revised 1998 Fund Estimate projects $1.8 billion to be available for additional projects.

Figure 3

1998 Revised STIP Fund Estimate Highway Transportation Projected Revenues and Expenditures

1998-99 Through 2003-04 (In Billions)

	Six-Year Total
Resources	
Federal	$13.0
State	17.0
Subtotal	($30.0)
Expenditures	
State operations	$6.8
Local assistance	5.2
SHOPP, minor projects	5.2
Support (non-STIP projects)	2.5
1998 STIP commitment	6.7
Support (1998 STIP) & reserve	1.8
Subtotal	($28.2)
Additional programming capacity	$1.8

The CTC expects to amend the STIP to program the additional $1.8 billion in late March. This amendment will:

- Allow local agencies an opportunity to modify their original funding requests for projects, many of which were made under the tight deadlines of Chapter 622.
- Address local rehabilitation and storm repair needs.
- Allow funding for new projects, as well as improvements to currently programmed projects that could not be funded in the original 1998 STIP.

SHA Cash Balance Mounting; Will Exceed $1 Billion in 1999-00

The State Highway Account cash balance has grown continuously since 1993-94, and is estimated to be $1.5 billion by the end of the current year. The balance for 1999-00 will likely exceed the $1.1 billion projected by the budget.

The State Highway Account (SHA) is the primary source of state funds for transportation expenditures. The account derives its revenues primarily from taxes on gasoline and diesel fuel and from truck weight fees. Funds are used to support Caltrans operations, provide local assistance and fund transportation capital outlay.

Cash Balance Has Increased Significantly. Figure 4 (see next page) shows the projected and actual SHA cash balance from 1993-94 through 1999-00. As the figure shows, the cash balance has grown continuously since 1993-94. The budget estimates that the cash balance will be $1.5 billion by the end of 1998-99. For the budget year, the balance is projected to drop to $1.1 billion.

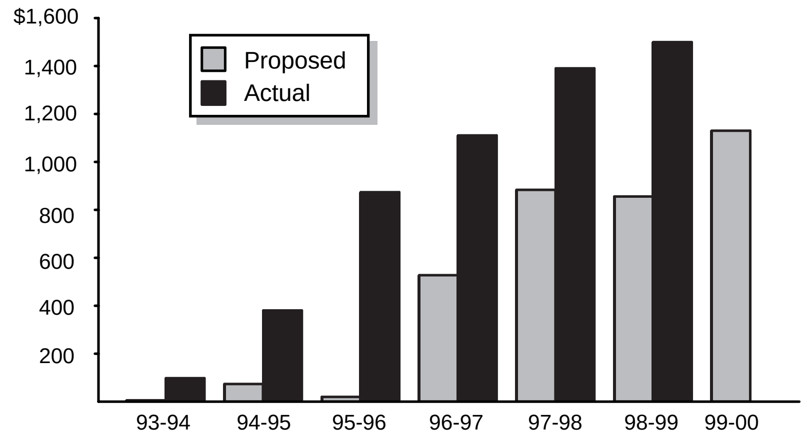
The bulk of the SHA cash balance is already committed to STIP projects, but has yet to be paid out for numerous reasons, including delays in project delivery.

Actual Balances Have Far Exceeded Projected Amounts. Figure 4 also shows that actual SHA balances have consistently exceeded the amounts projected—by significant margins. For example, the budget projected the cash balance to be $883 million at the end of 1997-98. The actual balance, however, was almost $1.4 billion—57 percent higher than projected. Similarly, when the 1998-99 budget was proposed in January 1998, the balance was projected at $856 million. However, that balance is now estimated to be $1.5 billion—75 percent higher.

Figure 4

**State Highway Account
Proposed Versus Actual Cash Balance**

*1993-94 Through 1999-00
(In Millions)*



Note: 1998-99 actual figure based on estimate in 1999-00 budget.

Reasons for Huge Cash Balance. As the figure shows, the cash balance jumped considerably in 1995-96, and continued to grow thereafter. This was due to several factors, the most important of which was a decision in 1996 by CTC and Caltrans to delete $500 million worth of highway projects from the 1996 STIP (covering the period from 1996-97 through 2002-03) in order to reserve sufficient funds for Phase 2 of the highway seismic retrofit program. Caltrans, however, was unable to deliver all the retrofit projects as scheduled. This resulted in a build-up of the balance. Furthermore, voters approved Proposition 192 in 1996, authorizing $2 billion in bond funds for the Phase 2 seismic retrofit program and for seismic retrofit of state-owned toll bridges. As a result, the SHA money that was to be expended in 1995-96 and 1996-97 for seismic retrofit was freed up.

Another factor that contributes to the SHA cash balance is the inability of local agencies to obligate federal funds. As discussed in an earlier section of this write-up, when local agencies are unable to use their allocation of federal funds on a timely basis, Caltrans tries to use up the local agencies' unobligated federal funds for state projects in order to avoid any loss of federal funds. This leaves funds in the SHA unexpended until local agencies are ready to deliver their projects.

Caltrans Underestimates Size of Cash Balance. Over the last five years, Caltrans has consistently underestimated the size of the cash balance. Our review also shows that this is primarily because Caltrans *overestimates* SHA expenditures for capital outlay purposes. Specifically, in projecting capital outlay expenditures, Caltrans assumes all projects scheduled for delivery in the budget year will be delivered. However, for various reasons, projects are dropped or their schedules slip so that not all projects are delivered in the year in which they are scheduled for construction. Additionally, certain costs, such as right-of-way acquisition, that are projected to be fulled expended in the budget year may be incurred at a later date. As a consequence, actual expenditures tend to be lower, resulting in SHA cash balances that are consistently larger than projected.

Balance for 1999-00 Will Remain High, and Likely Exceed Projected Amount. The budget projects the SHA balance at $1.1 billion for 1999-00, about 27 percent lower than the estimated current-year level. This decrease is mainly due to higher local assistance and capital outlay expenditures projected for 1999-00. Specifically, the budget projects $420 million more SHA expenditures for these purposes than the current-year level. Based on past experience, however, we believe the projected cash balance to be low. In fact, past data, as shown in Figure 4, suggest that the 1999-00 year-end balance will most likely be significantly higher.

Faster Project Delivery May Not Reduce Cash Balance. With the significant increase in federal funds under TEA-21, it will be a challenge for Caltrans and local agencies to deliver projects on a timely basis in order to obligate all federal funds available in the budget year and beyond. Given that, it is likely that the SHA cash balance will continue to stay at an extremely high level for the foreseeable future. However, it is important for the Legislature to bear in mind that the bulk of the cash balance is already committed to transportation projects.

Public Transportation Account Faces Funding Shortfall; Budget Proposes State Highway Account Transfer

The budget proposes a transfer of $28 million from the State Highway Account to the Public Transportation Account in 1999-00, in order to meet outstanding obligations for transit capital improvements through 1999-00. Over the six-year period from 1998-99 through 2003-04, the Department of Transportation estimates the Public Transportation Account to have a shortfall of $38 million.

The Public Transportation Account (PTA), formerly the Transportation Planning and Development (TP&D) Account, is a trust fund whose main purpose is funding transportation planning and mass transportation. The PTA revenues are derived from the sales tax on gasoline and diesel fuels. Current law requires that half of these revenues be allocated annually for transit operating assistance under the State Transportation Assistance (STA) program. The remaining funds support intercity rail service, transportation planning and research, high speed rail development, passenger rail safety, CTC activities, and transit capital improvements. Due to constitutional restrictions on the use of gas taxes (most of the revenues in the SHA), PTA is the sole source of state transportation funding for the maintenance and operation of mass transit systems and the acquisition or improvement of rolling stock (railcars or buses.)

Revised Fund Estimate Projects Public Transportation Account Shortfall; Budget Proposes $28 Million State Highway Account Transfer. The revised 1998 Fund Estimate, adopted in January 1999, projects a shortfall in PTA through 2003-04, with the shortfall occurring as early as the budget year. This deficit is projected despite a loan repayment of $115 million from the General Fund in 1998-99. To delay the onset of the shortfall, the budget proposes a $28 million transfer from SHA to pay for outstanding commitments to transit capital improvement projects. Even with this transfer, PTA is still projected to have a shortfall of $38 million. This is largely because the budget proposes to fund the STA program at 16 percent above the statutory level. If this funding is sustained throughout the STIP period, Caltrans projects the account shortfall to reach $73 million.

New Transit Projects Must Wait Until 2002 STIP. Because of the account condition, the 1998 STIP provides no funds for additional transit capital projects through 2003-04. As a result, it appears that the state would not be able to program transit equipment acquisition or improvement until the 2002 STIP, which covers the period 2002-03 through 2005-06.

Reasons for Public Transportation Account Shortfall

The Public Transportation Account shortfall is the result of lower-than-expected revenues combined with increasing expenditures.

Declining diesel sales tax revenues, lower-than-projected growth in gasoline consumption, and increasing expenditures account for the projected PTA shortfall.

Erosion of Revenues Results From Declining Diesel Prices and Low Growth in Gasoline Consumption. Revenues to PTA have declined since 1997-98 primarily as a result of a decline in diesel prices. For instance, the Department of Finance now estimates revenues from the sales tax on diesel, which constituted 68 percent of the account's total revenues in 1997-98, to be 8 percent lower in 1998-99 compared to 1997-98. In 1999-00, these revenues are projected to decline further, albeit at a slower rate of 2 percent.

