

MAJOR ISSUES

Transportation



Overall Transportation Funding Outlook Improves Significantly; But Uncertainties Exist

- For the first time in recent years, there will be funds for a significant number of new highway transportation projects over the next six years, between 1998-99 and 2003-04. Specifically, state and federal revenues for highway transportation are projected to exceed expenditures by \$4.6 billion (see page A-16).
- While the funding outlook shows significant improvement, uncertainties remain that may affect the funding picture, including the level of federal funds, the level of gas tax revenues and potentially higher expenditures for the budget year (see page A-17).



Mass Transportation Faces Shortfall

- The Public Transportation Account (PTA), which funds intercity rail service, mass transportation programs and transit capital improvements, faces a projected deficit in 1998-99 and will require a transfer of State Highway Account funds to stay in balance. Even with the transfer, revenues will still be substantially short of outstanding obligations made through 1997-98 for transit capital improvement projects (see page A-20).
- Current projections show no PTA funds available for new transit capital improvement projects over the next six years—1998-99 through 2003-04 (see page A-20).



Motor Vehicle Account Balance Masks Continuing Problems

- The Motor Vehicle Account projects a moderate balance at the end of 1998-99. This balance is made possible by the deferral of a loan repayment, continued shifts of expenditures to other fund sources, deferral of capital improvements, and overly optimistic projections of revenues (see page A-23).



Little Increase in Highway Transportation; But More Staff Proposed for Capital Outlay Support

- Caltrans proposes expenditures of \$5.7 billion for the highway transportation program, less than 1 percent more than in the current year (see page A-29).
- Caltrans' capital outlay support staffing level is budgeted to climb to 9,521.4 personnel-year equivalents, costing \$870.3 million. We withhold recommendation on the proposal because the department will revise its staffing request when transportation projects for the 1998 State Transportation Improvement Program are identified (see page A-31).



Transfer of Intercity Rail: Slow Progress

- The Capitol intercity rail service may be transferred to a regional joint powers authority depending on the status of ongoing negotiations. However, Caltrans will most likely continue to administer the San Diegan and the San Joaquin services (see page A-44).



Implementation of Proof of Insurance Requirement Costly

- The Department of Motor Vehicles' proposal to implement the financial responsibility legislation is neither efficient nor effective. However, the electronic transfer of insurance data would enhance both program efficiency and effectiveness. (see page A-53).



Database Redesign Stuck in Neutral

- Five years after a DMV database redesign project failed, the department is no further along in developing its information technology system (see page A-55).

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OVERVIEW

Transportation

Total expenditures from state funds for transportation programs are proposed to be significantly higher in 1998-99 than estimated current-year expenditures. The increase is due mainly to proposed higher expenditures for highway improvements, including seismic retrofit of state-owned toll bridges.

For traffic enforcement, the budget proposes essentially no change in the expenditures of the California Highway Patrol and minor increases in the Department of Motor Vehicles. The expenditure increases are primarily to provide adequate staff to maintain program service levels and to provide for facilities repairs and capital improvements.

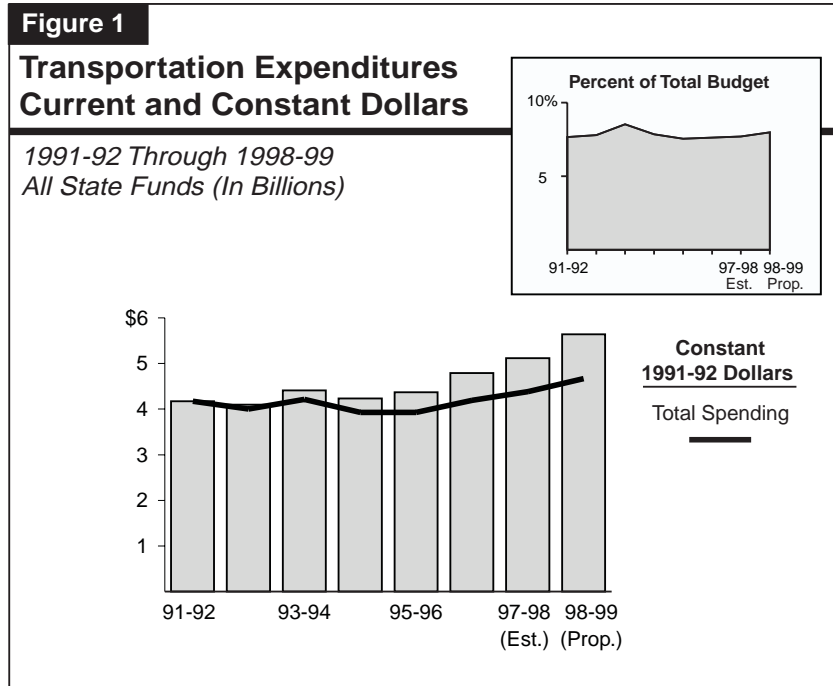
The budget proposes total state expenditures of about \$ 5.6 billion for transportation programs in 1998-99. This is an increase of \$ 516 million, or 10 percent, over estimated expenditures in the current year.

Figure 1 (see next page) shows that state-funded transportation expenditures increased by \$1.5 billion since 1991-92, representing an average annual increase of 4.4 percent. When adjusted for inflation, these expenditures increased by an average of 1.6 percent annually. This increase 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 addition, in March 1996, voters passed Proposition 192, authorizing \$2 billion in bonds for seismic retrofit of highways and bridges. In August 1997, the Legislature further enacted legislation to fully fund seismic retrofit of state-owned toll bridges.

Figure 1 also shows that transportation expenditures have increased slightly as a share of total state expenditures over the period. In 1998-99, proposed transportation expenditures will constitute about 8 percent of all state expenditures.

Of the 1998-99 state transportation expenditures, about \$4.3 billion is proposed for programs administered by the state, and about \$1 billion is for subventions to local governments for streets and roads. Another \$295 million will be for debt-service payments on rail bonds issued under

Propositions 108 and 116 of 1990, and on seismic retrofit bonds issued under Proposition 192 of 1996.



SPENDING BY MAJOR PROGRAM

Figure 2 shows spending for the major transportation programs in detail. Specifically, the budget proposes expenditures of \$6.4 billion (from all fund sources including federal funds) for the Department of Transportation in 1998-99—an increase of \$71.4 million (1.1 percent) above estimated current-year expenditures. The higher expenditure level reflects mainly an increase of about \$79 million in federal funds for highway construction. The budget also projects a decrease in Proposition 192 expenditures for seismic retrofit of highways and bridges, offset by an increase in expenditures on seismic retrofit of state-owned toll bridges and reimbursed expenditures for other highway transportation activities.

Spending for the California Highway Patrol (CHP) is proposed at \$872.5 million—about the same level as in the current year. For the Department of Motor Vehicles (DMV), the budget proposes expenditures of \$596.5 million, about 3.9 percent more than in the current year. The increase will be funded with a combination of Motor Vehicle Account revenues and revenues from motor vehicle license fees.

Additionally, the budget proposes an increase in the State Transportation Assistance (STA) program in 1998-99 from \$84.8 million to \$100.3 million. This increase reflects higher projected revenues into the Public Transportation Account (PTA, formerly 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 determined based on a statutory formula, and the level varies depending on anticipated revenues into PTA.

Figure 2					
Transportation Budget Summary Selected Funding Sources^a					
<i>1996-97 Through 1998-99 (Dollars in Millions)</i>					
	Actual 1996-97	Estimated 1997-98	Proposed 1998-99	Change From 1997-98	
				Amount	Percent
Department of Transportation					
State funds	\$2,962.7	\$3,793.3	\$3,384.4	-\$408.9	-10.8%
Federal funds	1,775.3	2,003.0	2,082.1	79.1	3.9
Reimbursements	530.9	541.8	943.0	401.2	74.0
Totals	\$5,268.9	\$6,338.1	\$6,409.5	\$71.4	1.1%
California Highway Patrol					
Motor Vehicle Account	\$721.3	\$745.7	\$751.2	\$5.5	0.7%
Other	88.2	128.3	121.3	-7.0	-5.4
Totals	\$809.5	\$874.0	\$872.5	-\$1.5	-0.2%
Department of Motor Vehicles					
Motor Vehicle Account	\$317.6	\$309.1	\$322.6	\$13.5	4.4%
Motor Vehicle License Fee Account	172.7	203.0	224.1	21.1	10.4
Other	55.6	62.2	49.8	-12.4	-19.9
Totals	\$545.9	\$574.3	\$596.5	\$22.2	3.9%
State Transportation Assistance					
Public Transportation Account	\$76.1	\$84.8	\$100.3	\$15.5	18.3%
^a Includes bond funds.					

MAJOR BUDGET CHANGES

Figure 3 highlights the major changes proposed for 1998-99 in various transportation programs.

As the figure shows, the budget proposes an increase of \$41.5 million for 400 personnel-years-equivalent of engineering and design staff support. Additionally, the budget includes an increase of \$26.7 million to accommodate increased highway maintenance and traffic operations systems workload, to increase the amount of night maintenance work done in urban areas (Southern California and Bay Area) and to conduct traffic incident investigations. An additional \$8.9 million is proposed in order to increase support for bridge painting.

The budget also proposes \$12.4 million in additional support for the state's intercity rail service. The additional amount is requested to fund higher costs for existing services, expand service on the Capitol line (Sacramento to San Jose), and extend the San Joaquin rail service from Stockton to Sacramento.

For CHP, the budget proposes an increase of \$4.9 million in order to continue to automate the patrol vehicle environment for traffic officers, primarily via the installation of mobile digital computers. The CHP is also proposing an increase in staffing for freeway service patrol and emergency call box services. These services are reimbursed by participating local agencies. For 1998-99, the budget reflects (1) a drop in protective services due to the completion of a one-time security enhancement project at state facilities, and (2) a reduction in CHP's facilities improvement expenditures.

For DMV, the budget requests \$9.7 million for additional staff to address increased workload and about \$5 million to improve the department's document authentication process and to add staff to verify immigration documents submitted by applicants for occupational licenses and commercial driver licenses. The budget also includes an increase of \$1.1 million to convert all computer programs used by DMV to meet the "year 2000" requirements.

In addition, the budget requests increases of about \$18 million for facilities improvement, repairs and renovation, and furniture. Some of these capital projects have been deferred from 1996-97 and the current year.

Figure 3

**Transportation Programs
Proposed Major Changes for 1998-99**

Department of Transportation	Requested: \$6.4 billion
	Increase: \$71.4 million (+1.1%)

- + \$41.5 million in engineering and design staff support
- + \$26.7 million for increased highway systems workload and increased traffic management and night maintenance
- + \$12.9 million to comply with Clean Water Act settlement
- + \$12.4 million to maintain and expand intercity rail service
- + \$8.9 million to increase bridge painting
- + \$7.9 million to increase transportation planning

California Highway Patrol	Requested: \$872.5 million
	Decrease: \$1.5 million (-0.2%)

- + \$4.9 million to automate the patrol vehicle environment
 - + \$0.4 million to increase various reimbursed services
-
- \$3.5 million in protective services
 - \$3.8 million in facilities capital outlay

Department of Motor Vehicles	Requested: \$596.5 million
	Increase: \$22.2 million (+3.9%)

- + \$11.3 million in facilities capital outlay
- + \$9.7 million for increased workload
- + \$6.6 million for facilities repairs, renovation, and furniture
- + \$3.7 million to improve document authentication process
- + \$1.2 million to verify immigration documents for occupational licenses and commercial driver licenses
- + \$1.1 million for year 2000 compliance

CROSSCUTTING ISSUES

Transportation

FUNDING OUTLOOK FOR STATE TRANSPORTATION PROGRAMS

California finances its highway and mass transportation programs with a combination of state, federal, local, and private funds. The multiyear expenditure of state and federal funds for transportation capital projects is contained mainly in the State Transportation Improvement Program (STIP), which is adopted every two years by the California Transportation Commission (CTC). The STIP includes projects designed to increase the capacity of the state's transportation infrastructure. Another program, the State Highways Operation and Protection Program (SHOPP) includes projects that do not increase capacity, but rather projects that primarily address rehabilitation and safety issues.

