

MAJOR ISSUES

%Funding Shortfall Will Delay State's Transportation Program Beyond 2002-03. The state is short at least \$5.9 billion to carry out all transportation projects programmed through 1998-99 and at the same time, fund all seismic retrofit work. Unless revenues are increased or other non-capital outlay expenditures reduced, the state will have to take all of its resources projected to be available into 2003-04 to cover this shortfall. This would mean that projects scheduled in the 1992 State Transportation Improvement Program (through 1999) will be delivered over an 11-year, rather than a seven-year, period. (See pages A-12 through A-16.)

%Caltrans Could Run Out of Federal Funds in 1995-96. There are not enough funds to construct all transportation projects scheduled to be built in 1995-96. Caltrans plans to borrow future state and federal funds in order to increase 1995-96 capital outlay expenditures. Caltrans' plan will consume all federal funds remaining available to the state under the Intermodal Surface Transportation Efficiency Act (ISTEA). In 1996-97—the last year of ISTEA—California will have no federal funds remaining available. (See pages A-15, and A-23.)


%Lack of Information Hinders Legislative Review. Caltrans failed to provide information to explain or justify its proposed budget, expenditures and program activities. This lack of information hinders the Legislature's ability to set transportation priorities and to assess the extent to which Caltrans meets state goals. (See page A-19.)

%Budget Assumes Actions to Free Up Funds for Capital Outlay. The Caltrans' budget assumes that several actions will be taken in order to free up funds for transportation capital outlay. These actions include: (1) reducing 1,226 personnel-years (pys) of staff support, (2) reducing funding for two local assistance programs, and (3) using toll bridge revenues to fund toll bridge seismic retrofit work. (See pages A-22 through A-24.)

%Caltrans Proposes Significant Staff Reduction. The budget proposes to reduce Caltrans staff by 1,226 pys including: (1) 252 pys to accommodate expenditure reductions imposed on the current year program, (2) 220 pys to match support staffing to the smaller size of the fundable transportation capital improvement program, and (3) an unallocated reduction of 716 pys that Caltrans has not explained. As part of the smaller capital outlay support workload, the budget includes a reduction of 353 personnel-year equivalent in work to be contracted out to private engineers. (See pages A-31, and A-33 through A-36.)

%Intercity Rail Service Expansion Delayed Repeatedly, Program Needs Accountability. For the third year in a row, Caltrans has not been able to expand its intercity rail service, as planned. Instead, Caltrans has redirected funds provided for the proposed expansion to other intercity rail purposes. In particular, from 1992-93 through 1994-95, \$23 million was redirected to pay for higher operating costs of service. While Caltrans has the statutory authority for the redirection, the Legislature is not advised of the redirection, and therefore, is not informed of the actual level of service provided, or the costs associated with that level of service. (See page A-47 through A-50.)

%Budget Proposes Consolidation of the California Highway Patrol and the California State Police. The proposed consolidation would provide both more coordinated, as well as, a higher level of service, particularly for state facilities and employees. The proposal would result in annual savings of about \$835,000 as a result of economies of scale and more efficient use of resources. However, many implementation questions remain to be addressed. (See page A-55.)



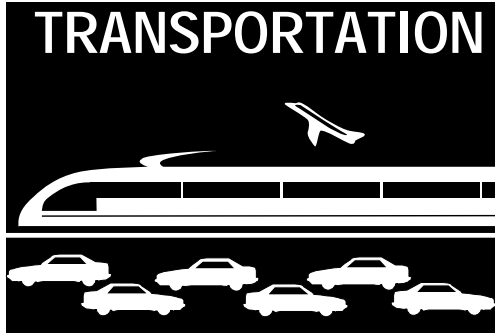


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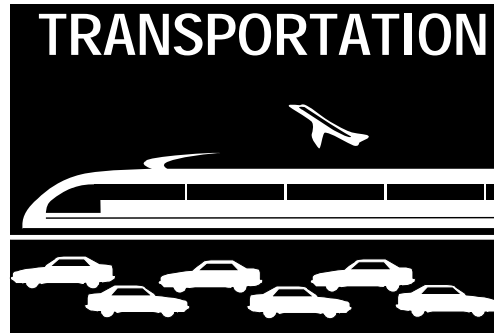
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OVERVIEW

Total expenditures from state funds for transportation programs are proposed to be moderately higher in 1995-96 than estimated current-year expenditures. The increase is due primarily to increased expenditures for highway capital outlay purposes.

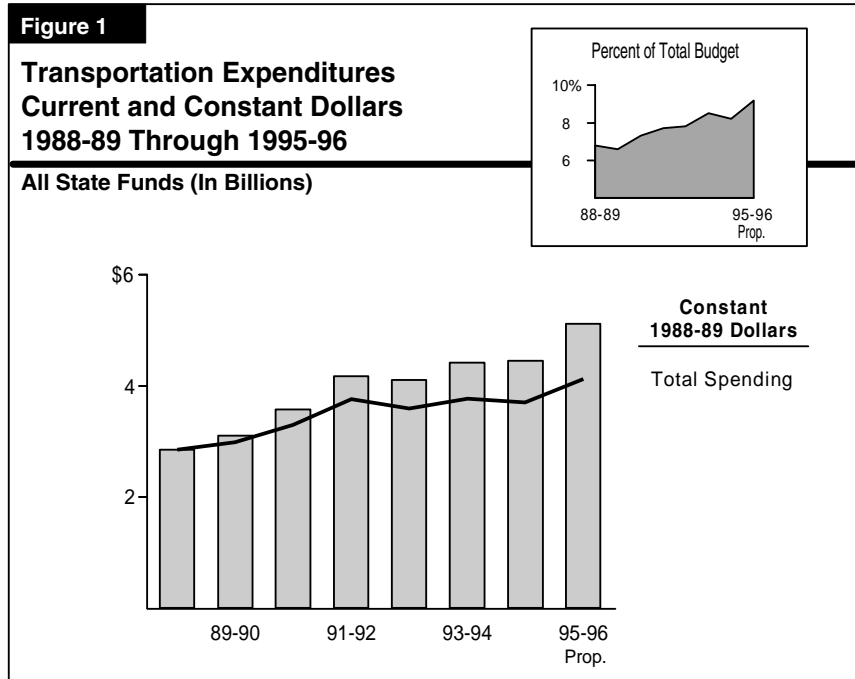
For traffic enforcement, the budget proposes a significant increase in the expenditures of the California Highway Patrol—primarily due to an increase in the number of traffic officers, additional telecommunications expenditures and consolidation with the California State Police. The expenditure level of the Department of Motor Vehicles is also proposed to increase in order to implement various new legislation.

The budget proposes total state expenditures of about \$5.1 billion for transportation programs in 1995-96. This is an increase of \$660 million, or 15 percent, over estimated expenditures in the current year.

Figure 1 shows that state-funded transportation expenditures increased by \$2.2 billion since 1988-89, representing an average annual increase of 8.7 percent. When adjusted for inflation, these expenditures increased by an average of 5.4 percent annually. In addition, Figure 1 shows that transportation expenditures have increased as a share of total state expenditures over the period. This change is largely the result of the passage of the *Transportation Blueprint* legislation in 1990 which provided additional state funds for highway and mass transportation programs. In 1995-96, proposed transportation expenditures will constitute about 9.2 percent of all state expenditures.

Of the 1995-96 state transportation expenditures, about \$4 billion is proposed for programs administered by the state, and about \$945 million is for subventions to local governments for streets and roads purposes.

Another \$180 million is projected to be for debt service payments on rail bonds issued under Propositions 108 and 116 of 1990.



SPENDING BY MAJOR PROGRAMS

Figure 2 shows spending for the major transportation programs in detail. Specifically, the budget proposes expenditures of \$6.2 billion for the Department of Transportation in 1995-96—an increase of \$197.4 million (3.3 percent) over estimated current-year expenditures. The higher expenditure level reflects an increase of about \$800 million in state and federally-funded expenditures, offset by a decrease of \$600 million in reimbursed expenditures for highway capital outlay projects.

Spending for the California Highway Patrol (CHP) is proposed to increase in 1995-96 by \$70.4 million, about 10 percent. The increase is due in part to funding of 180 currently vacant traffic officer positions, and expanding the department's vehicle theft enforcement programs. In addition, the increase reflects the budget proposal to transfer the California State Police to the CHP, beginning July 1, 1995.

For the Department of Motor Vehicles (DMV), the budget proposes expenditures that are about 6.3 percent higher than in the current year. The proposed expenditure level of \$539.5 million results mainly from an

increased workload related to the implementation of various recently enacted legislation.

Figure 2

**Transportation Budget Summary
Selected Funding Sources
1993-94 Through 1995-96**

(Dollars in Millions)

	Actual 1993-94	Estimated 1994-95	Proposed 1995-96	Change From 1994-95	
				Amount	Percent
Department of Transportation					
State funds	\$2,477.4	\$2,320.5	\$2,825.6	\$505.1	21.8%
Federal funds	1,967.9	1,969.3	2,261.7	292.4	14.8
Reimbursements	579.1	1,691.2	1,091.1	-600.1	-35.5
Totals	\$5,024.4	\$5,981.0	\$6,178.4	\$197.4	3.3%
California Highway Patrol					
Motor Vehicle Account	\$596.3	\$626.9	\$662.9	\$36.0	5.7%
Other	45.7	53.7	88.1	34.4	64.1
Totals	\$642.0	\$680.6	\$751.0	\$70.4	10.3%
Department of Motor Vehicles					
Motor Vehicle Account	\$445.3	\$322.5	\$350.4	\$27.9	8.7%
Motor Vehicle License Fee Account	34.4	165.0	170.0	5.0	3.0
Other	21.0	20.1	19.1	-1.0	-5.0
Totals	\$500.7	\$507.6	\$539.5	\$31.9	6.3%
State Transportation Assistance					
Transportation Planning and Development Account	\$54.3	\$61.6	\$86.0	\$24.4	39.6%

Additionally, the budget proposes an increase in the State Transportation Assistance (STA) program in 1995-96 to reflect higher projected revenues into the Transportation Planning and Development (TP&D) Account. The STA program provides funds to local transportation agencies to operate public mass transit systems. Annual funding of the program is based on a statutory formula and varies depending on anticipated revenues into the TP&D Account.

MAJOR BUDGET CHANGES

Figure 3 presents the major budget changes proposed for 1995-96 in various transportation programs.

Figure 3

Transportation Programs Proposed Major Changes for 1995-96 All Funds ^a

Department of Transportation	Re-quested:	\$6.2 billion
	Increase:	\$197.4 million (+3.3%)



- \$118 million in state and federal funds for rail capital improvements
 - \$28.6 million to restore prior reductions
 - \$10.1 million to accommodate increased highway maintenance workload
 - \$9.7 million to expand intercity rail passenger services
-
- \$100 million in funding for the State-Local Transportation Partnership Program



- \$76.4 million in unallocated reduction in departmental support and local assistance
- \$71.4 million in highway project design and development

California Highway Patrol	Re-quested:	\$751.0 million
	Increase:	\$70.4 million (+10.3%)



- \$27.7 million to consolidate with California State Police
 - \$19.4 million for telecommunications and automation of patrol environment
 - \$10.4 million to fund 180 vacant traffic officer positions
-

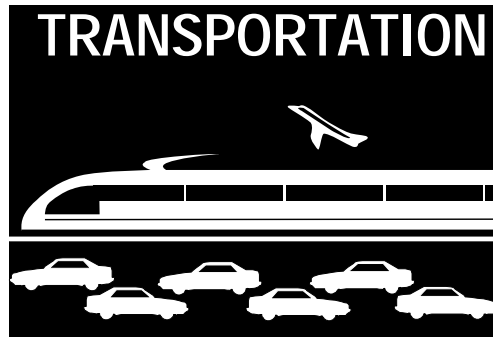


- \$7 million to reflect various anticipated savings

^a Includes expenditures from Propositions 108 and 116 bond funds.

As the figure shows, the budget proposes to reduce the funding level of the State Local Transportation Partnership Program by \$100 million. The budget also proposes a reduction of \$71.4 million in highway capital outlay support (design and engineering) and an unallocated reduction of \$76.4 million in Caltrans support and local assistance funding. The effect of these and other actions is to reduce personnel by an equivalent of 1,226 personnel-years. At the same time, the budget proposes to provide \$118 million in state and federal funds for rail capital improvements. The budget also proposes an increase in intercity rail passenger service of about \$9.7 million, an additional \$10 million to accommodate highway maintenance workload increase, and \$28.6 million to restore prior year reductions.

For the CHP, the budget proposes \$10.4 million to fund an additional 180 traffic officer positions which are currently vacant. This is the second phase of a three-year effort to increase the number of traffic officers. The budget also proposes to consolidate the California State Police with the CHP.



CROSSCUTTING ISSUES

TRANSPORTATION FUNDING

California finances its highway and mass transportation programs with a combination of federal, state, local, and private funds. The multi-year expenditure of state and federal funds for transportation capital projects is contained in the seven-year State Transportation Improvement Program (STIP) and the five-year State Highway Systems, Operations, and Protection Plan (SHOPP), both of which are adopted in even-numbered years by the California Transportation Commission (CTC). Other highway projects are programmed through a variety of capital programs created by the *Transportation Blueprint for the Twenty First Century (Blueprint)*, a package of legislation enacted in 1989-90. The *Blueprint* was designed to provide \$18.5 billion in additional state resources for highways and public mass transit guideways over ten years through increases in fuel taxes and weight fees, and the issuance of bonds for rail projects.

State law requires Caltrans to submit, every two years, a fund estimate to the CTC that projects state and federal revenues and expenditures for highway and rail projects over a seven-year period. The fund estimate is used to provide a basis for scheduling projects to be funded over each seven-year period in the STIP.

Funding Shortfall Will Delay STIP Delivery Beyond 2002-03

The state's transportation program is short at least \$5.9 billion to carry out all transportation projects programmed through 1998-99 and, at the same time, to fund all seismic retrofit work. Short of increasing revenues or reducing other non-capital outlay expenditures, it will take all resources projected to be available through 2002-03 and into 2003-04 to fund the state's transportation projects.

In our *Analysis* last year, we reviewed the state's ability to fund the 1992 STIP (covering the seven years from 1992-93 through 1998-99). We estimated that, in order to fund all transportation projects programmed through 1998-99 and to retrofit toll bridges to seismic safety standards, the state would need \$3.5 billion more in resources than was projected to be available. As part of the solution to fund all programmed projects, the CTC decided not to schedule additional projects for funding in 1999-2000 and 2000-2001 when it adopted the 1994 STIP (which covers the period from 1994-95 through 2000-01). This decision, in effect, meant that the seven-year program would be funded over a nine-year period instead.