Additionally, sales tax revenues from the sale of gasoline have not materialized, as projected. This is because gas consumption projections have been too optimistic. (Please see the *1998-99 Analysis of the Budget Bill*, page A-18.) For example, the (earlier January 1998) fund estimate projected gas tax revenues to increase at an annual rate of 2.2 percent, despite the fact that gasoline consumption has grown at an average annual rate of about 1 percent since 1990-91. Since funding commitments are based on revenue projections, the account will experience a shortfall whenever revenues fall short of projections.

Expenditure Increases Crowd Out Transit Capital Improvement. Expenditures from PTA have increased in two main areas. The PTA funds, among other programs, the operation of the state intercity rail program. The state's share of intercity rail operations costs have increased at a rate of approximately 30 percent a year—from $29 million in FY 1994-95 to $63 million in FY 1998-99. From 1998-99 through 2003-04, intercity rail service is projected to cost a total of $454 million. This is due to both reduced federal subsidies and service expansion.

Change in Funding Formula Increases Costs. Recent legislative changes also increased PTA expenditures. Specifically, Chapter 622 increased the proportion of annual PTA support to STA. Under Chapter 622, 50 percent of *total* PTA revenues is dedicated to STA each year. In contrast, the previous formula called for 50 percent of net revenues—after support for intercity rail operations, transportation planning, and other support costs are deducted—to be dedicated to STA. Everything being equal, this formula change increases STA funding and leaves significantly less funds for intercity rail operations, transportation planning, and other support expenditures. For the budget year, the budget proposes to further increase STA funding above the amount required by statute.

As we mentioned earlier, based on current revenue projections, PTA will not be able to sustain the higher level of support for intercity rail operations, pay for other support expenditures, dedicate 50 percent of revenues to STA, and still pay for outstanding transit capital improvement projects.

The Legislature Should Enhance Flexibility for Transit Funding

We recommend that the Legislature enact a constitutional amendment, subject to voter approval, to permit expenditure of gas tax revenues for transit rolling stock.

Article XIX of the State Constitution restricts fuel tax revenues (deposited in SHA) from being used to fund rolling stock. As a result, these types of transit investments must rely on the PTA for funding.

To minimize the projected shortfall in the PTA, CTC recently voted to restrict the use of PTA funds to those projects that are eligible only for PTA funding (that is, rolling stock). Transit capital projects that are eligible to use SHA funds (tracks and facilities) will be funded from SHA. While this will free up more funding for rolling stock, it still may not provide sufficient funds to meet the state's transit needs.

Relax Constitutional Limitation. Transit rolling stock is the only type of transportation capital outlay that currently cannot use fuel tax revenues. Relaxing Article XIX to permit the use of these revenues for transit rolling stock could provide more flexibility in funding public transportation improvements, and enable funds to be used more efficiently to meet transit needs. Accordingly, we recommend the Legislature enact a constitutional amendment, subject to voter approval, to permit expenditure of gas tax revenues for transit rolling stock. (For further discussion of this issue, please see our report *After the Transportation Blueprint: Development and Funding an Efficient Transportation System*, March 1998).

DEPARTMENTAL ISSUES

Transportation

DEPARTMENT OF TRANSPORTATION (2660)

The Department of Transportation (Caltrans) is responsible for planning, coordinating, and implementing the development and operation of the state's transportation system. These responsibilities are carried out in five programs. Three programs—Highway Transportation, Mass Transportation, and Aeronautics—concentrate on specific transportation modes. Transportation Planning seeks to improve the planning for all travel modes, and Administration encompasses management of the department.

The budget proposes expenditures of $7.9 billion by Caltrans in 1999-2000. This is about $1.6 billion, or 25 percent, more than estimated current-year expenditures.

HIGHWAY TRANSPORTATION

Huge Increase in Highway Program

The budget proposes expenditures of $7.2 billion for the highway transportation program, about $1.6 billion, or 28 percent, more than in the current year. This increase is largely due to a $1.2 billion, or 47 percent, increase in projected capital outlay expenditures. The second largest increase in proposed expenditures is in local assistance, which is proposed to increase by 34 percent or $354 million.

Of the total expenditures proposed in the department's budget, $7.2 billion is for the Highway Transportation program. This is an increase of $1.6 billion, or 28 percent, over estimated current-year expenditures.

The major responsibilities of the highway program are to design, construct, maintain and operate state highways. In addition, the highway program provides local assistance funds and technical support for local roads.

As shown in Figure 1, Caltrans expects that state funds will support almost $3 billion (42 percent) of highway program expenditures. Federal funds would make up about $2.9 billion (40 percent) of the program budget, and the remaining $1.3 billion (18 percent) would be paid through reimbursements, primarily from local governments.

Figure 1

Department of Transportation
Highway Transportation Budget Summary

1997-98 Through 1999-00
(Dollars in Millions)

	Actual 1997-98	Estimated 1998-99	Proposed 1999-00	Percent Change From 1998-99
Expenditures				
Capital outlay support	$820.2	$983.1	$902.8	-8.2%
Capital outlay projects	2,274.8	2,619.2	3,859.5	47.4
State-Local Partnership	59.7	103.0	154.6	50.0
Local assistance	660.1	951.0	1,254.3	31.9
Program development	52.9	78.8	94.0	19.3
Legal	61.6	62.3	62.0	-0.5
Operations	135.0	138.1	126.1	-8.7
Maintenance	691.2	692.1	751.7	8.6
Telecommunications	12.1	—[a]	—	—
Totals	**$4,768.4**	**$5,627.7**	**$7,205.0**	**28.0%**
State funds	*$2,600.8*	*$2,299.8*	*$2,994.8*	*30.2*
Federal funds	*1,753.1*	*2,512.2*	*2,874.2*	*14.4*
Reimbursements	*414.5*	*815.7*	*1,336.0*	*63.8*

[a] Beginning in 1998-99, the budget splits telecommunications between the maintenance and operations programs.

Huge Increase in Capital Outlay Expenditure Projected. Caltrans proposes to increase its capital outlay expenditures by $1.2 billion, a 47 percent increase above the estimated expenditures for 1998-99. About $800 million of this is attributable to projected increases in spending for projects in the State Transportation Improvement Program (STIP) and the State Highway Operation and Protection Program (SHOPP). The majority of this increase is for construction of projects that were awarded in the current year. An additional $300 million is attributable to increased expenditures in the Toll Bridge Seismic Retrofit Account due to delays in projects that were originally scheduled for the current year.

Increase in Reimbursed Highway Activities. The budget projects significantly higher reimbursements for Caltrans' highway program in 1999-00. As shown in Figure 1, total reimbursements are projected to increase by approximately $520 million, or 64 percent, in comparison to estimated current-year expenditures. Approximately two-thirds of this increase is attributable to expenditures related to a project in Orange County. The remaining one-third is attributable to expenditures for Bay Area Toll Authority (BATA) projects. Since BATA has the authority to program, administer and allocate toll revenue funds in the Bay Area Toll Account, these funds are treated as reimbursements (instead of state funds) for Caltrans' toll bridge operations, rehabilitation and other capital improvement projects.

Decrease in Capital Outlay Support Reflects Budget Realignment

We recommend the adoption of supplemental report language directing the Department of Transportation to provide information on staffing and expenditures on project planning work in order to provide the Legislature with a more complete picture of total resources used to deliver capital outlay projects.

Caltrans requests $902.8 million to support 10,425 personnel-year equivalents (PYEs) of staff effort for highway capital outlay support in 1999-00, as shown in Figure 2 (see next page). This represents a 6 percent decrease from the number of estimated current-year staff. Capital outlay support staff provide environmental clearance, design and engineering, right-of-way acquisition, and construction oversight on highway capital improvements.

The decrease is largely the result of a technical realignment which shifts expenditures for project planning from capital outlay support in the Highway program to the Planning program. After accounting for this transfer, the budget proposes essentially the same level of capital outlay support expenditures as the current year.

Figure 2

Department of Transportation Capital Outlay Support Staffing

1997-98 Through 1999-00 (Personnel-Year Equivalents)

	Actual 1997-98	Estimated 1998-99	Proposed 1999-00
Sources			
State staff	7,020.8	9,544.2	8,813.2
Cash overtime	359.4	691.5	691.5
Student assistant	99.0	—	—
Consultant	912.6	810.7	920.7
Totals	**8,391.8**	**11,046.4**	**10,425.4**
Uses[a]			
Project support	5,877.9	8,265.6	8,247.5
• STIP	(1,712.0)	(3,166.2)	(3,166.2)
• SHOPP/TSM/minor	(2,239.7)	(3,012.7)	(3,012.7)
• Seismic retrofit	(837.4)	(394.4)	(394.4)
• Toll seismic	(410.4)	(763.9)	(763.9)
• Regional Measure 1	(153.4)	(244.2)	(244.2)
• Locally funded projects	(175.9)	(222.6)	(204.5)
• Tax measure projects	(244.2)	(312.1)	(312.1)
• CMAQ and SLTP	(105.1)	(149.5)	(149.5)
Nonproject support	1,248.4	1,452.3	919.8
Supervision and overhead	1,265.3	1,328.5	1,258.1
Totals	**8,391.8**	**11,046.4**	**10,425.4**

[a] STIP = State Transportation Improvement Program; SHOPP = State Highways Operation and Protection Program; TSM = traffic system management; CMAQ = congestion management and air quality; and SLTP = State Local Transportation Partnership.