State law requires the Department of Transportation (Caltrans) to submit a fund estimate to CTC that projects state and federal revenues and expenditures for highway and rail projects over the forthcoming STIP period. The CTC used the 1996 fund estimate as the basis for scheduling projects to be funded in the 1996 STIP, extending from 1996-97 through 2002-03. In December 1997, CTC adopted the 1998 Fund Estimate to be used as the basis for programming projects in the 1998 STIP, covering the period from 1998-99 through 2003-04.

In 1997, the Legislature enacted Chapter 622, Statutes of 1997, (SB 45, Kopp), which makes significant changes in the STIP process. In the following sections, we summarize the key features of Chapter 622 and discuss:

- The effect of Chapter 622 on the STIP and on the budget process.
- The condition of the 1998 Fund Estimate, pursuant to provisions of Chapter 622.
- The status of federal efforts to reauthorize the Intermodal Surface Transportation Efficiency Act of 1991, which expired at the end of September 1997.

Chapter 622 Revises STIP Process

Chapter 622, Statutes of 1997, significantly revises the State Transportation Improvement Program process. We recommend that the Legislature clarify several issues to facilitate the California Transportation Commission 's implementation of the new process.

Figure 4 summarizes the key provisions of Chapter 622. Specifically, Chapter 622 shortens the STIP horizon from seven to four years, and provides for a six-year 1998 STIP as a transition to the four-year 2000 STIP. Chapter 622 also modifies the procedures for selecting and funding STIP projects. The changes are generally directed towards increasing local flexibility, control, and accountability for the expenditure of state transportation improvement funds, thereby resulting in more efficient use of revenue for projects that better reflect local and regional needs and preferences. The major changes enacted by Chapter 622 are the following:

- ***Consolidates Programs Into Two.*** In order to increase flexibility and prioritization of projects, Chapter 622 eliminated many individual programs and consolidated their funding into two programs. The new Regional Improvement program funds projects that facilitate local and regional transportation, and the Interregional Improvement program funds projects that serve statewide interests, including transportation among regions.
- ***Greater Local Authority.*** Chapter 622 increased local authority over Regional Improvement program funds. Prior to the enactment of Chapter 622, the CTC was authorized to program (the process of selecting and scheduling projects) up to 30 percent of the funds in each county. Under Chapter 622, regional improvement projects will be programmed by regional/local transportation agencies. The CTC may not amend locally programmed projects, but it may reject an entire local program if it fails to meet CTC guidelines or would be an inefficient use of state transportation revenues.
- ***Support Costs Programmed in STIP.*** Chapter 622 also requires that, prior to programming a project in the STIP, Caltrans and local

agencies agree on the amount of support costs that Caltrans will spend to design the project. Support costs include costs for: completing permits and environmental studies; preparing project plans, specifications, and estimates; acquiring right-of-way; and construction management and engineering, including survey and inspection. These support costs will be displayed in the STIP, and charged against each county's share of STIP funds. This provides an incentive for local agencies to monitor Caltrans' support costs, because by reducing support costs more of the county share will be available for additional projects.

Figure 4

Key Provisions of Chapter 622, Statutes of 1997 (SB 45, Kopp)

- **Shortens STIP period** from seven to four years.
- **Eliminates various transportation programs**, including traffic systems management, flexible congestion relief, transit capital improvement, and state-local transportation partnership programs.
- **Consolidates state transportation programs** into two—Regional Improvement and Interregional Improvement programs.
- **Designates** 25 percent of funds available for capital improvements to Interregional Improvement and 75 percent to Regional Improvement, to be divided by formula into county shares.
- **Requires preparation of a ten-year rehabilitation plan** by Caltrans for all state highways and bridges.
- **Limits the amount the fund estimate can set aside** for highway operations and maintenance, highway rehabilitation, local assistance, and Caltrans' administration.
- **Requires capital outlay support expenditures be identified** for environmental studies; design plans and estimates; and construction management, survey, and inspection for each project in the STIP.
- **Prohibits** California Transportation Commission from amending locally programmed projects.
- **Renames** the Transportation Planning and Development account as the Public Transportation Account and modifies the allocation of account funds.

Implementation Questions. In implementing Chapter 622 through the 1998 STIP, the CTC has encountered several areas where the intent of the legislation is unclear and requires either interpretation by the CTC or

clarification by the Legislature. We recommend that the Legislature provide clarification on the following issues:

- **Soundwall Program.** Chapter 622 eliminated the retrofit soundwall program, which was intended to fund a list of soundwalls along urban highways. In eliminating the program, it appears that the legislation revoked the state's commitment to construct the listed soundwalls, and instead, provides each county with the option of programming soundwall projects in its Regional Improvement program. Alternatively, the CTC could set aside funds to complete the retrofit soundwall list (with a total estimated cost of about \$200 million), relieving counties of the obligation to program the projects in their Regional Improvement program. However, this would result in less funds to be apportioned to all counties for their Regional Improvement program.
- **Eligibility for Regional Improvement.** Chapter 622 provides broad eligibility of projects for the Regional Improvement program, without specifically listing all of the types of eligible projects. Chapter 622 appears to authorize expenditure of Regional Improvement funds for some types of projects that historically have not been eligible for STIP funding, specifically rehabilitation of local streets, rideshare matching, and freeway service patrol operations.
- **Transit Capital Improvement Restrictions Remain.** Although Chapter 622 eliminated the Transit Capital Improvement (TCI) program, folding it into the Regional Improvement program, some of the former program's provisions remain in law, complicating programming of the STIP. Most notably, expenditures for TCI projects must be allocated among the counties according to the statutory TCI county minimum formula. This both complicates the programming of the STIP and undercuts the flexibility accorded by Chapter 622, because the TCI county minimum, rather than local priorities, determines the amount of TCI projects to be included in each county's Regional Improvement program.

Clarification of these issues will help insure that CTC implements Chapter 622 in a manner consistent with legislative intent.

Effect of Chapter 622 on Budget Is Relatively Small. Although Chapter 622 makes significant changes to the state's procedures for selecting, programming and funding transportation improvement projects in the STIP, its effect on the budget preparation process is small. This is because Chapter 622 does not change Caltrans' responsibility for designing and constructing STIP projects, as well as maintaining and operating the state

highway system. Consequently, the budget will still appropriate funds to Caltrans for the same activities as prior to Chapter 622.

However, adoption of the 1998 STIP, the first STIP to be adopted under Chapter 622, will have an impact on the adoption of the Caltrans' 1998-99 budget. This is because the 1998 STIP will program several billion dollars worth of new transportation improvement projects over the next six years. These projects, combined with existing projects carried forward from the 1996 STIP, will determine Caltrans' need for capital outlay support (design and engineering) resources in the budget year. However, the 1998-99 request for capital outlay support is only a rough estimate as presented in the Governor's budget. This is because at the time the budget was prepared, the additional projects to be programmed in the 1998 STIP were not yet identified and therefore the associated support needs could not be estimated. As we discuss further in the Department of Transportation write-up (Item 2660), the level of capital outlay support requested in the *1998-99 Governor's Budget* does not take into account support Caltrans will need to provide for additional Regional Improvement projects to be programmed in the 1998 STIP. Rather, Caltrans indicates that the total level of capital outlay support will be adjusted in April as more information on the 1998 STIP is available.

In future years, the STIP timetable as provided by Chapter 622 should minimize this timing problem. This is because with the STIP being adopted in the even-numbered years, nearly all STIP projects would have been identified for purposes of preparing the budget in odd-numbered years. Furthermore, Chapter 622 requires that the CTC adopt future STIPs by April of each even-numbered year, and allows the Department of Finance to revise its budget proposal based upon the adopted STIP. Thus, it should be possible to base future budgets more directly on the actual projects programmed in the STIP.

Chapter 622 also requires that the STIP display estimated support costs for each project. While this display should increase Caltrans' accountability for project design costs, it is important to note that this display will *not* provide a direct link between the STIP and Caltrans' annual capital outlay support budget. There are two primary reasons for this:

- For each project, the STIP will display an estimate of support costs for (1) completing permits and environmental studies and (2) preparing plans and specifications. The estimates will appear in the first year in which the support expenditures will be made, although actual expenditures will usually be spread over several subsequent years. The budget, on the other hand, appropriates only one year of support funds for all ongoing projects.

- Caltrans' capital outlay support budget includes many support expenditures in addition to support for STIP projects. These include support for SHOPP projects, as well as support for activities—such as overhead, and development of project study reports—that are not related to projects in either the adopted STIP or SHOPP.

1998 Fund Estimate Shows Large Balance for New Projects

Projected revenues in the 1998 Fund Estimate exceed projected expenditures by about \$4.6 billion. As a result, for the first time in recent years, the new State Transportation Improvement Program will program a significant number of new projects for delivery over the next six years.

In December 1997, the CTC adopted the 1998 Fund Estimate for the six-year period from 1998-99 through 2003-04. The 1998 STIP will be prepared based on the resource projections provided by the fund estimate. Figure 5 summarizes the 1998 Fund Estimate projections for highway funds.

Revenues Are Projected to Exceed Expenditures. As Figure 5 shows, resources are projected to total about \$28.1 billion over the six-year period. Expenditures are projected to total about \$23.5 billion. This level of expenditures includes noncapital outlay expenditures for state operations, including highway maintenance, operations, program development, and departmental administration; local assistance and subventions; and the costs of engineering and design of SHOPP projects, minor projects, and projects that are already programmed for delivery in the 1996 STIP. In addition, expenditures include projected costs of construction of SHOPP and minor projects, as well as 1996 STIP projects.

Significant Balance for New Projects. The projected balance of \$4.6 billion will be available to program and fund new projects. Twenty-five percent of the balance will be available for projects in the Interregional Improvement program, including intercity rail improvement, and the remaining 75 percent will be available for the Regional Improvement program.

Under the requirements of Chapter 622, these funds will be used for both capital outlay projects and project support—design and engineering support needed to deliver projects. Caltrans, in past years, has used 33 percent of capital costs as a rough approximation of project support costs. Based on this historical experience, this would leave about \$3.4 billion available for new project construction and right of way acquisition.

Figure 5	
1998 STIP Fund Estimate Highway Transportation Projected Revenues and Expenditures	
<i>1998-99 Through 2003-04 (In Billions)</i>	
Six-Year Total	
Resources	
Federal	\$11.7
State	16.4
Subtotal	(\$28.1)
Expenditures	
State operations	\$6.8
Local assistance	4.6
SHOPP, minor projects	5.6
Support (non-STIP projects)	2.8
1996 STIP commitment	2.7
Support (1996 STIP), reserve	1.0
Subtotal	(\$23.5)
Additional programming capacity	\$4.6

Improved Fund Outlook Has Uncertainties

While the 1998 Fund Estimate projects a significant improvement in resources available for new projects, various uncertainties exist that may substantially change the funding picture. These uncertainties include the federal funding level, the level of gas tax revenues, and potentially higher expenditures for the budget year.

Federal Funds Uncertain. As we discuss in a later section, the federal Intermodal Surface Transportation Efficiency Act (ISTEA) has expired, and a new multiyear federal transportation act has not been authorized. The 1998 Fund Estimate projects federal funds based on the amount provided to the state through April 1998, and assumes that annually thereafter federal funds would grow marginally. While this is a reasonable approach, depending on the new federal act, the actual amount available to the state particularly for 1999-00 and later may be subject to significant changes.

State Revenue Projections May Not Materialize. The fund estimate projects fuel tax revenues to increase at an annual rate of 2.2 percent—a doubling of the rate used in the 1996 Fund Estimate. This assumption accounts for \$600 million more in state revenues from 1998-99 through 2002-03 (the five years common to both the 1996 and 1998 STIPs). Past experience, however, shows that fuel consumption, the primary factor determining fuel tax revenues, has grown at a much lower average rate. For instance, since 1990-91, fuel consumption has grown at an average rate of less than 1 percent per year. To the extent actual fuel consumption is lower than projected, due to continued fuel efficiency in vehicles and use of alternative fuel not subject to the gas tax, total state revenues would be lower.

Expenditures Will Be Higher Than Fund Estimate Projects. For purposes of projecting support and local assistance expenditures in the fund estimate, Chapter 622 limits these expenditures to the amounts provided in the most recent Budget Act, adjusted for inflation and inventory changes. The budget, however, is proposing total support and local assistance expenditures for 1998-99 that are larger than the amount reflected in the fund estimate. To the extent the higher proposed expenditures are authorized for 1998-99, correspondingly lower amounts will be available for capital projects.

