



The 2014-15 Budget: Capital Outlay Support Program Review

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SUMMARY

The capital outlay support (COS) program at the California Department of Transportation (Caltrans) provides the staff support necessary to deliver transportation infrastructure projects (such as project design and management). In response to the *Supplemental Report of the 2013-14 Budget Package*, this brief presents our assessment of the existing COS program and makes a series of recommendations to improve the efficiency and accountability of the program.

While we find that Caltrans has achieved some successes in delivering individual projects and has made minor improvements to the COS program in recent years, the program generally lacks accountability and is not operating efficiently. Specifically, we find that the COS program currently (1) lacks performance data to adequately measure program effectiveness, (2) is experiencing a substantial decline in workload that will result in significant overstaffing starting in 2014-15, and (3) allows for limited legislative and external oversight. While the Governor's budget makes some proposals that reflect initial steps to address a few of these shortcomings, we find that the proposals do not adequately address the COS program's limited legislative and external oversight and projected overstaffing. For example, the Governor's proposals would result in the program being overstaffed by about 3,500 full-time equivalents (FTEs) beginning in 2014-15, at a cost of more than \$500 million.

In view of the above, we make several recommendations to improve the program. First, we recommend that the Legislature take a multiyear approach to significantly reduce the budget and staffing levels, beginning with the 2014-15 budget. The freed up funds would then be available for the Legislature to meet its transportation needs, such as repaving highways. We also recommend that Caltrans improve its staffing projections and data quality. Lastly, we recommend the Legislature take steps for the California Transportation Commission (CTC) to perform specific oversight and project approval functions for projects that currently have limited external oversight.

INTRODUCTION

In recent years, the largest share of state infrastructure spending has been for transportation improvements and repairs. Caltrans spends much of this funding for projects on the state's highways. Costs for these projects consist of capital outlay and COS. Capital outlay costs are incurred by construction contractors for materials and labor to construct a project, while COS refers to the staff support necessary to deliver the project (such as project design and management).

As part of the 2013-14 budget package, the Legislature adopted supplemental report language directing our office and the Department of Finance (DOF) to work with Caltrans to review its COS program, in order to increase the accountability and efficiency of the program. The review was primarily prompted by legislative concerns over the years regarding the lack of information to fully support the program's annual staffing level and budget, as well as the increased cost and lengthy schedule to

deliver some transportation projects. During the summer and fall of 2013, representatives from our office, DOF, and Caltrans met on a regular basis, visited several Caltrans district offices, and talked to numerous stakeholders (such as local transportation agencies, construction contractors, and private consultants). Although the review group collected information about the program and reached general consensus on some initial steps to improve the efficiency and accountability of the COS program, the group was unable to reach consensus on all of the concerns identified in the review and solutions to address them.

In this brief, we (1) provide an overview of the COS program, (2) present our assessment of the existing COS program, (3) discuss the Governor's budget proposals related to the program, and (4) make a series of recommendations to improve the efficiency and accountability of the COS program.

OVERVIEW OF COS PROGRAM

COS Staffing

The 2013-14 budget includes a total of \$1.8 billion to support 10,149 FTE staff resources for the COS program at Caltrans. As shown in Figure 1, 90 percent of the program's staff resources consist of state staff (meaning Caltrans employees) who work both regular time and overtime. The remainder consists of private consultants. The vast majority of the state staff is located in Caltrans' 12 districts, where they perform technical and project management work to support transportation projects for that district. Specifically, each district employs several types of COS staff with specified skills, such as environmental planners, engineers,

and right-of-way agents. The remainder of state staff are in the department's headquarters and are responsible for coordinating and overseeing the COS program, as well as the overall delivery of the department's infrastructure projects. Specifically, COS headquarters staff provide guidance to Caltrans' districts on technical issues, allocate resources to districts, and track program outcomes.

Over the last several years, budgeted staffing levels for the COS program have declined. As shown in Figure 2, the budgeted staffing levels declined 23 percent from 2005-06 to 2013-14. While we would expect COS staffing levels to correlate with the total amount of funding available

for transportation projects in a given year (meaning an increase in transportation funding would result in an increase in COS staffing), this has not always been the case. For example, from 2007-08 through 2013-14, despite significant increases in state bond and federal transportation funding, COS budgeted staffing levels actually declined.

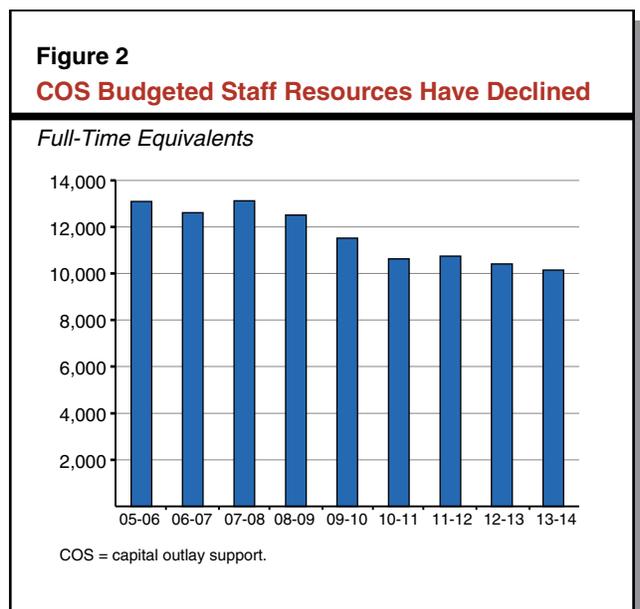
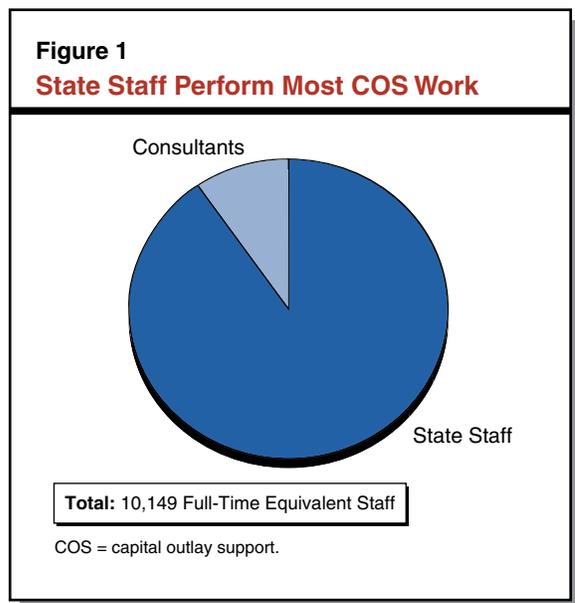
COS Activities