Shift in Staff From Capital Outlay Support to Planning. Beginning with the 1999-00 budget, Caltrans proposes to shift 601 PYEs from capital outlay support to the Planning program. These staff perform project planning work, including project study reports (PSRs) and project scope and summary reports (PSSRs). These studies are generally done to better define the scope, schedule, and costs of projects. The department maintains that since most of the work is planning in nature, it ought to be accounted for under the department's Planning program rather than as part of capital outlay support under the Highway program.

This realignment will make it more difficult to track Caltrans' total support expenditures related to the delivery of projects. Caltrans is required to provide details on its annual capital outlay support expenditures, but not its planning program. Through the current year, this capital outlay support information includes the costs associated with project planning work. These costs amount to about $48 million in 1999-00. With this realignment, these costs will no longer be reflected beginning in 1999-00 in the department's annual report.

In order to ensure that Caltrans is held accountable for the costs associated with the preparation of project planning documents, we recommend that the following supplemental report language be adopted to require Caltrans to identify staff resources used for project planning in its annual report on capital outlay support.

> In its annual report to the Legislature on capital outlay support staffing and expenditures, the Department of Transportation shall separately identify the staffing and expenditures for project planning work, including work on project study reports (PSRs) and project scope and summary reports (PSSRs).

Capital Outlay Support Request Will Be Amended

We withhold recommendation on $902.8 million and 10,425 personnel-year equivalents of staff to deliver projects in the 1998 State Transportation Improvement Program (STIP) because the California Transportation Commission plans to amend the STIP in March 1999 to program additional projects for delivery. Caltrans indicates that it will revise its capital outlay support request in April to accommodate any change in workload related to the STIP amendment.

Caltrans to Submit Finance Letter for Capital Outlay Support. After accounting for the transfer of the 601 PYEs to the Planning program, the budget proposes essentially the same level of capital outlay support staffing as the estimated current-year level. According to Caltrans, it will wait until the California Transportation Commission (CTC) amends the 1998 STIP in March 1999 before submitting a budget amendment to adjust the capital outlay support level for 1999-00. This decision is consistent with Chapter 622, Statutes of 1997 (SB 45, Kopp), which requires Caltrans to identify the amount of support costs needed for each capital outlay project that is expected to receive state funds. By waiting until after the

1998 STIP is amended, Caltrans can better estimate the support staff needed based on specific projects, and submit a request accordingly.

Withhold Recommendation. In view of the pending budget amendment request, we withhold recommendation on $902.8 million and 10,425 PYEs requested for 1999-00.

Workload on Project Study Reports May Be Lower

We withhold recommendation on $18.9 million for 287 PYEs for project study reports pending the department's re-estimation of its staffing needs in view of the new project study report guidelines under consideration by the California Transportation Commission.

Chapter 622 prohibits a transportation project from being included in the STIP for funding without a complete project study report (PSR). A PSR is required to include a definition of a project's scope, along with an estimate of its cost and the amount of time needed to get it ready for construction. By clearly identifying the risks of new projects (such as environmental factors that could cause delay), PSRs increase the information the department relies upon when programming new projects, thereby enhancing the likelihood that projects meet the STIP schedule. Indeed, Caltrans believes that the quality of a PSR is the most important factor in its ability to deliver a project on schedule and accurately estimate its cost. According to Caltrans, PSRs often become very lengthy studies, taking between one to two years and an average of 2.6 PYEs to prepare.

No Incentive to Contain Cost of Project Study Reports. While we concur that Caltrans should devote resources to PSRs to ensure an adequate flow of projects for inclusion in the STIP, the current system of budgeting for PSRs makes it difficult to hold Caltrans accountable for the amount of time or resources invested in them. This is because resources to work on PSRs are funded as a lump sum and are not project-specific. These resources are treated as part of overall planning activities and are taken "off the top" in the fund estimate before remaining resources are apportioned to counties as "county shares" for transportation projects.

Additionally, because these studies are funded through Caltrans, prior to the distribution of county shares, local agencies have an incentive to request that PSRs be expanded to address environmental or design issues that would otherwise be funded through county shares. By shifting some of this project support work into PSRs, a county can devote a larger portion of its county share of funds to other projects. To the extent that some counties are more successful at this than others, this undermines the distribution of funding established by Chapter 622. Moreover, as more resources are devoted to PSRs, the amount remaining for distribution among the counties shrinks.

Budget Proposes Additional Staff for Project Study Reports. PSRs are required for all projects prior to being programmed in the STIP. Thus, as funding for new projects increases, so does the need for PSRs. Based on the assumption that the new federal transportation act, TEA-21, will result in a $300 million increase in annual funding, Caltrans estimates that it will need to produce 20 additional PSRs per year, requiring an additional 50 PYEs. This would bring total staffing for PSR work to 287 PYEs ($18.9 million) in 1999-00. With this staffing level, Caltrans estimates it would produce about 105 PSRs.

Abbreviated Project Study Report Should Reduce Workload. We recognize that increased federal funds will likely require an increase in the number of PSRs produced annually. However, we think that the PSR workload may not be as large as the department currently projects for 1999-00. This is because CTC is developing guidelines, to be adopted by July 1999, for an abbreviated form of PSR. The abbreviated PSR would be used for projects that are programmed in the 1998 STIP period only for the environmental phase. Right-of-way acquisition and construction of these projects will not fall within the 1998 STIP period (1998-99 through 2003-04). The CTC's objective is to accelerate project delivery by eliminating the requirement to define scope, cost and schedule of *construction* for projects that are only being programmed for the environmental phase. More detailed project scoping and schedule estimates would be addressed at a later time. As more projects are programmed on this basis, the PSR workload should decrease as these PSRs will require less effort.

In view of CTC's plan to adopt abbreviated PSR guidelines, we withhold recommendation on $18.9 million for 287 PYEs until the department revises its PSR staffing request to reflect the reduced workload resulting from these new guidelines. The revised request should be based on an estimate of the number of projects the department anticipates to be programmed in the 2002 and 2004 STIP for environmental studies only. Although CTC does not plan to adopt the guidelines until July, we think that the department should be able to provide an estimate of how the guidelines would affect total PSR staffing need by the time it revises its overall capital outlay support request.

Project Scope and Summary Report Staffing Level Should Be Reduced

We recommend a reduction of $8.9 million and 136 PYEs for project scope and summary reports because the department's request is unjustified given the funding levels in the 1998 SHOPP and the department's Ten-Year State Highway System Rehabilitation Plan.

Role of PSSRs. Although not required by statute, Caltrans requires completion of a project scope and summary report (PSSR) before a project is programmed in the SHOPP. (SHOPP projects are mostly rehabilitation projects and projects to improve traffic safety and operations. These projects typically are smaller in scope and cost than STIP projects.) A PSSR contains the same basic project information as a PSR, however, it also addresses any environmental permits that projects may require. The PSRs, on the other hand, simply identify environmental factors that will need to be addressed *after* projects are programmed in the STIP.

Staffing for PSSRs Is Excessive. PSSRs serve an important role in Caltrans' ability to accurately estimate a project's cost, scope and schedule for programming in the SHOPP. Additionally, the department needs to produce enough PSSRs to allow for programming flexibility and, more importantly, to ensure a sufficient number of projects for programming in the SHOPP.

Currently, Caltrans has a total of 266 PYEs allocated to PSSR work. (This staffing level includes about 31 PYEs for oversight.) We believe, however, that Caltrans' current staffing level for PSSRs is higher than necessary given the amount of time and resources that PSSRs should require and the annual funding level of the SHOPP.

According to the department's Ten-Year State Highway System Rehabilitation Plan, which is the basis for SHOPP funding, the state will invest approximately $7.9 billion through 2007-08, or about $875 million annually on system rehabilitation. Allowing for annual funding of $900 million, and assuming that each PSSR requires one-half of a PYE to complete (Caltrans estimated that they require between one-third and one-half a PYE), the department would need no more than 130 PYEs to meet its current workload. This staff level includes 115 PYEs for PSSRs and 15 PYEs for staff oversight. Based on this information, we recommend a reduction of $8.9 million and 136 PYEs.

Supplemental Report on Minor Program Overdue

We recommend that the Department of Transportation submit a required supplemental report on minor projects to the Legislature by the time the department submits its revised request for capital outlay support staff in order that the Legislature may better evaluate the department's request for minor projects.

In addition to delivering STIP and SHOPP projects, the department also designs and constructs minor projects. Minor projects are essentially SHOPP projects, including roadway rehabilitation and traffic safety or operation projects, that cost under $750,000. Because of the relatively small size of the projects, projects are not defined in advance. Annual funding is provided to Caltrans as a lump sum.

The *Supplemental Report of the 1998 Budget Act* required the department to report to the Legislature by December 1, 1998, on the capital outlay and capital outlay support costs of minor projects completed in the prior fiscal year, as well as those to be completed in the current year and the budget year. The Legislature required the report because it was concerned about how Caltrans determined the amount of staffing needed to deliver minor projects, and wanted to have an account of the actual projects delivered by staff allocated for minor projects.

At the time this analysis was prepared, the department had not provided the report. Department staff indicated that internal review of the report has been delayed due to the change in administration. We recommend that the report be submitted to the Legislature by the time the department submits its revised request for capital outlay support staff in order that the Legislature may better evaluate the department's request for capital outlay support for the minor program.

Total Project Delivery Nears $2 Billion

Caltrans delivered 89 percent of State Transportation Improvement Program, State Highway Operation and Protection Program, and traffic system management projects proposed for delivery in 1997-98. Although 32 projects originally planned for delivery in 1997-98 were delayed, the department delivered 43 projects planned for later years, as well as 219 seismic retrofit and emergency projects. The total value of projects delivered by Caltrans was almost $1.9 billion.