In addition to supporting Caltrans, the State Highway Account (SHA) is used to support the California Highway Patrol (CHP) and the Department of Motor Vehicles. For instance, in 1998-99, the budget proposes \$91.6 million in SHA for these departments' support. The fund estimate, however, does not reflect this use of SHA funds. Depending on the amount of SHA used for CHP's Commercial Vehicle Inspection program, we estimate that ongoing use of SHA for support of these two departments would result in less funds for projects ranging from \$380 million to \$580 million over the 1998 STIP period. (Please see discussion in Item 2720.)

Funding for Toll Bridge Seismic Retrofit Resolved

The 1998 Fund Estimate reflects the funding package the Legislature enacted to provide for seismic retrofit of state-owned toll bridges. The budget proposes \$111.5 million for toll bridge seismic retrofit in 1998-99.

Funding Package Provides \$2.5 Billion for Toll Bridge Seismic Retrofit. In 1997, the Legislature enacted a funding package for seismic retrofit of state-owned toll bridges. Chapters 327 and 328 (SB 60 and 226, Kopp) provided the sources of funding and Chapter 777 (AB 1302, Wayne) provided for the retrofit of the San Diego-Coronado Bridge. Specifically:

- The funding package provides full funding for the \$2.5 billion estimated cost to bring all state-owned toll bridges up to seismic standards.
- The source of funds is split roughly equally between Proposition 192 bond funds, state transportation funds and bridge tolls.
- About two-thirds of the funding package relies on existing revenues, with the remainder coming from new revenues generated by a \$1 toll surcharge on Bay Area toll bridges.
- The funding package assumes a basic design for the new Bay Bridge east span; any additional costs due to design amenities will be paid entirely from toll funds.
- If total program costs exceed current estimates for reasons other than design amenities on the Bay Bridge east span, Caltrans will inform the Legislature and recommend a funding plan.

Figure 6 summarizes the \$2.5 billion funding package. Proposition 192 bond revenues will provide \$790 million (31 percent of the total),

Figure 6	
Source of Funds for Toll Bridge Seismic Retrofit	
<i>(In Millions)</i>	
Proposition 192 Bond Funds	
Dedicated toll bridge retrofit funds	\$650
“Surplus” funds	140
	<hr/>
	(\$790)
State Funds	
State Highway Account	\$745
Public Transportation Account	130
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	(\$875)
Toll Bridge Revenues	
Vincent Thomas bridge	\$15
San Diego-Coronado bridge	33
San Francisco Bay Area bridges	827
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	(\$875)
Total	<hr/>
	\$2,540

\$875 million (34 percent) will come from state transportation funds—SHA and Public Transportation Account (PTA), and at least \$875 million (34 percent) will come from toll revenues. The funding package does not specify when the various contributions are to be made.

1998 Fund Estimate Reflects Contribution of State Funds. The fund estimate projects that SHA will provide its full contribution over the 1998 STIP period. In addition, PTA will provide \$70 million *over the six years*. Consistent with the fund estimate, the budget proposes to transfer \$101.5 million from SHA and \$10 million from PTA to the Toll Bridge Seismic Retrofit Account in order to fund seismic retrofit work on toll bridges in 1998-99. The budget also projects \$114.2 million in toll surcharge revenues to be available for toll bridge seismic retrofit in 1998-99.

Public Transportation Account Faces Funding Shortfall; Requires SHA Bail Out

The budget proposes a transfer of \$30.5 million from the State Highway Account to avert a projected deficit in the Public Transportation Account (PTA). Even with the transfer, projected reserves in the account will still be substantially short of outstanding obligations made through 1997-98 for transit capital improvement projects.

Beyond 1998-99, the fund estimate projects a funding shortfall in PTA over the six-year STIP period. As a consequence, there will be no PTA funds for additional transit capital improvements beyond those funded through 1997-98. The Legislature may want to consider having the General Fund repay a loan to the PTA in order to provide funds for new transit capital improvements.

Chapter 622 renamed the Transportation Planning and Development account as the PTA. Chapter 622 also modified the allocation of PTA resources and requires 50 percent of account revenues to be allocated annually for transit operating assistance under the State Transportation Assistance (STA) program. The remaining resources will support intercity rail service, transportation planning, high speed rail development, and provide funds for transit capital improvements. In general, PTA is the primary source of state funds for transit equipment and rolling stock (such as buses and rail cars) acquisition and improvement.

Public Transportation Account Deficit Projected Without SHA Transfer. The budget projects a significant increase in PTA revenues from the sales tax on diesel and gasoline in 1998-99. Consequently, the budget projects significantly higher funding for STA, in accordance with the requirements of Chapter 622. However, there will not be sufficient funds

remaining in the PTA to cover proposed Caltrans' support expenditures, pay \$17.8 million in outstanding commitments for transit capital projects (which are estimated to total \$82.8 million by the end of 1997-98), and contribute \$10 million for toll bridge seismic retrofit. In order to avert a projected deficit, the budget proposes a transfer of \$30.5 million from SHA.

Projected 1998-99 Balance Insufficient to Cover Outstanding Obligations. With the transfer, the budget projects a balance of \$26.8 million in the account at the end of 1998-99. This amount, however, is substantially less than the remaining outstanding transit capital improvement commitments, made in the current and prior years, estimated at about \$65 million.

Fund Estimate Projects PTA Shortfall for 1998 STIP. Beyond the problem it faces in 1998-99, PTA is projected to have a funding shortfall over the entire 1998 STIP period. Specifically, the fund estimate projects total resources to fall short of total expenditures, including expenditures for STA, funding of all outstanding commitments made prior to 1997-98 for transit capital improvements, support for intercity rail services, and departmental support. As a consequence, there will be no PTA funds available for new transit capital improvement projects over the six-year period. Because PTA is the primary source of state funds for transit equipment and rolling stock acquisition and improvement, no new projects of this type can be funded in the 1998 STIP period. In addition, support expenditures—for instance, for intercity rail service—would need to be curtailed or additional transfers from another fund source, such as SHA, would be necessary over the period.

Loan Repayment Option. In 1993-94, due to the state's fiscal condition, \$91.5 million was loaned from PTA to the General Fund. While the 1993 budget required the loan to be repaid with interest, no repayment date was specified for the loan. In order to provide some funds for transit capital projects in the budget year and beyond, the Legislature may want to consider directing the repayment of the loan in 1998-99 from the General Fund.

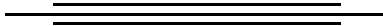
Federal Transportation Act Extended Temporarily

The federal transportation act expired in 1997 and a new multiyear transportation act has yet to be authorized. Congress passed a temporary extension to provide six-month funding to the states through April 1998. The Department of Transportation does not anticipate any adverse consequences from the temporary extension to the federal act.

California receives over \$1 billion annually in federal highway funds. These funds, which are collected primarily through the federal gas tax, provide a large share of funding for Caltrans. The federal ISTEA of 1991 had authorized these federal expenditures, as well as determined the amount of funding for California and specified how the funds may be spent. However, ISTEA expired in October 1997, and Congress has not yet enacted a new multiyear transportation authorization act.

Short-Term Funding Available. In order to provide short term funding to the states while continuing to work on a long term transportation bill, Congress passed the Surface Transportation Extension Act (STEA). The STEA extends the terms of ISTEA for six months and provides partial year funding until the end of April 1998. As a result, Caltrans estimates that federal highway funding for 1997-98 will total \$1.8 billion. Caltrans indicates that the short-term funding provided by STEA should allow the department to avoid any funding shortfalls during the current year.

Long-Term Reauthorization Pending. In 1998, Congress will be reauthorizing a new multiyear transportation program to replace STEA. Based on Congressional action to date, it appears that the next transportation act will remain roughly similar to ISTEA, but may provide greater flexibility, as well as higher funding levels, to the states. However, depending on whether Congress enacts a new transportation act by May 1998, the level of federal funds available to the state would remain uncertain.



MOTOR VEHICLE ACCOUNT BALANCE MASKS CONTINUING PROBLEMS

The budget projects a moderate balance for the Motor Vehicle Account at the end of both the current and budget years. However, the 1998-99 balance will be achieved through a deferral of a loan repayment, continued shifts in expenditures to other sources, deferral of capital improvements, and overly optimistic projections of revenues.

The Motor Vehicle Account (MVA) derives most of its revenues from vehicle registration and driver license fees. In 1996-97, these fees accounted for 79 percent (\$869 million) and 10 percent (\$112 million) respectively, of the estimated \$1.1 billion in MVA revenues. The majority of MVA revenues are used to support the activities of the California Highway Patrol (CHP), the Department of Motor Vehicles (DMV), and the Air Resources Board. In addition, approximately \$23 million, or 3 percent, of MVA revenues are used to support other departments.

Actions Taken to Balance Account in Current Year. To close a \$129 million funding shortfall in the account and to provide for a prudent reserve, the 1997-98 budget provides \$179 million in new revenues, transfers, and expenditure reductions, as follows:

- \$40 million in new revenues from a \$1 increase in the vehicle registration fee and increases in other fees.
- \$97 million in transfers from other funds.
- \$42 million in combined CHP and DMV expenditure reductions by deferring capital outlay projects, shifting some expenses to other accounts, and making unspecified administrative reductions.

Projected Balance Masks Continuing Problems

The budget projects a modest balance in Motor Vehicle Account (MVA) at the end of 1998-99, if certain actions are taken. Beyond 1998-99, growth in MVA expenditures will outpace revenue increases.

As a result of the current year actions, the budget now projects a \$62 million balance in the account by the end of 1997-98. The budget also projects a balance of about \$75 million by the end of 1998-99. However, our review shows this balance is predicated on a number of proposed actions. Absent these actions, the account will face continuing problems.

- ***Account Will Not Repay Existing Loan on Time.*** To balance the MVA in the current year, the Legislature provided a \$35 million loan from the State Highway Account to the MVA. This loan is required to be repaid with interest by the end of the budget year. The 1998-99 budget proposes that the repayment requirement be postponed.
- ***Budget Continues to Shift Funding of Programs to Other Sources.*** As in the current year, the budget proposes to fund the entire cost of CHP's Commercial Vehicle Inspection program from the State Highway Account (SHA) despite legislative intent to fund the program with a mix of MVA and SHA funds (please see Item 2720). In addition, as we discuss in the DMV write-up (Item 2740), DMV's reliance on the Motor Vehicle License Fee Account and SHA has increased in the current year, and is proposed to increase further in 1998-99. Without these continued shifts in funding, the pressure on MVA would be significantly greater.
- ***Continued Deferral of Maintenance and Facilities Improvements.*** In order to balance the account in the current year, about \$10 million in capital outlay improvements for CHP and DMV facilities were deferred from 1997-98 to the budget year. The DMV also has numerous facilities that require substantial repairs and facilities improvements, such as heating and air conditioning systems. The 1998-99 budget proposes only to deal with a small number of these facilities. While we believe that deferring projects for short periods of time in order to maintain the account's solvency is appropriate, many of the deferred projects will need to proceed and the expenditures eventually incurred. Continued deferral of some of these projects may end up costing the state more in the long run as costs may increase due to inflation and capital improvement needs grow.
- ***Increase in Employee Compensation Will Reduce Balance.*** The proposed MVA expenditures do not take into account the potential impact of ongoing labor negotiations over employee compensation. To the extent employee compensation is increased in 1998-99, the MVA balance would be reduced by about \$10 million for each 1 percent adjustment.

- **Revenue Estimates Remain Overly Optimistic.** In a past *Analysis*, we found that total MVA revenue projections were overly optimistic, particularly for revenues from driver license fees and from the sale of information. (Please see *Analysis of the 1994-95 Budget Bill*, page A-21.) As shown in Figure 7, a similar review for 1993-94 through 1996-97 shows that revenues from the sale of information continues to be overestimated. The figure shows that while projections for total revenues have improved, the projections for revenues from the sale of information and other services to the public were overstated by about 24 percent, or \$16 million, in 1996-97. The budget continues to project revenues from these sources at \$65 million in the current and budget years—considerably higher than recent experience.