The COS program staff provide varying degrees of support for all state highway projects, with most of them in the State Highway Operation and Protection Program (SHOPP) and the State Transportation Improvement Program (STIP). In addition, the COS program supported many of the programs funded by the one-time infusion of transportation funds provided by Proposition 1B, which was approved by voters in November 2006. (Please see the box on the next page, for more detailed information on the state’s major transportation infrastructure programs.)

During each phase of a project—environmental, design, right of way, and construction—Caltrans performs COS activities. Figure 3 (see page 5) provides some examples of the types of COS activities performed in each phase of a project. For example, in the design phase COS staff perform engineering analyses and develop plans and drawings.

Caltrans’ COS program is also responsible for ensuring that the technical work of a project led by the department is completed in a manner that delivers the project’s planned cost, scope, and schedule. In order to achieve this, the program employs project managers in each Caltrans district office to manage each phase of a project. Specifically, project managers coordinate staff, workload, and funding, and are responsible for monitoring and mitigating risks to a project. When a project experiences challenges (such as a delay in environmental permitting) and cannot

proceed as planned, the project manager must work with the staff involved to determine what factors changed and how best to get the project back on track. In some cases, the project manager may have to request a change to the project’s cost, scope, or schedule. For STIP projects, project managers are required to request cost, scope, or schedule changes by submitting a project change request (PCR) to Caltrans headquarters. Staff in headquarters review the PCR and provide comments to the director of the Caltrans district managing the project.



Major State Transportation Programs

Currently, the state has two major ongoing programs to fund transportation projects, with each program having different goals and processes for selecting and delivering projects. These two programs are:

- ***State Highway Operation and Protection Program (SHOPP)***. The SHOPP is the state's program for repairing and reconstructing the highway system. Projects generally include pavement and bridge rehabilitation, major reconstruction, and safety improvements. The California Department of Transportation (Caltrans) selects SHOPP projects based on statewide repair and safety needs, and performs project support work through the capital outlay support (COS) program. Currently, Caltrans spends about \$2.3 billion annually from state fuel excise taxes and federal funds for the SHOPP, making it the state's largest transportation program.
- ***State Transportation Improvement Program (STIP)***. The STIP is the state's program for enhancing and expanding the capacity of state highways. Local road and transit projects are also eligible for STIP funding. State law allocates 75 percent of STIP funds to counties by formula for projects selected by the counties. Counties can choose to complete support work on STIP projects by using Caltrans COS program staff, their own staff, or private consultants. Caltrans is responsible for selecting projects for the remaining 25 percent of STIP funds, with the COS program performing most of the support work for these projects. Currently, Caltrans spends about \$700 million for the STIP each year, primarily from state fuel excise taxes and federal funds.

Recent One-Time Funding Sources. In addition to the ongoing programs identified above, the state has also received certain one-time state and federal funding to support transportation projects. For example, Proposition 1B (approved by voters in November 2006) authorized the state to sell about \$20 billion in general obligation bonds to fund a variety of transportation projects, including those that improve state highways and modernize and expand transit systems. Proposition 1B created certain new transportation programs, many of which are administered by the California Transportation Commission. Depending on the type of project and the lead agency for the project, support work is performed by Caltrans' COS program, local agency staff, or private consultants. To date, the majority of Proposition 1B funds have been allocated and most of the projects are either under construction or completed. In addition, Caltrans received about \$2.9 billion for transportation projects from the 2009 federal American Recovery and Reinvestment Act. These one-time federal funds generally augmented existing state transportation infrastructure programs, with a majority of them allocated to projects on local roads and the state's highways.

The district director then determines whether to approve or reject the PCR. Project managers are not required to submit a similar type of PCR for SHOPP projects. Currently, the department does not have a statewide process to control and account for cost, scope, or schedule changes to SHOPP projects. It is unclear how each district deals with such changes.