Because of concerns over project delays, the Legislature has enacted various requirements to monitor Caltrans' delivery of state highway projects. Our office is required to report on the department's progress in delivering projects as they are scheduled for construction.

In 1997-98, the department delivered (defined as a project ready for award for construction) 528 projects, with a total construction value of almost $1.9 billion, as shown in Figure 3. The STIP projects delivered included 41 out of 50 planned for delivery in 1997-98, and 11 projects that were advanced from future years. The department delivered 228 SHOPP projects, including 196 (out of 219) that were planned for delivery in 1997-98, and 32 advanced from future years. For traffic system management (TSM) projects, the department delivered 29 projects, all planned for 1997-98.

Figure 3

Department of Transportation Highway Project Delivery

1997-98
(Dollars in Millions)

	Number of Projects Planned	Number of Projects Delivered	Amount
STIP	50	52	$460.8
SHOPP	219	228	637.0
Seismic retrofit	24	24	532.4
TSM	29	29	57.0
Emergency	NA	195	197.6
Totals	**322**	**528**	**$1,884.8**

NA - Not Available

Project Delivery of Planned Projects Lower in 1997-98. In total, the department delivered about 89 percent of STIP, SHOPP, and TSM projects *planned* for delivery in 1997-98, compared to 93 percent for 1996-97. Caltrans indicates that this lower delivery rate was due to a variety of factors, including a redirection of staff to perform emergency work due to winter storms, and a court ruling restricting the use of contracting out. However, if the number of projects that were advanced from future years is included, Caltrans delivered 103 percent above its planned level.

As indicated in Figure 3, the department also delivered a number of seismic retrofit projects with a total value of about $532 million. This is

31 percent, or $128 million, more than in 1996-97. The increase reflects that most of the Phase 2 seismic retrofit projects are now in the construction phase.

Project Delivery Depends on How Fast Caltrans Hires New Staff. For the first time since 1992, the 1998 STIP had a significant amount of funds for new projects. According to the CTC's 1998 Annual Report, the 1998 STIP, together with the SHOPP, represent the largest capital outlay investment in the state highway system since Caltrans was created in 1973. In 1998-99, Caltrans received approval for 1,938 new positions for capital outlay support. By November 30, 1998 Caltrans had filled 1,709 of these positions.

As the next section discusses, Caltrans' ability to use contracting out as a tool for dealing with fluctuations in workload is limited as a result of a State Supreme Court ruling in 1997. Thus, the department's ability to keep projects on schedule will depend more than ever on how quickly it can hire and train new staff.

Case on Contracting Out Seismic Retrofit Program Settled

A recent court settlement regarding contracting out of the seismic retrofit program requires the Department of Transportation to transfer construction inspection and some design work to state staff. The state can continue to rely on consulting engineers to design the east span of the Bay Bridge.

In November 1998, the Business, Transportation and Housing (BT&H) Agency settled a court case regarding Caltrans' ability to contract out the seismic retrofit program. The settlement marks the conclusion of years of litigation regarding the use of private contracting as a way to improve Caltrans' ability to deliver projects in a timely manner. Specifically, the settlement affected 80 seismic design and engineering contracts. Thirty of these contracts will be phased out by March 1999, with related project work shifted to state staff.

Of the 30 contracts to be transferred to state staff, 24 are for construction inspection, while six are for design work. In order to accomplish the work planned for the current year, Caltrans estimates a need to hire 222 new full time positions.

To the extent that these additional staff cannot be brought onboard promptly, Caltrans indicates that it will likely transfer staff from existing projects in order to keep the delivery of toll bridge seismic retrofit projects on schedule. This would, in turn, delay nonseismic projects, including highway expansion or rehabilitation projects.

For the construction inspection contracts, state staff will simply replace the contracted staff with no disruption in schedule. However, for the six design contracts that are to be transferred to state staff, which are approximately 30 percent complete, Caltrans indicates that it has to redo most of the design work already done by consultants in order to ensure that all aspects of the design are consistent with assumptions made in the early stages. Caltrans acknowledges that this will result in some delay and inefficiency, but views it as a necessary precaution to ensure the integrity of the engineering.

Overall, Caltrans does not expect this settlement to result in great delay of the seismic retrofit program. This is because the settlement allows complex engineering contracts, such as design of the east span of the Bay Bridge, to proceed as scheduled.

Future Contracting Out Subject to State Supreme Court Ruling. The settlement regarding contracting out for the seismic retrofit program means that from now on, in order to contract out for engineering services, Caltrans must be able to factually demonstrate that the contracting out is in accordance with certain statutory criteria, as ruled by the State Supreme Court in a 1997 decision. Legislative efforts to increase Caltrans' authority to contract out on a programmatic basis, such as "seismic retrofit," that lack specific, factual justification are likely to be ruled unconstitutional. Short of providing such justification, the only mechanism for increasing the department's ability to contract out would be through a constitutional amendment. (For more detailed information about the BT&H settlement, see our January 1999 *California Update.*)

Highway Seismic Retrofit Near Completion; Toll Bridge Seismic Retrofit to Last Until 2005

Phase 1 of the highway seismic retrofit program is 99 percent complete. Phase 2 is 94 percent complete, with most of the outstanding projects in the construction phase. The Department of Transportation now estimates that Phase 1 will be completed by mid-2000, while Phase 2 will not be complete until mid-2005 due to the complexity of several projects. Seismic retrofit of state-owned toll bridges will be complete by early 2005.

Caltrans inspects all state and local bridges at least once every two years. Since 1971, when the Sylmar earthquake struck the Los Angeles area, Caltrans has been engaged in an ongoing bridge retrofit program.

The retrofit program involves a variety of different improvements, depending on the needs of the particular structure. The improvements include strengthening the columns of existing bridges by encircling certain columns with a steel casing, adding pilings to better anchor the footings to the ground, and enlarging the size of the hinges that connect sections of bridge decks to prevent them from separating during seismic activity.

Following the 1994 Northridge earthquake, Caltrans expanded its seismic retrofit program for state highway bridges, creating a Phase 1 and a Phase 2 program. Phase 1 includes 1,039 bridges identified for strengthening after the 1989 Loma Prieta quake at a cost of $815 million, as shown in Figure 4. As of January 4, 1999, 1,032 of those projects were completed. Phase 2 consists of an additional 1,155 bridges that were identified for strengthening following the 1994 Northridge earthquake. To date, Caltrans has completed the work on 1,092 of the Phase 2 bridges and estimates total Phase 2 costs to be $1.05 billion. Due to the complexity of several projects, Caltrans now estimates that all Phase 2 projects will not be completed until June 2005.

Figure 4

Highway Seismic Retrofit Program Scope and Progress

As of January 4, 1999
(Dollars in Millions)

	Number of Bridges	
	Phase 1	**Phase 2**
Retrofit construction complete	1,032	1,092
Under contract for construction	7	36
Engineering not complete	0	27
Totals	**1,039**	**1,155**
Estimated construction	$815	$1,050
Construction complete target	2000	2005

Caltrans is also currently retrofitting seven of the state's toll bridges for seismic safety at an estimated cost of $2.62 billion, as shown in Figure 5 (see next page). Replacement of the east span of the Bay Bridge is the largest cost component, estimated at $1.28 billion. Caltrans currently estimates this to be completed in fall 2004, with the west span retrofit completed by spring 2005. The department's current target is to complete retrofit of all other bridges by 2003.

Figure 5

Toll Bridge Seismic Retrofit Program

(Dollars In Millions)

Bridge	Target Completion Date	Cost
San Francisco Bay Bridge		
New East Span	2004	$1,285
West Span	2005	493
San Francisco Bay Bridge Subtotal		($1,778)
Benicia-Martinez	2001	130
Carquinez-Eastbound	2000	89
Richmond-San Rafael	2003	335
San Diego Coronado	2002	93
San Mateo-Hayward	2000	149
Vincent Thomas	1999	42
Total		**$2,616**

Caltrans Lags in Bridge Scour Evaluation; Repair Cost Could Be Substantial

Evaluation of state-owned bridges for the effects of water erosion, referred to as "bridge scour," will not be complete until 2002. The cost of repairing state-owned bridges could be substantial. We recommend adoption of budget bill language directing the Department of Transportation to identify the ten-year need for repairs for bridge scour in its 2000 update of the State Highway System Rehabilitation Plan.

Federal Requirements of Bridge Scour Evaluation. Since 1991, the Federal Highway Administration (FHWA) has required the state to conduct an evaluation of all state and locally owned bridges over water for the effect of water erosion, referred to as "bridge scour." This requirement, however, does not apply to bridges with unknown foundations (where there are no records of the materials used in the bridge's construction). Caltrans was supposed to complete this evaluation by January 1, 1997, however, the department currently estimates that it will not be complete until 2002. This delayed schedule has been approved by FHWA.

***Bridge Scour Main Cause of Bridge Failure*.** According to Caltrans, scour is the primary cause of bridge failure. Since 1993, California has experienced six bridge failures due to scour. Such failures have resulted in loss of life, as well as obstructing public mobility and commerce. Thus, the state has a direct interest in ensuring that scour evaluation of both state and local bridges is done in an efficient and expedient manner.

***State's Role in Bridge Scour Evaluation*.** Approximately 15,260 of California's 24,000 bridges are over waterways and, thus, subject to federal scour evaluation requirements. About 4,630 of these are state-owned, while about 10,630 are under local jurisdiction. Caltrans is responsible for evaluating both state and locally owned bridges, unless local agencies opt to conduct their own evaluations. (Evaluation of locally owned bridges is discussed in the next section.)