Additionally, vehicle registration renewals for the first quarter of 1997-98 showed a marked reduction from 1996-97. This may reflect the impact of the requirement to show proof of insurance for vehicle registration (Chapter 1126, Statutes of 1996 [AB 650, Speier]). As a result, vehicle registration renewal revenues are lower. The budget projects almost no reduction in renewal revenues. (Please see discussion in Item 2740.)

Figure 7				
Motor Vehicle Account Revenues From Sale of Information Projected Versus Actual				
<i>1993-94 Through 1996-97 (Dollars in Millions)</i>				
	1993-94	1994-95	1995-96	1996-97
Total Revenues				
Projected	\$1,100.8	\$1,099.1	\$1,115.2	\$1,130.6
Actual	1,049.4	1,079.0	1,084.9	1,103.5
Overestimation	\$51.4	\$20.1	\$30.3	\$27.1
Percent	4.7%	1.8%	2.7%	2.4%
Sale of Information and Other Fees				
Projected	\$70.0	\$66.3	\$70.0	\$67.0
Actual	64.0	57.6	47.9	51.0
Overestimation	\$6.0	\$8.7	\$22.1	\$16.0
Percent	8.6%	13.0%	31.6%	23.9%

Long-Term Expenditure Growth Will Exceed Revenue Increases. Our review shows that MVA expenditures from 1991-92 through 1996-97 have grown by about 3.3 percent annually, compared to average annual growth in revenues of less than 2 percent. Beyond 1998-99, expenditure growth will continue to outpace revenue increases for several reasons. First, prior to 1996-97, CHP staff support was in part funded through an accumulated Public Employees' Retirement System surplus, thereby reducing the draw on the MVA. However, beginning in 1997-98, the surplus has been depleted and the MVA has to fund the state's retirement contribution for CHP uniformed staff. For 1998-99, the budget proposes \$85 million to pay CHP staff retirement contributions.

Second, periodic increases in employment compensation will increase MVA expenditures. For instance, CHP expenditures increased by \$16 million in 1995-96 and by \$30 million in 1996-97 as a result of labor contract negotiations.

Third, legislation that adds new or expanded responsibilities to DMV and CHP often increases MVA expenditures without providing additional revenues to offset the costs of implementation. For instance, DMV estimates its cost at about \$16 million annually to implement Chapter 1126 to check for proof of auto insurance upon vehicle registration.

Fourth, as mentioned earlier, both departments have facilities that are aging and will require increased repairs and refurbishment. These costs will be substantial over the next few years. Additionally, the departments currently lease some of their facilities, and will have to decide whether to exercise upcoming purchase options over the next five years. Purchasing these facilities will require a one-time outlay of significant amounts. However, deferring purchases will necessitate paying potentially increasing lease payments for the facilities.

Beyond 1998-99: Are MVA Deficits Inevitable?

The Legislature should consider various options to align the Motor Vehicle Account revenues and expenditures in order to provide long-term stable funding for the California Highway Patrol and the Department of Motor Vehicles.

Based on past MVA expenditure and revenue trends, our projection shows that the MVA will continue to experience deficits unless account revenues are increased periodically through higher fees, or expenditures are reduced or shifted to other fund sources. To address the long term

MVA condition, we recommend that the Legislature consider the following options:

- **Provide New Funding Sources for New Programs.** In expanding DMV and CHP programs, the Legislature should identify funding sources and provide new revenues to ensure that those programs are self-financing wherever appropriate so that those who benefit from the program will pay for the program's support.
- **Fund Nonvehicular Activities From Non-MVA Sources.** The State Constitution restricts the use of vehicle registration and driver license fee revenues to the regulation of vehicular use and operations and to the mitigation of environmental effects of vehicular operations due to air and sound emissions. As we discussed in past analyses (please see *Analysis of the 1993-94 Budget Bill*, page B-58), we think that the use of MVA funds for *nonvehicular* stationary air pollution sources program under the Air Resources Board is inappropriate. (Please also see Item 3900.)

Similarly, DMV is required to expand its document authentication functions (such as for proof of legal presence) in issuing driver licenses. However, to the extent the purpose of such requirements are not solely to enhance enforcement and regulation of vehicular operations in the state, these functions should not be funded only by the MVA. Because verification of legal presence is intended to benefit the public at large, including facilitating law enforcement and enhancing public convenience and security by providing a verified identification, the Legislature may want to consider providing a portion of funding for such activities from non-MVA sources such as the General Fund.

- **Consider Alternative One-Time Funding for Deferred Maintenance.** For the five-year period from 1998-99 through 2002-03, CHP and DMV project a need of over \$40 million for various capital outlay expenditures including the purchase of leased facilities. The departments also will have to incur millions of dollars for facility repairs and retrofit. The Legislature may want to consider providing one-time funds from alternative sources such as the General Fund, where available, to reduce the backlog of critical repair and maintenance projects.



DEPARTMENTAL ISSUES

Transportation

DEPARTMENT OF TRANSPORTATION (2660)

The Department of Transportation (Caltrans) is responsible for planning, coordinating, and implementing the development and operation of the state's transportation system. These responsibilities are carried out in five programs. Three programs—Highway Transportation, Mass Transportation, and Aeronautics—concentrate on specific transportation modes. 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 \$6.4 billion by Caltrans in 1998-99. This is about \$71 million, or 1.1 percent, more than estimated current-year expenditures.

HIGHWAY TRANSPORTATION

Little Increase in Highway Program

The budget proposes \$5.7 billion for the highway transportation program, less than 1 percent more than in the current year. The increase is the net result of proposed increases in capital outlay support and capital outlay project construction, offset with proposed decreases in expenditures for local assistance.

Of the total expenditures proposed in the department's budget, \$5.7 billion is for the Highway Transportation program. This is an in-

crease of \$50.4 million, or 0.9 percent, over estimated current-year expenditures.

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

As shown in Figure 8, Caltrans expects that state funds will support \$2.9 billion (51 percent) of highway program expenditures. Federal funds make up about \$2 billion (34 percent) of the program budget, and the remaining \$834 million (15 percent) is reimbursements, primarily from local governments.

Figure 8				
Department of Transportation Highway Transportation Budget Summary				
<i>1996-97 Through 1998-99 (Dollars in Millions)</i>				
	Actual 1996-97	Estimated 1997-98	Proposed 1998-99	Percent Change From 1997-98
Expenditures				
Capital outlay support	\$779.7	\$857.3	\$870.3	1.5%
Capital outlay projects	2,274.4	2,910.0	3,030.3	4.1
State-Local Partnership	31.8	117.0	128.0	9.4
Local assistance	787.4	891.7	753.1	-15.5
Program development	48.1	68.8 ^a	76.5 ^a	11.2
Technical services	98.7	— ^a	— ^a	— ^a
Legal	61.9	61.9	62.0	0.1
Operations	118.3	134.9	123.7	-8.3
Maintenance	529.8	638.6	698.9	9.4
Equipment and telecommunications	130.8	12.2 ^b	— ^b	— ^b
Totals	\$4,860.9	\$5,692.4	\$5,742.8	0.9%
<i>State funds</i>	<i>\$2,685.5</i>	<i>\$3,306.1</i>	<i>\$2,927.6</i>	<i>-11.4%</i>
<i>Federal funds</i>	<i>1,721.8</i>	<i>1,938.3</i>	<i>1,980.8</i>	<i>2.2</i>
<i>Reimbursements</i>	<i>453.6</i>	<i>448.0</i>	<i>834.4</i>	<i>86.2</i>
^a Beginning in 1997-98, the budget shows technical services in the Administration Program. ^b Beginning in 1997-98, the budget shows equipment expenses (other than telecommunications) distributed to the affected programs.				

Increases in Reimbursed Highway Activities. Figure 8 shows that the budget projects significantly higher reimbursements for Caltrans' highway program in 1998-99. In part, the increase reflects changes in how toll funds are accounted for and who decides how they are used. Previously, these funds were budgeted as state funds and Caltrans determined how they were used. However, Chapter 328, Statutes of 1997 (SB 226, Kopp) created the Bay Area Toll Authority and the Bay Area Toll Account and made the following changes:

- All toll revenues from Bay Area toll bridges, except for proceeds from the \$1 toll surcharge for seismic retrofit of toll bridges, are deposited into the Bay Area Toll Account.
- The authority (instead of Caltrans) is given the power to program, administer, and allocate the funds in the Bay Area Toll Account. As a consequence, these funds are treated as reimbursements (instead of state funds) for Caltrans' toll bridge operations, rehabilitation, and other capital improvement activities.
- Caltrans and the authority are required to enter into a cooperative agreement to provide for toll collection, operation and maintenance of the toll bridges as well as planning, design, and construction of bridge improvements.

More Staff Proposed for Capital Outlay Support

The Department of Transportation (Caltrans) requests \$870.3 million to support 9,521.4 personnel-year equivalents of staff effort in order to deliver projects in the 1998 State Transportation Improvement Program (STIP). We withhold recommendation on the proposed amount because many of the projects are yet to be identified for programming in the 1998 STIP, and Caltrans indicated that it will revise its proposal in April by which time those projects are better identified.

The budget proposes 9,521.4 personnel-year equivalents (PYEs) of work for the highway capital outlay support program—an increase of 266.3 PYEs (2.9 percent) from the amount estimated in the current year. Capital outlay support staff provide environmental clearance, design and engineering, right-of-way acquisition, and construction oversight on highway capital improvements.

Figure 9 shows both the source of the 9,521.4 PYEs, as well as their proposed uses. Specifically, Caltrans proposes to increase state staff, increase the amount of work to be achieved through cash overtime, and reduce work by consultants. Work to be done by consultants will be limited to continuation of contracted work on toll bridges, design and

engineering work on the east span of the San Francisco-Oakland Bay Bridge, and specialty work for which the department does not have staff expertise.

Figure 9			
Department of Transportation Capital Outlay Support Staffing			
<i>1996-97 Through 1998-99 (Personnel-Year Equivalents)</i>			
	Actual 1996-97	Estimated 1997-98	Proposed 1998-99
Sources			
State staff	6,919.6	7,578.1	7,954.4
Cash overtime	336.8	350.8	584.0
Student assistant	3.6	150.0	—
Consultant	614.1	1,176.2	983.0
Totals	7,874.0	9,255.1	9,521.4
Uses^a			
Project support	5,623.9	6,810.8	6,911.3
• STIP	(1,629.6)	(1,755.6)	(2,137.1)
• SHOPP/TSM/minor	(1,901.6)	(2,763.9)	(3,275.2)
• Seismic retrofit	(906.4)	(590.1)	(296.3)
• Toll seismic	(463.1)	(670.9)	(347.7)
• Regional Measure 1	(74.4)	(278.2)	(133.5)
• Locally funded projects	(200.4)	(197.0)	(197.5)
• Tax measure projects	(313.8)	(416.2)	(294.5)
• CMAQ and SLTP	(134.6)	(138.8)	(229.5)
Nonproject support	628.1	824.2	777.0
Supervision and overhead	1,622.0	1,620.2	1,833.1
Totals	7,874.0	9,255.1	9,521.4
^a STIP = State Transportation Improvement Program; SHOPP = State Highways Operation and Protection Program; TSM = traffic system management; CMAQ = congestion management and air quality; and SLTP = State Local Transportation Partnership.			

Of the total staffing request, about 6,911 PYEs will provide engineering support for individual projects. Figure 9 also shows the proposed allocation of staffing by categories of projects. For instance, the budget projects 2,137 PYEs will be allocated to work on STIP projects. The remaining 2,610 PYEs will provide staff to perform project-related, but not project-specific, functions, including conducting pre-STIP work and other

technical services (such as photogrammetry), as well as departmental overhead and supervision.

As we discuss below, Caltrans' proposed capital outlay support staffing level is likely to change during the spring.

Not All Project Support Estimated Based on Specific Projects. Chapter 622, Statutes of 1997 (SB 45, Kopp), requires that the department identify, for each capital outlay project that is expected to receive state funds, the amount of support costs for environmental studies and permits, preparation of plans and specifications and construction management, survey and inspection. However, because not all projects to be programmed in the 1998 STIP were identified at the time the budget was prepared, about 2,480 PYEs of the request are not estimated based on specific projects. The department is currently working with local and regional agencies to identify projects for the 1998 STIP which will be adopted in June. The department advises that it intends to revise the capital outlay support request in April after projects for the 1998 STIP are identified.