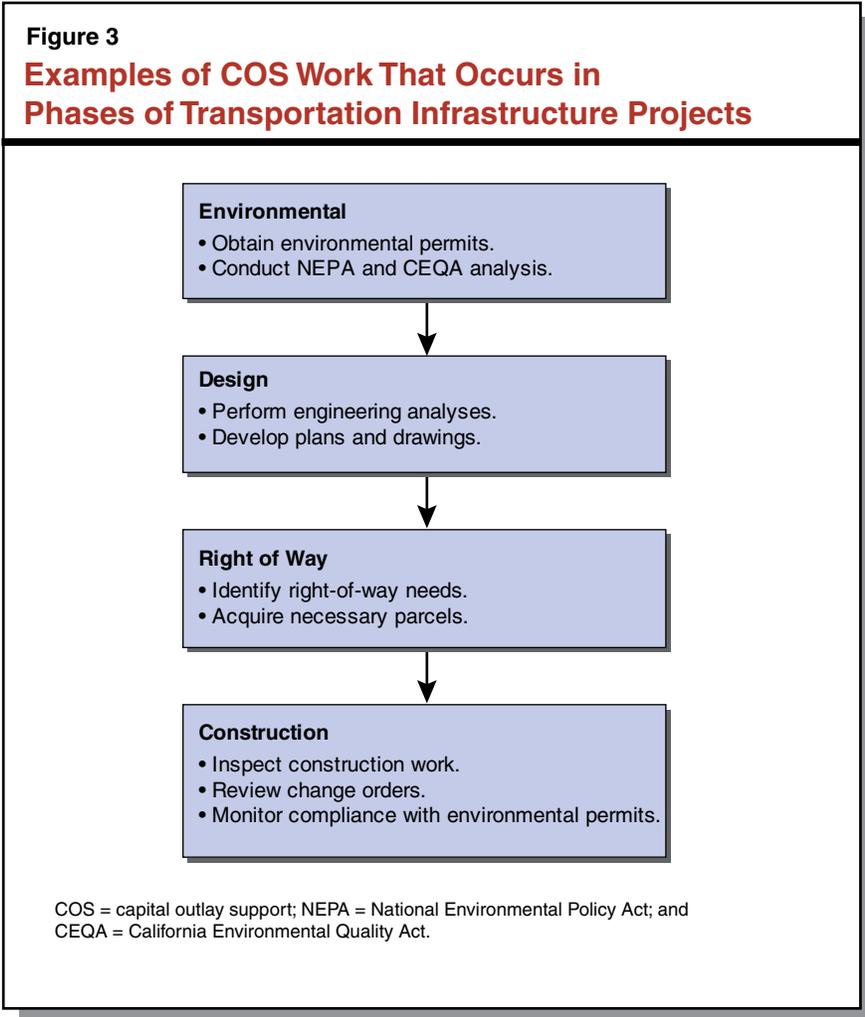
In addition to performing the above activities directly, the COS program oversees state highway projects that are led by local agencies rather than Caltrans. These local agencies use their own staff, private consultants, or Caltrans' staff to perform COS activities.

COS Funding Process

After a project is adopted into one of the state's transportation programs (such as SHOPP and STIP), Caltrans can begin the above COS work. Funding to support this work involves the (1) development of the annual budget request for the COS program, (2) appropriation of funds in the annual state budget, and (3) the allocation of funds to Caltrans districts.

Caltrans Develops Budget Request. Each year, Caltrans submits a request to DOF for resources to support its COS program, which is subsequently reflected in the Governor's May Revision to the Legislature for the upcoming fiscal year. (The Governor's January budget proposal essentially

includes a placeholder for the COS program based on the current-year budget for the program.) The development of this request involves several steps. First, according to staff in Caltrans headquarters, each district compiles information on all of their current and planned projects, including the estimated number of hours needed to complete project tasks (such as conducting environmental field studies or developing draft design plans) and the planned start and end date of each task. This information is then entered into the department's project management system—Project Resourcing and Schedule Management (PRSM). Districts generally perform this step during the fall of each year for the development of the COS budget request for the coming fiscal year. Based on the



information entered in PRSM, headquarters staff estimate in early January the total level of staff resources that Caltrans will need to work on each project in the coming fiscal year. From January to March, headquarters staff review the estimated staffing needs and compare these estimates with projected workload trends and the number of positions currently maintained at each district. Based on the resulting estimate of staff resources needed, headquarters staff then calculates the level of funding needed to support the program in the coming year.

Legislature Appropriates Funds. The Legislature reviews the annual COS budget request in order to determine the level of funding to appropriate for the program in the annual state budget. The Legislature does not provide a

specific appropriation for each project, but rather makes a single appropriation to Caltrans to fund the COS work for projects in all transportation infrastructure programs. This is primarily intended to provide Caltrans with the flexibility to manage changes that can occur on individual projects.

Caltrans Allocates COS Funds. After funding for the COS program is appropriated by the Legislature, funds are then allocated by Caltrans to districts based on their COS resource needs. We note, however, that for many of the transportation projects funded with Proposition 1B funds, the CTC—rather than Caltrans—was delegated the responsibility for allocating funding for COS costs. Currently, for projects not funded with Proposition 1B funds (such as those in the SHOPP and STIP), CTC only allocates project funding for capital costs.

LAO ASSESSMENT OF COS PROGRAM

As discussed earlier, the Legislature directed our office and DOF to work with Caltrans to review the accountability, efficiency, and staffing resources of the COS program. While we find that Caltrans has achieved some successes in delivering individual projects and has made minor improvements to the program in recent years, the COS program continues to experience certain challenges. This is because the program generally lacks accountability and is not operating efficiently. Specifically, we find that the COS program currently (1) lacks performance data to adequately measure program effectiveness, (2) is experiencing a substantial decline in workload that will result in significant overstaffing starting in 2014-15 absent corrective actions, and (3) allows for limited legislative and external oversight. Our specific findings are summarized in Figure 4 and described in detail below.

Data Challenges Limit Ability to Evaluate Program Effectiveness

During our review, we found that workload and expenditure data used by the COS program and provided to the Legislature—as part of the program’s annual budget request—contains errors and appears largely unreliable. In addition, we found that Caltrans does not collect certain basic information necessary to review the efficiency and effectiveness of the COS program (such as detailed staffing information). As we discuss below, these data challenges limited our review of the program.

COS Data Appears Largely Unreliable

Currently, Caltrans maintains a fairly large amount of COS data related to individual projects that is available to both district and headquarters staff. For example, Caltrans tracks the budget, schedule, and past expenditures of each project.