Our current review, however, shows that total transportation funding is projected to be another \$2.4 billion lower, bringing the total shortfall through 1998-99 to \$5.9 billion. Additional funding setbacks would increase the shortfall accordingly. The \$2.4 billion consists of the following components:

- \$1 billion in reduced bond funds as a result of the failure of Proposition 1A.
- \$0.2 billion in interest costs associated with short-term borrowing proposed by Caltrans.
- \$1.2 billion in reduced funds as a result of the failure of Proposition 181, lower federal funds, and the transfer of transportation funds to the General Fund for rail bond debt service.

Defeat of Proposition 1A Increases Funding Shortfall. Proposition 1A, on the June 1994 ballot, would have provided about \$1 billion in bond funds for the seismic retrofit program. The failure of Proposition 1A shifted the immediate burden of funding seismic retrofit projects to the State Highway Account (SHA). To the extent that SHA resources are used to pay for seismic retrofit projects, funding of other transportation projects already programmed in the STIP would be delayed. In response to the failure of Proposition 1A, Caltrans imposed a temporary statewide freeze on all highway projects until a funding solution was identified in August 1994, consisting of short-term borrowing.

Short-Term Borrowing Adds to Costs of Projects. Caltrans now proposes, as authorized under current law, to finance \$847 million in seismic retrofit projects with short-term borrowing over the next three years. (It also proposes to fund toll bridge seismic retrofit work in 1995-96 out of toll revenues.) The proposed borrowing includes \$147 million in 1995-96, \$400 million in 1996-97, and \$300 million in 1997-98. While this strategy will allow the department to continue funding other capital outlay projects without having to reserve funds for seismic repair, short-term borrowing will increase the shortfall by the amount of debt service expenditures incurred in each year.

Current law requires that all short-term borrowing be repaid by June 30, 2000. Based on Caltrans' current schedule to issue a total of \$847 million between 1995-96 and 1997-98, and assuming an interest rate of 5 percent, we estimate that the total redemption and interest costs would be \$1.0 billion, (including \$847 million in principal and \$162 million in interest). Consequently, the total cost of the current seismic retrofit program would increase from about \$1 billion to about \$1.2 billion resulting in less funds for other transportation programs.

Defeat of Proposition 181 and Other Reductions Add to the Shortfall. The failure of Proposition 181 at the November 1994 election, the third rail bond authorized by the *Blueprint*, left \$1 billion in programmed rail projects with no funding. In addition, other transportation resources were about \$208 million lower than expected in 1994-95, because of lower-than-expected federal funds (\$54 million) and a transfer of \$154 million from state transportation funds to the General Fund for rail bond debt service.

Current Program Will Take More Than Eleven Years to Fund. Our analysis shows that, under current conditions, it will take all state and federal revenues projected to be available through 2002-03 and part of the funds available in 2003-04 to fund all currently programmed STIP and seismic retrofit work. This means that, in effect, it will take more than 11 years to fund all projects programmed in the 1992 STIP.

Court Action Could Worsen Funding Situation Significantly

A recent court injunction against Caltrans would potentially cost \$20 million in 1995-96 for the department to pay for the clean up of pollution caused by stormwater runoff in Los Angeles. These costs represent only the tip of the iceberg of potential ongoing costs. Five additional areas in the state face potential clean up costs as well.

The 1995-96 budget proposes a reserve of \$20 million in the SHA to pay for the ongoing clean up and mitigation of pollution caused by storm-

water runoff from highways. These costs will be incurred to comply with a court injunction issued against Caltrans in Los Angeles. This injunction requires Caltrans to comply with Municipal Stormwater Permit regulations under the federal Clean Water Act. It requires Caltrans to (1) develop and implement a comprehensive "Stormwater Management Plan" in areas of Los Angeles and (2) undertake specific actions such as evaluating drainage retrofit projects and cleaning up any pollution resulting from stormwater runoff. Caltrans does not have an estimate for the ongoing costs of complying with the court injunction at this time, but anticipates the costs to be potentially significant.

Caltrans also anticipates that by the end of 1994-95, the following five additional areas will also be subject to permit requirements: (1) Sacramento, (2) Fresno, (3) Merced, (4) San Diego, and (5) a small portion of the San Francisco Bay area. At this time however, Caltrans is only required to evaluate and measure polluted runoff in these areas, but has not yet been required to clean up any sites. Total potential evaluation costs are unknown at this time. The potential costs to clean up any sites, if necessary, is also unknown but could be in the tens of millions of dollars. These additional costs will further worsen the state's capability to fund its transportation program.

Fund Allocation Plans Used to Match Revenues and Projects

Because of the funding shortfall, the STIP is no longer a realistic project funding schedule. Instead, allocation plans have to be devised periodically to better match resources to projects.

The STIP provides a schedule for funding of transportation projects. As projects become ready to be constructed, or to acquire rights-of-way, the CTC is requested to allocate funds for the project. However, with the growing gap between projected revenues and programmed projects, the STIP is no longer a realistic schedule for project funding. To match the availability of funds and project construction more closely, Caltrans and the CTC have developed an allocation plan which provides a more accurate representation of when and which projects will be and can be funded. The first allocation plan was developed in 1994. Currently, a second plan is being developed to match resources to projects for the 18 months from January 1995 through June 1996.

This process is needed because projects are funded from a combination of federal, state, and local funds, and the loss of any one of the funding sources would jeopardize the full funding of one or more projects. When this occurs, the remaining available resources need to be reallocated in order to maximize the number of other projects that can be funded. The larger the funding gap, the more difficult it is to find combinations of

resources to fund a project fully. The allocation plan is the process used by CTC, Caltrans, and local transportation agencies to match the available combination of funds with fundable projects.

In our analysis of the Department of Transportation (Item 2660), we further discuss the 1995-96 allocation plan to fund transportation capital outlay.

Federal Funds Could Run Out in 1995-96

Federal funds provided under the Intermodal Surface Transportation Efficiency Act (ISTEA) will be depleted by the end of 1995-96. Unless a subsequent federal transportation act provides for "advance construction" capabilities, there will be no new federal funds for state highway design and construction in 1996-97. If the state does not backfill federal funds with state dollars, this could bring construction of transportation projects to a standstill.

We recommend that Caltrans report at budget hearings on the impact of a lack of federal funds in 1996-97 on the state transportation program, and what actions should be taken in 1995-96 to minimize the adverse impact.

The Federal Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991, which will expire in 1997, allows Caltrans to borrow against future federal funds (apportionments) in order to increase the rate of construction of transportation projects (referred to as "advance construction"). Federal funding authorized to the state under ISTEA totals approximately \$10.5 billion over a six-year period from 1991-92 through 1996-97.

The use of "advance construction" provides Caltrans with more flexibility to fund various transportation projects programmed in the STIP. Specifically, it allows the state to do more projects than the amount of federal funds available in any one year can support by drawing on future available funds.

Our review shows that Caltrans has used "advance construction" in the past few years to fund projects early. It plans on using "advance construction" to fund projects in 1995-96, such that by the end of 1995-96, the state will have expended all of the funds available under ISTEA. This will leave no new federal funds for 1996-97 unless a subsequent federal act provides for similar "advance construction" use of funds.

Because a new post ISTEA act will likely not be enacted until the second half of 1997, it is not clear how and under what authority Caltrans would be able to use any additional federal funds.

Federal funds currently pay for a significant portion of the state's transportation capital outlay program. Without any federal funds in 1996-97, the state would have to fund the entire capital outlay program with state funds. Lacking sufficient state funds, the capital outlay program will be drastically reduced.

In order that the Legislature can be advised of the potential impact of this funding situation, we recommend that the department report at budget hearings on the impact of a lack of federal funds in 1996-97 on the state's transportation program, and what actions should be taken in 1995-96 to minimize the adverse impact.

Condition of Transportation Funds

Transportation programs are funded primarily from three major transportation funds, the SHA, the Transportation Planning and Development Account (TP&D), and the Motor Vehicle Account (MVA). The SHA will not be able to fund the proposed 1995-96 program without borrowing. The TP&D Account and the MVA are projected to be in better condition in 1995-96.

The SHA Struggles to Fund All Transportation Projects. The 1995-96 budget proposes total resources in the SHA of about \$2.6 billion. The budget also proposes to transfer \$77 million to the General Fund for rail bond debt service. This, together with proposed expenditures, will leave the SHA with a small reserve balance of \$20 million at the end of 1995-96.

As discussed earlier, this balance will likely be used to pay for costs of ongoing clean up and mitigation of pollution caused by stormwater runoff, as mandated by a court injunction. Furthermore, our review shows that SHA resources are overstated by a net amount of about \$68 million. This is because the budget (1) reflects \$147 million in short-term borrowing as revenues even though this amount creates a future liability that will have to be repaid, but (2) fails to include \$79 million in proceeds from a court settlement relating to petroleum products anti-trust litigations (referred to as the MDL-150 settlement). Consequently, without borrowing, the SHA will not be able to fund the 1995-96 proposed program.

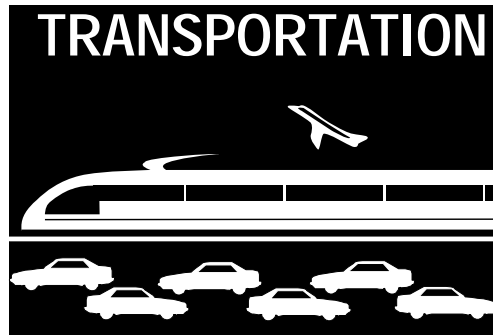
Transportation Planning and Development (TP&D) Account Rebounds. The 1995-96 budget projects total resources in the TP&D Account of \$239 million. This represents a 27 percent increase over current year levels. Although gasoline prices are up slightly, most of the projected rebound is due to a surge in diesel fuel sales.

Higher revenues in the TP&D Account translate into higher funding levels for transit operations and rail capital improvements. The TP&D Account provides state support for transit operations and rail capital improvements through the State Transportation Assistance (STA) program and the Transit Capital Improvement program (TCI). It also funds the state's operation of the intercity rail passenger service program, as well as transportation planning. The 1995-96 budget proposes \$86 million for STA—an increase of 41 percent over the current-year level. Additionally, the budget proposes \$75 million for the TCI program, and \$43 million for intercity rail.

Motor Vehicle Account Buoyed by Legislation. Chapters 1196 and 1197, Statutes of 1994 (AB 2949—Vasconcellos and AB 3080—Katz), combined to increase vehicle registration fees to \$29 beginning in 1995. Together, this will increase MVA funds by about \$50 million annually. This additional revenue accounts for the bulk of the projected 2.9 percent increase in MVA revenues over the current-year level.

The growth in revenues will, however, be outpaced by the growth in expenditures which are proposed to be about 5.6 percent higher in 1995-96. The budget also proposes transferring \$35.5 million from the account to the General Fund.

The budget projects a balance of \$45 million at the end 1995-96. However, this reserve is mainly due to a PERS surplus (of about \$39.8 million) which lessens the MVA cost of the employer's retirement contribution for highway patrol officers. Without this surplus, the reserve will be substantially smaller.



DEPARTMENTAL ISSUES

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. In addition, Transportation Planning seeks to improve the planning for all travel modes, and Administration encompasses management of the department.

The budget proposes expenditures of \$6.2 billion by Caltrans in 1995-96. This is about \$197.4 million, or 3.3 percent, more than estimated current-year expenditures.

LEGISLATIVE OVERSIGHT

Lack of Information Hinders Legislative Review

Caltrans has not provided information that the Legislature requires in order to review the department's budget and programs. We recommend that the department describe, at budget hearings, the specific actions that it will take to improve the flow of information.

In order for the Legislature to evaluate Caltrans' budget needs and to assess its performance, it is necessary that the department provide timely, complete and accurate information about its budget, expenditures and program activities. Over the last year, however, Caltrans has, on many occasions and without explanation, failed to

provide requested information, or has been unable to provide the information on a timely basis. Furthermore, in many instances, the department has been unable to provide detail to justify or explain its 1995-96 budget proposals. For example, Caltrans did not provide:

- Workload information to justify its 1995-96 capital outlay support request of \$717 million and 8,955 personnel-year equivalents.
- Details on how it would expend \$3.3 billion proposed for capital outlay projects.
- A summary of information technology expenditures, a list of the department's ongoing information technology projects, and information about individual projects.
- A progress report on seismic retrofit of state-owned toll bridges and details of actual and planned expenditures for toll bridge retrofit.
- An explanation of how the department has implemented its \$56 million "management efficiency" proposal, what expenditures and activities were reduced, what program staff have been reduced, and how efficiencies have been achieved.
- Any information to explain or justify the \$76.4 million unallocated cut that is proposed in its budget.
- Ridership projections to justify the expansion of intercity rail service in 1995-96.

This lack of information hinders the Legislature's ability to set transportation priorities and policies and find out the extent to which Caltrans is achieving the state's goals. Furthermore, without complete information from Caltrans, the Legislature is less able to review the department's budget.

Recommendation. Caltrans has not explained its inability to provide the Legislature with information about its budget, expenditures, and programs. We are unable to determine whether this inability is the result of a lack of basic budget and program information within the department, or if it is a decision to willfully disregard the request for information. Regardless of the explanation, however, the Legislature's ability to exercise oversight over the department's performance and activities is greatly diminished. Accordingly, we recommend that Caltrans report, at budget hearings, on specific actions that it will take to improve the flow of information to the Legislature.

HIGHWAY TRANSPORTATION

Highway Budget Reduces Support and Local Assistance

The budget proposes a modest overall increase for the Highway Transportation program. The increase is the net result of reductions in most support and local assistance activities and a substantial increase in capital outlay expenditures. The department has not provided any details on its \$3.3 billion proposed capital outlay expenditure.

Of the total expenditures proposed in the department's budget, \$5.8 billion is for the Highway Transportation program. This is an increase of \$316 million, or 5.8 percent, over estimated current-year expenditures.

As shown in Figure 4, Caltrans expects that state funds will finance \$2.7 billion (46 percent) of highway program expenditures. Federal funds make up \$2.1 billion (36 percent) of the program budget, and the remaining \$1 billion (18 percent) is reimbursements, primarily from local governments.

Reductions in Most Highway Programs. Although the budget proposes more highway expenditures than in the current year, as Figure 4 illustrates, most individual elements within the highway program will be reduced. For example, the budget proposes that capital outlay support receive \$717 million, a reduction of \$70 million (9 percent) from estimated current-year expenditures. The only substantial increase is in proposed expenditures for capital outlay (project construction), which would increase by \$496 million (18 percent) over estimated current-year expenditures. Caltrans has not provided detail on the types of transportation projects that would be supported by this proposed level of capital outlay; therefore, we are unable to provide the usual display of planned highway capital outlay expenditures.

Unallocated Cut Will Reduce Highway Program. Figure 4 does not show the effect of Caltrans' proposed \$76.4 million unallocated cut, because Caltrans has not yet informed the Legislature of how it intends to allocate the reduction. However, because the highway program accounts for over 91 percent of Caltrans' total budget, highway expenditures will almost certainly be reduced as a result of the unallocated cut.