Staffing Need for Highway Seismic Retrofit Could Be Lower. As Figure 9 also shows, the budget requests significantly fewer staff for seismic retrofit of highways in 1998-99, mainly because Phase 2 of the seismic retrofit program is winding down. Our review, however, shows that as the program progresses, capital outlay workload for that program could be lower in 1998-99 than the budget projects. As Caltrans revises its staffing request in April, it should also re-estimate the staffing need for this program.

Project Study Report Workload Needs to Be Better Defined and Coordinated. Included in the total capital outlay support request is 469 PYEs of staff to do pre-STIP work, including project scope summary reports (PSSRs) and project study reports (PSRs), and to oversee PSR work done by local agencies. Chapter 622 prohibits projects from being included in the STIP without a complete PSR or major investment study. Caltrans indicated that as operator of the highway system, it will continue to conduct PSRs for highway projects. However, at the time this analysis was prepared, the department did not have a list of PSRs to be conducted by the proposed staffing. Furthermore, because projects in the Regional Improvement program are to be determined by regional transportation planning agencies, it is not clear to what extent regional agencies will be conducting PSR work or how Caltrans' efforts will be coordinated with those of the regional agencies.

Caltrans' PSR efforts will affect the Regional Improvement program in two ways. First, resources expended on pre-STIP work will leave fewer dollars for projects in the STIP. Second, completion of PSRs will be critical

in order for regions to program their priority projects. Consequently, it is essential that Caltrans' pre-STIP work is coordinated with regional and local transportation planning agencies such that resources are targeted to produce in a timely manner PSRs for high priority regional projects. Accordingly, as Caltrans revises its capital outlay support request in April, it should identify the PSRs it will conduct for potential regional improvement projects to ensure that the work is coordinated with regional priorities.

No Justification for Increasing Cash Overtime. The budget also proposes to increase significantly the amount of work to be done by cash overtime—by about 271 PYEs, or 86 percent over the current-year base level. Accomplishing work with staff overtime may be reasonable depending on the nature and timing of the workload. However, the department has not provided any justification for the proposed increase.

Withhold Recommendation. Because the department will be revising its capital outlay support request in April, we withhold recommendation on \$870.3 million of the department's budget request for 1998-99. In its April revision, the department should identify the support needs for individual projects that are to be programmed in the 1998 STIP, provide an update of highway seismic retrofit workload, identify the PSR work it will be conducting in 1998-99 and how that workload is coordinated with regional agencies, as well as provide justification for any significant increase in the use of staff overtime.

Highway Capital Outlay Expenditures Will Be Revised

The budget requests appropriations of \$871 million in the State Highway Account and \$1.2 billion in federal funds for highway capital outlay for 1998-99. We withhold recommendation on these amounts because the department indicated that it will revise the request in April when projects are identified for the 1998 State Transportation Improvement Program.

The budget requests appropriations totaling \$2.1 billion in state and federal funds for highway capital outlay in 1998-99. Caltrans based the request on the amount of funds projected in the 1998 Fund Estimate to be available for projects. Our review shows that the request is overstated. This is because while additional funds will be available for new projects to be programmed in the 1998 STIP, a portion of the funds will be used for project support. Additionally, it is not known at this time what amount of new capital outlay projects will be programmed for delivery in 1998-99.

The department indicated that it will revise its capital outlay request in April (as discussed above) when projects for the 1998 STIP are identified and projects to be delivered in 1998-99 are known. Accordingly, we withhold recommendation on the department's capital outlay request pending that revision.

Highway Seismic Retrofit to Continue in 1998-99; Retrofit of Toll Bridges to Be Complete in 2004

Phase 1 of the highway seismic retrofit program is almost complete. About 97 percent of Phase 2 projects are either complete or under construction. The Department of Transportation anticipates completion of retrofit for all toll bridges other than the Bay Bridge in 2001, with retrofit/replacement of the Bay Bridge complete by the end of 2004.

Following the 1994 Northridge earthquake, Caltrans expanded its seismic 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. The Phase 2 program includes bridges that Caltrans added as a result of an additional screening that followed the Northridge earthquake. The seismic retrofit program also includes retrofitting all state-owned toll bridges.

For 1998-99, the budget requests a total of 626.1 PYEs for seismic retrofit of highways and toll bridges.

Phase 1 Almost Complete. In 1994, Caltrans established a goal to complete retrofit construction of 1,039 bridges by the end of 1995. Figure 10 (see next page) shows that as of the end of 1997, retrofit of 1,022 bridges, or 98 percent, were complete. Construction is under way on another 14 bridges. The department now anticipates construction to be complete on all Phase 1 bridges by mid-1999. Total construction costs are currently estimated at about \$812 million. Together with support cost, Phase 1 is estimated to cost about \$1.1 billion.

Majority of Phase 2 Complete; Program Will Continue Into 2002. Caltrans had set targets for all Phase 2 bridges to be under construction by December 1996 and for construction to be complete by December 1997. As Figure 10 shows, of the 1,155 Phase 2 bridges, construction was complete for 968 (or 84 percent) by the end of December 1997, and another 153 were under construction. Because engineering design is yet to be completed on 26 bridges, Caltrans now estimates that construction of all but one of the Phase 2 bridges will be complete by the end of 2002 and the remaining one will be complete by the end of 2005. Caltrans estimates

construction costs to be about \$1.05 billion. Including support costs, Phase 2 is estimated to cost a total of \$1.35 billion.

Figure 10		
Highway Seismic Retrofit Program Scope and Progress		
<i>As of December 31, 1997 (Dollars in Millions)</i>		
	Number of Bridges	
	Phase 1	Phase 2
Retrofit construction complete	1,022	968
Under contract for construction	14	153
Design engineering complete	3	8
Engineering not complete	0	26
Totals	1,039	1,155
Estimated construction	\$812	\$1,050
Construction complete target	12/95	12/97

Retrofit of Toll Bridges to Be Complete in 2004. Of the state-owned toll bridges, seven require retrofit. Caltrans has determined that the eastern span of the Bay Bridge and the west span of the Carquinez Bridge cannot be economically retrofitted and should be replaced with new spans. Replacement of the western Carquinez span was planned and funded prior to the retrofit program, and thus is not counted as part of the retrofit program. As of the end of 1997, Caltrans estimated that the toll bridge retrofit program would cost \$2.62 billion. Replacement of the Bay Bridge east span is the largest cost component, estimated at \$1.28 billion. For 1998-99, Caltrans is requesting 348 PYEs of staff for the program, including contracted consultant services for the design and engineering work for the Bay Bridge east span replacement. The department's current target is to complete retrofit of all toll bridges with the exception of the Bay Bridge in 2001. As regards the Bay Bridge, Caltrans currently expects to complete retrofit of the west span by late 2003 and replacement of the east span by the end of 2004.

Project Delivery Higher

Caltrans delivered 93 percent of State Transportation Improvement Program, State Highways Operation and Protection Program, and traffic

system management projects proposed for delivery in 1996-97. In addition, the department delivered a number of projects planned for later years as well as 257 seismic retrofit and emergency projects. The total value of projects delivered was \$1.4 billion, about 5 percent higher than the amount in 1995-96.

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

Cumulative Delivery Higher. In 1996-97, the department delivered (defined as ready for award for construction) 500 projects, with a total construction value of \$1.4 billion, as shown in Figure 11. The STIP projects delivered included 49 (out of 54) planned for delivery in 1996-97, and seven projects that were advanced from future years. The department delivered 163 State Highways Operation and Protection Programs (SHOPP) projects, including 145 planned for 1996-97 and advanced 18 projects from future years. For traffic system management (TSM) projects, the department delivered 24 projects, all planned for 1996-97. In total, the department delivered about 93 percent of STIP, SHOPP, and TSM projects planned for delivery in 1996-97. Figure 11 shows that the department also delivered seismic retrofit projects and other emergency projects. Compared to 1995-96, total delivery is higher by about 5 percent.

Figure 11		
Department of Transportation Highway Project Delivery		
<i>1996-97 (Dollars in Millions)</i>		
	Number of Projects	Amount
STIP	56	\$505.3
SHOPP	163	328.2
TSM	24	47.1
Seismic retrofit	177	373.8
Emergency	80	170.1
Totals	500	\$1,424.5

Bridge Scour Proposal Is Costly

We recommend the adoption of Budget Bill language authorizing the department to use up to \$2.1 million for additional state staff to evaluate bridge scour for local bridges, unless local agencies request in writing to conduct their own evaluations.

The state receives federal funds to inspect bridges and evaluate the effect of scouring (water erosion) on bridges that are over water, an activity that is federally required. In the current year, \$4.5 million is available for local assistance to evaluate local bridges.

Budget-Year Proposal. Evaluations in the current year were initially to be done by Caltrans through contracting out. However, due to a recent court decision regarding contracting out, the work will not be done in the current year. Instead, the department is proposing to subvene the funds to local agencies in 1998-99 so that they can contract with the private sector for the work directly. Local governments may in turn request Caltrans to perform the work with state staff.

Our review shows that of the alternatives considered, the department's proposal to accomplish local bridge evaluation is the more costly alternative. By Caltrans' own estimation, it would cost the department \$2,119,000 to use state staff to do scour evaluation—significantly less than the \$5.4 million the department now estimates would be needed if it subvenes the funds to local agencies. For local agencies to contract out the work directly, Caltrans estimates consultant costs to be \$4.3 million. Additionally, Caltrans maintains that it will need \$1.1 million to add 12.6 personnel-years of staff to administer local agencies' contracting efforts. Performing the work as proposed by Caltrans will therefore cost more than twice as much as doing the work by state staff in part because of the additional administrative overhead and oversight the department claims to be necessary.

To the extent the state can economize on federal dollars for bridge scour evaluations, the freed-up federal dollars can be used for other local bridge repairs and rehabilitation activities.

Proposed Budget Language Should Be Amended. The Budget Bill includes language to allow Caltrans to carry out its proposal. Instead, we recommend that the department conduct the inspections and evaluations unless local agencies request in writing to conduct the work on their own. Consistent with this recommendation, the proposed language should be amended to allow Caltrans to transfer only up to \$2.1 million for bridge inspection and evaluation. This would free up at least \$3.3 million for

local assistance of bridge repairs and other improvements. The amended language under Item 2660-101-0042 would be as follows:

The department shall employ state staff to undertake bridge inspections and bridge “scour” evaluations, and may reduce up to \$2,119,000 in Items 2660-101-0042 and 2660-101-0890 combined, and transfer these amounts to Items 2660-001-0042 and 2660-001-0890 respectively for this purpose. The department shall conduct bridge inspection and scour evaluation for local bridges unless local agencies, upon written notification to the department, request to conduct the work on their own.

Rural Intelligent Transportation Systems Showcase Depends on Federal Funds

We recommend adoption of Budget Bill language authorizing the expenditure of funds for the Rural Intelligent Transportation Systems Showcase project only if federal funds are provided in the new federal transportation act.

The department is requesting \$2.4 million (including \$1.4 million in SHA and \$1 million in federal funds) in 1998-99 to participate in the Rural Intelligent Transportation Systems Showcase. The showcase will demonstrate and evaluate the appropriateness of using, in rural areas of the state, intelligent transportation systems (ITS) which apply advanced communication, information, and electronics technologies to solve transportation operations problems.

According to the department, the project, when funded, will be for three years, totaling \$11.2 million, including \$6.2 million in state funds and \$5 million in federal funds. First year costs are estimated at \$2.4 million. The department also indicated that the federal funds are pending reauthorization of the federal transportation act.

We believe the project has merit. However, because of the uncertainty of the federal funds, we recommend that Budget Bill language be adopted to authorize the expenditure of state funds only if the federal funds for the project are forthcoming.

Item 2660-001-0042—Of the funds appropriated in this item, \$1.4 million are available for the Rural Intelligent Transportation System Showcase only if federal funds are approved by the Federal Highway Administration.

Nighttime Maintenance to Increase

We recommend deletion of \$4.5 million requested for increased nighttime maintenance in urban areas because highway sweeping will not need additional material, and the department has adequate equipment to deploy for nighttime maintenance. (Reduce Item 2660-001-0042 by \$4.5 million.)

Due to heavy usage of the highway system particularly in urban areas, it is becoming more difficult for the department to close parts of the system during daylight hours to perform routine maintenance work. The budget proposes as a pilot program to increase the amount of nighttime highway maintenance work in two districts—Los Angeles and the Bay Area—and is requesting \$8.8 million for the pilot program.