However, based on our review of the available data, we find that it appears largely unreliable due to the prevalence of errors and inaccuracies. Examples of poor data quality include:

- In the workload information that Caltrans provided for 2012-13 and 2013-14, several projects reported in 2013-14 a lesser amount of *total* expenditures than what was reported previously as spent in 2012-13. Since total expenditures on a project would either increase or remain the same for each subsequent year as the project is completed, the data appears to contain errors.
- Caltrans reported for 2013-14 that 330 projects have exceeded their approved COS budget. When we asked Caltrans staff about these particular projects, they were unable to verify why these projects were overbudget and instead indicated that the data reported might be incorrect.
- A small sample of projects was selected by Caltrans and discussed in depth during our district site visits with DOF. For four of the sample projects, the department provided specific data from PRSM (such as project cost and level of completion of current tasks). However, some of the PRSM data was inconsistent with the information presented by the project manager for each of the four projects. During the site visits, Caltrans acknowledged that PRSM contained inaccurate data for these projects. These inaccuracies include out-of-date information that overstated the level of staff needed for the project.

Potential Reasons for Poor Data Quality.

Our review identified a couple of potential reasons for the poor quality of Caltrans' COS data. First, the department currently lacks sufficient internal controls to ensure the accuracy of the data in both its current and previous project management systems. In other words, Caltrans does not have any

Figure 4

Summary of LAO Findings

- ✓ ***Data Challenges Limit Ability to Evaluate Program Effectiveness.*** Workload and expenditure data used by the capital outlay support (COS) program and provided to the Legislature contains errors and appears largely unreliable. In addition, the program does not collect certain basic information necessary to review its efficiency and effectiveness.
- ✓ ***Program Overstaffed Due to Declining Workload.*** The COS program is experiencing a substantial decline in workload that will result in significant overstaffing absent corrective actions.
- ✓ ***Legislative Oversight Hampered.*** The annual COS budget request currently limits the ability of the Legislature to effectively oversee the COS program. This is because the budget request is often based on poor estimates of projected staffing needs and is not provided to the Legislature in a timely period to allow for sufficient review.
- ✓ ***Limited Project-Level External Oversight of the State Highway Operation and Protection Program (SHOPP).*** A significant portion of COS staff work on projects in the SHOPP. However, the state lacks external oversight of these projects. This is because the California Transportation Commission lacks the authority to approve individual projects and to allocate COS funds for the SHOPP.

statewide processes to regularly update and verify the accuracy of project-level data, such as periodic audits of project data. The absence of such internal controls increases the likelihood for inaccurate data to remain in the system. Second, it appears that project managers at the districts actually have an incentive to sometimes report inaccurate data. As we learned, this is because in some cases project managers intentionally leave incorrect schedules in the system in order to demonstrate that a particular project will be completed earlier than planned (rather than enter into the system an updated schedule reflecting an earlier completion date). Similarly, the budgets for certain projects may not be updated to reflect more precise and lower costs, so that project managers can show that the projects were completed below the approved budget. While it is important for project managers to document their project delivery successes, the incentive to keep out-of-date information in the PRSM system is contributing to the department's poor data quality.

Some Essential Information Not Collected or Maintained

In reviewing the data that Caltrans headquarters currently collects, we found that there are certain pieces of data necessary to evaluate the overall efficiency and effectiveness of the COS program that are not currently being collected. We note that such data would also assist Caltrans in managing the program. Specifically, the department does not collect or maintain the following:

- ***Detailed Staffing and Workload Data.*** In order to ensure that the COS program is appropriately staffed, detailed data is necessary on the type and number of staff necessary to complete the program's workload (such as a certain number of environmental planners to conduct

environmental studies) and the extent to which such staff currently is on board. Caltrans, however, was unable to provide this type of information during our review. As such, we were unable to conduct a detailed and conclusive analysis of how the program's staffing aligns with its various types of workload—particularly whether individual districts currently have too much or too little of certain types of staff.

- ***Actual Staff Resources Used.*** Headquarters staff is responsible for allocating resources to districts based on their estimated staffing needs for each project. However, headquarters staff does not require districts to report on how the staff resources provided were actually spent. Without this data, the department lacks the information necessary to evaluate the accuracy of the staffing requests submitted by districts for each project.
- ***Initial Project Estimates.*** A key measurement for evaluating overall effectiveness of the COS program is whether it is delivering projects as they were initially approved in terms of cost, scope, and schedule. Such information would in turn help determine the reasonableness of the initial estimates provided by Caltrans for each project. However, Caltrans does not maintain the initial project estimates on a long-term basis. This is because Caltrans overwrites the initial project data in its PRSM system when updates to a project are approved and entered into the system.
- ***Updated Project Estimates.*** Similarly, updated project estimates that occur at various points during a project are

overwritten in PRSM each time the project's approved cost, scope, and schedule are changed. Keeping these estimates would allow for valuable analysis of projects. For example, the estimates updated upon completion of the project's environmental phase are useful for measuring the overall performance of Caltrans at delivering projects. This is because major changes to a project should not occur after the completion of the environmental phase.

Program Overstaffed Due to Declining Workload

While Caltrans was unable to provide detailed staffing and workload data, some limited data was provided that allowed us to make observations about the COS program's overall staffing levels. Specifically, we found that the program is experiencing a substantial decline in workload that will result in significant overstaffing absent corrective actions.