Figure 4

**Department of Transportation
Highway Transportation Budget Summary
1993-94 Through 1995-96**

(Dollars in Millions)

	Actual 1993-94	Estimated 1994-95	Proposed 1995-96 ^a	Percent Change From 1994-95
Expenditures				
Capital outlay support	\$894	\$787	\$717	-8.9%
Capital outlay projects	2,058	2,778	3,274	17.9
State-Local Transportation Partnership	164	216	181	-16.2
Local assistance	477	759	625	-17.7
Program development	62	64	63	-1.6
Legal ^b	—	—	51	—
Operations	137	136	136	0.0
Maintenance	692	708	717	1.3
Totals	\$4,484	\$5,448	\$5,764	5.8%
<i>State funds</i>	2,143	2,102	2,677	27.4%
<i>Federal funds</i>	1,869	1,843	2,072	12.4
<i>Reimbursements</i>	472	1,503	1,015	-32.5

^a Does not include the Highways portion of proposed \$76.4 million unallocated cut.

^b Beginning in 1995-96 "Legal" has been moved from administration to highway program.

Key Features of the 1995-96 Budget

The budget anticipates several actions that increase the level of funds available for capital outlay, including reductions to support and local assistance, borrowing from future funds, and the use of toll bridge funds for toll bridge seismic retrofit. We recommend that Caltrans explain the exclusion of a \$79 million anti-trust award from the proposed budget.

Support and Local Assistance Reductions Free Up Funds for Capital Outlay. The budget proposes various reductions to Caltrans' support and local assistance budget for 1995-96. These proposals include a reduction of 1,226 support PYs, compared to the current-year level. Three separate proposals account for the majority of the PY reduction: (1) 252 PYs to be cut in the administration and highway programs in order to accommodate an unallocated reduction imposed by the Legislature in the current year, (2) 220 PYs to be cut in highway capital outlay support due to declining workload, and (3) an unallocated reduction of 716 PYs proposed by the department. The budget uses the savings to increase the level of capital outlay funding. We discuss in

greater detail the proposals to reduce support funding later in this *Analysis*.

In local assistance, the budget reduces the funding in two programs. First, the budget proposes \$100 million for the State-Local Transportation Partnership Program, rather than the \$200 million intended under the *Transportation Blueprint for the Twenty-First Century (Blueprint)*. Second, the budget provides only \$5 million for Environmental Enhancement and Mitigation (EEM) rather than the \$10 million intended in the *Blueprint*. The budget intends that this \$5 million be counted as an expenditure for both the EEM program and the Habitat Conservation Fund.

Borrow From Future State Highway Account Revenues. The budget proposes to increase the funds available for capital outlay by borrowing \$147 million from future revenues in the State Highway Account (SHA). (Caltrans estimates that it will sell a total of \$847 million in SHA bonds from 1995-96 through 1997-98.) Using authority provided by Ch 194/91 (AB 981 Katz) and Ch 195/91 (SB 460, Killea), the department proposes to sell short-term bonds, to be repaid by 2000. This bonding authority is intended to be used to fund capital outlay for seismic projects or other projects that lack funding as a result of seismic retrofit expenditures. While the use of bonding authority will ease the funding shortfall somewhat in 1995-96, bond repayment and interest costs will further exacerbate the shortfall in subsequent years.

Toll Bridge Seismic Retrofit Funded From Toll Bridge Revenues. The budget proposes to fund toll bridge seismic retrofit work from toll bridge revenues. In recent years, the Legislature has budgeted funds from both toll bridge revenues and the SHA for toll bridge seismic retrofit. By relying exclusively on toll bridge revenues, the budget eases pressure on the SHA and leaves more funds available for other state highway and rail projects. However, toll bridge revenues must also support construction of nonseismic toll bridge improvements. Funding seismic retrofit from toll bridge revenues may jeopardize these other projects. Caltrans has not provided detail on the amount of toll bridge funds that are requested for seismic retrofit; therefore, we are unable to comment on the potential impact of this funding decision.

Use SHA and Federal Funds for Rail Projects. Because of the failure of two rail bond measures, rail capital outlay projects scheduled in the STIP will be unfunded by \$2 billion. The budget proposes to use \$118 million in SHA and federal funds to pay for rail capital projects in 1995-96.

Cutback in Reimbursed Work. Caltrans indicates that the proposed budget represents the beginning of a policy decision to reduce reimbursed work for local transportation agencies. Most local transportation agencies have minimal engineering staff, and rely on Caltrans or private sector engineering consultants to perform design and construction oversight services. Because Caltrans is required to bill the full cost for reimbursed work, there should not be any savings to state transportation funds as a result of a cutback in reimbursed work. However, by reducing the level of reimbursed work that Caltrans performs, more local transportation agency work will be available for private sector consultants.

Budget Reserves Funds for Santa Monica Bay Lawsuit. As described in the Crosscutting Issues write-up, a federal court has ruled that Caltrans has failed to prevent toxic substances from highways and equipment yards from washing into storm drains and ultimately into the Santa Monica Bay. The budget reserves \$20 million in the SHA for the estimated cleanup costs in 1995-96. Ongoing annual costs of remediation are anticipated to be substantial.

Budget Does Not Include \$79 Million Anti-Trust Award. Also as discussed in our Crosscutting Issues write-up, the 1995-96 budget does not reflect a \$79 million award which Caltrans received as part of an anti-trust lawsuit against several petroleum producing companies. The court order requires that the award be used for seismic retrofitting of state highway bridges.

Recommend Caltrans Explain Exclusion. There are several advantages to budgeting the anti-trust award in 1995-96. While the budget proposes borrowing \$147 million for seismic retrofit needs, by including the anti-trust award the same level of seismic retrofit could be supported while borrowing only \$68 million. Alternatively, the overall level of capital outlay could be increased by up to \$79 million above the level proposed in the budget, or the proposed unallocated cut to Caltrans' support could be reduced. Given the critical shortfall in transportation funds, we recommend that Caltrans explain the exclusion of these funds and that the Legislature consider its options for including the anti-trust award in the 1995-96 budget.

Budget Raises Policy Issues for Legislature

The key features of the budget present important policy decisions for the Legislature. We believe that the Legislature should consider the budget's assumptions regarding current and future programs levels and funding, in order to determine if the assumptions are consistent with the Legislature's priorities.

This budget presents several important policy decisions for the Legislature, some of which will have long-term implications for the size of the transportation capital program and Caltrans' need for capital outlay support staff. We believe that the Legislature should consider the following implications of the budget and evaluate whether the current and long-term effects are consistent with the Legislature's priorities:

Should Caltrans Borrow Construction Funds? This decision allows Caltrans to deliver a larger capital outlay program in 1995-96 and eases the current need to delay STIP projects. However, by borrowing against future SHA funds, this decision will contribute to a much smaller STIP program in the future and a reduced need for Caltrans' capital outlay support staff. The Legislature could reverse this decision in future years only by providing a revenue enhancement package. (We discuss this issue in greater detail below.)

Should Seismic Retrofit Have the Highest Priority for Funds? The budget assumes that Caltrans will deliver \$500 million of seismic retrofit projects in 1995-96 and that these projects will have first priority for capital outlay funds. This decision will displace STIP projects with seismic retrofit projects and will extend STIP delivery schedules. Therefore, while the priority given seismic retrofit can be changed in subsequent years, this year's decision will have long-term impacts.

Should Toll Bridge Seismic Retrofit Be Funded with Toll Bridge Revenues, in Lieu of SHA Funds? This decision frees up SHA funds which can be used to ease somewhat the current need to delay STIP projects. If toll bridge retrofit is instead funded from SHA in this or subsequent years, STIP project delays would increase. However, using toll bridge revenues for retrofit could mean that other toll bridge improvements would be delayed.

Should Local Assistance Be Reduced? This decision also eases somewhat the current need to delay STIP projects; however, some local projects would be delayed instead. Reversing this decision in the budget year or in subsequent years would increase STIP project delays.

Should Support for Caltrans Be Reduced? This decision frees up funds for capital outlay and matches the support level with the fundable capital outlay program. However, should the Legislature choose to provide additional transportation funds in the future, it could take several years to reverse a decline in support staffing and to train new employees. Alternatively, the Legislature could accommodate a future program increase by contracting out any additional work (possibly requiring a constitutional amendment) or by giving more project development responsibility and funds to local and regional transportation agencies.

Capital Outlay Funding Will Be Rationed

Caltrans will be unable to fund construction of all projects scheduled for 1995-96. The department is developing an "allocation plan" to determine which projects will receive construction funding. The plan relies upon borrowing against future transportation funds, and raises implications for the future level of transportation construction.

Allocation Plan Will Ration Funds for New Projects. As we discussed in the Crosscutting Issues section of this chapter, there is a significant funding shortfall in the state's transportation program. Due to this shortfall, Caltrans projects that in 1995-96 it will have insufficient capital outlay funds to construct all of the projects, including seismic retrofit, that are scheduled for delivery in that period. As a result, Caltrans is in the process of developing an "allocation plan" to maximize capital outlay funds and to ration these funds among all of the projects that are scheduled for delivery. The allocation plan will address the 18-month period from January 1995 through June 1996.

The allocation plan presents a different view of Caltrans' capital outlay program from that presented in the Governor's Budget. The budget assumes that in 1995-96 Caltrans will expend \$3.3 billion for highway capital outlay. This amount represents payments for project construction that began in previous years, as well as payments that will be required in 1995-96 for new project construction.

In contrast to the budget, the allocation plan addresses a different question—which new projects can Caltrans afford to *begin* constructing in 1995-96, recognizing that projects begun in 1995-96 will require construction payments in future years as well? Absent a funding shortfall, this question is addressed when projects are programmed into the STIP. However, given the immense gap between projected revenues and programmed projects, the STIP can no longer be used as a schedule for project construction consistent with available capital outlay resources.

Most Allocation Plan Resources Are Borrowed. Figure 5 summarizes Caltrans' allocation plan, which envisions that the California Transportation Commission (CTC) will authorize construction to begin on \$2.2 billion in new capital outlay projects over the 18-month period. Caltrans estimates that over that period current state and federal revenues will provide \$3.9 billion in resources. However, very little of that amount will be available to begin *new* project construction. This is because most of the \$3.9 billion will be used for departmental support, local assistance, ongoing construction projects, and repayment of federal funds borrowed in previous years.

Figure 5	
Department of Transportation 1995-96 Capital Outlay Allocation Plan	
(In Millions)	
Funding	
State Highway Account	\$482
Borrowing (Chapter 194, 195 bonds)	(147)
Federal funds	1,763
Borrowing (advance construction)	(1,469)
Total	\$2,245
Allocations	
Phase 2 seismic retrofit	\$500
SHOPP	645
Rights-of-way purchases	250
STIP (highway and rail)	850
Total	\$2,245

The allocation plan envisions augmenting available revenues by borrowing against future state and federal transportation funds. Specifically, Caltrans would sell bonds to borrow \$147 million, to be repaid by 2000 with SHA revenues. (While current law authorizes Caltrans to issue such bonds, the department has never before used this authority.) The largest source of funds for the allocation plan, however, would be \$1.5 billion in "advance construction" federal funds borrowed from FFY 1996-97. Advance construction has become a routine part of Caltrans' capital outlay program. However, to our knowledge, the department has never before relied so heavily on advance construction to fund its capital outlay program.

Project Rationing. Figure 5 also illustrates how Caltrans proposes to allocate \$2.2 billion to broad categories of transportation projects. The department reports that it will fund construction of all highway seismic retrofit projects as soon as engineering is complete, for an estimated cost of \$500 million. In addition, the plan allocates \$645 million to provide partial funding of the State Highways Operation and Protection Program (SHOPP). The department indicates that it plans to fund SHOPP highway safety and rehabilitation projects as well as minor projects, but will defer landscaping, buildings, and other nonessential SHOPP projects. Purchase of rights-of-way for current and future projects will receive \$250 million. Finally, the allocation plan targets the remaining \$850 million for STIP projects.

Largest Cutback Is in STIP Projects. Under this plan, STIP projects bear the brunt of the funding shortfall. The department indicates that over the period covered by the allocation plan, scheduled STIP projects total \$2.8 billion; however, even with its aggressive use of future revenues, the allocation plan will provide only \$850 million for STIP projects. Caltrans reports that many of the STIP projects will likely not be ready for construction when scheduled, so that the number of STIP projects that ultimately go unfunded will be somewhat less. At the time this analysis was prepared, Caltrans was engaged in a discussion with its district offices and local and regional transportation agencies to determine which STIP projects would be ready to construct during the 18 month period and which ones should receive highest priority for available capital outlay allocations.

Implications of the Allocation Plan. The worsening funding shortfall for transportation projects leaves no easy solution, and the 1995-96 allocation plan offers one way to address the problem. However, we believe that the Legislature should consider the following long-term implications of this plan:

- ***Reduces Funds Available in Later Years.*** By endeavoring to maintain the largest possible capital outlay program in 1995-96, the allocation plan greatly reduces funds that will be available in later years. The sale of \$847 million in bonds (including \$147 million in 1995-96) against the SHA will reduce state funds available in 1997-98 through 1999-2000. Similarly, the plan commits all federal funds that will be received in 1996-97.
 - ***1996 STIP Will Bear Burden.*** Because the 1995-96 allocation plan consumes so much future revenue, the 1996 STIP (covering the period 1996-97 through 2003-04) will have much fewer funds for project construction. Without an increase in transportation revenues, annual project construction will, for the foreseeable future, be lower than in recent years.
 - ***Reduces Caltrans' Staff Needs.*** Caltrans has for several years been staffed at a level to deliver all projects that are scheduled in the STIP. However, the allocation plan recognizes that available funds are insufficient to construct all projects in the STIP, and furthermore constrains annual amounts of construction in the 1996 STIP period. Therefore, the need for Caltrans' capital outlay support will be significantly lower than in recent years.
 - ***Caltrans Workload Uncertain.*** The allocation plan relies upon negotiations among Caltrans and local and regional transportation agencies to determine which projects should receive construction funding allocations. Caltrans informs us that this process is nearly resolved; however, uncertainty about project schedules may reduce the efficiency of Caltrans' capital outlay support function.
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Implementation of Current-Year Reductions in Departmental Support

Caltrans has provided only cursory information on how it is implementing current-year budget reductions totaling \$148 million. The department has provided no evidence that its \$56 million management efficiency reduction did not reduce program output, particularly in highway maintenance.

In the current year, Caltrans has to make substantial reductions in some of its programs below their 1993-94 level. This is because the 1994-95 budget includes the following actions:

- A \$56 million reduction proposed by Caltrans, to be implemented through management efficiencies, without reducing program output.
- A \$41.5 million reduction, at the Legislature's direction, consisting of \$13.5 million in reductions in departmental administration and \$28 million in unallocated cuts.
- A \$51 million reduction in the highway capital outlay support program also at the Legislature's direction.

The Legislature left to Caltrans the discretion to allocate these cuts to specific programs and activities.