While we think the pilot program is warranted, we recommend that the funding request be reduced by \$4,514,000 for the following reasons:

Nighttime Sweeping Should Not Require Additional Material. The budget requests \$944,000 for additional material in order to do nighttime sweeping of the highways. We see no reason, and the department can provide no justification, why sweeping at night would necessitate additional material. Accordingly, this amount should be deleted.

Equipment Used in the Day Can Be Used at Night. The department is requesting \$4.7 million for additional equipment for the pilot program. Additional equipment includes more of the same types of equipment currently used during daytime maintenance and special equipment, such as lights and light trailers, that are needed only for night work. Our review shows that of the request, \$1.2 million will be used for light trailers. The remaining equipment requested is the same types of equipment as those used for daytime maintenance. Because the department proposes to only shift a part of the districts' maintenance to nighttime work, there is adequate existing equipment (used for daytime work) that can be used more intensively, for nightwork as well. Accordingly, we recommend that \$3,570,000 be deleted.

California Highway Patrol Services For Highway Maintenance Overbudgeted

We recommend reduction of \$800,000 requested to reimburse the California Highway Patrol for traffic control because experience shows that the department has not used the amounts provided in the past. (Reduce Item 2660-001-0042 by \$800,000.)

When the department does highway maintenance, it often uses California Highway Patrol (CHP) officers to provide traffic control services to ensure work site safety. In the current year, the budget includes \$1.4 million to reimburse CHP for these services.

For 1998-99, the budget requests an increase of \$720,000 for CHP to provide similar services for the nighttime maintenance pilot program. (See earlier discussion.) While we think that the request for CHP services is justified, our review shows that Caltrans' current expenditures for the use of CHP services are substantially lower than authorized. In fact, based on reimbursements made to CHP, Caltrans only expended about \$566,000 in 1996-97 and \$297,000 for the first six months of 1997-98 for CHP services at highway maintenance work sites. The CHP projects total current-year services at about \$500,000. Based on this experience, we do not think that the department will use \$2.1 million of CHP services in the budget year and, therefore, the base amount should be reduced. Accordingly, we recommend a reduction of \$800,000 to provide ongoing funding of about \$600,000 and a one-time increase of \$720,000 for the nighttime maintenance pilot project.

Stormwater Cleanup Costs Will Increase

The Department of Transportation is under court order to control pollutants in stormwater runoff from highways and other facilities in Los Angeles and San Diego. The compliance cost in 1998-99 will be about \$31 million. Future costs could be even higher. We recommend the adoption of supplemental report language directing the department to report on future costs of cleanup and actions that can be taken to address the problem.

In late 1994, a federal court ruled that Caltrans had failed to comply with the provisions of the federal Clean Water Act with respect to pollution levels in stormwater runoff from highways and other Caltrans facilities in the Los Angeles area. The court required Caltrans to reduce pollution in stormwater runoff, including cleaning annually all drain inlets in the Los Angeles basin and to undertake studies to retrofit storm drains. Since 1996-97, the department has been provided about \$18 million annually for stormwater cleanup in the Los Angeles area.

Caltrans Sued for Violation in San Diego Area. In September 1996, Caltrans was sued for violation of the Clean Water Act because it was operating without a discharge permit in the San Diego area. (The department was subsequently issued a permit in April 1997.) Caltrans has proposed a settlement regarding the court case (a consent decree) which is consistent with requirements of the regional discharge permit relating to

facility planning, construction, maintenance and operation. The consent decree will be implemented over a four-year period, beginning in 1997-98. Activities to be carried out pursuant to the consent decree include cleaning drain inlets, continued inspection of drains and runoff, pilot studies for treatment of runoff, and erosion control projects. The department anticipates that the consent decree will be approved by the court in February.

Multimillion Dollar Costs for Consent Decree. Caltrans estimates the cost of complying with the terms of the consent decree to be about \$34 million over four years. The department will be submitting a deficiency appropriation request to cover the cost for the current year. For 1998-99, the budget requests \$12.9 million to carry out the requirements of the consent decree.

Compliance Cost Could Continue to Increase. In total, complying with court orders regarding stormwater cleanup in Los Angeles and San Diego areas will cost about \$31 million in 1998-99. Costs will probably continue at that level in 1999-00. Beyond that, compliance costs are unknown and could continue to increase. This is because, in the case of Los Angeles, it is not clear what the court will order the state to do after the required studies are completed. If the state is required to retrofit storm drains, the potential cost could be major—potentially in the hundreds of millions of dollars. Additionally, it is not clear whether the issue of stormwater cleanup will apply to the rest of the state and to what extent Caltrans will be required to take mitigating and remedial actions. For instance, Caltrans indicates that a suit was filed in 1996 relating to the San Francisco Bay.

Caltrans Should Advise Legislature. Because of the potential cost impact to state transportation funds, we think that the department ought to inform the Legislature on actions the department can and plans to take statewide, such as modifying construction specifications, to ameliorate the problem of stormwater runoff, and the potential cost impact of these actions. We recommend that the following supplemental report language be adopted:

By December 1, 1998, the Department of Transportation shall report to the Legislature on the projected costs of stormwater cleanup for 1999-00 through 2003-04. The report shall also identify actions that the department plans to take statewide to address the problem of stormwater runoff and the potential impact on state transportation funds.

San Bernardino Office Building Costs Overbudgeted

We recommend a reduction of \$244,000 from Item 2660-001-0042 because the budget overestimates the department's cost to operate the new San Bernardino Office Building in 1998-99.

In 1995, Caltrans entered into a lease purchase agreement for office and parking facilities in order to consolidate its offices in the Riverside-San Bernardino region.

Caltrans has taken possession of the new facilities which will be jointly managed by Caltrans and the Department of General Services. Costs of the facilities will be covered by lease payments made by Caltrans and other state tenants. The budget projects the 1998-99 cost to be \$7,686,000. To fund its part of the cost, Caltrans is requesting an increase of \$1,293,000. Our review, however, shows that based on Department of General Services information, total costs in 1998-99 will be \$7,442,000, or \$244,000 lower than Caltrans' estimate. Accordingly, we recommend the overbudgeted amount of \$244,000 be deleted.

MASS TRANSPORTATION

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

For 1998-99, the budget proposes \$376.9 million for mass transportation, which is \$3.5 million, or 0.9 percent, less than estimated current-year expenditures. As shown in Figure 12 (see next page), the budget proposes a significant increase in the state and federal mass transit element, mainly due to projected increases in federal funds for local assistance for mass transit purposes. In contrast, rail transit capital expenditures are projected to decrease. This reflects the net result of a proposed increase in support for intercity rail service and a reduction in proposed expenditures for transit capital improvement grants to local agencies.

No Public Transportation Account Funds for 1998-99 Transit Capital Improvement Projects. The Public Transportation Account (PTA) has been the primary source of funds for transit capital improvements. However, as we discuss in the Crosscutting Issues section of this chapter, the PTA will face a deficit in 1998-99 without a transfer of \$30.5 million in

SHA funds. The budget proposes no PTA funding in 1998-99 for new transit capital improvement projects. Additionally, it projects PTA expenditures of only \$17.8 million to pay for about \$82.8 million in prior project commitments.

Figure 12				
Department of Transportation Mass Transportation Expenditures				
<i>1996-97 Through 1998-99 (Dollars in Millions)</i>				
	Actual 1996-97	Estimated 1997-98	Proposed 1998-99	Percent Change From 1997-98
State and federal mass transit	\$29.7	\$40.4	\$53.8	33.2%
Rail transit capital	233.4	339.9	323.0	-5.0
Other	0.1	0.1	0.1	—
Totals	\$263.2	\$380.4	\$376.9	-0.9%

Transfer of Intercity Rail: Slow Progress

The outcome of negotiations over the transfer of the Capitol service will affect Caltrans' budget request for that service. We recommend that Caltrans, along with the Secretary for Business, Transportation and Housing, report to the Legislature at budget hearings on the status of the transfer negotiations.

Due to the lack of progress in negotiating an agreement for the transfer of the San Diegan and the San Joaquin services, Caltrans will most likely continue to administer and operate these services in the budget year.

The intercity rail program was established to provide motorists with a safe, efficient, and cost-effective transportation alternative that reduces congestion and improves air quality. The state currently supports and funds intercity rail passenger services on three corridors—the San Diegan in Southern California, the San Joaquin in the Central Valley, and the Capitol in Northern California. All train routes are supplemented and integrated by a dedicated feeder bus service.

Currently, Caltrans contracts with Amtrak for the operation and maintenance of the intercity rail services. Caltrans staff, along with advisory committees, plan route schedules and project ridership and revenues.

Chapter 263, Statutes of 1996 (SB 457, Kelley), authorized the transfer of the administration of intercity rail service from Caltrans to regional joint powers boards and authorities (comprised of the jurisdictions through which each of the three corridors operate). In order for the transfer to take place, regional boards must submit a business plan to the Secretary for Business, Transportation and Housing (BT&H) that reflects cost reductions in providing these services. The state and joint powers boards must sign an interagency transfer agreement with specified provisions in order to effectuate a transfer of the service. The expectation is that with regional boards administering the intercity rail service, administrative costs will decrease, and service will improve through better coordination of local commuter and intercity rail services.

Capitol Corridor Transfer Status. As of December 1997, only the Capitol Corridor Joint Powers Authority (CCJPA) has been established and is negotiating an interagency transfer agreement with Caltrans and the Secretary for BT&H.

Two main issues are still under negotiation. First, the CCJPA must demonstrate operating or administrative cost-savings. Second, the authority has yet to negotiate with Amtrak on the costs of the service and on legal liability issues. Until these issues are resolved, it is unlikely that a transfer will occur.

At the time this analysis was prepared, Caltrans did not have an estimated timetable for the transfer. Consequently, the budget assumes that Caltrans will continue to administer the service for all of 1998-99. Depending on when the transfer occurs, total support costs to provide the Capitol service will likely be lower and the amount provided for service support should be adjusted accordingly. In order that the Legislature may make the necessary budgetary adjustment, we recommend that Caltrans, along with the Secretary, report to the Legislature during budget hearings on the status of the transfer.

San Diegan and San Joaquin Transfer Status. In the San Diegan corridor, members of the Southern California Regional Rail Authority (SCRRA), and other corridor jurisdictions, have established an interim board to examine the feasibility of the transfer. The SCRRA will release the results of its study by late spring 1998. In the San Joaquin corridor, no joint powers board has been established. Consequently, Caltrans will in all likelihood continue to administer these two services in the budget year.

Intercity Rail Service Will Likely Cost Less

We withhold recommendation on \$64.5 million requested for existing intercity rail services in 1998-99 because the amount needed will likely be lower. Specifically, more current cost estimates will be forthcoming from Amtrak by April 1998. We recommend that the department provide the updated cost estimates at budget hearings. Based on that information, the Legislature should adjust accordingly the amount of support for intercity rail services.

The budget requests \$64.5 million to support continuation of the current level of intercity rail services in 1998-99. This amount includes estimated Amtrak costs of \$53.7 million to provide the services and \$10.8 million for Caltrans' support and marketing of the program. Our review shows that the amount needed will likely be lower.

Caltrans Costs May Be Less. As we discussed above, the budget assumes that Caltrans will continue to administer all three services in 1998-99. However, administration and marketing costs may be lower for the department if the Capitol service is transferred during the budget year.

Amtrak Costs for Current Service Will Be Adjusted. The budget request of \$53.7 million for Amtrak to continue existing services is based on cost estimates provided by Amtrak in July 1997. Discussions with Amtrak indicate that final cost estimates will be available by April, and costs may in fact be lower.

Withhold Recommendation. Because costs to provide the current level of intercity rail service will likely change by April, we withhold recommendation on \$64.5 million requested by the department. We further recommend that the department provide a cost estimate update at budget hearings and that the Legislature adjust the amount based on the updated information.

San Joaquin Stockton-Sacramento Extension Premature

We recommend that the Legislature delete \$4.3 million for the proposed Stockton-Sacramento service extension on the San Joaquin because the proposal is premature. (Reduce Item 2660-001-0046 by \$4.3 million).