Status of State-Owned Bridge Scour Evaluations. To date, Caltrans has conducted bridge scour evaluations of 2,299 (50 percent) state-owned bridges and estimates that it will complete its evaluation of the remaining bridges by 2002. Of the state-owned bridges evaluated, 123 (about 5 percent) have been identified as "scour critical"—requiring some type of corrective action. Repairs range from hydraulic solutions, such as modifying the stream, to structural responses such as foundation strengthening or entire bridge replacement.

***Cost of Bridge Scour Repair Could Be Substantial*.** About half of the 123 "scour critical" bridges are scheduled to be repaired by 2005, while the remainder are still in the planning stage. The current SHOPP, which covers 1998-1999 through 2001-02, includes about 20 projects designed to correct for bridge scour. An additional 28 projects have been identified by Caltrans as candidates to be added to the SHOPP in March 1999.

The vast majority of bridge scour projects in the SHOPP call for the replacement of the bridge. The average cost of repair is about $3 million per bridge. If the remaining evaluations identify an equal percentage of scour critical bridges, and assuming the average repair cost of $3 million per bridge, the cost to the state could be about $700 million. This cost could be higher or lower, depending on the number and type of repairs needed. Nonetheless, the cost to the state could be substantial.

***Cost for Repair Should Be Identified*.** Chapter 622 requires Caltrans to prepare a ten-year state highway system rehabilitation plan beginning in 1998. The plan must be updated every two years beginning in 2000. The current plan covers the period from 1998-99 through 2007-08. This plan has identified a need of $2.2 billion over ten years for bridge pavement and structure rehabilitation. However, it is not clear whether this amount reflects the potential need for all bridge scour repairs. Because Caltrans is required to update the plan in early 2000, we recommend the following budget bill language be adopted:

> The Department of Transportation, in updating the ten-year state highway system rehabilitation plan, shall identify the ten-year need for bridge scour repairs, including the number of bridges and the cost of repairs.

Evaluation Delayed on Bridges With Unknown Foundations

The department currently plans to wait until 2002 before beginning evaluation of over 3,000 locally owned bridges with unknown foundations. In order to minimize risk to the public, we recommend the adoption of supplemental report language requiring the Department of Transportation to submit to the Legislature a schedule for evaluating these locally owned bridges.

As mentioned above, there are about 10,630 locally owned bridges over water. Caltrans is responsible for evaluating these bridges unless local agencies opt to do the evaluations themselves. Thus far, nine local agencies, including Los Angeles County, have expressed a desire to conduct their own inspections. This represents approximately 2,000 bridges that would be evaluated by local agencies. To date, Caltrans has completed evaluations for approximately 4,170 locally owned bridges. Of those, 23 have been identified as scour critical. Evaluation of an additional 3,070, by either Caltrans or local agencies, is scheduled to be competed by 2002.

The remaining 3,390 locally owned bridges have unknown foundations—that is, there are no records of the materials used in their construction. Caltrans has not yet developed a strategy for evaluating these bridges and, consequently, has placed them on a delayed schedule. (Only 2 percent of state-owned bridges have unknown foundations.) The department anticipates that it will not *begin* evaluation of these bridges until 2002.

Caltrans Should Develop a Strategy for Evaluating Bridges With Unknown Foundations. The FHWA does not yet require scour evaluation of bridges with unknown foundations. However, we believe that Caltrans should develop an evaluation strategy for these bridges in order to minimize risk to the public and prevent unnecessary costs due to further deterioration of bridges. To that end, we recommend that the following supplemental report language be adopted:

By December 1, 1999, the Department of Transportation shall report to the Legislature on a plan for evaluating bridges with unknown foundations for bridge scour. The report shall set a target date for completion of evaluations and identify how the department plans to set priorities for the evaluation schedule.

MASS TRANSPORTATION

The mass transportation program provides operating and capital support for the implementation of urban, rural, and interregional public transportation services, primarily bus and rail transportation. The program has two main elements–*state and federal mass transit* which primarily provides federal funds to local agencies for bus and rail services, and *rail transit capital* which provides funds for intercity rail services and transit capital improvement grants to local agencies.

For 1999-00, the budget proposes $372.7 million for mass transportation, which is $44.3 million, or 11 percent, less than estimated current-year expenditures. As shown in Figure 6, this decrease is a result of a 26 percent drop in the state and federal mass transit element, somewhat offset by an 11 percent increase in rail transit capital expenditures.

Figure 6

Department of Transportation
Mass Transportation Expenditures

1997-98 Through 1999-00
(Dollars in Millions)

	Actual 1997-98	Estimated 1998-99	Proposed 1999-00	Percent Change From 1998-99
State and federal mass transit	$22.9	$238.7	$175.3	-26.5%
Rail transit capital	290.8	178.1	197.2	10.7
Other	-0.2	0.1	0.1	—
Totals	**$313.5**	**$416.9**	**$372.7**	**-10.6%**

The reduction in projected expenditures in state and federal mass transit is mainly due to a change in the way in which federal funds are administered. Specifically, Caltrans has transferred much of the federal portion of mass transportation funding to the Federal Transit Agency

(FTA), which directly administers the funds to local agencies. In addition, due to the condition of PTA, few transit capital improvement projects have been added for funding in the STIP in recent years.

Public Transportation Account Faces Shortfall: Budget Proposes State Highway Account Transfer. As we discussed in the "Crosscutting Issues" section of this chapter, the revised 1998 Fund Estimate projects a PTA shortfall through 2003-04, with the shortfall occurring as early as the budget year. To delay the onset of the shortfall, the budget proposes a $28 million transfer from the SHA to pay certain outstanding commitments to transit capital improvement projects. Even with the transfer, the account is projected to face a $38.4 million shortfall through 2003-04. As we discuss in that write-up, the problems facing this account are due to a combination of declining revenues and increased expenditures, particularly in the State Transportation Assistance program and the intercity rail program.

For 1999-00, the budget proposes $31 million in PTA expenditures to meet prior year commitments for transit capital improvements. Of this amount, $28 million is proposed to be paid through a transfer from the SHA as mentioned above. The SHA will be used to fund rail tracks and facilities-related projects, in compliance with the State Constitution's restriction on the use of fuel tax revenues. The remaining $3 million will come from PTA for projects that are ineligible for SHA funding, such as bus rehabilitation and rail acquisition.

Intercity Rail Service Costs Will Be Revised

We withhold recommendation on $62.9 million requested to continue existing intercity rail services, as well as to expand service in 1999-00, because the amount needed will likely be different from current estimates. Specifically, more current cost estimates will be forthcoming from Amtrak in March 1999. We recommend that the department provide the updated cost estimates at budget hearings. Based on that information, the Legislature should adjust the amount of support for intercity rail services accordingly.

The budget requests $62.9 million to support Amtrak's costs for continuation and expansion of intercity rail services in 1999-00. Of this amount, $750,000 is for a proposal to increase service on the Capitol Corridor by extending a fourth train, currently running between Sacramento and Oakland, to San Jose.

Updated Amtrak Cost Estimates Will Be Forthcoming. The budget request is based on cost estimates provided by Amtrak in 1998. We understand that Amtrak will provide Caltrans with updated estimates in March 1999. Accordingly, we withhold recommendation on $62.9 million for intercity rail services. We further recommend that Caltrans provide updated cost estimates at budget hearings and that the Legislature adjust the amount based on the updated information.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL (2720)

The California Highway Patrol (CHP) is responsible for ensuring the safe, lawful, and efficient transportation of persons and goods on the state's highway system and to provide protective services and security for state employees and property. To carry out its responsibilities, the department administers four programs: (1) Traffic Management, (2) Regulation and Inspection, (3) Vehicle Ownership Security, and (4) Protective Services. The first three programs are funded primarily with Motor Vehicle Account funds. Protective Services are funded by fees charged to most state agencies receiving CHP services.

The budget proposes $885.3 million to support CHP in 1999-00. This is approximately $51.7 million or 6.2 percent above estimated current-year expenditures. Most of this increase is necessary to fund traffic officers' retirement contributions. In 1998-99, $38.9 million in surplus Public Employees' Retirement System (PERS) funds was used to reduce the amount the state had to pay in retirement contributions. No surplus PERS funds are projected to be available for this purpose in the budget year, thus requiring a corresponding increase in the department's budget. The remainder of the proposed increase in the department's budget is primarily the result of increased equipment purchases, including $5 million to replace two helicopters, $3.2 million to purchase new and replacement laptop computers for use in patrol cars, and $1.8 million for increased costs of continuing the scheduled replacement of patrol cars.

Collective Bargaining Agreement for Patrol Officers Pending Approval

A collective bargaining agreement, currently awaiting approval, would provide a staggered 7 percent salary increase and other benefit enhancements for patrol officers. The new agreement is estimated to cost

$47.4 million over the current and budget years. This amount is not included in the proposed budget.

The collective bargaining agreement governing salaries and benefits for the department's 5,600 traffic officers expired on September 12, 1997. Nonetheless, the terms of that agreement remain in effect until a new agreement is approved.

A new collective bargaining agreement was negotiated in December 1998, but still must be approved by the union membership and the Legislature in order to become effective. Senate Bill 138 (O'Connell) incorporates that agreement and, when enacted, would provide the Legislature's approval. The proposed agreement would provide a 5 percent salary increase retroactive to July 1, 1998, and an additional 2 percent salary increase retroactive to November 1, 1998. Other benefits enhancements include increased state contributions for medical benefits and higher maximum retirement benefits. The terms of the new agreement would expire on July 1, 2000.