Figure 6 shows how Caltrans reports that it will implement the cuts in the current year. As the figure shows, about \$43 million in management efficiencies will be realized through cuts to the highways program, including \$25 million from highway maintenance. Another \$12 million in efficiency reductions will come from departmental administration. In addition, the management efficiencies will result in a 564 PY reduction (of the 584 PY reductions shown in the last column of Figure 6.) Reduction in highway maintenance PYs account for 45 percent of the total management efficiency PY cuts.

No Evidence of "Efficiencies." Although Caltrans has characterized the \$56 million reduction as an efficiency measure that would not reduce program output, the department has been unable to explain what efficiency measures produced these savings. The department has also failed to explain what activities it has eliminated or modified to achieve the savings. As a result, we can offer no assurances to the Legislature that Caltrans has implemented these cuts through efficiencies rather than by reducing program activities and output and deferring expenditures.

Figure 6					
Department of Transportation					
Distribution of 1994-95 Reductions					
(Dollars in Millions)					
	Management Efficiency	Capital Outlay Support	Unallocated	Total	Total PYs
Highway transportation	-\$42.5	-\$51.0	-\$28.0	-\$121.5	-416
Capital outlay support	(—)	(-51.0)	(—)	(-51.0)	(—)
Local assistance	(-1.1)	(—)	(-0.9)	(-2.0)	(-22)
Program development	(-3.4)	(—)	(-3.8)	(-7.2)	(-26)
Operations	(-6.0)	(—)	(-1.5)	(-7.5)	(-73)
Highway maintenance	(-25.0)	(—)	(-12.0)	(-37.0)	(-255)
Equipment services	(-7.0)	(—)	(-9.8)	(-16.8)	(-40)
Mass transportation	-0.4	—	—	-0.4	-7
Transportation planning	-1.1	—	—	-1.1	-20
Administration	-12.0	—	-13.5	-25.5	-141
Totals	-\$56.0	-\$51.0	-\$41.5	-\$148.5	-584

Capital Outlay Support Reductions. Caltrans indicates that, in order to realize \$51 million in capital outlay support reductions, it reduced operating expenses by \$30 million and engineering contracts by \$21 million. These actions did not result in any staff reduction. The department, however, indicated that the reduction in state-funded engineering contracts resulted in a further reduction of \$27 million in federally funded contracts. Our review shows that the \$27 million in federal funds, although not expended on contracting out, remain available to the department for support expenditures.

Unallocated \$41.5 Million Cut. In enacting the 1994-95 budget, the Legislature explicitly directed the department to reduce departmental administration (except for tort payments and central administration pro-rata) by \$13.5 million. Caltrans indicated that it implemented the administration cut by eliminating 8 PYs of staff (for savings of about \$387,000) and by reducing \$13.1 million from operating expenses, including about \$2 million in structural material (used for highway maintenance) and an unknown amount in technical services that support highway design

and engineering (such as computer services and information systems) and in other administrative services.

As Figure 6 shows, Caltrans chose to take all of the remaining unallocated \$28 million cut in highway programs, including \$12 million from highway maintenance and \$9.8 million from equipment services (including passenger vehicles and maintenance equipment). As with other reductions, the department did not provide detail as to how it will achieve these reductions.

Budget Adjustments Proposed for 1995-96

For 1995-96, Caltrans has chosen to reallocate the \$41.5 million reduction so that it affects programs differently than in the current year. In addition, the budget proposes three major adjustments that we analyze in the sections that follow.

Budget Reallocates \$41.5 Million Reduction. In preparing its 1995-96 budget, Caltrans chose to reallocate the \$41.5 million reduction such that the reductions will affect program funding in a different way compared to the current year. Figure 7 illustrates how the reductions were allocated in 1994-95 and how the department reports that it will reallocate the cuts in 1995-96. Specifically, reductions to highway maintenance will continue in 1995-96, at about the same amount as the current year, but administration will bear a greater share of the cut—\$20 million in 1995-96, compared to \$13.5 million in 1994-95. In total, the entire highway transportation program would bear \$21.5 million of the cut, compared to \$28 million in the current year.

Reduction in Administration Misleading. Our review shows that for 1995-96, Caltrans plans to reduce administrative services personnel by 200 PYs to achieve about \$10.2 million of the \$20 million proposed reduction. However, the remaining \$9.8 million will be a reduction not in administration per se, but rather in equipment services (which for purposes of the 1994-95 reductions, are not considered as administration).

Additional Major Proposals in 1995-96 Budget. In addition to a reduction of \$41.5 million in the department's baseline expenditure level, the proposed budget includes three other major adjustments:

- A proposal to add \$28.6 million to “restore” part of the \$41.5 million cut taken in the current year.
- A proposal to reduce highway capital outlay support by \$71.4 million and 220 PYs, in order to match the engineering

work force with the lower level of funds available for capital outlay.

- An unallocated reduction of \$76.4 million, including \$67.4 million and 716 PYs from departmental support and \$9 million from local assistance.

We discuss each of these three proposals in greater detail below.

Figure 7

**Department of Transportation
Allocation of \$41.5 Million Reduction
1994-95 and 1995-96**

(In Millions)

	Allocation of \$41.5 Million Reduction		1995-96 Restoration Proposal	Net Change, After Restoration
	1994-95	1995-96		
Highway transportation	-\$28.0	-\$21.5	\$28.6	\$7.1
Capital outlay support	(—)	(—)	(—)	(—)
Local assistance	(-0.9)	(-0.1)	(—)	(-0.1)
Program development	(-3.8)	(-3.0)	(—)	(-3.0)
Operations	(-1.5)	(-6.1)	(1.5)	(-4.6)
Highway maintenance	(-12.0)	(-12.3)	(12.0)	(-0.3)
Equipment services	(-9.8)	(—)	(11.3)	(11.3)
Technical services	(—)	(—)	(3.8)	(3.8)
Mass transportation	—	—	—	—
Transportation planning	—	—	—	—
Administration	-13.5	-20.0	—	-20.0
Totals	-\$41.5	-\$41.5	\$28.6	-\$12.9

Restoration Proposal Inconsistent With Legislative Intent

We recommend a reduction of \$28.6 million requested to restore current-year cuts, because the proposal is inconsistent with legislative intent. (Reduce 2660-001-042 by \$28.6 million.)

The budget proposes an increase of \$28.6 million in operating expenses and equipment, in order to “restore” part of the \$41.5 million cut imposed by the Legislature. As Figure 7 illustrates, the proposal is concentrated in highway maintenance and equipment services. Caltrans indicates that the restoration of \$12 million to highway maintenance would directly reverse the cuts that the department made in implementing the \$41.5 million unallocated reduction. Similarly, funding for equipment services

will be restored. (Even though Caltrans' data as shown in Figure 7 do not reflect a reduction in equipment services, Caltrans indicated that the reduction was made as part of the \$20 million reduction in administration.) While the department itemized the categories of expenditures to be restored and their amounts, it provided little justification for the proposal. Therefore, we are not able to evaluate the merits of the individual proposals that it contains.

Restoration Not Consistent With Legislative Intent and Lacks Justification. While we do not doubt that Caltrans has found recent budget cuts to be difficult to implement, we believe that the Legislature's intent was that the \$41.5 million cut be a permanent reduction in expenditures. Caltrans has the discretion to allocate this reduction among various programs and to select the mix of personnel and operating expense reductions based on program priorities. Thus, Caltrans should allocate budget reductions in a manner that is least disruptive to the department in meeting its statutory priorities. We believe that in order to justify that part of the cut be restored, the department ought to demonstrate the need for the funds relative to the department's budget in its entirety, and the adverse impact of the lack of restoration. Lacking such justification, we therefore recommend that the \$28.6 million increase be deleted.

Reduced Capital Outlay Support for Highway Program

Due to decreased workload, the budget proposes 8,955 personnel-year equivalents (PYEs) for highway capital outlay support, a reduction of 647 from the estimated current-year level. However, Caltrans has not provided any detail to allow an evaluation of its staffing level. We recommend that Caltrans provide, prior to budget hearings, a workload calculation to justify its proposed staffing level.

We further recommend that Caltrans justify its proposed level of contracting out (260 PYEs) in terms of continuing and new contracts, and technical specialties, in view of recent court rulings that limit Caltrans' ability to continue to contract out.

The budget proposes expenditures of \$717 million for highway capital outlay support in 1995-96. This is a reduction of \$71.4 million (9 percent) from estimated current-year expenditures. This expenditure level will support a total of 8,955 PYEs of work—a decrease of 647 (6.7 percent) from the amount estimated in the current year. Capital outlay support staff provide engineering, right-of-way acquisition, environmental clearance, technical support, and construction oversight on capital improvements.

Figure 8 illustrates both the source of the 8,955 capital outlay support PYEs, as well as Caltrans' proposed use for the PYEs. In order to achieve a reduction totaling 647 PYEs, Caltrans proposes to reduce state staff by 220 PYs, contracting out by 353 PYEs, and student assistants by 74 PYEs.

Figure 8				
Department of Transportation Capital Outlay Support Staffing 1993-94 Through 1995-96				
(Personnel-Year Equivalent)				
	Actual 1993-94	Estimated 1994-95	Proposed 1995-96	Proposed Change From 1994-95
Sources				
State staff	8,471	8,541	8,321	-220
Cash overtime	381	299	299	—
Student assistants	164	149	75	-74
Engineering consultant contracts	1,052	613	260	-353
Totals	10,068	9,602	8,955	-647
Uses				
Basic STIP program	7,170	6,060	5,618	-442
Pre-STIP state projects	571	288	431	143
Seismic retrofit	797	1,461	1,478	17
Regional measure 1	67	148	189	41
Locally funded projects	330	273	315	42
Local tax measure projects	866	1,017	569	-448
Administrative pro-rata	267	355	355	—
Totals	10,068	9,602	8,955	-647

Fewer PYEs Needed Due to Lower Workload. Because of the shortage of capital outlay funds and the resulting reduction in the number of projects that can be constructed in 1995-96, Caltrans requires fewer PYEs in capital outlay support. Typically the department uses a statistical model to compute its PYE requirement for capital outlay support, based upon the number, size, and complexity of scheduled projects. However, because the 1995 allocation plan is still under development, Caltrans is not certain which projects it will be asked to deliver in 1995-96, and consequently the department was unable to estimate its capital outlay support needs using its statistical workload model. Instead, the department indicates that it approximated its PYE

needs based upon the aggregate dollar amount of planned capital outlay and the assumption that historical workload averages would apply.

Recommend That Caltrans Justify Staffing Level. Given the uncertainty surrounding the allocation plan, we recognize the need for Caltrans to depart from its usual method of calculating staffing needs. However, Caltrans has not provided details of the workload calculation, and, consequently, we are unable to evaluate the proposed staffing level. As the allocation plan is currently being finalized, we recommend that, prior to budget hearings, Caltrans provide a workload calculation that justifies its proposed staffing level for capital outlay support.

Recommend That Caltrans Provide Contracting-Out Details. The budget proposes that Caltrans utilize 260 consultant services PYEs in order to meet part of its workload. However, several court decisions have held that Caltrans has violated the State Constitution by contracting-out for services that could be provided by state staff, and a recent decision found Caltrans in contempt of court for failing to justify or cancel existing contracts. As a result, Caltrans may be required to further reduce contracting-out. In light of recent rulings, we recommend that Caltrans advise the Legislature, prior to budget hearings, of the level of contracting-out that can be utilized in 1995-96. In addition, we recommend that Caltrans justify its proposed level of 260 consultant PYEs by showing the number that are for continuing contracts and the number intended for new contracts, and also the technical specialities that the consultants will provide.

Reductions by Project Type. Figure 8 also shows how Caltrans proposes to distribute 8,955 capital outlay support PYEs among the various categories of transportation projects. For example, the basic state program (STIP, SHOPP, and TSM) will utilize 442 fewer PYEs than in the current year. Reimbursed work on local tax measure projects will be reduced by 448 PYEs, while seismic retrofit PYEs will remain at about the same level as in the current year.

While the department's proposed reduction does cut 647 PYEs and \$71.4 million, only a portion represents actual savings to the state. This is because \$23 million of the reduction is from reimbursed work that would have been paid for by local transportation agencies, and \$13 million is from toll bridge funds that can only be spent on toll bridge projects. The remaining \$36 million, however, is a savings in state and federal funds that can be used for capital outlay or other departmental support needs.

No Explanation for Unallocated \$76 Million Reduction

We withhold recommendation on a \$76.4 million (716 PY) unallocated cut because Caltrans has provided no explanation of why it proposes this reduction or how it will be implemented. We recommend that Caltrans report to the Legislature, prior to budget hearings, on how it will allocate and implement this reduction and on how the reductions will affect program output and personnel.

The budget includes an unallocated reduction of \$76.4 million—\$67.4 million and 716 PYs from departmental support and \$9 million from local assistance. Caltrans has not explained why it has proposed this reduction or how the proposed reduction will affect different programs or activities. While Caltrans will experience reduced workload as a result of a shortage in transportation funds, the department has separately proposed a \$71.4 million reduction (discussed above) intended to match capital outlay support staff to the size of the fundable capital outlay program. This additional unallocated cut would, therefore, appear to reduce departmental support *below* the level that the department estimates is sufficient to design programmed projects and to adequately maintain and operate the transportation system.

We recommend that, prior to budget hearings, Caltrans report to the Legislature on how it proposes to implement this reduction, including:

- How the proposed cut will be allocated to program elements throughout the department, and how each cut will impact personnel services and specific operating expenses.
- The programmatic impact of each cut, including any proposals to implement efficiencies without reducing program output.
- A personnel reduction plan, including layoff plans and the cost of implementing such layoffs.

Seismic Retrofit to Continue Through 1997-98

Although the department did not meet its latest deadline, delivery of Phase 1 seismic retrofit is almost complete. Phase 2 retrofit is in the early stages of engineering. The department's staffing and delivery schedule for Phase 2 are only preliminary estimates and will likely need to be revised. Caltrans has not provided any information on its progress on toll bridge seismic retrofit or on planned toll bridge retrofit expenditures for 1995-96.

Following the 1994 Northridge earthquake, Caltrans expanded and revised its retrofit program for state highway bridges, creating a Phase 1 program and a Phase 2 program. Phase 1 includes bridges that Caltrans identified in its first screening,

following the 1989 Loma Prieta earthquake. Caltrans identified 1,039 bridges for Phase 1 and set targets of December 31, 1994 to have all Phase 1 bridges under construction and December 31, 1995 to have all Phase 1 construction complete.

The Phase 2 program includes bridges that were added as a result of an additional screening process that followed the Northridge earthquake. Phase 2 currently includes 1,331 bridges and Caltrans has set a target of December 31, 1997 to complete all construction on these bridges.