The budget proposes \$4.3 million to extend intercity rail service between Sacramento and Stockton on the San Joaquin corridor. Currently, a bus service connects the two cities. We believe that the request is premature. Based upon conversations with the private railroad company representative, an operating agreement needs to first be negotiated between the

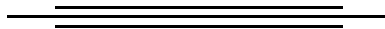
railroad and Caltrans/Amtrak for use of the tracks. This agreement, in turn, depends on Caltrans and the railroad agreeing on the specific track improvements that need to be made and on the share of costs each will pay. Once there is an agreement, construction of track improvements will take at least 12 months to 15 months, thus it is unlikely that the tracks will accommodate passenger trains in the budget year.

Without the track improvements, we believe that the proposal is premature. Accordingly, we recommend a reduction of \$4.3 million for the proposed expansion.

Costs for Additional Capitol Service May Be Revised

We withhold recommendation on the proposed \$5.1 million to add service on the Capitol corridor because Amtrak may revise the cost estimates for the service. We further recommend that Caltrans report on these cost estimates during budget hearings in order that the Legislature may adjust the amount accordingly.

The budget also proposes \$5.1 million for additional trips on the Capitol corridor. As we pointed out above, Amtrak will be providing more updated cost estimates by April, and the cost for the service expansion may be revised to reflect more current estimates. Accordingly, we recommend that Caltrans provide an update on Amtrak's contract costs for the additional service on the Capitol corridor. In addition, we recommend that the Legislature adjust the proposed amount based upon Caltrans' updated information.



DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL (2720)

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

The budget proposes \$872.4 million to support CHP in 1998-99. This is approximately \$2.3 million or 0.3 percent above estimated current-year expenditures. The increase is primarily the result of (1) an increase of \$4.9 million to continue to provide laptop computers in patrol cars, (2) an increase of \$454,000 in reimbursed services, and (3) a reduction of \$3.4 million in protective services due to the completion of one-time security improvements in state facilities.

Commercial Vehicle Inspection Program to Use State Highway Account Funds

The budget proposes \$54.8 million from the State Highway Account (SHA) to fully fund the California Highway Patrol's Commercial Vehicle Inspection program for 1998-99. We recommend the enactment of legislation to specify the appropriate funding mix of Motor Vehicle Account and SHA funds for this program.

The CHP operates and staffs 15 truck inspection stations throughout the state through the Commercial Vehicle Inspection program. Through this program, trucks are weighed and inspected to promote truck safety, to ensure that registration and weight fees are collected, and to protect the

highways from excessive truck weights. Approximately 300,000 trucks are inspected on an annual basis and 600,000 safety violation citations are issued.

State Highway Account Provided Partial Funding in the Past. The SHA funds the construction of truck inspection stations. Up until 1991, MVA revenues were used to fully fund CHP's operation of the truck inspection program. Beginning in 1992 and through 1996-97, ongoing support for the program had been funded with a mix of MVA and SHA funds. Typically, SHA contributed between 20 and 40 percent of the program's total costs.

Current Year Program Funded Solely by SHA. As part of the solution to avert a deficit in MVA for the current year, the Legislature funded the Commercial Vehicle Inspection program fully with SHA in 1997-98. The Legislature also adopted Budget Bill language expressing its intent that in future years, 60 percent of the program be funded with MVA and 40 percent with SHA. (This language was subsequently stricken from the Budget Act by the Governor.)

Full Funding From SHA to Continue. For 1998-99, the budget proposes to fully fund the Commercial Vehicle Inspection program with \$54.8 million in SHA funds. The main purpose of the proposal is to maintain the solvency of MVA. (Please see related write-up in the Crosscutting Issues section.)

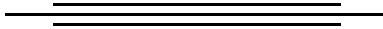
Legislature Should Determine Funding Mix. In the past, SHA funds have been used mainly for highway construction, operations and maintenance, while MVA funds have been used for vehicle and driver regulation activities. Because truck weight fees are deposited into SHA, using SHA to pay for part of the cost of the truck inspection program is reasonable. However, what the appropriate funding mix of MVA and SHA ought to be is a decision that the Legislature should make. Without that determination, as the MVA condition worsens, it is very likely that SHA funds will be used to fund not only CHP's truck inspection program, but potentially other traffic enforcement functions, such as the operation of traffic management centers.

Accordingly, we recommend enactment of legislation to specify on an ongoing basis, the statutory funding mix of MVA and SHA for CHP's truck inspection program. Specifying a funding mix will also facilitate the Department of Transportation's (Caltrans') projection of available resources for transportation projects.

Reimbursed Work Will Increase

We recommend that CHP's reimbursement authority be increased by \$720,000 to reflect an increase in reimbursed work related to highway maintenance .

The CHP provides traffic control and enforcement services around highway maintenance work sites. In 1996-97, Caltrans reimbursed CHP \$586,000 for such services . For 1998-99, Caltrans is proposing to significantly increase the amount of highway maintenance work conducted at night in major urban areas. In order to provide for adequate CHP service for the proposed amount of nighttime maintenance work, Caltrans is requesting an increase of \$720,000 for CHP services. This amount, however, is not reflected as a reimbursement in CHP's budget. Accordingly, we recommend reimbursement authority to CHP be increased by \$720,000



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 \$584.1 million for support of the DMV in 1998-99. This is an increase of \$ 10.8 million, or 1.9 percent, above estimated current-year expenditures. About \$310.1 million (53 percent) of total support will come from the Motor Vehicle Account (MVA) and \$224.1 million (38 percent) from the Motor Vehicle License Fee Account (MVLFA). The remaining support will be funded primarily from the State Highway Account (SHA) and reimbursements.

Increasing Support From Vehicle License Fees And State Highway Account

Use of motor vehicle license fee revenues and State Highway Account revenues for the Department of Motor Vehicles support has increased significantly. In 1998-99, vehicle license fees will pay for 38 percent of departmental support.

The department is supported primarily by MVA and MVFLA. It is also funded from weight fees on trucks which are deposited into the SHA. Current law directs the department to allocate its costs of registering vehicles, collecting weight fees and vehicle license fees to the various accounts in proportion to the amount of revenues each account receives.

Vehicle license fees are an in-lieu property tax which, after deducting for DMV and Franchise Tax Board costs, are subvended to local governments.

Vehicle License Fee Support for DMV Increasing. Vehicle license fees are by far the bulk of revenues collected by DMV. As a consequence, the department allocates the bulk of its vehicle registration and compliance program costs to vehicle license fees. For 1998-99, the budget projects \$3.8 billion in vehicle license fee revenues of which \$2.9 billion will be deposited in MVLFA and \$937 million in the Local Revenue Fund. The MVLFA revenues are apportioned to local governments for general fund purposes. Revenues in the Local Revenue Fund are spent for specified purposes, primarily health and social services which were transferred, as part of the 1991 realignment of state/county programs, to local governments. (Please see discussion in the *1998-99 Budget: Perspectives and issues*, Part IV.)

Figure 13 shows the proportion of total DMV support from MVLFA from 1994-95 through 1998-99. As the figure shows, vehicle license fees have paid for a greater proportion of DMV expenditures in the current year compared to previous years. The budget proposes an even greater use of vehicle license fees for the department's support.

Figure 13					
Department of Motor Vehicles Support From MVA and MVLFA					
<i>1994-95 Through 1998-99 (Dollars in Millions)</i>					
	Total Support	MVA^a	Percent of Total	MVLFA	Percent of Total
1994-95	\$498.7	\$316.3	63.4%	\$163.6	32.8%
1995-96	515.9	329.5	63.9	166.8	32.3
1996-97	538.5	340.5	63.2	172.7	32.1
1997-98	573.3	342.2	59.7	203.0	35.4
1998-99	584.1	346.8	59.4	224.1	38.4

^a Includes weight fee revenues.

Increase in MVLFA Revenues to DMV Means Reduction to Local Governments. Our review shows that not only has the amount of vehicle license fee revenues been supporting more and more of DMV costs, the proportion of vehicle license fees used for that purpose has also increased. For instance, in 1994-95, about 5.7 percent of MVLFA revenues were used to support DMV (with most of the remainder going to local governments), as compared to 7.2 percent for the current year, and 7.6 percent

proposed for the budget year. Correspondingly, the proportion of fee revenues available to local governments is reduced.

State Highway Account Support of Department Will Also Increase. For 1998-99, the budget proposes \$36.8 million in SHA support for the department, a 7.6 percent increase over the current-year amount and almost 22 percent more than the amount provided in 1996-97.

Cost Allocation Methodology Will Result in Continued Shift to MVLFA and SHA. Our review shows that vehicle license fee revenues have grown at rates that far exceed the growth rates in vehicle registration fee and weight fee revenues. Specifically, vehicle license fee revenues grew at an average annual rate of 5.5 percent since 1994-95, compared to an average annual rate of 3 percent for weight fees and 1.2 percent for vehicle registration fees. As vehicle license fees and weight fees grow faster relative to vehicle registration fees, an increasing proportion of DMV's vehicle registration and collection costs will be allocated to MVLFA and SHA based on the current cost allocation methodology.

Financial Responsibility Requirement Implemented at High Costs

It will cost the Department of Motor Vehicles about \$15.9 million in 1998-99 to continue to implement the financial responsibility legislation which will sunset January 2000. Initial data show a drop in the rate of vehicle registration renewal.

We recommend the adoption of supplemental report language directing the DMV to report by April 1999 on a pilot project to test electronic transfer of insurance data in order to assist the Legislature in determining how the department can most cost-effectively implement the financial responsibility requirement if it is extended.

Chapter 1126, Statutes of 1996 (AB 650, Speier) requires that beginning in 1997, vehicle owners provide proof of financial responsibility (liability insurance) as a condition for renewing a vehicle registration. The requirement sunsets on January 1, 2000.

To implement Chapter 1126, the DMV requires that vehicle owners submit insurance information with their vehicle registration renewal application. The department rejects applications that lack complete insurance information; however, it does not verify the authenticity of the information in most cases. Instead, in order to prevent fraudulent reporting, it verifies information on a sampling basis. For the current year, the department estimates costs to implement the requirement at about \$17.8 million. It is requesting \$15.9 million for the program in the budget year.

Vehicle Registration Renewal Rate Has Dropped. Data collected by the department show that compared to 1996, the rate of registration renewal (the number of registered vehicles that renew their registration) has declined since the implementation of Chapter 1126. Figure 14 shows that renewal rates in the first half of 1997 declined by about 6 percent. Similarly, it was about 4 percent lower in the third quarter of 1997 compared to the same period in 1996.

Figure 14				
Department of Motor Vehicles Vehicle Registration Renewal Rates				
<i>1997 Versus 1996</i>				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1996	92.2%	91.4%	92.7%	94.2%
1997	86.5	85.5	88.9	— ^a
Percent Decline	6.2%	6.4%	4.1%	—^a
^a Data not yet available.				

Because vehicle registration fee revenues make up about 75 percent of MVA revenues, a drop in vehicle registration renewal would negatively impact the account's condition. In fact, departmental data show that despite an increase in first-time registration, total registration revenues (including first-time and renewal registration) dropped by \$25 million, or about 4 percent, in the first 11 months of 1997 compared to the same period in 1996.

Current Method of Showing Proof of Financial Responsibility Is Inefficient and Ineffective. As we pointed out in last year's *Analysis* (page A-62), DMV's current method of requiring proof of financial responsibility is inefficient. Specifically, relying on paper evidence of insurance (a copy of an insurance policy or coverage card) provided through the mail results in delays in processing vehicle registration and fee remittance. For instance, the department has experienced a significant drop in the rate that fee remittances are deposited on the same day they are received. Because of the longer processing time, the department also has to increase staff to handle the same volume of registrations.

The method is also not effective because the department has no means of verifying all documents sent in by vehicle owners. Currently, it verifies

documents only on a limited sample basis. Additionally, the department has no way of ascertaining that insurance coverage on vehicles remains in effect and is not terminated after a vehicle is reregistered.

Department Plans to Pilot Test Electronic Data Transfer. Electronic data transfer of insurance information would greatly enhance DMV's efficiency and effectiveness in implementing Chapter 1126 as it would virtually eliminate fraudulent insurance information. The department indicates that several insurance companies have volunteered to pilot test electronic transfer of insurance information. The department anticipates the pilot to last six to eight months, beginning in July 1998.