According to estimates from the Department of Personnel Administration, the agreement, if approved, would add $22.1 million to the department's costs in the current year and $25.3 million in the budget year, for a total cost of $47.4 million. This amount is not reflected in the department's proposed 1999-00 budget. The Department of Finance (DOF) anticipates current-year funding to be provided through legislation, most likely SB 138. Funding for 1999-00 would be requested through a budget amendment in the spring, after the agreement is approved.

California Highway Patrol
Recalculating Protective Services Charges

The department's new methodology for allocating its protective services costs alters the amount most state agencies will pay for the same level of service. Repeated changes to the cost allocation methodology result in unnecessary complexity and inefficiencies in billing for protective services. Recognizing the general statewide benefit resulting from these services, we recommend the enactment of legislation to provide direct funding for protective services.

In 1995-96, the California State Police (CSP) was consolidated with CHP. The CSP had been responsible for protecting state dignitaries (such as the Governor and legislators), as well as providing security for state personnel and property. Most state agencies are required to share in the costs of these protective services. A small number of agencies are excluded from this requirement as a result of statutory exemptions or decisions made by CHP. Many, but not all, of these agencies, including the University of California and the California State University, are exempt because they provide their own security officers. Figure 1 lists the exempted agencies.

Figure 1

Protective Services
State Agencies Not Charged Pro Rata

California Exposition and State Fair
California Highway Patrol
California Science Center
California State University
Department of Corrections (administrative offices are charged)
District Agriculture Associations
Office of the Governor
Legislature
State Compensation Insurance Fund
University of California
Department of the Youth Authority (administrative offices are charged)

Before CSP merged with CHP, several other agencies, which were outside of CSP's service districts (such as Veterans' Homes) were not charged a protective services pro rata. Because CHP provides service throughout the state, it chose to discontinue those particular exemptions.

New Cost Allocation Methodology Being Implemented. Until the current year, CHP continued CSP's policy of billing each nonexempt agency for protective services based on the total floorspace occupied by each agency. Beginning in the current year, however, CHP has begun to include the number of budgeted personnel in each agency in its cost allocation formula. The new formula is being implemented gradually over four years. In the current year, 25 percent of each agency's protective services charge is based on personnel and 75 percent is based on floorspace. The ratio will change to 50 percent and 50 percent in the budget year, 75 percent and 25 percent in 2000-01, and in 2001-02, costs will be allocated entirely on the basis of budgeted personnel.

The department claims that the new methodology will avoid problems inherent in the floorspace data it has been using. The department considers floorspace to be a poor indicator of relative workload, and further believes information in the floorspace database to be frequently outdated and inaccurate. The department therefore argues that allocating protective services costs on the basis of each agency's budgeted personnel will allow its billing to more accurately reflect relative service levels to each agency.

New Methodology Alters Costs for Same Service. Although the overall cost to the state for CHP's protective services is not affected, moving from a floorspace-based to a personnel-year-based methodology has altered the costs paid by most agencies. By the time the new methodology is fully implemented, a number of agencies will see their share of protective services costs increase—some by as much as 25 times (such as the Department of Mental Health). Others will experience savings as their share of the costs is reduced to a fraction of last year's levels. Figure 2 shows some examples of agencies experiencing significant cost increases and decreases in this process.

Figure 2

New Protective Services Methodology Cost Impact to Selected Departments

(In Thousands)

Agency	Assessment 1996-97 Actual	1998-99 Actual	2001-02 Projected
Mental Health	$65.3	$446.6	$1,667.0
Forestry and Fire Protection	81.3	355.1	1,110.3
Parks and Recreation	191.1	280.9	621.1
Housing and Community Development	135.9	106.4	103.1
Industrial Relations	727.9	677.4	570.9
Corporations	111.2	104.6	102.1

For 1999-00, some agencies' budgets have been adjusted to reflect higher or lower protective services charges. Other agencies, however, have not received such adjustments, and thus will either have freed up funds for other purposes as their allocated costs decrease, or will have to redirect resources to cover higher CHP assessments.

Cost Allocations Are Confusing, Controversial, and Inefficient. The new process of allocating protective services costs to various state agencies has resulted in confusion and controversy about the basis of these costs, and inefficiency in administering and utilizing protective services.

- ***Confusion and Inconsistency.*** While budgeted personnel levels may generally reflect workload better than total floorspace, our review found some significant examples of questionable results. For example, the Department of Parks and Recreation, which uses its own park rangers to provide security at its parks and facilities, will pay over $600,000 for protective services when the new methodology is fully implemented. In addition, we believe that the exemption of the several agencies from the protective services assessment does not follow consistent criteria. It is not clear, for example, why the State Compensation Insurance Fund should be exempt from the assessment, while the California Arts Council is not.

- ***Controversy.*** One consequence of the confusion and inconsistency is that CHP and DOF have been asked by some departments for budget adjustments and partial or full exemptions from the assessment. In general, the process of allocating costs has become somewhat controversial as agencies argue over their respective shares of protective services charges.

- ***Inefficiency.*** The drawbacks of the allocation process are not compensated by any noticeable gains. Under different circumstances, delegating protective services costs to their purported "consumers"—state agencies—might encourage efficiency in the utilization of protective services. But since agencies cannot reduce their pro rata costs by "consuming" less of the service, requiring agencies to pay a set amount for those services provides neither the incentive nor the ability to conserve CHP's protective services resources. Consequently, inefficient use of these services may result. Further, the allocation of costs in this way adds another inefficiency in the form of increased paperwork, accounting, and reporting.

More Appropriate Funding Arrangements Available. In our view, alternative arrangements for funding protective services could avoid or mitigate the problems identified above. We believe that the arrangement used to fund other central services that benefit the entire government, such as state payroll, is a suitable model for funding protective services costs. We consider it important that any new funding system for protective services should:

- Be cost neutral, imposing no new costs on the state in total or increase the burden of cost on any funding source.

- Ensure continued, adequate funding for protective services.
- Offer clear advantages over the current system in terms of administrative efficiencies.

Protective Service Functions Should Be Funded Directly. We believe direct funding of CHP's protective service duties would satisfy these criteria. Furthermore, we believe that funding protective services directly from the General Fund would be appropriate, as the protection of state property and personnel is of general statewide benefit. In order to ensure that the total cost to the General Fund is not increased, and that the General Fund does not end up shouldering all protective services costs, including costs of services to special or federally funded programs, proportionate amounts should be recovered from special and federal funds. Such cost recovery is currently achieved using the pro rata process and the Statewide Cost Allocation Plan (SWCAP) to fund the activities of central service agencies such as DOF, the State Controller, and the Legislature.

Since CHP would be funded for protective services directly from the General Fund, departmental budgets should be permanently reduced by a like amount to reflect the elimination of their protective services charges. This change would eliminate the need to calculate (by whatever methodology) how much of this cost should be borne by each state agency. As a result, questions about relative service benefits and the appropriateness of exemptions would be moot. In addition, the work of calculating assessments, adjusting agency budgets, making reimbursements, and accounting for payments would be avoided.

We therefore recommend that the Legislature enact the statutory changes necessary to fund CHP's protective services directly from the General Fund, and that the baseline budgets of all state agencies subsequently be reduced by the amount of their current share of protective services costs. We further recommend that appropriate costs be recovered from special and federal funds to ensure that the General Fund is not disadvantaged by this change.

Failure to Process Invoices Expeditiously Risks Penalties and Utility Disconnections

We recommend approval of $43,000 to hire temporary help to eliminate a backlog of invoices. We further recommend that the department report at budget hearings how it intends to ensure that invoices will be paid on time after the expiration of this temporary augmentation.

The CHP, like many state agencies, purchases goods and services from vendors. For instance, the department purchases vehicle repairs, protective clothing, and utilities from vendors. The CHP's Accounts Payable Unit (APU) processes invoices for these goods and services by verifying claims, completing associated paperwork, and forwarding invoices to the State Controller for payment. State law requires that state agencies submit invoices to the Controller within 35 calendar days after the postmark date on the invoice. Agencies failing to meet this deadline must pay a late penalty to the vendor.

Department Accumulates Backlog of Over 6,000 Invoices. Increases in the number of annual automotive repairs, as well as the addition of facilities and area command sites, has expanded the number of invoices the APU must process. The APU has had difficulty meeting this increased workload, and the department estimates that a backlog of 6,022 invoices has resulted. The APU's inability to process invoices in a timely manner has strained the department's relations with vendors. The department reports that some vendors have suspended shipment of goods (such as tires) or threatened to halt the provision of services (including phone service) until outstanding invoices are paid.

Department Proposes 0.7 Personnel-Year to Eliminate Backlog. The CHP estimates that clearing the backlog will require 1,267 staff hours, or 0.7 personnel-year. The department is requesting $43,000 to hire temporary help in the budget year. We think the request is warranted.

Department Should Develop Plan to Ensure Timely Invoice Processing. While the temporary help should allow the department to eliminate its backlog, it will not address the causes of the backlog. We believe the department must take steps to ensure the continued timely payment of invoices. For example, the average time required to process an invoice (currently about 17.5 minutes) might be reduced by reorganizing the unit or by streamlining processes. We therefore recommend that the department report at budget hearings what steps it plans to take to ensure that its APU will be able to sustain a timely processing of invoices.