Figure 9

**Department of Transportation
Seismic Retrofit Program
Scope and Progress^a**

(Dollars in Millions)

	Number of Bridges	
	Phase 1	Phase 2
Retrofit construction complete	359	9
Under contract for construction	531	9
Engineering complete	131	18
Engineering not complete	18	1,295
Totals	1,039	1,331
Estimated construction cost	\$727	\$1,050

^a As of December 15, 1994

Phase 1 Misses Target. Despite the department's commitment to seismic retrofit, Caltrans did not fully meet its December 31, 1994 target to have all Phase 1 bridges under contract. As Figure 9 illustrates, as of December 15, 1994 the latest complete data that Caltrans provided, a total of 890 Phase 1 bridges (86 percent) were either completed or under contract for construction. Caltrans has completed design plans for an additional 131 Phase 1 bridges and the department can now award construction contracts for these bridges.

Phase 2 Starts Slowly. In June 1994, Caltrans completed a screening process to identify bridges for Phase 2. Due to this late start, most Phase 2 bridges are now at very early stages in the design and construction process. As shown in Figure 9, a total of 18 bridges are either

under contract or have construction complete, while engineering design has been completed for an additional 18 bridges.

The majority of Phase 2 bridges (1,295) are in the early engineering and design stages; it will take several more years to complete engineering design and construction. Caltrans has not yet set a design and construction schedule for individual Phase 2 bridges. Instead, the department has set aggregate targets to construct \$50 million of Phase 2 projects in 1994-95 and \$500 million per year in 1995-96 and 1996-97.

Caltrans Provides No Update on Toll Bridge Retrofit. Caltrans indicates that its target date to complete seismic retrofit construction of seven state toll bridges is also December 31, 1997. However, the department has provided neither information on its project schedule nor its progress in meeting this schedule. We understand that Caltrans' schedule assumes that private consultants will do much of the engineering; however, due to the department's planned reductions in contracting-out and to recent judicial limitations on contracting-out, it is unclear if this schedule can be sustained.

In addition, Caltrans has not provided information on its planned expenditures in 1995-96 for toll bridge retrofit design and construction. The budget provides \$125 million in toll bridge revenues for toll bridge projects, including both seismic retrofit and nonseismic improvements. The budget assumes that toll bridge revenues will fund all toll bridge retrofit expenses. However, Caltrans has not indicated what portion of the \$125 million in proposed expenditures is for toll bridge seismic retrofit and what portion is for nonseismic projects.

More Capital Outlay Support for Seismic Retrofit. Figure 10 illustrates the level of capital outlay support that Caltrans has allocated for seismic retrofit of highway, toll, and local bridges. For the current year, Caltrans initially proposed to allocate 552 PYEs for seismic retrofit. However, due to the addition of Phase 2 and the department's higher priority for seismic retrofit, Caltrans now estimates that it will use 1,461 PYEs for current-year seismic retrofit. In 1995-96, Caltrans' seismic retrofit work should be shifting from Phase 1 to Phase 2 projects; however, substantial support needs for Phase 2 will continue in 1996-97 and in 1997-98 as well.

As recently as one year ago, Caltrans planned to design and engineer seismic retrofit projects using primarily consultant engineers. However, due to department downsizing and court orders, Caltrans plans to eliminate most contracting-out, and the department now indicates that it will staff nearly all seismic projects with state staff.

Figure 10

**Department of Transportation
Seismic Retrofit Staffing^a
1993-94 Through 1995-96**

	Actual 1993-94	Estimated 1994-95	Proposed 1995-96
Highway bridge seismic retrofit	781 ^b	1,273	1,290
Phase 1	(—)	(691)	(423)
Phase 2	(—)	(582)	(867)
Toll bridge seismic retrofit	—	113	114
Local bridge seismic retrofit	10	69	69
Seismic research	6	6	5
Totals	797	1,461	1,478

^a Personnel-Year Equivalents.
^b Includes Phase 1, Phase 2, and Toll PYEs.

Caltrans informs us that seismic retrofit requires special engineering skills and training, but the department was not able to identify the number of department staff that have these qualifications. In order to meet the staffing needs of Phase 2, Caltrans reports that it has developed an intensive training program for its own staff. While this is essential to ensure that all seismic retrofit work is of high quality, utilizing less experienced staff and devoting additional time to training academies is likely to reduce the overall productivity of the seismic retrofit program.

Phase 2 Staffing and Schedule Are Uncertain. We believe that Caltrans' delivery targets and staffing levels for Phase 2 should be considered preliminary estimates, due to staffing and scheduling uncertainties. Because the department lacks a project-specific delivery schedule for Phase 2, it is unable to accurately estimate its staffing requirement and forecast project delivery schedules. In addition, Caltrans staff that are newly trained for seismic design may be less productive than experienced staff, resulting in a higher staffing requirement. Therefore, as Caltrans develops more information about Phase 2 retrofit, we believe that the department will likely need to adjust its staffing level or its delivery targets.

Assessment of Project Delivery in 1993-94

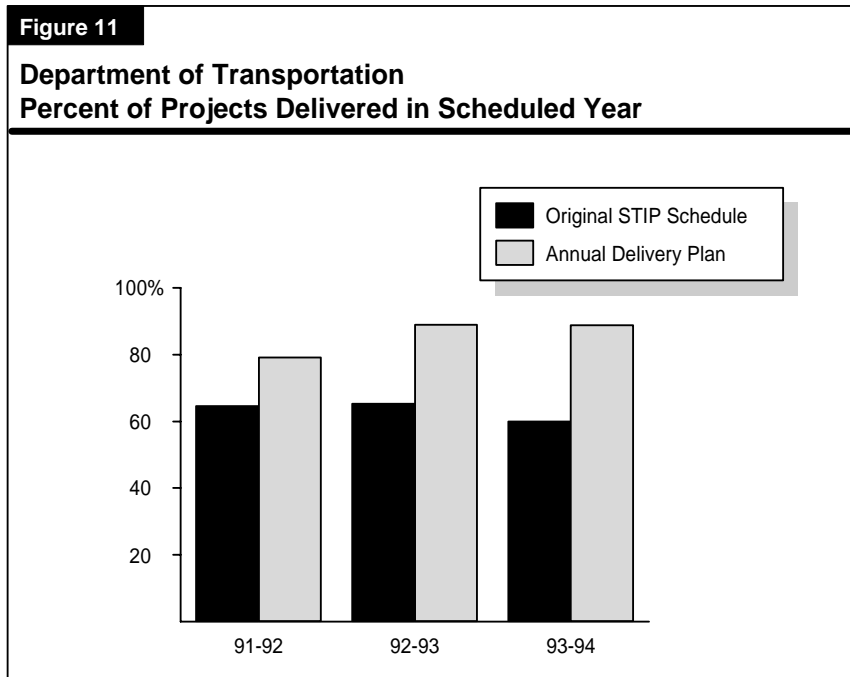
The total number of highway projects that Caltrans delivered in 1993-94 increased slightly from the previous year, but the construction value of the projects declined sharply. Caltrans delivered 60 percent of the projects that were originally scheduled for 1993-94 delivery; however, the department delivered 89 percent of projects that were in its updated annual delivery plan.

Because of concern over project delays, the Legislature has enacted various requirements to monitor Caltrans' delivery of state highway projects. The Legislative Analyst is required to annually assess the department's progress in delivering projects according to the STIP programs: the STIP, the State Highways Operation and Protection Plan (SHOPP), and the Traffic Systems Management (TSM) plan. Project delivery is defined in statute as occurring when a project is advertised for construction.

More Projects Delivered But Much Lower Value. In 1993-94, Caltrans delivered 449 highway projects having a total construction value of \$1.1 billion. Compared to total project delivery in 1992-93 (442 projects valued at \$2.2 billion), this represents an increase of 1.6 percent in the number of projects delivered but a decrease of 47 percent in the total construction value of projects delivered. The lower value of delivered projects is consistent with the project delivery schedule, which for 1993-94 included fewer and smaller projects. Nonetheless, 1993-94 delivery value represents a considerably lower output than in recent years.

Total 1993-94 delivery includes projects that were planned for delivery in that year, as well as projects that were scheduled in earlier and later years but that were delivered in 1993-94. In addition, 1993-94 delivery includes 137 Northridge earthquake repair projects, having a construction value of \$227 million. Although these earthquake repair projects were not scheduled in the STIP programs, they are counted as part of total project delivery for 1993-94.

Delivery Against STIP Schedule. Figure 11 illustrates Caltrans' degree of success in delivering projects in the year in which they were scheduled. As the figure illustrates, in 1993-94 Caltrans delivered 60 percent of projects that had originally been scheduled in the STIP for 1993-94 delivery; this is a slight decline from 65 percent delivery in 1991-92 and 1992-93. Projects that are not delivered in their originally scheduled year may have been delivered early or may be delayed for late delivery.



Delivery Against Project Delivery Plan. Caltrans and the California Transportation Commission make frequent changes to the STIP schedule, to add new projects, reschedule projects, or, less frequently, to delete projects. To reflect these changes, at the beginning of each fiscal year Caltrans prepares an updated project delivery plan that identifies the projects that Caltrans plans to deliver in the coming year. Figure 11 illustrates how successful Caltrans has been in delivering the projects in its annual project delivery plan. As the figure illustrates, in 1993-94 Caltrans delivered 89 percent (268 out of 302) of the projects that were in its 1993-94 delivery plan. This is the same delivery rate as in 1992-93, and an improvement over the 1991-92 delivery rate of 79 percent.

Caltrans Unable to Measure Cost of Project Development

Caltrans has failed to submit reports on its cost of project development as required by statute. Additionally, the reports that Caltrans has produced in previous years to meet the statutory requirement do not provide a useful measure of the efficiency of Caltrans' project development program. We recommend adoption of supplemental report language directing the department to propose more meaningful measures of its efficiency.

For several years the Legislature has expressed an interest in monitoring the productivity and efficiency of Caltrans' project development function (consisting of designing and engineering highway projects). This is mainly because expenditures for design and engineering of transportation projects consume a considerable share of transportation funds, but Caltrans has never adequately demonstrated the efficiency of its design program. Based upon options suggested by Caltrans, the *Blueprint* required that Caltrans provide an annual report on its cost of project development. This annual report is intended to measure the efficiency of project development by comparing the cost of Caltrans' inputs (project development costs) to the value of its output (the construction cost of the transportation projects that Caltrans designed).

No Report for 1992-93 or 1993-94 Projects. In the *Supplemental Report of the 1994 Budget Act*, the Legislature restated its interest in Caltrans' project development costs, requesting that Caltrans provide project development cost reports for 1992-93 and 1993-94 by August 1 and December 1, 1994, respectively. Caltrans has failed to submit either report, but the department did provide a draft version of its cost report for 1992-93. As with the report on 1991-92 costs, Caltrans used yet a different methodology than in previous years to assess project costs. Additionally, it did not provide the necessary back-up information needed to permit an evaluation of the draft report's validity.

Report Does Not Provide Meaningful Efficiency Measure. Based on our review of Caltrans' annual project development cost report for several previous years, we find that Caltrans' report does not meet the Legislature's need to be informed of Caltrans' efficiency. The report does not provide a meaningful measure of engineering costs at one point in time, nor is it useful for making year-to-year comparisons of efficiency, for several reasons:

- Rather than measure total support costs on a project-by-project basis, most costs are allocated to projects by formula and often do not represent actual costs.
- The report evaluates only a small portion of the total number of projects that the department designs and therefore may not be indicative of overall efficiency.
- The report inappropriately compares costs from various years, without making corrections for inflation.
- Caltrans has periodically changed its methodology for calculating the cost of project development, so that year-to-year comparisons are not valid.

- Furthermore, the report, as required by statute, excludes the cost of construction oversight. However, construction oversight consumes a considerable share of staff resources, and we believe that the efficiency of this function should also be measured.

Caltrans attributes many of the shortcomings of its cost report to limitations in the department's financial information systems. For example, Caltrans informs us that its financial systems cannot provide project-specific data for certain types of costs and cannot combine department costs with consultant costs for individual projects.

Inability to Report Echoes SRI Finding. We believe that Caltrans' inability to produce a meaningful measure of its project development efficiency is indicative of the department's overall lack of performance measurement that SRI identified in its 1994 management audit (discussed in more detail in the next issue). In that report, SRI wrote:

The SRI team sought to determine whether Caltrans had become more, or less, efficient over the last ten years. Unfortunately, yet not unusual for government agencies, no consistent measure of output could be identified. Further, no set of overall department measures exist...for regularly tracking achieved performance versus target and for annual performance reviews. Such measures are essential if Caltrans is to improve its efficiency and productivity. (Finding L3, p II-45)

As SRI notes, Caltrans' managers need, but do not have, a comprehensive set of performance measures in order to manage effectively. We believe that the Legislature also needs measures of Caltrans' overall performance, at a lesser level of detail, in order to make budget and policy decisions. The Legislature intended that the report on the cost of project development would fill this role; however, we believe that the report, as produced by Caltrans, fails this purpose and should be replaced.

Recommend Caltrans Propose New Measures. Caltrans has for several years been engaged in a project to revamp its financial information systems. This project should, if properly executed, provide much improved access to financial data and the ability to generate performance measures of the type envisioned by SRI. We therefore recommend that the Legislature adopt the following supplemental report language, directing Caltrans to propose new and meaningful measures of capital outlay support efficiency that can be produced as a result of planned improvements to its financial systems:

Caltrans shall, by December 1, 1995, provide a report to the Legislature that proposes and evaluates performance measures for all major capital outlay support functions, including project studies, project development, right-of-way acquisition, and construction oversight. The department shall propose measures that (1) provide an accurate measure of annual efficiency, as well as (2) provide a consistent basis for year-to-year comparisons, and (3) evaluate both the department's cost and its timeliness in completing work. Furthermore, the department shall demonstrate that each measure that it proposes can be accurately generated from the department's existing or planned information systems.

No Response to SCR 72 Management Audit

Caltrans has not provided information regarding its implementation of the SRI report. We recommend adoption of supplemental report language directing Caltrans to provide a comprehensive report to the Legislature by August 1, 1995, including the department's response to each recommendation and the department's plans and progress towards implementation.

Legislature Calls for Management Audit. Motivated by years of concern that project delivery at Caltrans is too slow and too expensive, the Legislature in 1992 passed Senate Concurrent Resolution (SCR) 72 to initiate an independent consultant review of the management of Caltrans. Both the Governor and the Director of Caltrans, as well as the California Transportation Commission, voiced their support for the proposal.

In February 1994, the independent consultant, SRI International, completed its analysis and presented its final report and recommendations. SRI reported that, despite areas of improvement, Caltrans is not focused on results, but on adherence to procedures and rules. In addition, SRI found that Caltrans lacks a strong commitment to time- and cost-efficiency, a problem that is compounded by the absence of meaningful performance measures and a lack of individual and organizational accountability.

SRI Recommends Performance Measurement and Accountability. As a response to the identified shortcomings, SRI produced 72 recommendations to improve the management of Caltrans, which it summarized in 14 high-priority recommendations. The general theme of the recommendations is increasing individual and organizational accountability and providing performance measures and incentives. According to the consultant, these 14 recommendations form a set of consistent, mutually reinforcing actions that are achievable and that would result in substantial improvements in the efficiency of Caltrans.