COS Program Workload Declining Substantially. Workload for the COS program is directly related to the level of funding available to develop and construct transportation infrastructure projects. While ongoing transportation revenues from state and federal gas taxes have been relatively stable in recent years, the COS program experienced a period of peak workload from 2007-08 through 2013-14, resulting from the infusion of one-time transportation funds made available from Proposition 1B and the federal American Recovery and Reinvestment Act. During this time period, the level of funding available to award new construction projects averaged \$4.4 billion annually. However, Caltrans forecasts that funding available to award new construction projects will decline by about 40 percent to \$2.6 billion annually beginning in 2014-15. While

other factors (such as increasing environmental regulations) can impact workload, a reduction in funding generally results in a corresponding decline in workload.

COS Program Will Be Substantially Overstaffed Absent Corrective Actions. The projected 40 percent decline in workload translates into a corresponding decline of roughly 4,000 FTEs to the level of COS staff needed. In recognition of a projected workload decline, the Governor and Legislature reduced the COS program as part of the 2013-14 budget by 256 FTEs. Despite this minor reduction in staff, the COS program will be substantially overstaffed in 2014-15 if no additional actions are taken (such as staff layoffs or a significant infusion of funding for transportation infrastructure projects). Specifically, we estimate that the COS program will be overstaffed by roughly 3,700 FTEs.

To the extent that the COS program has more staff than needed to complete available workload, the program would not be expending limited transportation funding in the most effective and efficient manner. This is because funding would support unnecessary staff with no immediate workload rather than supporting additional transportation improvements. For example, in recent years, national surveys have found that California has some of the worst pavement conditions in the nation. Such funding could be redirected to repair highways and fill potholes. We estimate that supporting 3,700 unnecessary staff would cost the state roughly \$600 million each year.

Legislative Oversight Hampered

We also find that the annual COS budget request currently limits the ability of the Legislature to effectively oversee the COS program. First, the budget request provided is often based on poor estimates of projected staffing needs. Second,

since the request is not provided to the Legislature until the Governor's May Revision, it has very limited time to review the request as part its budget deliberations. We discuss each of these concerns in more detail below.

Annual Budget Request Appears to Be a Poor Estimate of Staffing Needs

As discussed above, Caltrans headquarters does not evaluate the accuracy of the data provided by the districts to develop the COS program's annual budget request. Moreover, the department does not sufficiently collect the detailed project information necessary to perform such an analysis for all projects. For example, although Caltrans does collect information from districts on the amount of dollars expended on COS work, the department does not collect the amount of FTE resources that districts spent on each project. This makes it difficult to compare requested FTEs with what the department actually expended. However, with information the department collects on the dollars expended on each project, we were able to make some general observations regarding the accuracy of the annual budget request based on the average cost of one FTE in the COS program. For example, our analysis of a sample of 1,241 projects from the 2,409 projects in the COS program in 2012-13 finds that the annual budget request appears to be a poor estimate of total COS staffing needs. This is because Caltrans requested funding for a total of 4,559 FTEs for the projects in our sample, but only spent funding for 3,337 FTEs (or 73 percent) of the requested amount. This suggests that even during the peak workload period the department was overestimating its total COS staffing needs in the annual budget request.

In addition to analyzing total COS resources, we also examined the extent to which the level of resources requested for an individual project were higher or lower than what was actually

expended. Specifically, we looked at how many of the projects in our sample spent within 25 percent above or below their requested resources. While we recognize that actual expenditures could reasonably differ from estimates based on several factors (such as changing conditions on the ground or scope changes to meet environmental requirements), we believe that a 25 percent range in both directions was a reasonable way to account for some of these changes. As shown in Figure 5, we found that 60 percent of the projects in our sample overestimated staffing needs by more than 25 percent, with 23 percent underestimating staffing needs by more than 25 percent.

We also note that the projects in our sample that either overestimated or underestimated the level of staffing resources by more than 25 percent accounted for the majority of the total requested staff in the sample, as shown in Figure 6. Projects that overestimated staff needs by more than 25 percent requested funding for a total of 3,168 FTEs but only expended funding for 1,115 FTEs. Similarly, projects that underestimated staff needs by more than 25 percent requested 579 FTEs but expended funding for 1,460 FTEs.

In view of the above, it appears that the annual COS budget request appears to be a poor estimate of actual staffing needs. However, it is unclear if the poor estimates are due to a flaw in the overall budget development process, or because inaccurate data is inputted into Caltrans' PRSM system. Without reasonably accurate estimates, the Legislature lacks the information necessary to budget the program at the appropriate level and hold Caltrans accountable for the funds that are provided to the COS program.