DEPARTMENT OF MOTOR VEHICLES (2740)

The Department of Motor Vehicles (DMV) is responsible for protecting the public interest in vehicle ownership by registering vehicles, and promoting public safety on California's roads and highways by issuing driver licenses. Additionally, the department licenses and regulates vehicle-related businesses such as automobile dealers and driver training schools, and also provides revenue collection services for state and local agencies.

The budget proposes total expenditures of $596.4 million for support of the DMV in 1999-00. This is a reduction of $21.1 million, or 3.4 percent, below estimated current-year expenditures. The reduction includes primarily adjustments for one-time expenditures in the current year for replacement of printers, facilities improvements, and for local assistance for fingerprint identification equipment.

About $311.7 million (52 percent) of the department's total support will come from the Motor Vehicle Account and $228.5 million (38 percent) from the Motor Vehicle License Fee Account. The remaining support will be funded primarily from the State Highway Account and reimbursements.

Database Redevelopment Continues to Fall Behind Schedule; No End in Sight

We recommend the adoption of budget bill language to prohibit the Department of Motor Vehicles from beginning procurement to replace its driver license database system until it has completed procurement to replace the vehicle registration system. We further recommend that the department be required to specify in a report to the Legislature by December 1, 1999, based on best available information, time lines and budgets for the completion of all significant components of its database redevelopment project, and that the department provide quarterly updates of that information along with explanations for any deviations from the schedule and costs.

In order to carry out its essential functions such as licensing drivers and registering vehicles, the DMV utilizes a number of large, complex databases. The technical infrastructure that manages these databases was developed in the 1960s, and since the 1980s has rapidly become obsolete. Given the age of the systems, they have proven unreliable and inefficient. Computer applications were developed in-house to meet DMV's specific needs and have been repeatedly modified and extended to accommodate changing demands. Personnel familiar with the customized systems have retired from the department, and no outside technical support is available for these systems. Therefore, it has become expensive and time-consuming to perform necessary modifications on DMV database systems in response to statutory changes and mandates.

$50 Million Redevelopment Effort Failed. Between 1988 and 1994, DMV undertook a massive effort to update and redevelop its aging database systems. After spending more than $50 million on new computer equipment, consultant fees, and other expenses, the department concluded that its effort was fatally flawed. The DMV suspended the project and hired an independent consultant (the Warner Group) to assess the department's situation and make recommendations.

New Plan Developed. Based on the Warner Group's 1995 report, DMV launched a new plan to address its aging information systems in a comprehensive fashion. The new plan involves two broad components:

1. ***Business Process Reengineering (BPR).*** This process evaluates the current business practices DMV uses to carry out its critical missions and determines how those practices might be performed more effectively. The objective of the process is to identify specific ways to improve the department's operations. The BPR would be done *prior* to the actual purchase of new information systems to support those practices.

2. ***System Development and Implementation.*** This component of the plan entails:

- Making the identified improvements in DMV's business practices.
- Creating and implementing new information systems—including hardware and software—in order to support those practices.

The overall database redevelopment effort remains an enormous undertaking that will require considerable time and resources to complete. In order to be able to manage the effort in smaller, more cohesive parts, the department is simultaneously pursuing three separate projects to replace its three major, mission-critical databases: occupational licensing (OL), vehicle registration (VR), and driver licensing (DL). Additional noncritical systems are also to be upgraded or replaced.

Strategy Generally Sound, But Time Frames Problematic. We believe the strategy DMV is now employing for its database redevelopment is generally sound. Its decisions to use alternative procurements for its larger systems, to divide the BPR into smaller, system-specific projects, and to hire quality assurance contractors, follow "best practices" utilized in the private sector for similar-type projects. (Please see our report, *State Should Employ "Best Practices" on Information Technology Projects*, for a fuller discussion of those practices.)

We are concerned, however, that DMV continues to set time frames that are unrealistic. It appears that, in some cases, the department has projected completion dates more out of concern for funding and budgeting deadlines than on the basis of a realistic assessment of tasks to be performed.

Current Effort Is Behind Schedule and Completion Date Unknown. The Warner Group's study projected that the development and installation of new systems for DMV's three mission-critical systems would begin in mid-1997. However, at the time this analysis was prepared, DMV had yet to complete the BPR work for its VR and DL databases.

When DMV requested funding for 1998-99, it provided updated milestones for all three database projects. The department now advises that those projected deadlines will not be met. The department's latest projections (as of January 1999) indicate:

- The occupational licensing database—the smallest of the three—will be replaced by November 1999, ten months later than estimated a year ago.
- The BPR will be complete at the end of the current year for the VR database, and the end of 1999-00 for the DL database. These projections reflect delays of about six months from last year's estimates.
- Actual system redesign and implementation efforts for the VR and DL databases will not begin until June 2000 and August 2001, which is 18 and eight months later, respectively, than projected one year ago.

Furthermore, the department cannot project at this time when either the VR or DL project will be complete.

The repeated delays have been caused by a number of factors. In part, they have been caused by DMV's periodic decisions to alter its approach to the redesign efforts. Some delays were due to difficulties in securing approval from oversight agencies, resulting from problems such as incomplete information and inadequate project definition. In addition, the department has had to divert resources to make its existing information systems Y2K compliant. Those efforts have taken longer than the department originally projected. Finally, we believe that DMV's projected milestone dates have frequently been unrealistic to begin with.

Department Requests $6.7 Million to Continue Redevelopment Effort. For 1999-00, DMV requests $6.7 million, including:

- $984,000 to continue efforts, started in the current year, to secure a business partner who will subsequently redesign the vehicle registration system.
- $857,000 for the fourth year of its BPR effort, with a focus on the driver license system.
- $4.9 million to begin a three-year effort to replace its financial system hardware and software. Total project cost is currently estimated at $13.2 million.

Database Redevelopment Costs and Progress Depend on Alternative Procurement Process. It has been almost four years since the Warner Group's 1995 report which laid out a revised process for the department to redevelop its databases. Since that time, funding has been provided on a year-by-year basis. In 1997-98 and 1998-99, the department expended a total of about $9.6 million on BPR and various procurement activities. However, the department is still far from completing the database redevelopment effort. As we indicated earlier, the department cannot project a completion date at this time. Neither can DMV provide cost estimates for the entire redevelopment effort. In fact, it most likely will not be able to do so until it has completed the "alternative procurement" process for both the vehicle registration and driver license databases. It is through the alternative procurement process that the department, with the assistance of outside consultants, will determine the hardware and software to use in the redevelopment of the two database systems.

Sequential Procurement of New Systems Is More Prudent. The department has started the alternative procurement process for the vehicle registration system. The process is currently projected to last through May 2000. The department is also planning to begin the alternative procurement process for the driver license database by March 2000. As a consequence, the alternative procurement processes for these two projects are projected to overlap by three months. Based on the department's track record so far, we expect that completion of the VR procurement will take longer than currently anticipated, and the overlap with the DL procurement will lengthen substantially.

Considering the amount of resources and time wasted in the first failed effort, we believe the current incremental approach is appropriate. However, we also believe that it is more prudent that DMV conduct the alternative procurement process for the two databases sequentially, without overlap in timing. This is because doing so would allow the department to incorporate any lessons learned from the vehicle registration procurement process into the driver license procurement. It would also allow the department to ensure that the hardware and software considered for the two database systems are compatible and consistent so as to maximize their flexibility and efficiency. To ensure this, we recommend the following budget bill language be adopted:

> The Department of Motor Vehicles shall not expend any resources in alternative procurement activities related to its driver license database redevelopment until the Department of Information Technology certifies to the Joint Legislative Budget Committee and the Legislature's fiscal committees that the Department of Motor Vehicles has completed the alternative procurement for the vehicle registration database.

Legislature Should Have Better Information on Project Schedule and Costs. To enable the Legislature to monitor and hold the department accountable for the progress in the redevelopment of its databases, we further recommend that DMV provide the Legislature (1) major milestones in the procurement, development, and implementation of its mission-critical systems; and (2) the associated cost estimates. Further, the department should provide quarterly updates of these project schedules and costs, along with explanations for any deviations from these estimates. Accordingly, we recommend the following supplemental report language be adopted.

> The Department of Motor Vehicles shall report to the Joint Legislative Budget Committee and the Legislature's fiscal committees no later than December 1, 1999, and quarterly thereafter, its projected dates for completion of each major segment of its projects to replace its occupational licensing, vehicle registration, and driver licensing database systems. The department shall include in each report the estimated cost of each identified segment. The department shall include explanations for any deviations in its estimates from the previous report.

Administrative Costs to Reduce Vehicle License Fee Overstated

We recommend a reduction of $668,000 requested for computer programming changes because performing nonessential upgrades on a computer system the department is currently working to replace may be duplicative and premature.

Chapter 322, Statutes of 1998 (AB 2797, Cardoza), reduced the vehicle license fee (VLF) paid annually on all registered automobiles by 25 percent, effective January 1, 1999. It also provided for further reductions in the fee if future state revenues exceed specified targets. The DMV is responsible for billing and collecting VLF revenues.

Initial Reprogramming Effort Not "Permanent." The department modified its vehicle registration computer programs in October 1998 so that notices for vehicle registration renewals due after December 31, 1998 would reflect the 25 percent VLF reduction. The department expended $1.6 million in programming and other costs to implement these changes. However, the department considers those efforts to be incomplete, and has embarked on a "Phase II" reprogramming effort. In essence, the Phase II effort will allow the department to better capture and maintain financial data connected with the VLF reduction. The department claims that the Phase II reprogramming must be completed by October 1999 in order to avoid losing these critical data.