Implementation Moving Slowly. Figure 12 shows the 14 high-priority recommendations and the progress to date. While the Legislature has not formally ratified the report's recommendations, it has considered legislation to implement some components. At present, however, only one recommendation—include capital outlay support costs in the STIP—has been enacted into law.

Figure 12	
Department of Transportation SCR 72 Management Audit Status of High Priority Recommendations	
Recommendation	Implementation Status
Constitutional Amendment:	
Permit contracting-out	<ul style="list-style-type: none"> • SCA 46 (Bergeson) introduced in 1994 session
Legislative/Executive:	
New Transportation Agency	<ul style="list-style-type: none"> • SB 1542 (Kopp) passed by Legislature, vetoed by Governor • BT&H Agency added more transportation oversight positions
Modify California Transportation Plan process	<ul style="list-style-type: none"> • No legislative action
Evaluate long-term transportation funding requirements	<ul style="list-style-type: none"> • SB160 (Kopp) introduced in 1995 session • Governor announced a blue-ribbon panel
Include capital outlay support costs in STIP	<ul style="list-style-type: none"> • Enacted by SB 1565 (Kopp, Ch 226/94)
Caltrans:	
Performance measures	<ul style="list-style-type: none"> • Unknown
Individual accountability and rewards	<ul style="list-style-type: none"> • Unknown
Implement mission statement	<ul style="list-style-type: none"> • Unknown
Reengineer project delivery and management	<ul style="list-style-type: none"> • Unknown
Interim enhancements to Management Information Systems (MIS)	<ul style="list-style-type: none"> • Unknown
New MIS environment	<ul style="list-style-type: none"> • Unknown
Simplify project approval/permitting	<ul style="list-style-type: none"> • Unknown
Revise project management	<ul style="list-style-type: none"> • Unknown
Develop project delivery performance management control system	<ul style="list-style-type: none"> • Unknown

Caltrans Implementation Unknown. SRI identified Caltrans as the lead for implementing 9 of the 14 high-priority recommendations, as shown in Figure 12. While Caltrans has voiced general agreement with the report, the department has not provided a detailed evaluation and response to SRI's findings and recommendations.

Caltrans also did not respond to our request for information on the department's plans and progress in implementing the recommendations. We are therefore unable to inform the Legislature if and to what extent Caltrans intends to implement the SRI recommendations.

Caltrans Should Respond to SRI Report. Recognizing that the Legislature has not formally endorsed the entire package of SRI recommendations or mandated its implementation, we do not expect the department to have taken action on every recommendation. Nonetheless, we believe that it is necessary that Caltrans evaluate and respond to each of SRI's recommendations, so that the Legislature may better evaluate how and to what extent the report's recommendations should be implemented. Therefore, we recommend that the following supplemental report language be adopted:

In order to assist the Legislature in determining which SRI recommendations on Caltrans management to implement, Caltrans shall provide to the Legislature, by August 1, 1995, a comprehensive evaluation and response to the SRI report. Caltrans shall identify: (1) those recommendations with which it agrees and its plans and progress in implementing them, (2) those recommendations with which it does not agree, and (3) alternate recommendations that the department believes the Legislature should consider.

MASS TRANSPORTATION

For 1995-96, the Mass Transportation program will account for approximately 6.8 percent of the department's total expenditures. The budget proposes \$420.1 million in program expenditures, which is \$41.8 million (9 percent) less than estimated current-year expenditures.

Figure 13 summarizes the Mass Transportation expenditures by program elements. The largest elements of the program provide capital outlay funds for rail transit capital and intercity rail. In 1995-96, the budget proposes a 35 percent reduction in rail transit capital expenditures. This is mainly due to the depletion of bond funds available under Propositions 108 and 116. The budget also proposes a 50 percent increase in the expenditure level for interregional public transportation. The increase includes an augmentation of \$24.3 million for intercity rail operations and \$26 million for interregional public transportation capital expenditures.

Figure 13

**Department of Transportation
Mass Transportation Expenditures
1993-94 Through 1995-96**

(Dollars in Millions)

	Actual 1993-94	Estimated 1994-95	Proposed ¹ 995-96	Percent Change From 1994-95
State and federal mass transit	\$22.8	\$26.3	\$29.2	11.0%
Rail transit capital	294.3	280.6	182.4	-34.9
Interregional public transportation	127.9	105.1	158.0	50.3
Transfer facilities and services	1.7	3.9	4.0	2.5
Research	0.1	—	—	—
Work for others	0.2	1.5	1.5	—
Rideshare	36.4	44.5	45.0	1.4
Totals	\$483.4	\$461.9	\$420.1	-9.0%

Intercity Rail Program

Currently, intercity rail passenger services are provided on three main corridor routes on a contract basis with Amtrak. (These are referred to as state-supported or 403(b) services and are provided pursuant to section 403(b) of the federal Rail Passenger Service Act.) These routes are the San Diegan, the San Joaquin, and the Capitol. Figure 14 shows the current number of daily round trips on the three routes.

Figure 14

**Intercity Rail Service
1992-93 Through 1995-96**

Number of Daily Round Trips

	1992-93	1993-94	1994-95	Proposed 1995-96
San Diegan	9	9	9	10
San Joaquin	4	4	4	6
Capitol	3	3	3	5

In addition to providing for the operation of the service, Caltrans also plans for the capital improvements needed to upgrade the corridors for service expansion. Capital improvements include (1) acquisition of rolling stock (cars and locomotives), (2) maintenance facility and station improvements, (3) track and signal improvements.

State Operating Subsidy Increasing

The state's share of operating costs for intercity rail services has been increasing, and the state has little control over these costs. The state's operating costs per passenger vary by route, and range widely in amount.

The state and Amtrak each pay for a portion of the operating costs of the service based on a formula which takes into account the amount of fare revenues generated and the operating cost of service. Depending on the service, the state's share of costs varies. Current law also requires each route to attain a 55 percent farebox ratio—that is, passenger fares must cover at least 55 percent of operating costs—by the third year of service in order to continue to receive state operating funds.

Amtrak's Participation in State-Supported Routes Wanes. Under federal law, Amtrak determines and allocates operating costs to the various routes. Historically, Amtrak's share of the operating costs has ranged between 30 and 35 percent of the operating costs of each service. However, as Figure 15 shows, Amtrak's contribution has declined over time while the state's portion of the operating subsidy has risen accordingly. As a result, from 1992-93 through 1994-95, with no expansion in service (in terms of round trip trains per day), total operating expenses paid by the state increased from \$22 million to \$30.8 million while Amtrak's share has remained constant at \$5.7 million. Our review further shows that as of 1994, no additional federal funds are allocated for Amtrak to pay for any *new* services. Consequently, the state has to pay for all the operating costs of any new service not covered by fare revenues.

Amtrak's Latest Plan Will Cost State Even More. Recently, Amtrak announced that it will discontinue the Capitol service beginning April 1, 1995. If the state wants to continue the route's three daily round trips, it will likely have to increase its subsidy above the \$7.9 million it is currently paying. Caltrans indicated that it could cost the state an additional \$1 million to continue that service through October 1995.

State Has Little Control Over its Share of Costs. In addition to allocating costs, Amtrak also sets passenger fares. This limits Caltrans' flexibility to change fares in order to attract more riders or to improve cost recovery. The department maintains that fares on some services in California are set artificially high, thereby resulting in low ridership and low fare revenue return. Because Caltrans has little control over its

share of costs, it is difficult for the department to budget for intercity rail service.

Figure 15				
Intercity Rail Service				
Share of Operating Costs				
(Dollars in Millions)				
	1992-93	1993-94	1994-95	Proposed 1995-96
San Diegan				
State	64%	77%	90%	95%
Amtrak	36	23	10	5
San Joaquin				
State	77	81	83	85
Amtrak	23	19	17	15
Capitol				
State	85	82	84	91
Amtrak	15	18	16	9
Total Cost				
State	\$22.0	\$25.5	\$30.8	\$43.1
Amtrak	5.7	5.7	5.7	5.7
Totals	\$27.7	\$31.3	\$36.5	\$48.8

Subsidy Per Passenger Ranges Widely. Depending on the operating costs charged by Amtrak, total ridership and passenger fares, the state's operating cost (subsidy) per passenger for each route varies. Figure 16 (see next page) shows the per passenger subsidy from 1992-93 to 1994-95. As the figure shows, subsidy per passenger may increase even when service on a route achieves a higher farebox ratio. For instance, per passenger subsidy for the San Diegan would increase to \$4.30 in 1994-95 despite a projected higher farebox ratio than in 1993-94. Additionally, even though the San Joaquin achieves a higher farebox ratio than the Capitol, subsidy per passenger for the San Joaquin in the past two years has been significantly higher.

Figure 16
**Intercity Rail Service
Farebox Ratio and
Operating Subsidy Per Passenger**

	1992-93	1993-94	1994-95 ^a
Farebox ratio (percent)			
San Diegan	103%	91%	96%
San Joaquin	56	52	54
Capitol	35	36	38
State operating sub- sidy per passenger			
San Diegan	\$1.39	\$2.75	\$4.30
San Joaquin	21.50	27.20	21.24
Capitol	40.46	21.75	15.56

^a Figures estimated based on Caltrans' estimate of ridership. For the first quarter of 1994-95, actual ridership was lower than the estimated amount on the San Diegan and San Joaquin.

Expansion Plans Delayed

We recommend that \$2.9 million in the current year for the expansion of intercity rail service be reverted to the TP&D Account because the expansion will not occur due to a shortage of equipment and a lack of system capacity; consequently, the funds will not be needed in the current year.

Service Expansion Will Not Materialize in 1994-95. The 1994-95 budget included approximately \$14.8 million to expand the intercity rail service. This includes \$13.5 million for operating costs and \$1.3 million in equipment costs. Caltrans anticipated that increased service expansion would improve ridership and farebox revenues, thereby reducing its share of operating costs. However, Caltrans now indicates that service expansion will likely not occur in the current year because of delays in (1) the delivery of the California Car (a rail car specifically manufactured for California intercity and commuter rail service) and (2) track and signal improvements needed on the San Joaquin and the Capitol routes.

Caltrans Redirected Funds Anticipated for Service Expansion. However, Caltrans indicates that only \$2.9 million of the \$14.8 million appropriated remains available. This is because the department has redirected the remaining \$11.9 million to pay for higher operating costs charged by Amtrak for existing services in the current and prior years as well as to fund some minor capital projects. Accordingly, we recommend that \$2.9 million be reverted back to the TP&D Account.

Intercity Rail Program Needs Accountability

We recommend the adoption of Budget Bill language that requires the department to notify the Legislature when funds are reallocated for intercity rail service uses.

Our review shows that, over the past three years, Caltrans has redirected funds that were appropriated for proposed service expansion to other intercity rail purposes. For instance, from 1992-93 through 1994-95, \$34 million was provided for service expansion. However, no expansion was implemented for various reasons. Instead, approximately \$23 million was redirected to fund higher operating costs on the three routes. Another \$2.5 million has been redirected in the current year to pay for some minor capital improvement projects.

While current law authorizes the redirection of funds, the Legislature is not advised of such redirections and, therefore, is not informed of the actual level of service being provided and the associated costs. In order that the Legislature is apprised of changes in the use of funds for intercity rail service, we recommend adoption of the following Budget Bill language (Item 2660-001-046):

The California Transportation Commission shall not allocate to the Department of Transportation any other funds, in excess of \$28.8 million provided in this item, for operation of existing intercity rail service, without prior written approval of the Department of Finance, and no sooner than 30 days after notification in writing to the chair of the fiscal committee and the chair of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may in each instance determine.

Proposed Expansion Lacks Justification

We recommend that \$14.3 million requested for the expansion of intercity rail service in 1995-96 be deleted because the department is unable to provide any ridership projections that justify the service expansion. (Reduce Item 2660-001-046 by \$14.3 million.)

The budget requests \$43.1 million in 1995-96 to support intercity rail operating expenditures. The amount includes \$28.8 million to fund existing services and \$14.3 million requested to expand service as follows:

- One additional round trip on the San Diegan.
-

- Two additional round trips on the San Joaquin.
- Two additional round trips on the Capitol.

In support of the request, the department states that service frequency has to reach a threshold level before ridership would increase sufficiently for the route to meet the 55 percent farebox ratio requirement. However, the department is unable to provide *any* ridership projections for 1995-96 to justify the expansion of service. Without these ridership projections, it is not possible to determine how the expanded service would perform in terms of farebox return and what the state's costs per passenger would be. Consequently, it is not possible to assess whether the request is justified.

Ridership Would Have to Increase Significantly if Subsidy Per Passenger Is to Stay at Current Level. If the department's proposed service expansion were adopted, our analysis shows that in order for the state's cost per passenger to remain at the 1994-95 level, ridership would have to increase significantly. For instance, ridership would have to increase by about 81 percent for the Capitol service. Based on the growth in ridership in the past three years, it is questionable if ridership will increase by this amount. Consequently, state subsidy per passenger would increase further.

Analyst's Recommendation. Lacking any ridership projection for the three intercity rail routes for 1995-96, we think it is imprudent to make a business decision to expand services. Accordingly, we recommend the request for \$14.3 million be deleted.

Capital Improvement Funds Lower Than Anticipated

The failure of the 1992 and 1994 rail bond measures created a funding gap in the intercity rail capital program. Highway funds now provide the main source of state revenues to fund intercity rail projects. The Legislature may want to direct the CTC to reexamine the funding priorities of highway and rail projects based on their relative cost-effectiveness.

Intercity Rail Program Short on Capital. In accordance with the *Blueprint*, about \$450 million of capital projects have been identified for the intercity rail capital outlay program. Over the past four years, only \$150 million in Proposition 108 bond funds have been allocated for these projects. With the failure of Propositions 156 and 181, the intercity rail capital program is now short of funding by about \$300 million. Consequently, the immediate burden to fund these projects is shifted to the SHA which will provide the main source of state revenues for intercity rail projects. The 1995-96 budget proposal includes about

\$18 million in SHA and federal funds for intercity rail capital improvements.

Funding Priority for Intercity Rail Capital Projects. As we discussed earlier (in the Crosscutting Issues section of this chapter), there are not adequate funds to pay for all programmed rail and highway capital outlay projects. Given the demand for funding, the Legislature may wish to establish a funding priority for highway and rail projects that balances safety and expansion of the transportation system. For example, the Legislature may want to direct the CTC to reexamine the funding priorities of highway and rail projects based on their relative cost-effectiveness.

Intercity Rail Program Needs Operating Plan

We recommend the adoption of supplemental report language requiring Caltrans to provide the Legislature annually as part of the budget request, an intercity rail operating plan that defines the program's goals and provides three-year projections of the following factors for each route (1) ridership, (2) passenger fare revenues, (3) operating expense and loss, (4) total state cost, and (5) 55 percent farebox break even ridership levels.