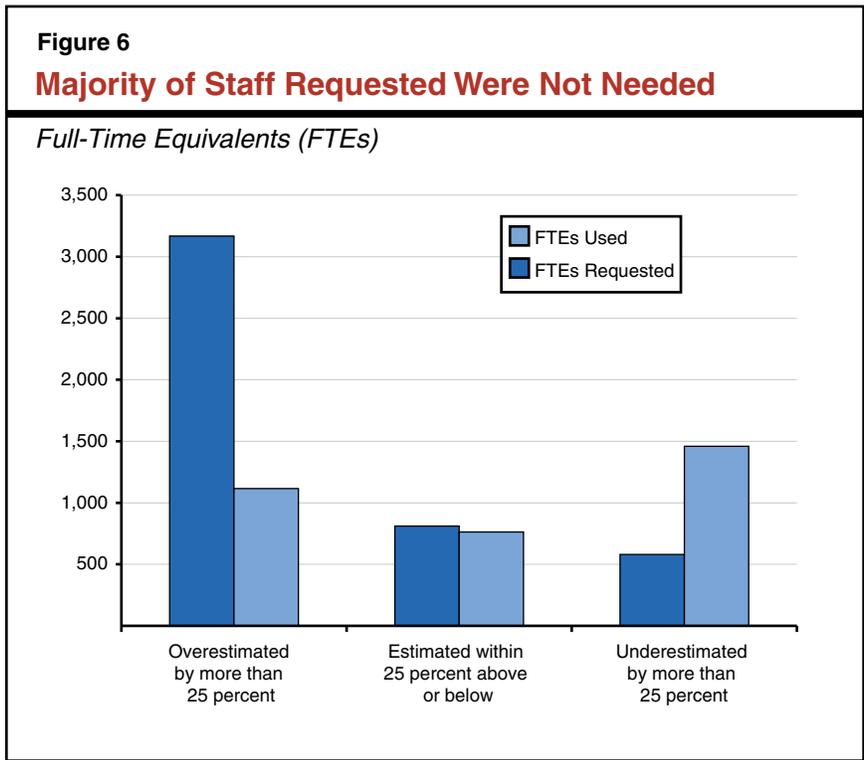
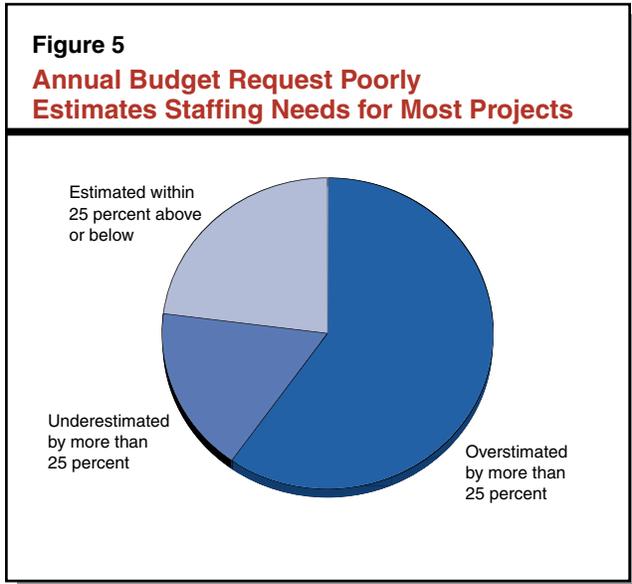
Late Submittal of Annual Budget Request Limits Legislative Oversight. As discussed above, the Legislature currently receives the annual COS budget request as part of the Governor's May Revision, rather than with the Governor's

January budget proposal. By submitting the budget request for the COS program so late in the budget process, the Legislature has limited opportunities to perform oversight of the program as part of its budget deliberations. Specifically, only a few weeks remain from the May Revision until the Legislature must adopt the annual state budget. Conversely, the Legislature has several months to request more information, hold hearings, evaluate, and modify budget proposals when they are included in the Governor’s January budget.

Limited Project-Level External Oversight of SHOPP

Caltrans relies primarily on its own staff to perform much of the COS work on projects, such as designing and engineering projects. In contrast, other state departments of transportation and other types of infrastructure projects in California use separate entities (such as other public agencies or private consultants) to perform a large portion of this type of work. This approach provides for effective project controls through a clear contractual arrangement between the lead agency for the project and the entity performing the work on the project. Having a contract and the separation of roles between the two entities creates checks and balances, with the lead agency holding the other entity accountable to deliver the promised project on time, on budget, and within scope. However, under Caltrans’ current delivery model,

the department typically performs both roles, resulting in a lack of separation and the type of contractual arrangement necessary to provide a system of checks and balances. Given this lack of built-in accountability, external project-level oversight of Caltrans is important. With regard to the STIP, a local partner is typically involved



in the management of the project, thereby providing greater oversight of Caltrans and making state provided external accountability less of a concern. However, as we discuss below, the state currently has limited external oversight of projects led by Caltrans in the SHOPP—the state’s largest transportation infrastructure program.

Although CTC could potentially provide external oversight of the department’s SHOPP projects, its role as established in current state law limits its ability to provide such oversight. First, under existing state law, the CTC does not have the authority to approve or reject individual SHOPP projects when they are initially proposed for funding by Caltrans. Instead, the commission must either approve or reject all of the SHOPP projects proposed by Caltrans as a single package. In addition, the commission usually has very limited information about each project to make informed decisions about the entire package. For example, project descriptions are often vague in scope and location. This lack of authority and information limits the CTC’s ability to hold Caltrans accountable for developing reasonable project estimates and

delivering the planned scope and quality of a SHOPP project on time and on budget.

Furthermore, as previously indicated, the commission allocates funds for the capital costs of individual SHOPP projects and in the process is able to provide some oversight regarding capital expenditures on projects during construction (such as by controlling what are allowable expenditures). However, the CTC does not allocate funding to Caltrans for COS costs on SHOPP projects and is therefore unable to monitor and control allowable COS spending, which comprises a significant portion of the total cost of projects. In addition, because the allocation of SHOPP funds happens once a project is ready to start construction, this process does not enable the CTC to conduct oversight of SHOPP projects prior to construction. This results in a significant gap in oversight because many changes can occur prior to the start of construction, including cost increases and schedule delays.

As mentioned earlier, the CTC had a greater role in oversight of projects authorized in Proposition 1B. (Please see the nearby box for detailed information regarding CTC’s oversight of Proposition 1B projects.)

GOVERNOR’S PROPOSALS FALL SHORT IN IMPROVING PROGRAM

Based on the information collected during the review of the COS program that was recently conducted by our office, DOF, and Caltrans, the Governor’s budget makes several proposals regarding the program. While some of the proposals appear reasonable and reflect initial steps to address a few of the shortcomings we discussed above, we find that the proposals do not

adequately address the COS program’s projected overstaffing.