Chapter 1126 Will Sunset in 2000. Whether Chapter 1126 ought to be extended would in part depend on its effectiveness in reducing the number of uninsured motorists. That in turn depends on how effectively DMV can implement the financial responsibility requirement. Results of the pilot project will be useful to the Legislature in determining how the program should be improved if Chapter 1126 is to be extended. To assist the Legislature in doing so, we recommend that supplemental report language be adopted that requires the department to provide the pilot results in a timely manner.

By April 1, 1999, the Department of Motor Vehicles shall report on the impacts of the implementation of Chapter 1126, Statutes of 1996 (AB 650, Speier). The report shall include, among other things, an assessment of the impact of the program on vehicle registration renewal and revenues to the Motor Vehicle Account. In addition, the report shall provide an evaluation of the electronic data transfer pilot project in order to determine the department's cost and effectiveness in implementing the legislation.

Database Redevelopment Shows No Progress; Department of Motor Vehicles Proposes New Project

Five years after a database redevelopment project failed, the department is still no further along in improving or redesigning its information technology system. The department now intends to pursue a new strategy to improve the system. We recommend that the department and the Department of Information Technology (DOIT) provide an update to the Legislature at budget hearings on the overall plan, time schedule, cost, and technological soundness of the new project.

We further recommend that any funding provided for information technology system improvement in 1998-99 be made contingent upon DOIT providing a full evaluation of the department's project proposal to the Legislature, including an assessment of the Department of Motor Vehicles' staff capability to manage the project.

In 1994, DMV abandoned an ambitious but flawed project to redesign its computer database. The purpose of the project was to redesign an obsolete information technology system in order that it could be easily updated and maintained to meet the department's expanding workload. Since then, the department has been pursuing a new project to improve its information technology system. The process began in 1994-95 with an independent consultant evaluation and in 1996-97 the Legislature provided \$5.8 million for three projects to begin to implement the consultant's recommendations.

For the current year, the department's budget includes \$5.1 million to continue these three projects for a second year.

Two of Three Projects Will Not Proceed. One of the three projects—business process reengineering, an effort to streamline departmental functions for higher efficiency, is ongoing and is estimated to cost about \$2 million in the current year. The department, however, has suspended the other two projects—rewriting outdated computer programs and replacing custom database software with industry standard software—due to unanticipated high costs to complete the projects.

Department Intends New Project. Instead, the department is pursuing a new project to improve its information technology system. Specifically, it plans to develop a new database using, where feasible, "off-the-shelf" software systems that can be procured commercially. According to DMV, a project report had been submitted for review by DOIT at the time this analysis was prepared.

The budget requests no funds for the new database redevelopment project. Depending on DOIT and the Department of Finance's Technology Investment Review Unit's (TIRU) review of the project proposal, the department may submit a budget amendment for 1998-99.

Five Years After Project Failure, Department No Closer to Solution. Because DMV's existing information technology system is outdated, it is costly and difficult to maintain. Consequently, the system must be improved in order that the department can effectively carry out its statutory responsibilities. However, the department has shown no progress in improving the system in the last five years. Before more funds are expended and time spent on any improvement efforts, we think that the Legislature should have some assurance that further efforts or projects (including the new project) are technologically sound, the cost estimate and time schedule for the projects are realistic, and the department has the necessary staff expertise to manage the projects to completion.

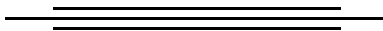
Accordingly, we recommend that the department, together with the DOIT, report at budget hearings on DMV's project proposal, DOIT's assessment of the project's technological soundness, and potential alternatives to improve the current system. We further recommend that any funding provided in 1998-99 for the improvement of DMV's information technology system be made contingent upon DOIT providing a full assessment of the feasibility of any proposed project no later than September 1, 1998. The assessment should comment on the department's ability to manage the project to completion.

Collection of Smog Abatement Fee Will Be Delayed

The Department of Motor Vehicles will take until late 1998 to modify its computer systems to meet "year 2000" requirements. As a result, the department will not be able to collect an annual smog abatement fee on certain vehicles until 1999.

Chapter 802, Statutes of 1997 (AB 208, Migden) requires certain newer model vehicles that are exempt from the biennial smog check requirement to pay a \$4 annual smog abatement fee. Fees are to be collected by DMV and deposited in the Vehicle Inspection and Repair Fund for specified uses. Chapter 802 is effective January 1, 1998.

Year 2000 Compliance Will Delay Fee Collection. Because the department is in the process of modifying its computer system to meet "year 2000" requirements, it indicates that it will not be able to collect the smog abatement fee until 1999. As a consequence, an estimated \$12 million in abatement fee revenues will not be collected in 1998. (Please see our discussion under the Department of Consumer Affairs [Item 1110] in the General Government chapter.)



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Crosscutting Issues

Funding Outlook for State Transportation Program

1. **Chapter 622 Revises State Transportation Improvement Program Process.** Recommend that the Legislature clarify several issues to facilitate the California Transportation Commission's implementation of the new process. A-12
2. **Fund Estimate Shows Large Balance for New Projects.** Projected revenues in the 1998 Fund Estimate exceed projected expenditures by about \$4.6 billion. For the first time in recent years, the new STIP will program a significant number of new projects for delivery over the next six years. A-16
3. **Improved Fund Outlook Has Uncertainties.** Various uncertainties exist that may substantially change the improved funding picture. These uncertainties include the federal funding level, the level of gas tax revenues, and potentially higher expenditures for the budget year. A-17
4. **Funding for Toll Bridge Seismic Retrofit Resolved.** The 1998 Fund Estimate reflects the funding package enacted to provide for seismic retrofit of state-owned toll bridges. The budget proposes \$111.5 million for toll bridge seismic retrofit in 1998-99. A-18
5. **Public Transportation Account Faces Fund Shortfall.** The budget proposes a transfer of \$30.5 million from the State Highway Account to avert a deficit in the Public Transportation Account (PTA). Even with the transfer, projected PTA reserves will still be inadequate to pay all outstanding obligations made through 1997-98 for transit capital improvement projects. The Legislature may consider directing the General Fund to repay a loan to PTA to fund new transit capital improvements. A-20
6. **Federal Transportation Act Extended Temporarily.** The federal transportation act expired in 1997 and a new multiyear transportation act has yet to be authorized. Congress passed a temporary extension to provide six-month funding to the states through April 1998. A-21

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<i>Motor Vehicle Account Balance Masks Continuing Problems</i>	
7. Projected Balance Depends on Proposed Actions. The budget projects a modest balance in the Motor Vehicle Account (MVA) at the end of 1998-99, if certain actions are taken. Beyond 1998-99, growth in MVA expenditures will outpace revenue increases.	A-23
8. Beyond 1998-99, Are Deficits Inevitable? The Legislature should consider various options to align MVA revenues and expenditures in order to provide long-term stable funding for the California Highway Patrol and the Department of Motor Vehicles.	A-26

Department of Transportation

9. Little Increase in Highway Program. The budget proposes \$5.7 billion for the highway transportation program, less than 1 percent more than in the current year. The increase is the net result of proposed increases in capital outlay support and capital outlay project construction, offset with proposed decreases in expenditures for local assistance.	A-29
10. More Staff for Capital Outlay Support. Withhold recommendation on the proposed \$870.3 million for 9,521.4 personnel-year equivalents of staff because many of the projects are yet to be identified for programming in the 1998 State Transportation Improvement Program, and the Department of Transportation (Caltrans) indicated that it will revise its proposal in April by which time those projects are better identified.	A-31
11. Highway Capital Outlay Expenditures Will Be Revised. Withhold recommendation on \$871 million in the State Highway Account and \$1,234 million in federal funds for highway capital outlay because the department indicated that it will revise the request in April.	A-34
12. Seismic Retrofit Will Continue. Phase 1 of the highway seismic retrofit program is almost complete. About 97 percent of Phase 2 projects are either complete or under construction. Caltrans anticipates completion of retrofit for all toll bridges other than the Bay Bridge in 2001, with retrofit/replacement of the Bay Bridge complete by the end of 2004.	A-35
13. Project Delivery Higher. Caltrans delivered 93 percent of projects proposed for delivery in 1996-97 as well as a number of projects planned for later years and 257 seismic retrofit and emergency projects. The total value of projects delivered was \$1.4 billion, about 5 percent higher than the amount in 1995-96.	A-36
14. Bridge Scour Proposal Is Costly. Recommend the adoption of Budget Bill language authorizing the department to use up to \$2.1 million for additional state staff to evaluate bridge scour for local bridges, unless local agencies request in writing to conduct their own evaluations.	A-38

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15. Rural Intelligent Transportation Systems Showcase Depends on Federal Funds. Recommend adoption of Budget Bill language authorizing the expenditure of funds for the Rural Intelligent Transportation Systems Showcase project only if federal funds are provided in the new federal transportation act.	A-39
16. Nighttime Maintenance. Reduce Item 2660-001-0042 by \$4.5 million. Recommend reduction because nighttime highway sweeping will not need additional material, and the department has adequate equipment to deploy for nighttime maintenance.	A-40
17. California Highway Patrol (CHP) Services for Highway Maintenance Overbudgeted. Reduce 2660-001-0042 by \$800,000. Recommend traffic control be reduced because experience shows that the department has not used the amount provided for CHP services at maintenance work sites.	A-40
18. Stormwater Cleanup Costs Will Increase. The compliance cost to control pollutants in stormwater runoff from highways in Los Angeles and San Diego will be about \$31 million in 1998-99. Recommend supplemental report language directing the department to report on future costs of cleanup and actions that can be taken to address the problem.	A-41
19. San Bernardino Office Building Costs Overbudgeted. Reduce Item 2660-001-0042 by \$244,000. Recommend reduction because the cost to operate the new San Bernardino Office Building in 1998-99 is overestimated.	A-43
20. Transfer of Intercity Rail Service: Slow Progress. The outcome of negotiations over the transfer of the Capitol service will affect Caltrans' budget request for the service. Recommend that Caltrans, along with the Secretary for Business, Transportation and Housing, report at budget hearings on the status of the transfer negotiations.	A-44
21. Intercity Rail Service Will Likely Cost Less. Withhold recommendation on \$64.5 million for existing intercity rail services because the amount needed will likely be lower. Recommend that the department provide updated cost estimates at budget hearings in order that the Legislature can adjust the amount of support for intercity rail services accordingly.	A-46
22. San Joaquin Stockton-Sacramento Extension Premature. Reduce Item 2660-001-0046 by \$4.3 million. Recommend reduction because the proposed Stockton-Sacramento service extension on the San Joaquin corridor is premature.	A-46
23. Cost for Additional Capitol Service May Be Revised. Withhold recommendation on \$5.1 million to add service on the Capitol corridor	A-47

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because Amtrak may revise the cost estimates for the service. Recommend that Caltrans report on these cost estimates at budget hearings in order that the Legislature may adjust the amount accordingly.

Department of the California Highway Patrol

24. **Legislature Should Determine Funding Mix for Commercial Vehicle Inspection Program.** Recommend the enactment of legislation to specify statutorily the appropriate mix of State Highway Account and Motor Vehicle Account funds for the Commercial Vehicle Inspection program. A-48
25. **Reimbursed Work Will Increase.** Recommend increase reimbursement by \$720,000 to reflect higher reimbursed work for the Department of Transportation. A-50

Department of Motor Vehicles

26. **Increasing Support from Vehicle License Fees and State Highway Account.** Use of motor vehicle license fee revenues and State Highway Account revenues for the Department of Motor Vehicles (DMV) support has increased significantly. A-51
27. **Financial Responsibility Requirement Implemented at High Costs.** Recommend adoption of supplemental report language directing DMV to report on a pilot project to test electronic transfer of insurance data. A-53
28. **Database Redevelopment Shows No Progress.** Recommend DMV and Department of Information Technology (DOIT) report at budget hearings on the overall plan, time schedule, costs, and technological soundness of a new project to improve DMV's information technology system. Further recommend any funding authorized of system improvement be made contingent upon DOIT providing specific information in evaluation of the project. A-55
29. **Collection of Smog Abatement Fee Will Be Delayed.** Because the Department of Motor Vehicles is in the process of modifying its computer system to meet "year 2000" requirements, it will not be able to collect a smog abatement fee until 1999. An estimated \$12 million will not be collected in 1998. A-57