Intercity Rail Lacks Business Plan. Under current law, Caltrans is required to prepare a biennial rail passenger development plan for submission to the Legislature, the CTC, and others. Among other things, the plan is required to include (1) actual, estimated, and proposed operating expenditures, (2) the costs and funding sources of intercity rail capital needs, (3) an evaluation of the past performance of each route in terms of meeting the 55 percent farebox ratio, (4) a recommendation for a five-year plan of services to be provided, and (5) a discussion of fare policies and practices among other things.

Our analysis, however, indicates that the department is not required to project service demand and set performance targets on each service route. As a result, the department cannot compare actual operations against these targets to evaluate performance. Similarly, the department does not project the level of ridership necessary to achieve the 55 percent farebox recovery ratio based on projected operating costs per route and projected Amtrak fare requirements.

Without these operating measures and targets, it is difficult for the Legislature to determine whether proposed services are cost effective and justified. Accordingly, we recommend that the following supplemental report language be adopted:

The department shall provide annually, as part of its budget request, a rail operating plan that defines the program's goals and provides by route, three year projections of (1) ridership, (2) passenger fare revenues, (3) operating expenses and loss, (4) total state cost, and (5) 55 percent farebox break-even ridership levels.

Rideshare Funding Exceeds Amount in Program Plan

We recommend a reduction of \$3.2 million in the rideshare program because the department's program proposal for 1995-96 justifies an amount lower than that requested in the budget. (Reduce Item 2660-001-890 by \$3.2 million).

The rideshare program provides access to and information about carpools and vanpools as an alternative to commuting alone, and promotes nonsingle occupant vehicle alternatives to commuting such as buspooling, public transit, bicycling, walking and telecommuting, in order to reduce traffic congestion. Under ISTEA, federal highway funds can be used to support rideshare programs, without having to provide any state matching funds. However, the program must meet overall program goals established by the Federal Highway Administration (FHWA) as well as various reporting requirements in order to be eligible for federal funding. Additionally, Caltrans has to submit annually a program plan to the FHWA for approval. (Otherwise, the federal funds will be available for highway purposes.)

The 1995-96 budget proposes expenditures of \$40.6 million in federal funds for the rideshare program. This is 13 percent higher than actual program expenditures in 1993-94. Our review indicates that for the current year, the FHWA approved a program level of \$37.4 million. Discussion with Caltrans' staff further indicates that the program level for 1995-96 will be similar to that of 1994-95—\$3.2 million less than requested in the budget. Accordingly, we recommend the amount be deleted.

Technical Adjustment

We recommend a reduction of \$500,000 in order to correct a technical budgeting error. (Reduce Item 2660-001-042 by \$500,000.)

Caltrans proposes to redirect \$500,000 from its New Technology Research Program in order to provide planning and startup funds for a Center for Transportation Innovation. This proposal appears to be consistent with statutory direction. However, Caltrans erroneously budgeted the \$500,000 as an increase, rather than a redirection; therefore, we recommend that this amount be deleted.

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 along the state's highway system. Currently, to carry out this responsibility, the department administers three programs to assist the motoring public: (1) Traffic Management, (2) Regulation and Inspection, and (3) Vehicle Ownership Security. For 1995-96, the budget proposes to consolidate the California State Police with the CHP. Functions previously performed by the State Police will be provided under a new Protective Services program.

The budget requests a total of \$751 million to support the CHP in 1995-96. This is \$70.4 million, or about 10 percent, above estimated expenditures in the current year. The increase is the result of (1) savings adjustments of \$9.4 million due to various cost changes and (2) workload and program changes totaling \$61 million. Key changes include the following increases: (1) \$27.8 million to consolidate with the State Police, (2) \$15.3 million for telecommunications services, (3) \$10.4 million to fill 180 vacant traffic officer positions, (4) \$5.1 million for commercial traffic enforcement, (5) \$4.1 million to continue patrol automation, and (6) \$5.3 million for salvage vehicle inspections and vehicle theft prevention. The budget also proposes a reduction of \$7 million to reflect various savings.

Consolidation With State Police Proposed

The budget proposes to transfer 413 personnel-years (PYs) and \$27.8 million from the California State Police (CSP) to the CHP in order to consolidate the operations of these two agencies. The consolidation is anticipated to achieve better service coordination as well as more efficient use of resources through economies of scale.

We recommend that the CHP report at budget hearings how it plans to implement the consolidation if approved by the Legislature.

The administration proposes to merge the CSP with the CHP to provide combined statewide law enforcement capabilities beginning July 1, 1995. Currently, the CSP is within the Department of General Services. The budget proposes to transfer \$27.8 million to the CHP from the Protective Services Fund to implement the consolidation.

CHP Role Has Expanded to Provide More General Law Enforcement. Current law enables CHP traffic officer responsibilities to extend beyond the traditional highway patrol regimen. For instance, the CHP is heavily involved in drug interdiction activities, vehicle theft investigation, and assisting local law enforcement agencies in the prevention of crime. In some instances the CHP is reimbursed for assisting local law enforcement agencies such as providing additional crowd control at major events and in other instances, the CHP provides assistance on a non-reimbursable basis such as providing additional patrol service for crime in East Palo Alto.

Consolidation Would Provide More Coordinated and Higher Service Level For State Facilities. The CSP is a statewide law enforcement agency that provides general law enforcement and protective services for state employees and property. Funding for CSP services is paid by most state departments on a pro-rata basis. Currently, coverage is provided in only 15 counties with 413 personnel-years of staff. The CHP is a much larger organization, with about 8,800 personnel-years of support in 1994-95, that provides both traffic and general law enforcement services to the public throughout the state. Because CHP has offices in all counties (except Alpine), it could provide much broader coverage to state employees and facilities by including that coverage as part of a CHP officer's regular patrol responsibility.

Consolidation Provides For More Efficient Use of Resources. According to the Governor's Reorganization Plan, there will be additional costs and savings associated with the consolidation. The primary costs associated with the consolidation will occur in salary and benefit costs due to the current disparity in compensation between the CSP and the CHP. For instance, it is estimated that salaries and benefits of the CSP officers will increase by \$2.5 million in order to bring these officer's salaries up to the level of the CHP pay scale. These costs will occur over time depending on how long it would take for CSP officers to transfer into existing CHP officer classifications.

The plan also identifies savings due to reductions in Department of General Services overhead expenses and savings resulting from economies of scale and other consolidation efficiencies. These efficiencies include elimination of duplicate facilities, reductions in administrative overhead, centralization of the vehicle fleet and volume purchase discounts. It is estimated that these savings will likely more than offset the higher compensation costs. For 1995-96, the budget reflects a net savings of about \$835,000.

The Reorganization Process Does Not Allow The Legislature To Amend The Proposal. Current law specifies the procedure for submission and approval of a Governor's Reorganization Plan. Specifically, the plan must be submitted to the Little Hoover Commission for review and recommendation 30 days before submission to the Legislature; the CHP advises that it anticipates the plan to be submitted to the Legislature approximately by mid-April. Once a reorganization plan is submitted to the Legislature, the Legislature has 60 legislative days to approve or to reject the plan. The process, however, does not allow the Legislature to amend the plan. At the time this analysis was prepared, the CHP advised that the consolidation plan will most likely be submitted to the Little Hoover Commission sometime in February.

Issues for the Legislature to Consider. In order for the Legislature to review and assess the Governor's plan, we offer the following consolidation criteria for the Legislature to consider:

- ***Efficiency.*** As discussed above, the proposal will provide for a more efficient use of resources with estimated net savings of \$835,000 in 1995-96.
- ***Coordination.*** Does the consolidation enable the two law enforcement agencies to work in unison to provide services more effectively as a whole than apart? As discussed above, the proposal will provide a higher level of traffic and general law enforcement service and broader coverage to the public throughout the state through one agency.
- ***Mission Compatibility.*** Does the consolidation bring together programs with compatible responsibilities? Our review shows that while CHP and the CSP have different responsibilities, both have the same primary mission of law enforcement and public safety.
- ***Accountability.*** Does the consolidation provide the same level or enhance the level of accountability? This proposal probably facilitates accountability because it combines two organizations with similar missions into one department.
- ***Legislative Priorities.*** Does the consolidation still meet legislature priorities? Our review finds that the proposal will not reduce the functions and responsibilities currently carried out by either the CHP or CSP.
- ***Comprehensiveness.*** Does the proposal consider all related programs in order to ensure a truly efficient and complete reorganization? The proposal relates only to the consolidation of the CHP and the CSP. There are additional law enforcement agencies such as the University of California and California State University police that are not part of this proposal.

(These criteria are further detailed in our write-up under the Crosscutting Issues of the Resources chapter of this *Analysis*, where we discuss the Governor's Reorganization Plan for various Resources departments.)

At this time, it is not clear when the reorganization plan will be submitted to the Legislature for consideration. The CHP advises that it anticipates the plan to be submitted to the Legislature sometime in mid-April. While the reorganization plan identifies better coordination and increased efficiencies as a result of the proposed consolidation, our review shows that the consolidation plan has merit. However, there are still many implementation questions that the plan has not addressed. In order that the Legislature has fuller information regarding the consolidation proposal, we recommend that the department provide the following information, at budget hearings, on how it would implement the consolidation:

- How the CHP's mission statement will be revised or affected by the consolidation.
- How traditional CSP functions will be provided statewide, and how will these functions be paid for.
- How would the CHP operate two separate telecommunications systems, and what are the pros and cons of the operating systems.
- What are the potential costs and savings associated with upgrading the telecommunications system to a system that can accommodate both CSP and CHP demands.
- What is the time frame for implementing the reorganization plan, including the time frame for training CSP officers and assisting them to transfer into the CHP ranks.

Mobile Computers Will Cost More

The Mobile Digital Computer (MDC) component of the Patrol Officer Environment Automation Program (POEAP), estimated to cost \$33.5 million over 8 years will cost more because the expected useful life of the computers is only half as long as originally anticipated. We withhold recommendation on \$4.1 million requested for MDC procurement pending review and approval by the Office of Information Technology (OIT) of the department's feasibility study report to fully implement the MDC project.

The department has a long range plan to automate the patrol officer's working environment, mainly the patrol car. The plan is known as the Patrol Officer Environment Automation Program (POEAP). An integral component of this plan is the MDC Project. It accounts for about 80 percent of the total cost of the POEAP. The MDC is essentially a laptop computer that will be used by patrol officers to access general law enforcement and motor vehicle information databases. Use of the MDC will help to alleviate radio congestion and facilitate report writing and administrative responsibilities.

Original MDC Project Estimate Of \$33.5 Million Over 8 Years Understated. The 1994-95 budget provides \$2.4 million for the CHP to procure 375 MDCs for deployment mostly in major metropolitan areas, of the first phase of the project to automate the patrol officer's work environment. The department estimated the total cost to be \$33.5 million over 8 years in order to install laptop computers in 2,000 patrol cars. However, more recent information from CHP indicates that full implementation of the MDC component of the POEAP would cost \$48.8 million—an increase of \$15.3 million or 46 percent more than originally estimated.

Our review shows that the costs are higher because the CHP now plans to procure 4,169 MDCs. This would be sufficient to provide each patrol officer, rather than each vehicle, with a computer. This change in deployment strategy is in response to the finding that the useful life of an MDC (in a patrol car) is about 18 months instead of three years as originally estimated. The department anticipates that by issuing MDCs to each officer, the daily utilization rate of each computer would be lowered (about 8 hours instead of 24 hours), and the useful life of a computer could be extended to about four years.

Project Approval Still Pending. The CHP has submitted a feasibility study report (FSR) to OIT for the MDC project based on the latest cost estimate and information on equipment life span. The FSR is currently under OIT review. According to OIT, its review will be complete sometime in early March.

The budget requests \$4.1 million for the procurement of 375 MDCs in 1995-96. Pending OIT's review and decision on the FSR, we withhold recommendation on the requested amount.

Additional Funding to Fill Traffic Officer Vacancies

The request for \$10.4 million to fill 180 vacant traffic officer positions is reasonable. These traffic officers will be deployed in accordance with standard CHP policies to increase traffic enforcement capabilities.

For the current year, the Legislature approved \$10.6 million for the CHP to fund the Governor's proposal to increase the traffic officer force by 500 officers over a three-year period. This additional funding enabled the CHP to resume academy operations and to fill 130 vacant traffic officer positions in 1994-95 that were being held open to make up for previous increases in operating costs. As a consequence, the CHP can currently support about 5,270 traffic officers.

However, the CHP still has about 300 vacant traffic officer positions. The 1995-96 budget requests \$10.4 million to provide phase II funding to fill 180 of these vacant positions in order for the CHP to continue to restore its traffic enforcement services. Based on the current attrition rate and the academy training schedules we find that the proposed amount is reasonable.

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 for 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 \$540 million for support of the DMV in 1995-96. This is an increase of \$32 million, or 6.3 percent, above estimated current-year expenditures. This proposed increase is primarily due to costs to implement new legislation and a proposal to remove asbestos and remodel a portion of the DMV headquarters building. The budget estimates that most of the costs of implementing new legislation will be offset by increased revenue from existing or new fees.

Unlike previous years' budget proposals, the Governor's Budget does not propose any adjustment to the department's 1995-96 budget to reflect anticipated changes in the number of vehicle registration and driver license transactions that the department will have to process. The department indicates that it will continue to monitor workload trends and may request a budget increase in the May Revise.

Update: Database Project Suspended— Consultant Evaluating DMV Plans

The DMV has hired a consultant to evaluate its information technology needs. Pending the consultant's final report, we withhold our recommendation on \$2.9 million requested for purchase payments and maintenance on a computer purchased for the failed database redevelopment project.

In last year's *Analysis*, we reported that the DMV had committed well over \$40 million to a database redevelopment project that had not achieved its objectives and that the department had come to believe could not be implemented. In a subsequent *Supplemental Analysis*, we recommended that funding to continue this project be deleted from the DMV's budget, and that the Legislature direct the DMV to hire an independent consultant to evaluate the database redevelopment project and to

determine if and how it should proceed. The Legislature subsequently deleted \$7.5 million from the department's 1994-95 budget, and separately provided \$500,000 to fund a consultant evaluation and \$3.9 million to pay remaining vendor costs.

DMV Hires Consultant. Although the Governor vetoed the \$500,000 appropriation, the DMV has proceeded to hire a consultant under its own authority, using redirected funds. The DMV defined the consultant's task more broadly than initially conceived by the Legislature. According to the department, the consultant's charge is to determine how the DMV should employ information technology in order to meet its business needs. Subsumed within this broad question is the specific question of whether database redevelopment is needed and how the project should proceed.

In November, the DMV awarded a contract, valued at \$370,000, to the Warner Group. The contract requires that the consultant:

- Assess the DMV's current and future business practices and plans.
- Determine the current state of the DMV's information technology capabilities.
- Assess the DMV's Strategic Information Technology Plan.
- Define a future information technology environment for the DMV and provide options and recommendations for developing an implementation plan.
- Evaluate major information technology projects, including database redevelopment, in the context of the recommended information technology environment.