Governor’s COS Proposals

COS Funding and Staffing Request. On May 1, 2014, the Governor submitted a request to the Legislature for a total of \$1.7 billion and 9,894 FTEs for the COS program in 2014-15. This

Increased Oversight Provided for Proposition 1B Projects

While the California Transportation Commission (CTC) has a minimal role in oversight of the State Highway Operation and Protection Program (SHOPP), CTC was authorized to perform increased oversight of the Proposition 1B projects (including SHOPP projects specifically supported with Proposition 1B bond funds). Specifically, for several of the largest Proposition 1B programs, CTC had a substantial role in the oversight of individual projects and the allocation of state funds for both capital and capital outlay support costs. Because CTC had the authority to evaluate each Proposition 1B project when it was initially proposed, CTC staff were able to obtain detailed project information from Caltrans to determine if the initial cost, scope, and schedule for projects were reasonable. The CTC then entered into agreements with Caltrans that specified the level of bond funding CTC would commit to each project and the specific scope and schedule of work that Caltrans would complete. Any deviations from the agreed upon cost, scope, and schedule required CTC approval. In addition, having the responsibility for allocating funding for both capital and support costs provided CTC a greater level of control over project spending. As projects progressed, CTC was able to limit project changes and ensure that the full project scope was delivered.

May 1 request reflects the Governor's plan going forward to propose an annual COS budget two weeks prior to the May Revision. The revised level for 2014-15 is \$27.1 million and 258 FTEs less than the level in 2013-14, which amounts to a roughly 3 percent decline. Specifically, the May 1 request reflects the reduction of 243 state staff through attrition, reduction of overtime by 12 FTEs, and reduction of consultants by 3 FTEs.

Proposed Improvements to COS Program. In addition, the Governor's January budget includes several proposals intended to improve the COS program, based on the recent review of the COS program. These proposals primarily include changes that Caltrans has agreed to implement and do not require any specific budgetary changes. The Governor's major COS proposals are to:

- **Require Detailed Staffing and Workload Projections.** The Governor proposes that Caltrans annually develop a three-year COS workload projection and provide this to the Legislature each May 1 beginning

in 2014. The workload projections would show the type of work planned for each district, including environmental, design, construction, right of way, surveys, and engineering services. The department would also compare this estimated workload to the type and location of the staff currently on board. At the time of this analysis, Caltrans had not provided the above staffing and workload projections.

- **Conduct Hindsight Review on a Sample of Projects.** The Governor also proposes that Caltrans monitor the accuracy of the COS budget request by annually evaluating a sample of projects from the prior year. In the current year, DOF randomly selected 95 projects from the 2013-14 budget request (excluding projects that requested fewer than one FTE). For each project, Caltrans compared budgeted amounts for COS to actual COS expenditures. Caltrans

submitted this hindsight review to our office on May 2, 2014. According to the department, it expended 68 percent of all the FTEs requested for the 95 sample projects.

- **Develop Quality Management Plan.** In addition, the Governor proposes that Caltrans develop and implement a quality management plan that would help ensure the quality of the project data used for the COS program. In developing the plan, the administration requests that Caltrans *consider* specifying that project managers are responsible for updating project data in PRSM and requiring them to ensure on at least a monthly basis that the data is accurate. The Governor also requests that Caltrans *consider* requiring district managers to establish quality control procedures to ensure project data is up-to-date in PRSM, as well as requiring COS headquarters staff to conduct monthly oversight of districts.

Governor's Proposals Do Not Address Projected Overstaffing

The Governor's proposals would make some minor improvements to the COS program by having Caltrans provide more detailed workload

projections, evaluate the actual use of COS resources on a sample of projects, and develop a plan to improve data quality. While these proposed improvements are a step in the right direction, they are unlikely to result in major improvements to the COS program in the near term. For example, while the Governor proposes to improve the quality of the COS program's data, these improvements could take many years before they result in more accurate workload estimates. In addition, the Governor proposes to evaluate the actual use of COS resources on only a small sample of projects, rather than all projects in the program.

More importantly, the Governor's proposals do not address the issue of significant overstaffing in the COS program. As described previously, funding data from Caltrans shows that due to a substantial workload decline, the COS program will be overstaffed by roughly 3,700 FTEs beginning in 2014-15. However, for 2014-15 the Governor only proposes a reduction of 258 FTEs. Thus, absent a significant, unexpected increase in transportation funding for new projects, the Governor's proposal would result in COS program overstaffing of about 3,500 FTEs beginning in 2014-15, at a cost of more than \$500 million. One reason that the Governor's proposal is not aligned with actual staffing needs is that it continues to use the same types of data and estimating methodology that we found to overstate the level of staff resources needed.

RECOMMENDATIONS TO IMPROVE COS PROGRAM ACCOUNTABILITY AND EFFICIENCY

In view of our findings that the COS program continues to face challenges that limit the program's efficiency and accountability, we make several recommendations to the Legislature to improve the program. Specifically, we find that

significant reductions to the size of the program and increases in the level of external oversight are necessary in order to ensure the state's limited transportation funds are used wisely. Our specific recommendations are described below.

Align Staffing Levels With Projected Workload

Begin to Reduce Staffing Levels. As indicated above, our analysis finds that the COS budget request overbudgets the program by roughly 3,500 FTEs and more than \$500 million beginning in 2014-15. While it would be difficult to completely address such a substantial problem in one year, not addressing the issue at all will result in the inefficient use of transportation funding. In order to balance the need for a thoughtful approach to reducing the size of the program with the state's need to spend transportation funds efficiently, we think that a multiyear approach to reducing the COS budget and staffing levels is appropriate. Accordingly, we recommend that the Legislature take a first step to address this overstaffing problem in the 2014-15 budget by significantly expanding the Governor's proposed reduction of the COS program. For example, an additional reduction of 1,750 FTEs would address half of the problem. The "freed up" funds (roughly \$250 million) would then be available in future years for the Legislature to meet its transportation priorities, such as pavement maintenance. In order to determine how to best address the remaining overstaffing after 2014-15, we recommend below that the Legislature build upon the Governor's proposals related to staffing projections, data quality, and the timing of the annual COS budget request.