The DMV expects to spend $330,000 on Phase II work by June 30, 1999, for a total of $1.9 million in the current year to implement the VLF reduction. The department will be requesting a deficiency appropriation for this amount in the spring.

Department Seeking Funds for More Extensive Reprogramming Effort in 1999-00. For the budget year, DMV is requesting an additional $891,000 for further reprogramming efforts. A portion of this amount is to complete Phase II by September 1, 1999. The department intends to use the remainder of this funding to embark on a "Phase III" reprogramming effort. Phase III is intended to make the department's vehicle registration database more "flexible," permitting more expeditious reprogramming in the event future VLF reductions are triggered or future legislative mandates necessitate changes to the database. The department expects Phase III to be complete by September 1, 2000.

Recommend Funding Only for Completion of Phase II. As discussed above, DMV is in the process of replacing its major databases, including its vehicle registration database. We believe, therefore, that long-term investments in the department's current vehicle registration database, such as the proposed Phase III, is not warranted. This is because the revenue thresholds established by Chapter 322 are substantially above current projections, meaning that it is unlikely that further VLF reductions beyond the 25 percent would be triggered. In the event that a further reduction were triggered, DMV would be able to accommodate any reprogramming changes as it did in 1998.

Similarly, we believe that any new statutory changes requiring DMV to modify its existing VR database—prior to its replacement—could prudently be performed as the need arises. We expect that the new database, which DMV plans to start developing in the budget year, will include the "flexibility" features the department is proposing to add to its existing database.

For these reasons, we believe that DMV should only implement changes to its VR database that are immediately necessary. The department has been unable to explain how the $891,000 will be allocated between Phases II and III. However, noting that the department expects to complete Phase II by September 1, 1999 (three months into the fiscal year), we believe one-quarter of the requested funding would permit completion of this phase. We recommend, therefore, that the request be reduced by $668,000 to eliminate funding for the proposed Phase III.

Department Anticipates Extension Of Financial Responsibility Law

We recommend that departmental funding to implement the financial responsibility law be reduced by $6,954,000, because the law is due to sunset on January 1, 2000.

Chapter 1126, Statutes of 1996 (AB 650, Speier) requires vehicle owners to provide proof of financial responsibility in order to reregister a vehicle, effective January 1, 1997. In enforcing this statute, DMV requires vehicle owners to submit insurance information with their vehicle registration renewal application. The department spends about $15 million and almost 300 personnel-years to process this information annually.

Law to Sunset January 1, 2000. Chapter 1126 is due to expire on January 1, 2000. As DMV will not be required to obtain and process proof of financial responsibility information during the second half of the budget year, its associated costs in the budget year should decline accordingly. However, the department is requesting full-year funding for the program.

Funding Should End With Expiration of Law. Until the requirements of Chapter 1126 are extended by law, we believe it is premature to provide full-year funding for the program beyond the current sunset date. We therefore recommend that the department's budget be reduced by $6,954,000. We further recommend that any legislation to extend Chapter 1126 include an appropriation to cover the department's costs.

FINDINGS AND RECOMMENDATIONS

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Crosscutting Issues

Funding Outlook for State Transportation Programs

1. **TEA-21 and Impact on California.** Recommend the enactment of legislation to limit the time period for which state funds are available to local agencies as a substitute for federal funds in order to encourage local agencies to expend transportation funds in a more timely manner. Further recommend that the Department of Transportation and the California Transportation Commission advise the Legislature at budget hearings on what other measures are needed to improve timely use of federal funds by local agencies. A-12

2. **Impact of TEA-21 on 1998 State Transportation Improvement Program (STIP) and Fund Estimate**. There will be $1.8 billion of additional resources available for capital projects over the 1998 STIP period from 1998-90 through 2003-04. The California Transportation Commission plans to amend the 1998 STIP to program the additional funds. A-17

3. **State Highway Account (SHA) Cash Balance Mounting; Will Exceed $1 Billion in 1999-00**. The SHA cash balance has grown continuously since 1993-94. The balance for 1999-00 would likely exceed the $1.1 billion projected by the budget. A-19

4. **Public Transportation Account (PTA) Faces Funding Shortfall; Proposes SHA Transfer**. The budget proposes a transfer of $28 million from SHA to PTA in 1999-00, in order to meet outstanding obligations for transit capital improvements through 1999-00. Over the six-year period from 1998-99 through 2003-04, the PTA is projected to have a shortfall of $38 million. A-21

5. **Reasons for PTA Shortfall.** The PTA shortfall is the result of lower-than-expected revenues combined with increasing expenditures. A-22

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6.	**Legislature Should Enhance Flexibility for Transit Funding.** Recommend the Legislature enact a constitutional amendment, subject to voter approval, to permit expenditure of gas tax revenues for transit rolling stock.	A-24

Department of Transportation

7.	**Huge Increase in Highway Program**. The budget proposes $7.2 billion for the highway transportation program, or 28 percent, more than in the current year. This increase is largely due to a $1.2 billion, or 47 percent, increase in projected capital outlay expenditures.	A-25
8.	**Decrease in Capital Outlay Support Reflects Budget Realignment**. Recommend the adoption of supplemental report language directing the department to provide information on staffing and expenditures on project planning work in order to provide the Legislature with a complete picture of total resources used to deliver capital outlay projects.	A-27
9.	**Capital Outlay Support Request Will Be Amended.** Withhold recommendation on $902.8 million to support 10,425 personnel year equivalents (PYEs) for capital outlay support because the department plans to revise its request in April after the California Transportation Commission has amended the 1998 STIP.	A-29
10.	**Workload on Project Study Reports May Be Lower.** Withhold recommendation on $18.9 million for 287 PYEs for project study reports pending department's re-estimation of staffing need based on new project study report guidelines under consideration by the California Transportation Commission.	A-30
11.	**Project Scope and Summary Report Staffing Level Should Be Reduced. Reduce Item 2660-001-0042 by $8.9 million**. Recommend reduction in funds and 136 PYEs for project scope and summary reports because this staffing level is unjustified given the funding levels in the 1998 SHOPP and the department's Ten-Year State Highway System Rehabilitation Plan.	A-32
12.	**Supplemental Report on Minor Program Overdue.** Recommend that the department submit a supplemental report on minor projects to the Legislature by the time the department submits its revised request for capital outlay support staff in order that the Legislature may better evaluate the department's request for minor projects.	A-33

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13. **Total Project Delivery Nears $2 Billion**. Caltrans delivered 89 percent of State Transportation Improvement Program, State Highway Operation and Protection Program, and traffic system management projects proposed for delivery in 1997-98. The total value of all projects delivered, including seismic retrofit and emergency projects, was almost $1.9 billion. A-33

14. **Case on Contracting Out Seismic Retrofit Program Settled.** A recent settlement on litigation regarding contracting out of the seismic retrofit program requires the department to transfer construction inspection and some design work to state staff. A-35

15. **Highway Seismic Retrofit Program Near Completion; Seismic Retrofit of Toll Bridges to Last Until 2005.** Phase 1 of the highway seismic retrofit program is 99 percent complete. Phase 2 is 94 percent complete, with most of the outstanding projects in the construction phase. Seismic retrofit of state-owned toll bridges will be complete by early 2005. A-36

16. **Caltrans Lags in Bridge Scour Evaluation; Repair Cost Could Be Substantial.** Recommend the adoption of budget bill language directing the department to identify the ten-year need for repairs for bridge scour in its 2000 update of the Ten-Year State Highway System Rehabilitation Plan. A-38

17. **Evaluation Delayed on Bridges With Unknown Foundations.** Recommend the adoption of supplemental report language requiring the department to submit to the Legislature a schedule for evaluating locally owned bridges with unknown foundations. A-40

18. **Intercity Rail Service Costs Will Be Revised.** Withhold recommendation on $62.9 million requested for intercity rail services because revised cost estimates will be provided by Amtrak in April. Recommend that the Legislature adjust the amount according to updated cost estimates the department provides at budget hearings. A-42

Department of the California Highway Patrol

19. **Collective Bargaining Agreement for Traffic Officers Pending Approval.** The new contract for patrol officers would, if approved, cost $22.1 million in the current year and $25.3 million in the budget year. A-44

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20.	**California Highway Patrol Recalculating Protective Services Charges.** Recommend enactment of legislation to fund protective services directly from the General Fund recognizing the general statewide benefit resulting from these services.	A-45
21.	**Invoice Backlog Risks Penalties and Utility Disconnections.** Recommend department report at budget hearings on how it intends to avoid recurrence of backlog.	A-49

Department of Motor Vehicles

22.	**Database Redevelopment Falling Further Behind Schedule.** Recommend adoption of budget bill language to prohibit the Department of Motor Vehicles (DMV) from beginning replacement of its driver licensing database until it has completed procurement of its new vehicle registration database. Further recommend adoption of supplemental report language requiring the department to specify time lines and budgets for its major database redesign efforts.	A-51
23.	**Administrative Costs to Reduce Vehicle License Fee Overstated. Reduce Item 2740-001-0001 by $453,000 and Reduce Item 2740-001-0064 by $115,000.** Recommend deletion of funding for nonessential upgrades to a database DMV is currently working to replace.	A-55
24.	**Department Anticipates Extension of Financial Responsibility Law. Reduce Item 2740-001-0044 by $6,954,000.** Recommend deletion of funding beyond the expiration of the financial responsibility law on January 1, 2000.	A-57