The DMV reports that it has currently halted work on the database redevelopment project, pending the consultant's final report in April, 1995. State regulations require that the DMV submit a formal proposal to restart the database redevelopment project or any other projects that the DMV proposes in order to implement the consultant's recommendations.

Continuing Costs Relating to Cancelled Project. Although the Legislature deleted funding for any new work on the database redevelopment project and the department has suspended work, considerable funds related to this project remain in the budget. These funds are for purchase and maintenance contracts for a new computer system that the DMV installed, but has been unable to use, for database redevelopment.

Currently, the DMV informs us that this computer is running a name-searching program for law enforcement.

In the current year, the Legislature approved \$3.9 million for these computer costs, and the budget proposes about \$2.9 million in 1995-96. The DMV has informed us that its costs in 1995-96 will be less than the budgeted \$2.9 million because the department has reduced the level of maintenance and support for the computer. The DMV intends to pay the remaining purchase debt in 1995-96; however, even after the purchase contract is fully paid, ongoing maintenance and operational costs will continue if the DMV intends to continue operating the computer.

Withhold Recommendation. While we do not dispute the DMV's responsibility to pay its contractual purchase obligations, it is not clear to us that it is cost-effective to continue operating and maintaining the computer. Following the final report of its information technology consultant in April, 1995, we believe that DMV should be able to promptly decide whether to continue to maintain and use this computer or whether to dispose of it. We therefore withhold recommendation on \$2.9 million, and recommend that, prior to budget hearings, the DMV report to the Legislature on its plans to utilize or dispose of the computer.

No Funds Proposed for Motor Voter

The budget proposes no funding to implement the federal Motor Voter act in 1995-96, and projects that the DMV will revert \$1.2 million of its current-year appropriation that was intended for processing voter registration applications.

The National Voter Registration Act of 1993 (HR2, commonly called "Motor Voter") requires that, beginning on January 1, 1995, states provide voter registration services as part of various transactions between the public and government agencies. The Act specifically requires that each state's DMV must, as part of an application for a driver license, allow the applicant to register to vote. In order to implement Motor Voter in California, the DMV requested, and the Legislature approved, a budget augmentation of \$2.4 million for 1994-95.

Subsequently, the Governor issued an executive order (W-98-94) instructing state departments to not implement Motor Voter unless the federal government provides funding. As a result of this order, the DMV has suspended its implementation of the Act, and plans to revert \$1.2 million of the \$2.4 million provided in the current year. The department informs us that it has completed computer programming and other necessary preparation for the Act and that the \$1.2 million reversion represents funds that would have been required to process voter registration applications beginning January 1.

The proposed budget contains no funding for Motor Voter implementation in 1995-96. The DMV estimates that full implementation in 1995-96 would require \$3.4 million.

Credit Card Cost Report Not Provided

The DMV has not provided a report, requested by the Legislature, on the cost-effectiveness of the department's credit card payment program. We recommend that prior to budget hearings, the DMV provide the Legislature with the report on the program.

In prior *Analyses*, we have raised concerns with the DMV's program that allows customers to pay for some transactions with a credit card. While this program does provide an additional level of service to some customers, it also results in additional costs to the department. This is because credit card companies deduct a service charge, or "discount fee," of about 1.8 percent from all transactions. In 1995-96, the department estimates that discount fees will cost about \$550,000.

The Legislature has previously requested that the DMV demonstrate the cost effectiveness of the credit card program; however, the DMV has failed to provide the Legislature with any such analysis. Consequently, in the *Supplemental Report of the 1994 Budget Act*, the Legislature requested that the DMV provide a report on (1) the cost-effectiveness of the credit card payment program, (2) the feasibility of charging a "convenience fee" to credit card customers in order to cover the DMV's costs, and (3) the department's plans for expanding the program. The Legislature requested this report by December 15, 1994. However, the DMV indicates that it has not yet approved the final draft of its report for release. Consequently, we are unable to provide to the Legislature any further information on the justification for continuing or expanding this program.

Recommendation. We believe that the Legislature's decision whether, and at what level, to fund the DMV's credit card program requires the information requested in the *Supplemental Report*. So that the Legislature may make a well-informed decision, we recommend that, prior to budget hearings, the DMV provide the Legislature with its report on the credit card program.

Headquarters Building—Asbestos Abatement

We withhold recommendation on \$4,363,000 in Item 2740-001-044 and \$2,139,000 in Item 2740-001-064 for partial asbestos abatement and renovation of the headquarters building pending receipt and review of (1) the DMV's overall abatement plan for the building and (2) the updated master plan for a new DMV/CHP headquarters complex. Furthermore, if meritorious, this proposal should be budgeted as a capital outlay project instead of a support budget expenditure.

The budget includes \$6.5 million to remove asbestos from a portion of the DMV's headquarters building in Sacramento. Specifically, the asbestos fireproofing above the suspended ceiling on the building's second floor would be removed. According to a consultant's survey of the building, this material is "severely damaged." The department proposes to evacuate the second floor, remove the asbestos fireproofing, remodel the second floor to current code requirements, and then reoccupy the space.

Plans Not Complete. The DMV requested the Department of General Services to prepare an asbestos abatement plan for the remaining floors in the headquarters building. Thus, the department is still in the process of determining the ultimate scope, cost and priority for removing asbestos from this building. In addition, the DMV is currently completing an updated master facilities plan for a joint DMV/CHP headquarters project. The Legislature provided funds for this study in the *1993 Budget Act*. We believe it would be premature for the Legislature to approve the budget proposal without first having information on (1) the eventual scope and total cost of removing other asbestos from the building and (2) how the renovation fits into any future plans for a new DMV/CHP headquarters facility. We therefore withhold recommendation on this budget request.

At the time this analysis was written, the DMV indicated that the two studies mentioned above were nearly complete. When these reports are available, we will review them and, as appropriate, make recommendations to the Legislature regarding the budget proposal and proposals contained in the report.

Proposal Is Capital Outlay. In addition to removing asbestos, the proposal will alter the existing facility to upgrade restrooms to meet Americans with Disabilities Act requirements, upgrade the fire detection/suppression system, and upgrade the ventilation system for energy efficiency. These types of improvements are capital outlay expenditures and should not be budgeted within the DMV's support and operations budget. Thus, if the Legislature approves this proposal, either as proposed or modified, we would recommend that it be budgeted as a capital outlay project under Items 2740-301-044 and 2740-301-064.

LIST OF FINDINGS AND RECOMMENDATIONS

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Crosscutting Issues

Transportation Funding

- 1. Funding Shortfall Will Delay STIP Delivery Beyond 2002-03.** The state is short at least \$5.9 billion to carry out all projects programmed through 1998-99 and, at the same time, to fund all seismic retrofit work. Short of increasing revenues or reducing other non-capital outlay expenditures, it will take all resources projected to be available through 2002-03 and into 2003-04 to fund the state's transportation projects. A-12
 - 2. Court Action Could Worsen Funding Situation Significantly.** A recent court injunction would potentially cost \$20 million in 1995-96 for the Department of Transportation to pay for the ongoing clean up of pollution caused by stormwater runoff in Los Angeles. These costs represent only the tip of the iceberg of potential ongoing costs. Five additional areas in the state face potential clean up costs as well. A-13
 - 3. Allocation Plan Used to Match Revenues and Projects.** Because of the funding shortfall, the State Transportation Improvement Program is no longer a realistic project funding schedule. Instead, allocation plans have to be devised periodically to better match resources to projects. A-14
 - 4. Federal Funds Could Run Out in 1995-96.** Federal funds provided under the Intermodal Surface Transportation Act will be depleted by the end of 1995-96. Unless a subsequent federal act provides for "advanced construction" capabili-
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- ties, there will be no new federal funds for state highway design and construction in 1996-97. If the state does not backfill federal funds with state dollars, this could bring transportation construction to a standstill.
5. **Condition of Transportation Funds.** The State Highway Account will not be able to fund the 1995-96 program without borrowing. The Transportation Planning and Development Account and the Motor Vehicle Account are projected to be in better condition in 1995-96. A-16

Department of Transportation

6. **Lack of Information Hinders Legislative Review.** Recommend Caltrans describe actions that it will take to improve the flow of information to the Legislature. A-19
7. **Highway Budget Reduces Support and Local Assistance.** The budget proposes a modest overall increase for the Highway Transportation program, composed of decreases to most activities and a large increase in proposed capital outlay. Caltrans did not provide detail on its proposed capital outlay expenditures. A-21
8. **Key Features of 1995-96 Budget.** The budget includes several features that increase the funds that are available for capital outlay in 1995-96, including reductions to departmental support and to local assistance as well as borrowing future transportation funds. Recommend that Caltrans explain the exclusion from the budget of a \$79 million anti-trust award that is available to fund seismic retrofit. A-22
9. **Budget Raises Policy Issues for Legislature.** The budget presents several important policy decisions for the Legislature, some of which will have long-term implications for the size of the transportation capital program and Caltrans' need for capital outlay support staff. A-24
10. **Capital Outlay Funding Will Be Rationed.** Caltrans is developing an allocation plan that will determine which transportation projects will be constructed in 1995-96. The plan relies upon borrowing future transportation funds, and raises implications for the future level of transportation construction. A-26

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11. Implementation of Current-Year Reductions in Departmental Support. Caltrans has provided only cursory information on how it is implementing current-year support reductions totaling \$148 million. Caltrans has not demonstrated that its \$56 million "management efficiency" reduction did not reduce program output.	A-29
12. Budget Adjustments Proposed for 1995-96. Caltrans will reallocate the \$41.5 million reduction to affect programs differently than in the current year. The budget also proposes three other major adjustments.	A-31
13. Restoration Proposal Inconsistent With Legislative Intent. Reduce Item 2660-001-042 by \$28.6 Million. Recommend reduction because Caltrans' proposal to restore prior reductions is contrary to legislative intent, and the department has not provided detail to justify amount on the basis of programmatic needs.	A-32
14. Reduced Capital Outlay for Highway Program. Recommend that Caltrans justify both its overall staff level for capital outlay support and its proposed level of 260 contracting-out PYEs.	A-33
15. No Explanation for Unallocated Reduction. Withhold recommendation on proposed \$76.4 million (716 PY) unallocated reduction. Recommend that Caltrans provide a detailed explanation of the justification and implementation of its proposed unallocated reduction.	A-36
16. Seismic Retrofit to Continue Through 1997-98. Phase 1 seismic retrofit is nearly complete, but Phase 2 bridges are still in early design stages. The department's staffing and delivery schedule for Phase 2 will likely need to be revised. Caltrans provided no information on its progress in retrofitting state toll bridges or its planned expenditures.	A-36
17. Assessment of Project Delivery in 1993-94. The total value of projects that Caltrans delivered in 1993-94 was about half that of the previous year. Measured against original STIP schedules, Caltrans' delivery slipped slightly; however, Caltrans maintained an 89 percent delivery rate against its updated annual delivery plan.	A-40
18. Caltrans Unable to Measure Engineering Efficiency. Caltrans did not provide statutorily required reports on its cost of project development. Recommend supplemental report language directing Caltrans to propose new and	A-41

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more useful efficiency measures.	
19. No Response to SCR 72 Management Audit. Caltrans has not provided the Legislature with a response to the findings and recommendations of the Caltrans management audit performed by SRI International. Recommend supplemental report language directing Caltrans to provide, by August 1, 1995, its evaluation and response to the SRI report.	A-44
20. State Operating Subsidy Increasing. The state's share of operating costs for intercity rail services has been increasing and the state has little control over these costs. The state's operating costs per passenger vary by route, and range widely in amount.	A-48
21. Expansion Plans Delayed. Revert \$2.9 Million to the Transportation Planning and Development Account. Recommend that \$2.9 million in the current year be reverted because the proposed expansion of intercity rail service will not occur, and the funds will not be needed.	A-50
22. Intercity Rail Program Needs Accountability. Recommend the adoption of Budget Bill language that requires the department to notify the Legislature when funds are reallocated for intercity rail service uses.	A-51
23. Proposed Expansion Lacks Justification. Reduce Item 2660-001-046 by \$14.3 million. Recommend reduction because the department is unable to provide any ridership projections that justify the intercity rail service expansion.	A-51
24. Capital Improvement Funds Lower Than Anticipated. The failure of the 1992 and 1994 rail bond measures create a funding gap in the intercity rail capital program. Highway funds now provide the only source of state revenues to fund intercity rail projects. The Legislature may want to direct the CTC to reexamine funding priorities of highway and rail projects based on their relative cost-effectiveness.	A-52
25. Intercity Rail Program Needs Operating Plan. Recommend the adoption of supplemental report language requiring Caltrans to provide to the Legislature annually, as part of the budget request, an intercity rail operating plan that defines the program's goals and provides three-year projections for each route for (a) ridership, (b) passenger fare revenues, (c) operating expense and loss, (d) total state cost, and (e) 55 percent farebox break-even ridership levels.	A-53

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26. Rideshare Funding Exceeds Amount in Program Plan. Reduce Item 2660-001-890 by \$3.2 million. Recommend reduction because the rideshare program plan for 1995-96 can justify an amount lower than requested in the budget.	A-54
27. Technical Adjustment. Reduce Item 2660-001-042 by \$500,000. Recommend reduction to correct for an overbudgeting error.	A-54

Department of the California Highway Patrol

28. Consolidation With State Police Proposed. The proposed consolidation of the California State Police with the CHP is anticipated to achieve better service coordination as well as more efficient use of resources through economics of scale. Recommend that the CHP report at budget hearings how it plans to implement the consolidation, if approved by the Legislature.	A-55
29. Mobile Computers Will Cost More. Withhold recommendation on \$4.1 million requested for Mobile Digital Computer (MDC) procurement pending review and approval by the Office of Information Technology of the department's feasibility study report to fully implement the MDC project.	A-58
30. Additional Funding to Fill Traffic Officer Vacancies. The request for \$10.4 million to fill 180 vacant traffic officer positions is reasonable.	A-60

Department of Motor Vehicles

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| 31. Database Project Suspended—Consultant Evaluating DMV Plans. Pursuant to Legislative direction, the DMV has stopped work on its failed database redevelopment project and has hired a consultant to advise the department. Withhold recommendation on \$2.9 million pending a DMV decision on the disposition of a computer purchased for the failed project. | A-61 |
| 32. No Funds Proposed for Motor Voter. The budget proposes no funding for the DMV to implement the federal Motor Voter act in 1995-96. | A-63 |
| 33. Credit Card Cost Report Not Provided. The DMV has failed to provide a report on its credit card payment program, as requested by the Legislature. Recommend that the DMV provide this report to the Legislature prior to budget hearings. | A-64 |
| 34. Headquarters Building—Asbestos Abatement. Withhold recommendation on \$6.5 million to remove asbestos and remodel part of the DMV headquarters building, because the plan is incomplete. In addition, if approved, this project should be budgeted as capital outlay, rather than support. | A-65 |