Require Staffing Plan. Better information about the COS program's staffing and workload trends would help the Legislature make the additional necessary reductions and appropriately budget the program on an ongoing basis. Accordingly, we recommend that the Legislature adopt legislation requiring Caltrans to annually develop a multiyear staffing plan and submit the plan annually to the Legislature beginning on January 10, 2015. Specifically, such a plan should provide for each district: (1) workload projections by type of workload, (2) staff on board by type,

(3) projected imbalances between existing staff and workload, and (4) how Caltrans will use staffing strategies and workload management tools to align staff resources with workload.

Take Steps to Improve Data Quality.

Improving the quality of Caltrans' data will help the department to develop better staffing and workload estimates in the future. The Governor makes two proposals to improve data quality—the development of a data quality management plan and a hindsight review of a sample of projects. In order to ensure that the Governor's proposals address the problems we identified with the department's workload data, we recommend that the Legislature adopt legislation to:

- Specify that the proposed quality management plan include requirements to (1) ensure that PRSM data is up to date and accurate, (2) ensure consistent development of project budgets across districts, (3) evaluate project data for accuracy, and (4) evaluate employee time charging for accuracy. Moreover, in order to ensure that the plan is developed in a timely manner and to facilitate oversight, we recommend that the Legislature require Caltrans to submit a copy of the plan to the appropriate legislative committees by January 10, 2015. In addition, we recommend that the Legislature require Caltrans to maintain in PRSM the initial project estimates and updated project estimates upon the completion of the environmental phase. This will ensure that sufficient data is collected to assess the effectiveness of the COS program.
- Expand the hindsight review of the annual COS budget request to include all projects, rather than just a sample of 95 projects. Caltrans should submit the analysis

annually with the budget request. This more robust analysis would provide the Legislature with the information necessary to understand the level of accuracy of Caltrans' staffing estimates and associated budget request.

Require Earlier Submittal of Annual Budget Request. As indicated above, the Governor's plan going forward is to propose an annual COS budget on May 1 of each year—two weeks earlier than past practices of including it as part of the May Revision. However, we find that the proposed timeline of two weeks earlier still significantly limits the Legislature's ability to adequately perform oversight of the COS program and make the changes to the program necessary to bring staffing levels in line with workload. Accordingly, we recommend that, beginning with the 2015-16 budget, the Legislature adopt statute requiring the administration to provide the annual COS budget request as part of the Governor's January budget proposal and update the request as necessary as part of the Governor's May Revision.

Increase CTC Oversight for SHOPP Projects

In view of the lack of external oversight for SHOPP projects, we recommend that the Legislature take steps to establish an external framework for holding Caltrans accountable for the delivery of such projects. Specifically, we recommend below that the Legislature take steps for CTC to perform specific oversight and project approval functions for SHOPP. As we discussed earlier, SHOPP is the largest ongoing state transportation program and has the least amount of external and internal oversight. In contrast, most STIP projects receive additional oversight from a local partner.

Require CTC to Review and Approve Individual SHOPP Projects. As described above, CTC can only approve or reject the entire program of SHOPP projects and must do so based on limited

information about each project. Accordingly, we recommend that the Legislature require CTC to approve the proposed cost and schedule of each SHOPP project to ensure that the estimates are reasonable for the identified transportation need and project scope selected by Caltrans. This change would ensure that proposed SHOPP projects are based on reasonable estimates before state transportation funds are committed to such projects. In addition, we recommend that deviations from the approved cost, scope, and schedule for SHOPP projects also be approved by CTC to facilitate accountability throughout each phase of a project.

Require CTC to Allocate COS Funds for SHOPP. Since CTC currently only has the authority to allocate funding for the capital costs of SHOPP projects, no entity outside of Caltrans monitors or controls COS costs on SHOPP projects. As such, we recommend that the Legislature enact statute requiring CTC to allocate funds for each phase of a SHOPP project, including funding for COS costs. Such a change would help create a more effective and transparent system of checks and balances on Caltrans COS spending.

Require Caltrans to Provide Specific Data to CTC. In order for CTC to perform the oversight and approval functions that we recommend above, the CTC will need to rely on data from Caltrans. Accordingly, we recommend that the Legislature require Caltrans to provide the CTC with any project information that the CTC or its staff thinks is necessary for the oversight of Caltrans and the SHOPP projects.

Require CTC to Report on Caltrans' Project Delivery Performance. With the changes we recommend, we think CTC would be well-suited to monitor and report on Caltrans' overall performance at delivering projects. As such, we recommend requiring CTC to include in its annual report to the Legislature information on Caltrans'

performance at delivering SHOPP projects, such as whether projects are completed within initial estimates and within the estimates updated after completion of the environmental phase. (Under current state law, CTC is required to annually report to the Legislature on the status of the state's transportation programs.)

We acknowledge that our recommendations above would result in additional workload for CTC and that CTC would likely need additional

staff resources to complete such workload. Thus, we recommend that the Legislature require CTC to report at budget subcommittee hearings on the number and classification of staff it would need in order to perform increased oversight for SHOPP projects as we recommend. While our recommendations might result in minor increased state administrative costs in the short run, we think that this level of oversight would improve the overall accuracy of Caltrans' estimates and limit unjustified cost increases on SHOPP projects.

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This brief was prepared by Jeremy Fraysse and Jessica Peters, and reviewed by Anthony Simbol. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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